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May 29, 2015

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. RR15-_-000
Report of Comparisons of Budgeted to Actual Costs for 2014
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 2014 for NERC and the Regional Entities.” This filing also includes a 2014 actual cost-to-budget report for Peak Reliability.

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 11. The Table of Contents to the narrative text list the 11 attachments.

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

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric
Reliability Corporation

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

**NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION) Docket No. RR15-__-000
)**

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S
REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2014
FOR NERC AND THE REGIONAL ENTITIES**

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I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2014 for NERC and the eight Regional Entities.¹ NERC is also submitting a comparison of actual to budgeted costs for 2014 for Peak Reliability, Inc. (“Peak”). The Commission originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.² In several subsequent orders, the Commission has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons filings.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity, and by Peak, for statutory and (where applicable) non-statutory activities for the year ended December 31, 2014, 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 of each Regional Entity except WECC, for the year ended December 31, 2014.³
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2014 budgets and actual results.

This filing includes the following attachments:

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

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

³ As explained below, WECC’s audited financial report was not completed as of the date of this filing; WECC’s audited financial report is expected to be available in June 2015 and will be provided to the Commission in a supplemental filing.

Attachment 1: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

Attachment 2: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

Attachment 3: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 4: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

Attachment 5: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 6: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 7: 2014 Actual Cost-to-Budget Comparison for SPP RE and Audited Financial Statements for Southwest Power Pool, Inc.

Attachment 8: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 9: 2014 Actual Cost-to-Budget Comparison (based on unaudited financial statements) for WECC.

Attachment 10: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for Peak.

Attachment 11: Metrics Concerning Administrative Costs in 2014 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, 2014 – NERC AND REGIONAL ENTITIES

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

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

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

⁴ *2008 ERO Budget Order* at P 23.

experience, the explanations for the variances will improve.⁵

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

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

The comparisons of 2014 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 9**, as follows:

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

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2014, as prepared by its independent public accounting firm, with the exception of the Attachment for WECC. WECC's outside auditors were unable to complete their audit of

⁵ *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) ("*June 19, 2008 Budget Compliance Order*"), PP 37-38.

WECC's 2014 financial statements in time for inclusion in this filing, due to staffing shortages experienced by the auditors. WECC expects to receive its audited financial report for 2014 from its outside auditors in June 2015, and, when received, NERC will file WECC's audited 2014 financial statements with the Commission in a supplemental filing.

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

- Each comparison contains a cover letter or an overview or summary section identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2014 budget, 2014 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 2014, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2014 budget, 2014 actual amounts, and the variance, for major line-item categories of Funding and Expenses.⁶
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2014 budget, 2014 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs⁷ (direct costs) and the overhead functions⁸ (indirect costs). Explanations for significant line-item actual-to-budget variances are provided following each table, either below the table or on the immediately following page(s).⁹

⁶ FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2014 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 2014 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

⁷ Statutory programs encompass Reliability Standards, Compliance Operations and Enforcement, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection).

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

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

The Attachments also address (generally in the cover letter or overview section) (i) where applicable, whether any statutory funds were used in 2014 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2014); (ii) the impact of the entity's 2014 results on its working cash reserve for statutory programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2014)¹⁰; (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 2014.

NERC has provided additional information in its 2014 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, and (2) an analysis and comparison of the major sources of changes in its working capital and operating reserves for 2014, 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 2014 budgeted operations and to differences in actual funding or expenditures from amounts budgeted, including unbudgeted or above-budget expenditures funded from the Known Contingency Reserve or the Unknown Contingency Reserve. The table on page 4 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2014 by NERC program area, and is followed by a narrative discussion of the reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area. The analysis of changes

tables, the placement of these explanations in the report has been changed slightly from prior years' reports, so that the explanations are now shown beneath the applicable table or on the page(s) immediately following the table, rather than adjacent to the line items to which they relate.

¹⁰ The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" (or in "Operating Reserves") for the 2014 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 2014; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2013 to fund 2014 expenditures.

in working capital and operating reserves is provided on pages 8 of **Attachment 1**, including a table which shows changes in reserves from current year (2014) operations for the Known Contingency Reserve, Unknown Contingency Reserve, and System Operator Reserve. In addition, in its 2014 report, NERC has provided an actual cost-to budget comparison of 2014 Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings and Trustee Travel expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees). See page 6 of **Attachment 1**.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual cost-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2014 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual cost-to-budget variances experienced by NERC and the Regional Entities in 2014, as identified by NERC's review of the comparisons.

- A number of entities¹¹ experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Retirement Expense), in one or more program areas, due to being unable to fill budgeted positions, due to higher vacancy rates (*i.e.*, higher number of unfilled positions), or to filling budgeted positions later in the year, than was assumed in the budget. Additionally, having fewer personnel on staff than budgeted was a factor tending to reduce Meetings and/or Travel Expense below the budgeted amounts.¹²
- In some instances, due to the difficulty in filling budgeted positions, the entity may have found it necessary to incur costs for temporary staffing services while budgeted

¹¹ The term "entities" is used in this discussion to include NERC as well as Regional Entities.

¹² 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. Nonetheless, variances between the projected and actual attrition factor or labor float factor can result in variances between budgeted and actual Personnel Expenses.

positions were vacant.

- 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 2014, 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 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.
- On the other hand, some entities were able to spend less on Consultants and Contracts than budgeted, as a result of having work budgeted to be performed by contractors and consultants handled by internal staff of the entity. As some entities have increased their staffing over time, they have seen less need to use outside services, due to increased in-house staff capabilities.
- 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.
- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual renewal rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program. In some cases employees elected to stay on the health and medical programs of previous employers or of their spouse's employer.
- Some entities experienced either higher or lower costs than budgeted for Retirement costs due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget. In addition, some entities increased the employer match component of their retirement plans, resulting in higher Retirement Costs than budgeted.
- 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; (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; or (iii) overall increased corporate attention to controlling travel and meeting costs.

- In particular with respect to Meetings and Travel expense, several entities which moved to new offices with larger meeting spaces, or expanded existing offices, in 2014 or in recent prior years have been able to reduce Meetings and Travel expense by holding more meetings in the entity's office rather than in outside facilities.
- Some entities experienced lower than budgeted Consultants and Contracts expense due to timing delays or deferrals in planned projects.
- Some entities experienced variances in Office Rent or Office Costs due to new or changed office lease terms (including as a result of moving to a new office or taking additional space in the existing office facility), or due to implementing 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 entities which moved to new offices or expanded existing offices to accommodate increased staffing, incurred additional costs for capital expenditures (Furniture & Fixtures CapEx, Equipment CapEx, Computer & Software CapEx, and/or Leasehold Improvements) associated with the move to the new office or expansion of the existing office.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area but then recording the actual costs in the program area responsible for incurring 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).
- Some entities budget Professional Services expense for one or two contested compliance hearing per year (*e.g.*, for outside counsel to handle the hearing or for hearing officer services); if no contested hearings occur during the year, an under-budget variance in Professional Services expenses results.
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2014 budget were either (i) completed, or at least initiated, in late 2013, (ii) not carried out in 2014 (*i.e.*, delayed/deferred to 2015), or (iii) initiated later in 2014 than assumed in the budget and therefore not completed in 2014. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts compared to the budget). In other cases, projects that were planned and budgeted for execution and completion in 2013 were not fully completed in 2013 or were delayed or deferred into 2014, resulting in unbudgeted or over-budget expenditures in 2014.
- 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 or capitalization requirements of Generally Accepted Accounting Principles. In other

instances, the reverse occurred. The determination to capitalize rather than expense these expenditures or (vice versa) also impacted actual versus budgeted Depreciation expense.

- Some entities experienced higher or lower Funding from Workshop attendance fees, or other programs conducted for industry participants, due to higher or lower attendance at workshops or other programs than projected in the budget, holding more or fewer Workshops than assumed in the budget, or making a determination not to charge fees (or charging lower fees) for some programs for which fees had been budgeted.

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

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2014, as well as year-to-date actual cost-to-budget comparisons for 2015, into account in developing their business plans and budgets for 2016, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2015.

IV. COMPARISON OF ACTUAL COSTS TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2014 – PEAK RELIABILITY, INC.

Attachment 10 is a comparison of actual costs to budget for 2014 prepared by Peak. Because NERC included Peak's 2014 Business Plan and Budget in NERC's 2014 Business Plan and Budget Filing in Docket No. RR13-9-000, NERC and Peak concluded that an actual cost-to-budget report for Peak for 2014 should be included as part of this filing. Similar to its approach to reviewing Peak's business plans and budgets, NERC has not substantively reviewed and critiqued Peak's 2014 actual cost-to-budget report in the same manner that it reviews the Regional Entities' reports. NERC has, however, reviewed Peak's 2014 actual cost-to-budget report for consistency in presentation and level of detail of information provided with the report

format used by the Regional Entities.

**V. METRICS CONCERNING ADMINISTRATIVE COSTS IN
2014 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS**

In the *June 19, 2008 Budget Compliance Order*, the Commission directed NERC to develop additional metrics analyzing its administrative services expenses and those of the Regional Entities, and to present these metrics in future annual actual cost-to-budget filings and Business Plan and Budget filings. NERC has provided administrative cost metrics for NERC and the Regional Entities and accompanying discussion and analysis in its annual actual cost-to-budget reports for the subsequent years, through 2013. In accordance with the *June 19, 2008 Budget Compliance Order*, the costs incurred by NERC and the Regional Entities in the following functions are and have been considered to be the administrative services costs: Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance.¹³

On February 18, 2015, NERC submitted a filing in Docket No. RR15-6-000 requesting approval to remove or revise certain metrics components in its annual business plan and budget filings and in its annual actual cost-to-budget comparison filings.¹⁴ Specifically with respect to its annual actual cost-to-budget comparison filings, NERC proposed (1) to continue to provide the same metrics data on NERC and Regional Entity administrative services costs and staffing as it has been providing in the annual actual cost-to-budget comparison filings, but (2) to eliminate the narrative discussion of the administrative cost metrics that NERC has previously provided in

¹³ See *June 19, 2008 Budget Compliance Order*, footnote 13.

¹⁴ *Request of the North American Electric Reliability Corporation to Revise Certain “Metrics” Filing Components for its Annual Business Plan and Budget Filings and its Annual Actual Cost-to-Budget Trueup Filings*, filed February 18, 2015, in Docket No. RR15-6-000.

the text of the annual actual cost-to-budget comparison filings.¹⁵

As of the date of this filing, the Commission has not acted on NERC's February 18, 2015 filing. After consulting with Commission Staff, NERC has decided to include in this filing the NERC and Regional Entity administrative services metrics data, as in previous annual filings, but not the narrative discussion of the data, consistent with its filing in Docket No. RR15-6-000. Should the Commission subsequently deny NERC's request in Docket No. RR15-6-000 as it pertains to the annual actual cost-to-budget comparison filings, NERC will promptly submit a revised version of this filing including a narrative discussion of the administrative costs metrics data.¹⁶

Attachment 11 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2014 budgets and 2014 actual costs. In addition, **Attachment 11** provides a comparison of these metrics values for 2012, 2013 and 2014 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 11**).¹⁷
- Statutory indirect FTE as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 11**).
- 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 11**).

These are the same administrative cost metrics that NERC has provided in its previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for the years 2008 through 2013.

¹⁵ *Id.* at 21-22.

¹⁶ NERC notes that in Docket No. RR15-6-000, no comments were filed with the Commission concerning NERC's request.

¹⁷ The term "expenditures" as used here means expenses plus capital expenditures (fixed asset additions net of depreciation).

VI. 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, 2014.

Respectfully submitted,

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ATTACHMENT 1

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

North American Electric Reliability Corporation 2014 Audited Results – Actual to Budget Variance Analysis

Based upon audited results for the year ending December 31, 2014, NERC was \$1.7M, 3.0%, under budget for total expenses and fixed asset (capital) purchases, inclusive of expenses associated with the Cyber Risk Information Sharing Program (CRISP) which were entirely funded by CRISP participants.

2014 ACTUAL VERSUS BUDGET BY CATEGORY, including CRISP

	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding, excluding CRISP	53,661,497	53,735,382	(73,885)	
CRISP Third-Party Funding	1,587,876	-	1,587,876	
TOTAL FUNDING	55,249,373	53,735,382	1,513,991	2.8%
BUDGET - EXPENSES and FIXED ASSETS				
PERSONNEL EXPENSES	32,730,904	34,059,655	(1,328,751)	-3.9%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,486,929	3,789,525	(302,596)	-8.0%
CONSULTANTS and CONTRACTS	7,857,813	6,828,973	1,028,840	15.1%
RENT	2,737,780	2,617,299	120,481	4.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,916,466	5,832,854	83,612	1.4%
Other Non-Operating Expenses	102,181	144,000	(41,819)	-29.0%
FIXED ASSET PURCHASES (excludes the credit for depreciation)	1,859,327	3,117,790	(1,258,463)	-40.4%
TOTAL BUDGET	54,691,400	56,390,096	(1,698,696)	-3.0%
FTEs	177.3	189.5	(12.2)	-6.4%

Excluding CRISP, NERC was \$3.25M, 5.8%, under budget. The following table and summary of variances by expense category reflect 2014 results excluding funding and expenses related to CRISP. A summary of program activities and expenses related to CRISP are provided on page 6.

2014 ACTUAL VERSUS BUDGET BY CATEGORY, excluding CRISP

	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
TOTAL FUNDING	53,661,497	53,735,382	(73,885)	-0.1%
BUDGET - EXPENSES and FIXED ASSETS				
PERSONNEL EXPENSES	32,697,006	34,059,655	(1,362,649)	-4.0%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,479,715	3,789,525	(309,810)	-8.2%
CONSULTANTS and CONTRACTS	6,606,569	6,828,973	(222,404)	-3.3%
RENT	2,737,780	2,617,299	120,481	4.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,657,358	5,832,854	(175,496)	-3.0%
Other Non-Operating Expenses	102,181	144,000	(41,819)	-29.0%
FIXED ASSET PURCHASES (excludes the credit for depreciation)	1,859,327	3,117,790	(1,258,463)	-40.4%
TOTAL BUDGET	53,139,935	56,390,096	(3,250,161)	-5.8%
FTEs	177.2	189.5	(12.2)	-6.4%

As further explained below, NERC was under budget in 2014 primarily due to: (i) lower than budgeted personnel expenses due to staff vacancies and turnover; (ii) lower than budgeted fixed asset expenditures for software application development; (iii) lower than budgeted travel expense due to having fewer FTEs on staff than budgeted; and (iv) lower than budgeted contract and consulting expenses, expenses to support the System Operator Certification and Training programs and consulting support for risk management. These lower than budgeted contract and consulting expenses were offset by higher than budgeted consulting support for the FAC 3 vegetation management project, and higher than budgeted contract expenses for NERCnet and for the secure alerts reporting system.

Following is an explanation of the major factors influencing budgetary performance for 2014, exclusive of expenses associated with CRISP.

- **Funding** - Funding was under budget \$73.9k, 0.1%, due primarily to lower than budgeted workshop fees. Although the original budget included fees from attendees of the modeling workshops held by the RAPA program, NERC decided to forego those fees. Additionally, NASPI workshops received funding support from third parties, rather than NERC. Interest was under budget due to extremely low rates of return on invested funds.
- **Personnel Expenses** - \$1.4M, 4.0%, under budget
 - Salaries expense, which is comprised of base salaries, incentive compensation, accrued paid time off, employment agency fees, and temporary office services, was \$518.8k, 2.0%, under budget, primarily due to having fewer than budgeted FTEs on staff.
 - Base salaries, incentive compensation and accrued paid time off expenses were collectively \$686.4k under budget. The company’s 2014 personnel expense budget included assumptions regarding timing of new hires and attrition at the time of budget preparation. Management continues to review resource needs and

allocation, as well as assumptions on timing of new hires and attrition, in an effort to minimize significant budget under runs resulting from lower than budgeted FTEs.

- Temporary office services and employment agency fees were collectively \$196.9k over budget due to the increased use of temporary staffing to support NERC's ongoing operations during times of staff vacancies.
 - Payroll taxes were \$44.4k, 2.8%, over budget due to a higher maximum taxable earnings cap than the assumption in the budget.
 - Benefits expense, which is comprised of education and training, health and life, workers compensation, and relocation was \$337.8, 10.0%, under budget.
 - Health and life benefits were \$343.7k, 12.5%, under budget due to having fewer FTEs on staff than budgeted and lower than budgeted renewal costs associated with NERC's health plans.
 - Education and training expenses were \$84.1k, 48.1%, over budget due to an increased focus on staff training and professional development.
 - Relocation, workers' compensation and other employee benefits were collectively \$78.2k, 17.0%, under budget primarily due to lower than budgeted relocation expenses.
 - Retirement expenses were \$550.5k, 19.1%, under budget primarily due to having fewer FTEs on staff, later eligibility dates due to timing of hiring and due to forfeiture of unvested funds related to personnel attrition.
- **Meetings, Travel, Conferencing and Webinar** expenses were collectively under budget \$309.8k, 8.2%. Meetings expenses were \$59.5k under budget due to third party funding of NASPI workshops as noted above. Travel expenses were \$251.1k under budget due to having fewer FTEs on staff and ongoing focus on travel expense management. Conferencing expenses were approximately equal to budget.
- **Consultants and Contracts** expenses were \$222.4k, 3.3% under budget. The following table summarizes the over and under budget variances for Consultants and Contracts by Program area.

<u>CONSULTANTS and CONTRACTS</u>	<u>2014 Actual</u>	<u>2014 Budget</u>	<u>Over(Under)</u>
COMPLIANCE OPERATIONS	432,286	400,000	32,286
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	800,887	638,085	162,802
SITUATION AWARENESS	1,716,750	1,289,108	427,642
CRITICAL INFRASTRUCTURE DEPARTMENT	176,955	190,000	(13,045)
ES-ISAC	516,819	786,450	(269,631)
TRAINING, EDUCATION and OPERATOR CERTIFICATION	417,509	848,830	(431,322)
GENERAL and ADMINISTRATIVE	17,955	-	17,955
POLICY and EXTERNAL AFFAIRS	13,900	75,000	(61,100)
INFORMATION TECHNOLOGY	2,017,016	1,944,000	73,016
HUMAN RESOURCES	298,365	257,500	40,865
FINANCE and ACCOUNTING	198,127	400,000	(201,873)
CONTRACTS and CONSULTANTS (excluding CRISP)	6,606,569	6,828,973	(222,404)

- Compliance Operations – Over budget \$32.3k for outside consulting support in connection with the Reliability Assurance Initiative pilot programs and development of the associated internal control evaluation and testing processes.
- Reliability Assessments and Performance Analysis – Over budget \$162.8k due to the FAC 3 vegetation management project which was anticipated to be funded from operating reserves in the 2014 Business Plan and Budget.
- Situation Awareness – \$427.6k over budget due to higher than budgeted expenses for NERCnet and for the secure alerts reporting system, offset by lower than budgeted expenses for SAFNR.
- Critical Infrastructure Department – Under budget \$13.0k due to lower than budgeted expenses to support the ESCC Committee.
- ES-ISAC – Under budget \$269.6k due to lower than budgeted expenses related to cyber risk preparedness assessments, communications and software support services.
- Training, Education and Operator Certification – \$431.3k under budget due to: (i) lower than budgeted expenses related to the system operator database improvement project and examination development project; (ii) lower than budgeted system operator testing expenses resulting from a new vendor contract signed after the 2014 budget was developed; and (iii) lower than budgeted costs for industry and staff training.
- General and Administrative - \$18.0k over budget due to costs associated with the ERO effectiveness survey.
- Policy and External Affairs – Under budget \$61.1k due to a reduction in the need for outside consulting to support external affairs as a result of certain duties now being performed internally.
- Information Technology – \$73.0k over budget primarily due to slightly higher than budgeted total software development costs.
- Human Resources - \$40.8k over budget due to vendor support for benefits enrollment process improvements.
- Finance and Accounting - \$201.9k under budget due to lower than budgeted consulting support.

- **Rent** - \$120.5k, 4.6%, over budget due to: (i) a reduction in sublease revenue from NERC's former Washington, DC office in connection with negotiation and execution of a sublease amendment as a result of the subtenant's bankruptcy reorganization; and (ii) an increase in property taxes in Atlanta based on an updated assessment by Fulton County. With respect to the sublease agreement, the company received an upfront payment in connection with the execution of its current lease space in Washington, D.C. to offset potential liabilities associated with the sublease. This upfront payment is included in the company's working capital reserves and is being amortized over the term of the lease and is sufficient to offset the reduction in sublease revenue resulting from the subtenant bankruptcy.
- **Office Costs, Professional Services and Miscellaneous** - \$175.5k, 3.0%, under budget
 - Office Costs were \$237.3k, 6.8%, under budget due primarily to lower than budgeted expenses for telecommunications, equipment service agreements, and software licenses.
 - Professional Services were \$78.5k, 3.4%, over budget due to: (i) slightly higher than budgeted Trustee retainer and search fees as further detailed below; (ii) higher than budgeted outside legal expenses; and (iii) fees related to the design and implementation of an executive supplemental retirement plan.
 - Miscellaneous expenses, which includes employee rewards and recognition expenses and costs associated with community responsibility activities were \$16.6k, 45.6%, under budget.
- **Depreciation Expense** was under budget due to completion of fewer ERO Enterprise software application projects than expected. The variances in depreciation are not explained in the following summaries by program because the expense has no impact on the budget or assessments.
- **Other Non-Operating Expenses** were \$41.8k, 29.0%, under budget due to lower than budgeted interest expense associated with the company's capital financing program. Interest expense is lower than budget due to a lower than budgeted interest rate and a delay in closing the capital financing program loan. The loan closed in January, 2014 instead of the fourth quarter of 2013 as originally planned. Under the loan agreements, NERC pays a variable rate based on certain indices and the rate at closing was 2.9% compared to the 2014 budgeted rate of 3.5%.
- **Fixed Asset Purchases**, excluding depreciation, were \$1.3M, 40.4%, under budget primarily due to a reduction in software development and associated hardware expenditures as NERC updated and refined the ERO Enterprise and internal software application development strategies.

Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were over budget \$11.0k, 0.7%, in 2014. The increase in trustee compensation was approved by the Board on August 15, 2013.

	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Board of Trustee Expenses				
Meetings and Travel Expenses				
Quarterly Board Meetings and Conference Calls	226,408	256,206	(29,798)	-11.6%
Trustee Travel	168,207	155,000	13,207	8.5%
Total Board of Trustees Meetings and Travel Expenses	394,615	411,206	(16,591)	-4.0%
Professional Services				
Independent Trustee Fees	1,010,000	1,000,000	10,000	1.0%
Trustee Search Fees	87,563	70,000	17,563	25.1%
Total Board of Trustee Professional Services Expenses	1,097,563	1,070,000	27,563	2.6%
Total Board of Trustee Expenses	1,492,178	1,481,206	10,972	0.7%

CRISP

NERC’s role as program manager for CRISP was budgeted to begin in 2015, and therefore no funding or expenses for CRISP were included in NERC’s 2014 budget. During the fourth quarter of 2014, contracts between NERC and Pacific Northwest National Laboratory (PNNL) and between NERC and participating utilities were finalized and the project began ahead of the planned January 1, 2015 start date. As previously noted, all expenses incurred in 2014 were fully funded by CRISP participants. Pursuant to the master agreement with CRISP utility participants funding is provided in advance. The impact of these pre-payments from an accounting perspective is that the funds are recorded in full as assets on the company’s balance sheet, offset by deferred liabilities and are only recognized as revenues on the Statement of Activities as expenses are incurred. CRISP funds are segregated from other statutory funds and are utilized solely to support CRISP. After management review of the monthly variance report, CRISP funds are transferred to NERC’s general operating account to offset the actual expenses incurred. With respect to 2014 CRISP expenses, 2014 funding in excess of expenses was tracked and applied as a credit against 2015 CRISP funding requirements¹. In addition, the premiums for cyber and professional liability insurance policy which was required to be put in place pursuant to the CRISP master agreement were paid in advance but are recorded on the Statement of Activities in equal monthly amounts over the 12 month term of the policy. The prepaid portion of the insurance policy is included in CRISP operating reserves. The personnel costs for ES-ISAC personnel working on CRISP during the month are allocated based upon

¹ NERC issued credits for \$1.5M in funding received in excess of 2014 expenses.

the ratio of the time recorded in the month to the time spent on the CRISP activity code by each employee to the total time recorded by such employee during the month.

CRISP expenses recorded in 2014 were approximately \$1.6M. Funding for the \$500k special insurance reserve fund established pursuant to the terms of the CRISP master agreement is accounted for on the Statement of Financial Position as a long-term liability, and is restricted from use. All 2014 CRISP expenses were fully funded by the participants in the program.

Allocation of Indirect Expenses and Fixed Assets by Program

Total expenses and fixed asset expenditures, net of depreciation for all administrative programs were \$92.7k, 0.4% under budget. Total expenses of the administrative programs were \$25.4M, which was \$919.7k, 3.8% over budget. Direct expenses were over budget primarily due to higher personnel expenses as a result of having more administrative personnel than budgeted due to reallocation of resources to administrative program functions supporting all operating areas. The actual and budgeted allocations of indirect expenses by FTE were \$228.5k and \$188.0k, respectively, for an increase of \$30.5k per FTE.

Total fixed assets, net of depreciation for the administrative programs were (\$105.1k), which was \$872.0k, 114.6%, under budget. Total fixed assets were under budget primarily due to lower than budgeted purchases of capitalized computers and software in the Information Technology department as explained in more detail in the variance report for Information Technology that follows beginning on page 31. The actual and budgeted allocations of fixed assets net of depreciation by FTE were (\$0.9k) and \$5.5k, respectively for a decrease of \$6.4k per FTE.

The variances in indirect expenses and the allocation of fixed assets reflected in the variance reports by department are the result of the change in costs per FTE and the difference in actual versus budgeted FTE by department.

Use of Statutory Funds for Non-Statutory Activities

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

Operating Reserve Analysis

As of December 31, 2014, the total balance in working capital and operating reserves was \$7.46M. The balances in the Future Obligations Reserve, Known Contingency Reserve, Unknown Contingency Reserve, the System Operator Reserves, and CRISP Reserves as of December 31, 2014, were \$3.6M, \$850.0k, \$1.2M, \$1.3M, and \$585.5k respectively. The balance in working capital and operating reserves as of December 31, 2014 was approximately \$1.9M higher than budget, inclusive of CRISP reserves which were not budgeted and are entirely funded by CRISP participants.

A total of \$711.0k of Unknown Contingency Reserves were used in 2014: (i) \$50.5k for RAI contract support to develop the internal control evaluation and testing processes; (ii) \$50.4k for data modeling and change orders related to generation databases; (iii) \$25.1k for preliminary work on the development of a replacement for a software application used in connection with the Generator Analysis Database (GADS); (iv) \$32.4k to begin preparations for GridEx III in 2015; (v) \$43.6k for staff development and HR administrative support; (vi) \$18.0k for an ERO effectiveness survey; and (vii) \$491.1k for IT consultants, compliance database maintenance, and various IT infrastructure projects, including disaster recovery and network simplification. \$150k of Known Contingency Reserves was used for the FAC3 vegetation research project. All uses of reserves received the appropriate approvals pursuant to NERC’s Working Capital and Operating Reserve Policy.

OPERATING RESERVE ANALYSIS - as of December 31, 2014

	2014 Actual	2014 Budget**	Variance - Actual to Budget	December 31, 2014 Reserve Balances				
				Future Obligations Reserve	Known Contingency Reserves	Unknown Contingency Reserves	System Operator Reserves	CRISP Reserves***
Beginning Balance Operating Reserves - 1/1/14	6,264,672	8,217,862	(1,953,190)	3,817,478	1,000,000	(69,672)	1,516,866	-
Proceeds from Financing Activities (non-current portion only)	456,806		456,806				456,806	
<u>Change in Reserves from Current Year Operations</u>								
Generation (Use) from Budgeted Operations	1,418,982	(2,654,714)	3,996,172			1,641,335	(222,353)	-
Generation (Use) from Reserves	(861,009)	-	(783,485)		(150,000)	(711,009)		
Other adjustments to reserves**	181,456		181,456	(247,986)		(156,058)		585,500
Reserve Balance	7,460,907	5,563,148	1,897,759	3,569,492	850,000	1,161,402	1,294,513	585,500

*The 2014 budget included a \$1.2M reduction in Known and Unknown reserves and a \$438.3k planned reduction in the System Operator Reserves, for a total budgeted reduction in reserves of \$1,660,724.

**Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement), including recording of capitalized leases, amortization of long-term lease obligations and establishing CRISP insurance reserve

***Actual funding received from CRISP participants in excess of year-to-date actual expenses, pre-paid insurance and the insurance reserve fund as of December 31, 2014 was \$2.4M. This amount is not reflected in the CRISP Reserve balance because the funds will be used for future expenses or credited back to the participants.

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
Statement of Activities and Fixed Assets
(Audited)
For the period ended 12/31/2014

	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	51,401,382	51,401,382	-	
Penalties	290,000	290,000	-	
Third-Party Funding (CRISP)	1,587,876	-	1,587,876	
Testing	1,659,137	1,620,000	39,137	
Services & Software	77,000	50,000	27,000	
Workshop Fees	231,090	354,000	(122,910)	
Interest	2,830	20,000	(17,170)	
Miscellaneous	58	-	58	
Total Funding	55,249,373	53,735,382	1,513,991	2.8%
Expenses				
Personnel Expenses				
Salaries	25,729,089	26,218,572	(489,483)	
Payroll Taxes	1,615,713	1,570,954	44,759	
Employee Benefits	3,049,721	3,385,917	(336,196)	
Savings & Retirement	2,336,381	2,884,212	(547,831)	
Total Personnel Expenses	32,730,904	34,059,655	(1,328,751)	-3.9%
Meeting Expenses				
Meetings	992,687	1,052,150	(59,463)	
Travel	2,175,616	2,419,525	(243,909)	
Conference Calls	318,627	317,850	777	
Total Meeting Expenses	3,486,929	3,789,525	(302,596)	-8.0%
Operating Expenses				
Consultants and Contracts	7,857,813	6,828,973	1,028,840	
Rent & Improvements	2,737,780	2,617,299	120,481	
Office Costs	3,268,753	3,506,074	(237,321)	
Professional Services	2,627,851	2,290,280	337,571	
Miscellaneous	19,862	36,500	(16,638)	
Depreciation	1,845,951	2,333,007	(487,056)	
Total Operating Expenses	18,358,010	17,612,133	745,877	4.2%
Other Non-Operating Expenses	102,181	144,000	(41,819)	-29.0%
Indirect Expenses	-	-	-	-
Total Expenses	54,678,024	55,605,313	(927,289)	-1.7%
Net Change in Assets	571,349	(1,869,931)	2,441,280	-130.6%
Fixed Assets				
Depreciation	(1,845,951)	(2,333,007)	487,056	
Computer & Software	1,470,558	2,904,790	(1,434,232)	
Furniture & Fixtures	-	-	-	
Equipment	352,392	213,000	139,392	
Leasehold Improvements	36,377	-	36,377	
Allocation of Fixed Assets	-	-	-	
Incr(Dec) in Fixed Assets	13,376	784,783	(771,407)	-98.3%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	54,691,400	56,390,095	(1,698,695)	-3.0%
FTE's	177.31	189.53	(12.22)	-6.4%

Reliability Standards

Statement of Activities and Fixed Asset Budget

RELIABILITY STANDARDS	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	10,000,443	10,000,443	-	-
Penalties	58,951	58,951	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	96,900	104,000	(7,100)	-6.8%
Interest	563	3,976	(3,413)	-85.8%
Misc.	-	-	-	-
Total Funding	10,156,857	10,167,370	(10,513)	-0.1%
Expenses				
Personnel Expenses				
Salaries	2,731,348	3,308,688	(577,340)	-17.4%
Payroll Taxes	198,553	210,130	(11,577)	-5.5%
Employee Benefits	411,701	454,850	(43,149)	-9.5%
Savings & Retirement	307,149	377,588	(70,439)	-18.7%
Total Personnel Expenses	3,648,751	4,351,256	(702,505)	-16.1%
Meeting Expenses				
Meetings	229,787	185,000	44,787	24.2%
Travel	348,069	400,000	(51,931)	-13.0%
Conference Calls	133,713	123,748	9,965	8.1%
Total Meeting Expenses	711,569	708,748	2,821	0.4%
Operating Expenses				
Consultants and Contracts	-	-	-	-
Rent & Improvements	-	-	-	-
Office Costs	70,958	90,350	(19,392)	-21.5%
Professional Services	-	-	-	-
Miscellaneous	714	500	214	42.9%
Depreciation	3,273	-	3,273	-
Total Operating Expenses	74,945	90,850	(15,905)	-17.5%
Other Non-Operating Expenses				
Indirect Expenses	5,013,513	4,872,999	140,514	2.9%
Total Expenses	9,448,778	10,023,853	(575,075)	-5.7%
Net Change in Assets	708,078	143,517	564,561	393.4%
Fixed Assets				
Depreciation	(3,273)	-	(3,273)	-
Computer & Software	379,682	-	379,682	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(20,709)	143,517	(164,226)	-114.4%
Incr(Dec) in Fixed Assets	355,700	143,517	212,183	147.8%
Total Budget	9,804,478	10,167,370	(362,892)	-3.6%
FTE's	21.94	25.92	(3.98)	-15.4%

Explanation of Variances by Category – Reliability Standards

- **Personnel** – Salaries, payroll taxes, benefits and retirement costs were collectively under budget \$702.5k, 16.1%, due to having 3.98, 15.4%, fewer FTEs on staff than budgeted. In addition to having fewer FTEs on staff than budgeted, personnel expenses were also impacted by the following:
 - Payroll Taxes – The under budget variance due to having fewer FTEs on staff than budgeted was partially offset by higher than budgeted FICA taxes due to a higher maximum salary subject to the tax than was assumed in the budget.
 - Benefits - The under budget variance due to having fewer FTEs on staff than budgeted was partially offset by higher than budgeted training and education expenses.
- **Meetings, Travel and Conferencing Expenses** – Collectively over budget \$2.8k, 0.4%.
 - Meetings – Over budget due to CIP v5 meetings, participation in an Electric Infrastructure Security Council meeting, and a physical security technical conference which were not budgeted.
 - Travel – Under budget due to having fewer FTEs on staff than budgeted and management focus on travel expense management.
 - Conferencing Expenses - \$10.0k, 8.1%, over budget due to an increase in the number of webinars related to CIP v5 and development of the physical security standard.
- **Office Costs** – Under budget \$19.4k, 21.5%, due to lower than budgeted telecommunications expenses as a result of having fewer FTEs on staff than budgeted and due to lower telecommunications costs for NERC in total as explained above.

Compliance Operations, Investigations and Organization Registration and Certification

Statement of Activities and Fixed Asset Budget

COMPLIANCE OPERATIONS, INVESTIGATIONS and ORGANIZATION REGISTRATION and CERTIFICATION	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	9,400,511	9,400,511	-	0.0%
Penalties	52,401	52,401	-	0.0%
Third-Party Funding (CRISP)				
Testing				
Services & Software				
Workshop Fees	0	40,000	(40,000)	-100.0%
Interest	500	3,534	(3,034)	-85.8%
Miscellaneous				
Total Funding	9,453,412	9,496,446	(43,034)	-0.5%
Expenses				
Personnel Expenses				
Salaries	3,184,927	3,192,809	(7,882)	-0.2%
Payroll Taxes	194,357	202,068	(7,711)	-3.8%
Employee Benefits	385,195	404,311	(19,116)	-4.7%
Savings & Retirement	305,942	364,901	(58,959)	-16.2%
Total Personnel Expenses	4,070,421	4,164,089	(93,668)	-2.2%
Meeting Expenses				
Meetings	61,290	70,000	(8,710)	-12.4%
Travel	366,137	312,657	53,480	17.1%
Conference Calls	22,271	16,574	5,697	34.4%
Total Meeting Expenses	449,698	399,231	50,467	12.6%
Operating Expenses				
Consultants and Contracts	432,286	400,000	32,286	8.1%
Rent & Improvements	0	0	0	
Office Costs	54,701	73,500	(18,799)	-25.6%
Professional Services	0	0	0	
Miscellaneous	0	500	(500)	-100.0%
Depreciation	4,668	0	4,668	
Total Operating Expenses	491,655	474,000	17,655	3.7%
Other Non-Operating Expenses	-	-	-	
Indirect Expenses	4,992,947	4,331,555	661,392	15.3%
Total Expenses	10,004,720	9,368,875	635,846	6.8%
Net Change in Assets	(551,308)	127,571	(678,880)	-532.2%
Fixed Assets				
Depreciation	(4,668)	-	(4,668)	
Computer & Software	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(20,624)	127,570	(148,195)	
Incr(Dec) in Fixed Assets	(25,292)	127,570	(152,863)	-119.8%
Total Budget	9,979,428	9,496,446	482,983	5.1%
FTE's on 12/31/14 - per Original Budget	21.85	23.04	(1.19)	-5.2%

Explanation of Variances by Category – Compliance Operations, Investigations and Organization Registration and Certification

- **Funding** – Under budget \$43.0k, 0.5%, primarily because the auditor workshops were held in the NERC offices rather than hotels to reduce costs and as a result, workshop fees were not collected from attendees.
- **Personnel** – Salaries, payroll taxes, benefits and retirement costs were collectively under budget \$93.7k, 2.2%. Actual FTEs were 1.2 under budget, 5.2%. In addition to having fewer FTEs on staff than budgeted, retirement expenses were also under budget due to timing of hiring which impacts eligibility in the retirement plan.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses, which are the cost of hotel, catering and audio visual expenses were \$8.7k, 12.4% under budget due utilization of the NERC offices for auditors workshops instead of hotels as planned in the budget.
 - Travel was \$53.5k, 17.1% over budget due to increased travel related to the Reliability Assurance Initiative (RAI) implementation.
 - Conferencing expenses were \$5.7k, 34.4% over budget related to RAI implementation.
- **Operating Expenses**
 - Consultant and contract expenses were \$32.3k, 8.1% over budget for outside consulting support in connection with the RAI pilot programs and development of the associated internal control evaluation and testing processes.
 - Office costs were \$18.8k, 25.6% under budget due to lower than budgeted telecommunications expenses for NERC in total as explained above.

Compliance Enforcement

Statement of Activities and Fixed Asset Budget

COMPLIANCE ENFORCEMENT	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	6,350,810	6,350,810	-	-
Penalties	41,484	41,484	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	396	2,798	(2,402)	-85.8%
Miscellaneous	-	-	-	-
Total Funding	6,392,690	6,395,092	(2,402)	-
Expenses				
Personnel Expenses				
Salaries	1,773,005	2,043,427	(270,422)	-13.2%
Payroll Taxes	120,592	132,855	(12,263)	-9.2%
Employee Benefits	192,416	320,080	(127,664)	-39.9%
Savings & Retirement	171,172	234,210	(63,038)	-26.9%
Total Personnel Expenses	2,257,185	2,730,572	(473,387)	-17.3%
Meeting Expenses				
Meetings	1,492	2,500	(1,008)	-40.3%
Travel	60,171	85,298	(25,127)	-29.5%
Conference Calls	1,109	5,081	(3,972)	-78.2%
Total Meeting Expenses	62,773	92,879	(30,106)	-32.4%
Operating Expenses				
Consultants and Contracts	-	-	-	-
Rent & Improvements	-	-	-	-
Office Costs	23,731	41,000	(17,269)	-42.1%
Professional Services	-	-	-	-
Miscellaneous	759	500	259	51.7%
Depreciation	2,846	-	2,846	-
Total Operating Expenses	27,336	41,500	(14,164)	-34.1%
Other Non-Operating Expenses				
Indirect Expenses	3,089,457	3,429,147	(339,690)	-9.9%
Total Expenses	5,436,751	6,294,098	(857,347)	-13.6%
Net Change in Assets	955,939	100,994	854,945	846.5%
Fixed Assets				
Depreciation	(2,846)	-	(2,846)	-
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(12,761)	100,993	(113,755)	-112.6%
Incr(Dec) in Fixed Assets	(15,608)	100,993	(116,601)	-115.5%
Total Budget	5,421,144	6,395,092	(973,948)	-15.2%
FTE's	13.52	18.24	(4.72)	-25.9%

Explanation of Variances by Category – Compliance Enforcement

- **Personnel** – Personnel expenses were \$473.4k, 17.3%, under budget due to having 4.7, 25.9%, fewer FTEs on staff than budgeted. The remaining under budget variance in FTEs was due to open positions during the year. In addition to having fewer FTEs on staff than budgeted, personnel expenses were also impacted by the following:
 - Payroll Taxes – The under budget variance due to having fewer FTEs on staff than budgeted was partially offset by higher than budgeted FICA taxes due to a higher maximum salary subject to the tax than was assumed in the budget.
 - Benefits – Also under budget because no relocation expense was incurred during the year.
- **Meetings, Travel and Conferencing Expenses** – Collectively under budget \$30.1k, 32.4%, due to lower than budgeted travel expenses as a result of having fewer FTEs on staff and in response to ongoing focus on travel expense management.
- **Office Costs** – Under budget \$17.3k, 42.1%, due to lower telecommunications expense as a result of having fewer FTEs on staff than budgeted and due to lower than budgeted telecommunications expenses for NERC in total as explained above.

Reliability Assessments and Performance Analysis

Statement of Activities and Fixed Asset Budget

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	8,214,496	8,214,496	-	-
Penalties	43,190	43,190	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	77,000	50,000	27,000	54.0%
Workshop Fees	-	40,000	(40,000)	-100.0%
Interest	412	2,913	(2,501)	-85.8%
Miscellaneous	-	-	-	-
Total Funding	8,335,098	8,350,599	(15,501)	-0.2%
Expenses				
Personnel Expenses				
Salaries	2,817,484	2,604,056	213,428	8.2%
Payroll Taxes	182,439	159,156	23,283	14.6%
Employee Benefits	321,377	333,241	(11,864)	-3.6%
Savings & Retirement	272,215	294,179	(21,964)	-7.5%
Total Personnel Expenses	3,593,515	3,390,632	202,883	6.0%
Meeting Expenses				
Meetings	98,143	90,000	8,143	9.0%
Travel	335,114	385,000	(49,886)	-13.0%
Conference Calls	26,300	31,950	(5,650)	-17.7%
Total Meeting Expenses	459,557	506,950	(47,393)	-9.3%
Operating Expenses				
Consultants and Contracts	800,887	638,085	162,802	25.5%
Rent & Improvements	-	-	-	-
Office Costs	136,731	139,135	(2,404)	-1.7%
Professional Services	-	-	-	-
Miscellaneous	118	500	(382)	-76.4%
Depreciation	298,743	228,000	70,743	31.0%
Total Operating Expenses	1,236,479	1,005,720	230,759	22.9%
Other Non-Operating Expenses	-	-	-	-
Indirect Expenses	4,275,425	3,570,149	705,276	19.8%
Total Expenses	9,564,976	8,473,451	1,091,525	12.9%
Net Change in Assets	(1,229,877)	(122,852)	(1,107,026)	901.1%
Fixed Assets				
Depreciation	(298,743)	(228,000)	(70,743)	31.0%
Computer & Software	47,206	-	47,206	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(17,660)	105,146	(122,806)	-116.8%
Incr(Dec) in Fixed Assets	(269,197)	(122,854)	(146,343)	119.1%
Total Budget	9,295,779	8,350,597	945,183	11.32%
FTE's	18.71	18.99	(0.28)	-1.5%

Explanation of Variances by Category – Reliability Assessments and Performance Analysis (RAPA)

- **Funding**
 - Fees collected for services and software were \$27.0k, 54.0%, higher than budgeted due to increased requests from industry for historical data related to generation availability.
 - Workshop fees were not collected from attendees of the modeling workshops because the workshops were held in the NERC and Regional Entity offices, resulting in funding being \$40.0k under budget.
- **Personnel –**
 - Salaries expense was over budget due to increased use of temporary office services to support ongoing initiatives during periods of staff vacancies and due to the reallocation of budgeted FTEs to support RAPA resource needs, which resulted in higher than budgeted average salary and incentive compensation per FTE.
 - Payroll taxes were over budget due to a higher maximum taxable earnings cap than the assumption in the budget.
 - Benefits were under budget due to lower than budgeted renewal costs associated with NERC's health plans.
 - Retirement costs were under budget due to timing of hiring which impacts eligibility in the retirement plan.
- **Meetings, Travel and Conferencing Expenses** were collectively \$47.4k, 9.3%, under budget due primarily to lower travel in response to ongoing focus on travel expense management.
- **Operating Expenses**
 - **Contract and Consultant** expenses were over budget \$162.8k due to the FAC 3 vegetation management project as explained above.
- **Fixed Assets** – The over budget variance of \$47.2k for computer and software capex is related to initiation of the development of a Reliability Assessment Data System (RADS), which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development. Actual costs are charged to RAPA to match expenditures with the statutory program served.

Situation Awareness

Statement of Activities and Fixed Asset Budget

SITUATION AWARENESS	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	4,493,115	4,493,115	-	-
Penalties	14,192	14,192	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	75,000	(75,000)	-100.0%
Interest	135	957	(822)	-85.8%
Miscellaneous	-	-	-	-
Total Funding	4,507,442	4,583,264	(75,822)	-1.7%
Expenses				
Personnel Expenses				
Salaries	780,206	915,216	(135,010)	-14.8%
Payroll Taxes	53,969	60,207	(6,238)	-10.4%
Employee Benefits	127,621	109,501	18,120	16.5%
Savings & Retirement	75,193	104,293	(29,100)	-27.9%
Total Personnel Expenses	1,036,989	1,189,217	(152,227)	-12.8%
Meeting Expenses				
Meetings	5,900	171,000	(165,100)	-96.5%
Travel	37,482	28,020	9,462	33.8%
Conference Calls	748	4,000	(3,252)	-81.3%
Total Meeting Expenses	44,130	203,020	(158,890)	-78.3%
Operating Expenses				
Consultants and Contracts	1,716,750	1,289,108	427,642	33.2%
Rent & Improvements	-	-	-	-
Office Costs	41,289	47,750	(6,461)	-13.5%
Professional Services	-	-	-	-
Miscellaneous	-	500	(500)	-100.0%
Depreciation	718	161,498	(160,780)	-99.6%
Total Operating Expenses	1,758,758	1,498,856	259,902	17.3%
Other Non-Operating Expenses				
	-	-	-	-
Indirect Expenses	1,368,776	1,173,129	195,646	16.7%
Total Expenses	4,208,652	4,064,222	144,431	3.6%
Net Change in Assets	298,790	519,042	(220,253)	-42.4%
Fixed Assets				
Depreciation	(718)	(161,498)	160,780	-99.6%
Computer & Software	-	645,990	(645,990)	-100.0%
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(5,654)	34,550	(40,204)	-116.4%
Incr(Dec) in Fixed Assets	(6,372)	519,042	(525,415)	-101.2%
Total Budget	4,202,280	4,583,264	(380,983)	-8.3%
FTE's	5.99	6.24	(0.25)	-4.0%

Explanation of Variances by Category – Situation Awareness

- **Funding** - NASPI workshops were entirely funded by third parties in 2014, in which reduced NERC funding of \$75.0k. When the 2014 budget was developed, it was assumed that NERC might continue to sponsor NASPI workshops.
- **Personnel** – Collectively under budget for salaries, payroll taxes, employee benefits and retirement expenses \$152.2k, 12.8%. FTEs were 0.25, 4.0%, under budget.
 - Salaries expense was under budget due to lower average salary per employee than budgeted.
 - Payroll taxes were lower than budgeted due to lower average salaries, offset by the higher maximum taxable earnings cap than the assumption in the budget.
 - Benefits were over budget due to higher than budgeted education and benefit expenses.
 - Retirement costs were under budget due to timing of hiring which impacts eligibility in the retirement plan.
- **Meetings, Travel and Conferencing Expenses** – Collectively \$158.9k, 78.3%, under budget primarily due to lower than budgeted meeting expense. In addition, a portion of the quarterly meetings of the Operating Committee, Planning Committee, and Critical Infrastructure Protection Committee, were budgeted in Situation Awareness but actual costs were charged to the departments with the personnel and activities supporting these committees.
- **Operating Expenses**
 - Consultant and Contract expenses were \$427.6k, 33.2%, over budget due to: (i) higher than budgeted expenses for NERCnet; and (ii) higher than budget expenses for the secure alerts reporting system due to delays in a previously scheduled replacement system, as noted below. These higher than budgeted expenses were offset by lower than budgeted expenses for SAFNR.
- **Fixed Assets**
 - The planned development of a new secure alerts system was deferred pending further review of alternative systems and as a result, there were no expenditures for computer and software fixed assets.

Event Analysis

Statement of Activities and Fixed Asset Budget

EVENT ANALYSIS	2014	2014	2014 Variance	%
	Actual	Budget	Over(Under)	
Funding				
Assessments	3,975,065	3,975,065	-	-
Penalties	21,834	21,834	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	48,634	50,000	(1,366)	-2.7%
Interest	208	1,473	(1,265)	-85.8%
Miscellaneous	-	-	-	-
Total Funding	4,045,741	4,048,372	(2,631)	-0.1%
Expenses				
Personnel Expenses				
Salaries	1,339,543	1,470,290	(130,747)	-8.9%
Payroll Taxes	86,998	91,480	(4,482)	-4.9%
Employee Benefits	135,138	168,463	(33,325)	-19.8%
Savings & Retirement	162,695	167,286	(4,591)	-2.7%
Total Personnel Expenses	1,724,373	1,897,519	(173,146)	-9.1%
Meeting Expenses				
Meetings	84,732	67,000	17,732	26.5%
Travel	124,181	155,000	(30,819)	-19.9%
Conference Calls	14,202	31,864	(17,662)	-55.4%
Total Meeting Expenses	223,115	253,864	(30,749)	-12.1%
Operating Expenses				
Consultants and Contracts	-	-	-	-
Rent & Improvements	-	-	-	-
Office Costs	28,261	38,519	(10,258)	-26.6%
Professional Services	-	-	-	-
Miscellaneous	-	500	(500)	-100.0%
Depreciation	704	193,667	(192,963)	-99.6%
Total Operating Expenses	28,965	232,686	(203,721)	-87.6%
Other Non-Operating Expenses				
	-	-	-	-
Indirect Expenses	1,962,902	1,804,815	158,087	8.8%
Total Expenses	3,939,356	4,188,884	(249,528)	-6.0%
Net Change in Assets	106,385	(140,512)	246,898	-175.7%
Fixed Assets				
Depreciation	(704)	(193,667)	192,963	-99.6%
Computer & Software	8,828	-	8,828	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(8,108)	53,154	(61,262)	-115.3%
Incr(Dec) in Fixed Assets	15	(140,513)	140,528	-100.0%
Total Budget	3,939,371	4,048,372	(109,001)	-2.69%
FTE's	8.59	9.60	(1.01)	-10.5%

Explanation of Variances by Category – Event Analysis

- **Personnel** - Collectively under budget for salaries, payroll taxes, employee benefits and retirement expenses \$173.1k, 9.1%, primarily due to having 1.0, 10.5%, fewer FTEs on staff than budgeted. In addition to having fewer FTEs on staff than budgeted, personnel expenses were also impacted by the following:
 - Payroll Taxes – The under budget variance due to having fewer FTEs on staff than budgeted was partially offset by higher than budgeted FICA taxes due to a higher maximum salary subject to the tax than was assumed in the budget.
 - Benefits – There were no relocation expenses in this program in 2014 and due to lower than budgeted renewal costs associated with NERC’s health plans.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$17.7, 26.5%, over budget due to partial allocation of costs associated with the quarterly OC-PC-CIPC meetings that were budgeted in Situation Awareness, as previously noted.
 - Travel expense was \$30.8k, 19.9%, under budget due to having fewer FTEs on staff and management focus on travel expense management.
 - Conferencing expenses were \$17.7k, 55.4%, under budget due to no major events that required use of the service.
- **Operating Expenses**
 - Office costs were \$10.3k, 26.6%, under budget due to lower telecommunications expense as a result of having fewer FTEs on staff and lower than budgeted telecommunications expenses for NERC in total as explained above.
- **Fixed Assets** – The \$8.8k in computer and software is related to beginning development of an event analysis software application that was budgeted in IT.

Critical Infrastructure Department and ES-ISAC

Statement of Activities and Fixed Asset Budget

CRITICAL INFRASTRUCTURE DEPARTMENT and ES-ISAC

	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	9,517,444	9,517,444	-	-
Penalties	45,941	45,941	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	85,556	45,000	40,556	90.1%
Interest	438	3,098	(2,660)	-85.8%
Miscellaneous	-	-	-	-
Total Funding	9,649,379	9,611,484	37,896	0.4%
Expenses				
Personnel Expenses				
Salaries	2,304,541	3,220,485	(915,944)	-28.4%
Payroll Taxes	157,018	191,249	(34,231)	-17.9%
Employee Benefits	251,599	354,474	(102,875)	-29.0%
Savings & Retirement	253,742	366,599	(112,857)	-30.8%
Total Personnel Expenses	2,966,901	4,132,806	(1,165,906)	-28.2%
Meeting Expenses				
Meetings	177,948	145,000	32,948	22.7%
Travel	256,744	328,428	(71,684)	-21.8%
Conference Calls	22,094	32,574	(10,480)	-32.2%
Total Meeting Expenses	456,786	506,002	(49,216)	-9.7%
Operating Expenses				
Consultants and Contracts	693,774	976,450	(282,676)	-28.9%
Rent & Improvements	-	-	-	-
Office Costs	97,802	86,250	11,552	13.4%
Professional Services	-	-	-	-
Miscellaneous	210	500	(290)	-58.0%
Depreciation	16,580	-	16,580	-
Total Operating Expenses	808,366	1,063,200	(254,834)	-24.0%
Other Non-Operating Expenses				
	-	-	-	-
Indirect Expenses	3,178,576	3,797,630	(619,054)	-16.3%
Total Expenses	7,410,629	9,499,638	(2,089,010)	-22.0%
Net Change in Assets	2,238,750	111,846	2,126,907	1901.6%
Fixed Assets				
Depreciation	(16,580)	-	(16,580)	-
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	12,167	-	12,167	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(13,130)	111,846	(124,975)	-111.7%
Incr(Dec) in Fixed Assets	(17,542)	111,846	(129,388)	-115.7%
Total Budget	7,393,087	9,611,484	(2,218,398)	-23.1%
FTE's	13.91	20.20	(6.29)	-31.1%

Explanation of Variances by Category – Critical Infrastructure Department (CID) and ES-ISAC

- **Funding** – Workshop fees were \$40.6k, 90.1%, over budget due to higher attendance at the Grid Security Conference than budgeted.
- **Personnel** expenses were collectively \$1.2M, 28.2%, under budget due to having 6.29, 31.1%, fewer FTEs on staff than budgeted as a result of staff vacancies. The under budget variances in salaries, benefits and retirement expenses are generally consistent with the under budget variance for actual FTEs compared to budget. The under budget variance in payroll taxes is less than the other personnel expense categories due to the higher maximum salary subject to the tax than was assumed in the budget.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$32.9k, 22.7%, higher than budget due to higher costs of the Grid Security Conference. This higher than budgeted expense was offset by higher workshop fees collected from attendees as described above.
 - Travel expenses were \$71.7k, 21.8%, under budget due to having fewer FTEs on staff than budgeted.
 - Conferencing expenses were \$10.5k, 32.2%, under budget for no specific reason other than having fewer FTEs on staff.
- **Operating Expenses**
 - Consultant and contract expenses were \$282.7k, 28.9%, under budget due to lower than budgeted expenses to support the ESCC Committee and due to lower than budgeted expenses related to cyber risk preparedness assessments, communications and software support services.
 - Office costs were \$11.6k, 13.4%, over budget due to higher than budgeted software maintenance costs partially offset lower than budgeted telecommunications expense as a result of having fewer FTEs on staff than budgeted and lower overall telecommunications expense for NERC as described above.
- **Fixed Assets** – Over budget \$12.2k for equipment purchased for the ES-ISAC portal that was not budgeted.

Training, Education and Operator Certification

Statement of Activities and Fixed Asset Budget

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2014	2014	2014 Variance	%
	Actual	Budget	Over(Under)	
Funding				
Assessments	1,665,959	1,665,959	-	-
Penalties	12,008	12,008	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	1,659,137	1,620,000	39,137	2.4%
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	177	1,251	(1,074)	-85.8%
Miscellaneous	-	-	-	-
Total Funding	3,337,281	3,299,218	38,063	1.2%
Expenses				
Personnel Expenses				
Salaries	694,305	806,116	(111,811)	-13.9%
Payroll Taxes	54,119	56,919	(2,800)	-4.9%
Employee Benefits	114,123	143,194	(29,071)	-20.3%
Savings & Retirement	64,881	91,840	(26,959)	-29.4%
Total Personnel Expenses	927,428	1,098,069	(170,641)	-15.5%
Meeting Expenses				
Meetings	70,384	36,000	34,384	95.5%
Travel	19,759	51,000	(31,241)	-61.3%
Conference Calls	36,576	25,500	11,076	43.4%
Total Meeting Expenses	126,719	112,500	14,219	12.6%
Operating Expenses				
Consultants and Contracts	417,509	848,830	(431,322)	-50.8%
Rent & Improvements	-	-	-	-
Office Costs	86,986	98,300	(11,314)	-11.5%
Professional Services	-	-	-	-
Miscellaneous	551	500	51	10.3%
Depreciation	1,919	-	1,919	-
Total Operating Expenses	506,965	947,630	(440,665)	-46.5%
Other Non-Operating Expenses				
	-	-	-	-
Indirect Expenses	1,515,022	1,534,092	(19,070)	-1.2%
Total Expenses	3,076,134	3,692,291	(616,157)	-16.7%
Net Change in Assets	261,147	(393,073)	654,220	-166.4%
Fixed Assets				
Depreciation	(1,919)	-	(1,919)	-
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(6,258)	45,181	(51,439)	-113.9%
Incr(Dec) in Fixed Assets	(8,177)	45,181	(53,358)	-118.1%
Total Budget	3,067,957	3,737,472	(669,515)	-17.9%
FTE's	6.63	8.16	(1.53)	-18.8%

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

- **Personnel** – Salaries, payroll taxes, benefits and retirement costs were collectively under budget \$170.6k, 15.5%, due to having 1.53, 18.8%, fewer FTEs on staff than budgeted as a result of staff vacancies. In addition to having fewer FTEs on staff than budgeted, personnel expenses were also impacted by the following:
 - Payroll Taxes – The under budget variance due to having fewer FTEs on staff than budgeted was partially offset by higher than budgeted FICA taxes due to a higher maximum salary subject to the tax than was assumed in the budget.
 - Savings and Retirement – Also under budget due to timing of hiring which impacts eligibility in the retirement plan.
- **Meetings, Travel and Conferencing** expenses were collectively \$14.2k, 12.6% over budget.
 - Meetings expense was \$34.4k, 95.5%, over budget as a result of having quarterly meetings of the Personnel Certification Governance Committee, which oversees the system operator certification program, in hotels instead of stakeholder facilities. All expenses of the system operator certification program are funded by fees collected for testing and certification.
 - Travel expenses were \$31.2k, 61.3%, under budget due to having fewer FTEs on staff and in response to ongoing focus on travel expense management.
 - Conferencing expenses were \$11.1k, 43.4%, over budget due to an increase in webinars to support NERC staff training and education activities.
- **Operating Expenses**
 - Consultant and contract expenses were under budget \$431.3k, 50.8%, due to: (i) lower than budgeted expenses related to the system operator database improvement project and examination development project; (ii) lower than budgeted system operator testing expenses resulting from a new vendor contract signed after the 2014 budget was developed; and (iii) lower than budgeted costs for industry and staff training.
 - Office costs were under budget due to: (i) lower telecommunications expense as a result of having fewer FTEs on staff than budgeted and due to lower than budgeted telecommunications expenses for NERC in total; (ii) lower than budgeted dues; and (iii) lower than budgeted copying costs due to use of in-house equipment.

General and Administrative, Executive, and Policy and External Affairs

Statement of Activities and Fixed Asset Budget

GENERAL and ADMINISTRATIVE, including Executive and Policy & External Affairs

	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	(2,216,461)	(2,216,461)	-	-
Miscellaneous	58	-	58	-
Total Funding	(2,216,403)	(2,216,461)	58	-
Expenses				
Personnel Expenses				
Salaries	2,939,041	2,031,742	907,299	44.7%
Payroll Taxes	146,646	89,250	57,396	64.3%
Employee Benefits	283,064	245,309	37,755	15.4%
Savings & Retirement	50,907	158,550	(107,643)	-67.9%
Total Personnel Expenses	3,419,658	2,524,851	894,807	35.4%
Meeting Expenses				
Meetings	248,436	268,000	(19,564)	-7.3%
Travel	407,023	421,482	(14,459)	-3.4%
Conference Calls	17,422	24,206	(6,784)	-28.0%
Total Meeting Expenses	672,881	713,688	(40,807)	-5.7%
Operating Expenses				
Consultants and Contracts	31,855	75,000	(43,145)	-57.5%
Rent & Improvements	2,737,780	2,617,299	120,481	4.6%
Office Costs	440,270	502,000	(61,730)	-12.3%
Professional Services	1,222,974	1,170,000	52,974	4.5%
Miscellaneous	5,384	5,500	(116)	-2.1%
Depreciation	474,056	419,399	54,657	13.0%
Total Operating Expenses	4,912,321	4,789,198	123,123	2.6%
Other Non-Operating Expenses	92,889	144,000	(51,111)	-35.5%
Indirect Expenses	(9,097,749)	(8,171,737)	(926,012)	11.3%
Total Expenses	-	-	-	-
Net Change in Assets	(2,216,403)	(2,216,461)	58	-
Fixed Assets				
Depreciation	(474,056)	(419,399)	(54,657)	13.0%
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	36,377	-	36,377	-
Allocation of Fixed Assets	437,680	419,399	18,281	4.4%
Incr(Dec) in Fixed Assets	-	-	-	-
Total Budget	-	-	-	-
FTE's	14.48	10.56	3.92	37.1%

Explanation of Variances by Category – General and Administrative, Executive, and Policy and External Affairs

- **Personnel** – Salaries, payroll taxes, benefits and retirement were collectively \$894.8k, 35.4%, over budget due to having 3.92, 37.1%, higher FTEs allocated to general and administrative support than budgeted for this department. During 2014, budgeted FTE positions were transferred from other programs to provide added support for NERC and Regional Entity operations coordination and NERC external affairs department.
 - Salaries were \$907.3k, 44.7% over budget due to: (i) having more FTEs on staff than budgeted; (ii) higher temporary office services utilized to support the administrative staff in all departments; and (iii) an increase in accrued but unused paid time off applicable to all departments.
 - Payroll taxes were \$57.4k, 64.3%, over budget due to having more FTEs on staff than budgeted and due to a higher maximum salary subject to the tax than was assumed in the budget.
 - Benefits were \$37.8k, 15.4%, over budget due to having more FTEs on staff than budgeted, partially offset by lower than budgeted renewal costs associated with NERC's health plans.
 - Retirement expenses were \$107.6k, 67.9%, under budget due to forfeiture of unvested funds related to personnel attrition across the entire organization.
- **Meeting, Travel and Conferencing Expenses** were collectively \$40.8k, 5.7%, under budget.
 - Meeting expenses were \$19.6k, 7.3%, under budget due to lower than budgeted costs associated with the quarterly Board of Trustee meetings as noted above.
 - Travel expenses were under budget due to focus on travel expense management.
- **Operating Expenses**
 - Consultant and contract expenses were under budget \$43.1k, 57.5%, due to a reduction in the need for outside consulting to support external affairs as a result of certain duties now being performed internally, partially offset by costs associated with an ERO effectiveness survey that was not budgeted.
 - Rent was \$120.5k, 4.6%, over budget due to: (i) a reduction in sublease revenue from NERC's former Washington, DC office in connection with negotiation and execution of a sublease amendment as a result of the subtenant's bankruptcy reorganization; and (ii) due to an increase in property taxes in Atlanta based on an updated assessment by Fulton County. With respect to the sublease agreement, the company received an upfront payment in connection with the execution of its current lease space in Washington, D.C. to offset potential liabilities associated with the sublease. This upfront payment is included in the company's working capital reserves and is being amortized over the term of the lease and is sufficient to offset the reduction in sublease revenue resulting from the subtenant bankruptcy.
 - Office costs were \$61.7k, 12.3%, under budget due to lower than budgeted telecommunications costs, office supply costs, copying costs and sales and use taxes.

These lower than budgeted costs were partially offset by higher than budgeted bank fees associated with closing of the capital financing loan in January, 2014.

- Professional services were \$53.0k, 4.5% over budget due to slightly higher than budgeted trustee fees and trustee search fees as previously described and higher than budgeted outside legal fees associated with closing of the capital financing loan in January, 2014.
- **Fixed Assets** were over budget due to \$36.4k in leasehold improvements associated with the DC office expansion that were budgeted to occur in 2015.

Legal and Regulatory

Statement of Activities and Fixed Asset Budget

LEGAL and REGULATORY	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	-	-	-	-
Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	-	-	-	-
Expenses				
Personnel Expenses				
Salaries	2,461,580	2,637,399	(175,819)	-6.7%
Payroll Taxes	142,134	136,718	5,416	4.0%
Employee Benefits	216,565	265,856	(49,291)	-18.5%
Savings & Retirement	253,810	296,887	(43,077)	-14.5%
Total Personnel Expenses	3,074,089	3,336,860	(262,771)	-7.9%
Meeting Expenses				
Meetings	3,093	5,000	(1,907)	-38.1%
Travel	103,235	120,000	(16,765)	-14.0%
Conference Calls	6,477	12,953	(6,476)	-50.0%
Total Meeting Expenses	112,805	137,953	(25,148)	-18.2%
Operating Expenses				
Consultants and Contracts	-	-	-	-
Rent & Improvements	-	-	-	-
Office Costs	54,457	63,500	(9,043)	-14.2%
Professional Services	700,346	760,000	(59,654)	-7.8%
Miscellaneous	-	500	(500)	-100.0%
Depreciation	4,458	-	4,458	-
Total Operating Expenses	759,261	824,000	(64,739)	-7.9%
Other Non-Operating Expenses				
Indirect Expenses	(3,946,155)	(4,298,813)	352,658	-8.2%
Total Expenses	-	-	-	-
Net Change in Assets	-	-	-	-
Fixed Assets				
Depreciation	(4,458)	-	(4,458)	-
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	4,458	-	4,458	-
Incr(Dec) in Fixed Assets	-	-	-	-
Total Budget	-	-	-	-
FTE's	14.12	15.15	(1.03)	-6.8%

Explanation of Variances by Category – Legal and Regulatory

- **Personnel** expenses were collectively \$262.8k, 7.9%, under budget primarily due to having 1.0, 6.8%, fewer FTEs on staff than budgeted. In addition to having fewer FTEs on staff than budgeted, personnel expenses were also impacted by the following:
 - Payroll Taxes – Higher than budgeted FICA taxes due to a higher maximum salary subject to the tax than was assumed in the budget.
 - Benefits - The under budget variance due to having fewer FTEs on staff than and a lower average cost of NERC's health plan per FTE in this program than the average cost per FTE in the budget.
 - Retirement expenses were also under budget due to timing of hiring which impacts eligibility in the retirement plan.
- **Meeting, travel and conferencing** expenses were collectively \$25.1k, 18.2%, under budget primarily due to lower than budgeted travel expenses related to focus on travel expense management.
- **Office costs** were \$9.0k, 14.2%, under budget due to lower telecommunications expense as a result of having fewer FTEs on staff than budgeted and lower overall telecommunications expenses for NERC as described above.
- **Professional services** were \$59.7k, 7.8%, due to lower than budgeted outside legal fees associated with lobbying and other support services.

Information Technology

Statement of Activities and Fixed Asset Budget

INFORMATION TECHNOLOGY	2014	2014	2014 Variance	%
	Actual	Budget	Over(Under)	
Funding				
Assessments	-	-	-	-
Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	-	-	-	-
Expenses				
Personnel Expenses				
Salaries	2,456,664	2,013,859	442,805	22.0%
Payroll Taxes	152,717	136,366	16,351	12.0%
Employee Benefits	329,546	317,097	12,449	3.9%
Savings & Retirement	198,492	229,767	(31,275)	-13.6%
Total Personnel Expenses	3,137,419	2,697,089	440,330	16.3%
Meeting Expenses				
Meetings	8,393	5,000	3,393	67.9%
Travel	50,639	59,243	(8,604)	-14.5%
Conference Calls	31,667	4,800	26,867	559.7%
Total Meeting Expenses	90,699	69,043	21,656	31.4%
Operating Expenses				
Consultants and Contracts	2,017,016	1,944,000	73,016	3.8%
Rent & Improvements	-	-	-	-
Office Costs	2,190,891	2,279,770	(88,879)	-3.9%
Professional Services	10,796	-	10,796	-
Miscellaneous	-	500	(500)	-100.0%
Depreciation	1,028,050	1,330,443	(302,393)	-22.7%
Total Operating Expenses	5,246,753	5,554,713	(307,960)	-5.5%
Other Non-Operating Expenses	9,292	-	9,292	-
Indirect Expenses	(8,484,162)	(8,320,845)	(163,317)	2.0%
Total Expenses	-	-	-	-
Net Change in Assets	-	-	-	-
Fixed Assets				
Depreciation	(1,028,050)	(1,330,443)	302,393	-22.7%
Computer & Software	1,034,842	2,258,800	(1,223,958)	-54.2%
Furniture & Fixtures	-	-	-	-
Equipment	340,225	213,000	127,225	59.7%
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(347,017)	(1,141,357)	794,340	-
Incr(Dec) in Fixed Assets	-	-	-	-
Total Budget	-	-	-	-
FTE's	18.91	18.07	0.84	4.6%

Explanation of Variances by Category – Information Technology

- **Personnel**
 - Salaries expenses were \$442.8k, 22.0%, over budget due to the reallocation of additional FTEs to strengthen IT program and software application development, oversight and execution. This resulted in the IT department having 4.6% more FTEs on staff than budgeted, higher average salaries per FTE due to the addition of senior personnel, and higher than budgeted temporary office services to support ongoing operations during periods of staff vacancies.
 - Payroll taxes were over budget due to higher FTEs than budget and due to the higher maximum salary subject to the tax than was assumed in the budget.
 - Retirement costs were under budget due to timing of hiring which impacts eligibility in the retirement plan.
- **Meeting, travel and conferencing** expenses were collectively \$21.6k, 31.4%, over budget primarily due to higher conferencing expenses. The monthly fee charged for webinar services was budgeted in general and administrative but was charged to IT during the year.
- **Professional services** was \$10.8k over budget due to outside services support of audio visual equipment during staff meetings that was not budgeted.
- **Fixed Assets**
 - Computer and software \$1.2M, 54.2%, under budget due to a reduction in software development and associated hardware expenditures as NERC updated and refined the ERO Enterprise and internal software application development strategies.
 - Equipment purchases \$127.2k, 59.7%, over budget related to installation of various IT infrastructure projects, including disaster recovery and network simplification which were not specifically budgeted but were approved as a use of operating reserves in accordance with NERC's working capital and operating reserve policy.

Human Resources

Statement of Activities and Fixed Asset Budget

HUMAN RESOURCES	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	-	-	-	-
Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	-	-	-	-
Expenses				
Personnel Expenses				
Salaries	538,267	595,009	(56,742)	-9.5%
Payroll Taxes	25,332	23,428	1,904	8.1%
Employee Benefits	67,358	50,539	16,819	33.3%
Savings & Retirement	43,537	42,721	816	1.9%
Total Personnel Expenses	674,493	711,697	(37,204)	-5.2%
Meeting Expenses				
Meetings	1,186	2,000	(814)	-40.7%
Travel	9,928	10,897	(969)	-8.9%
Conference Calls	754	600	154	25.6%
Total Meeting Expenses	11,868	13,497	(1,630)	-12.1%
Operating Expenses				
Consultants and Contracts	298,365	257,500	40,865	15.9%
Rent & Improvements	-	-	-	-
Office Costs	9,059	16,500	(7,441)	-45.1%
Professional Services	61,856	80,280	(18,424)	-22.9%
Miscellaneous	11,794	25,500	(13,706)	-53.8%
Depreciation	7,733	-	7,733	-
Total Operating Expenses	388,807	379,780	9,027	2.4%
Other Non-Operating Expenses	-	-	-	-
Indirect Expenses	(1,075,167)	(1,104,974)	29,807	-2.7%
Total Expenses	-	-	-	-
Net Change in Assets	-	-	-	-
Fixed Assets				
Depreciation	(7,733)	-	(7,733)	-
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	7,733	-	7,733	-
Incr(Dec) in Fixed Assets	-	-	-	-
Total Budget	-	-	-	-
FTE's	3.00	2.88	0.12	4.2%

Explanation of Variances by Category – Human Resources (HR)

- **Personnel** expenses were collectively \$37.2k, 5.2%, under budget.
 - Salaries expense was \$56.7k, 9.5%, under budget due to lower than budgeted temporary office services, which were budgeted in HR but charged to the department where services were utilized.
 - Benefits were \$16.8k, 33.3%, over budget due to a higher average cost of NERC's health plan per FTE in this program than the average cost per FTE in the budget.
- **Operating Expenses**
 - Consultant and contract expenses were \$40.9k, 15.9%, over budget due to vendor support for benefits enrollment process improvements.
 - Professional services were \$18.4k, 22.9%, lower than budget due to lower than budgeted costs of the HR information system and various third-party benefit providers.
 - Miscellaneous expenses consisting of employee rewards and recognition expenses and costs associated with community responsibility activities were under budget \$13.7k, 53.8%. All costs of participation in 2014 community responsibility activities were funded by NERC employees. A portion of the cost of the year-end employee appreciation events was not invoiced or paid until 2015.

Finance and Accounting

Statement of Activities and Fixed Asset Budget

ACCOUNTING and FINANCE	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	-	-	-	-
Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	-	-	-	-
Expenses				
Personnel Expenses				
Salaries	1,678,905	1,379,476	299,429	21.7%
Payroll Taxes	100,486	81,128	19,358	23.9%
Employee Benefits	212,427	219,002	(6,575)	-3.0%
Savings & Retirement	173,967	155,391	18,576	12.0%
Total Personnel Expenses	2,165,784	1,834,997	330,787	18.0%
Meeting Expenses				
Meetings	1,903	5,650	(3,747)	-66.3%
Travel	49,918	62,500	(12,582)	-20.1%
Conference Calls	5,294	4,000	1,294	32.3%
Total Meeting Expenses	57,115	72,150	(15,035)	-20.8%
Operating Expenses				
Consultants and Contracts	198,127	400,000	(201,873)	-50.5%
Rent & Improvements	-	-	-	-
Office Costs	33,601	29,500	4,101	13.9%
Professional Services	372,785	280,000	92,785	33.1%
Miscellaneous	332	500	(168)	-33.5%
Depreciation	2,201	-	2,201	-
Total Operating Expenses	607,047	710,000	(102,953)	-14.5%
Other Non-Operating Expenses				
Indirect Expenses	(2,829,946)	(2,617,147)	(212,799)	8.1%
Total Expenses	-	-	-	-
Net Change in Assets	-	-	-	-
Fixed Assets				
Depreciation	(2,201)	-	(2,201)	-
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	2,201	-	2,201	-
Incr(Dec) in Fixed Assets	-	-	-	-
Total Budget	-	-	-	-
FTE's	15.50	12.48	3.02	24.2%

Explanation of Variances by Category – Finance and Accounting

- **Personnel**
 - Salaries expense was \$229.4k, 21.7%, over budget due the addition of personnel to strengthen operating and internal controls, including staff additions budgeted for 2015 which were added during the latter part of 2014. This resulted in 3.0, 24.2%, more FTEs on staff than budgeted.
 - Payroll taxes were \$19.4k, 23.9%, over budget due to having more FTEs on staff than budgeted.
 - Retirement expenses were \$18.6k, 12.0%, over budget due to having more FTEs on staff than budgeted but the over budget variance was less than the increase in FTEs due to timing of hiring which impacts eligibility in the retirement plan.
- **Meeting, travel and conferencing** expenses were collectively \$15.0k, 20.8%, under budget primarily due to lower than budgeted travel expenses related to focus on travel expense management.
- **Operating Expenses**
 - Consultant and contract expenses were \$201.9k, 50.5%, under budget due to lower than budgeted consulting support.
 - Professional services were \$92.8k, 33.1%, over budget due to higher than budgeted outside legal fees associated with regulatory filing requirements associated with Peak Reliability, and higher than budgeted fees associated with design and implementation of an executive supplemental retirement plan.

Financial Statements and Report of
Independent Certified Public Accountants

North American Electric Reliability Corporation

December 31, 2014 and 2013

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
North American Electric Reliability Corporation

We have audited the accompanying financial statements of North American Electric Reliability Corporation (a New Jersey non-profit corporation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North American Electric Reliability Corporation as of December 31, 2014 and 2013, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

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

Grant Thornton LLP

Atlanta, Georgia
May 7, 2015

Statements of Financial Position

December 31,	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 38,310,796	\$ 26,182,060
Restricted cash	500,000	-
Accounts receivable, net of allowance for doubtful accounts of \$0	5,059,002	3,353,895
Prepaid expenses	756,727	869,876
Total Current Assets	44,626,525	30,405,831
Long-Term Assets		
Property and equipment, net	5,929,366	5,645,116
Security deposits	99,136	99,136
457b Plan Assets	522,756	320,660
Total Long-Term Assets	6,551,258	6,064,912
Total Assets	\$ 51,177,783	\$ 36,470,743
Liabilities and net assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 8,930,613	\$ 6,943,283
Accrued retirement liabilities	1,907,563	1,788,624
Current portion of long-term debt	421,667	-
Deferred revenue	10,182,338	5,287,044
Deferred rent - current	249,269	182,421
Deferred compensation - current	14,257	20,386
Capital lease obligations - current	56,457	47,108
Regional assessments collected in advance	11,438,454	9,427,293
Total Current Liabilities	33,200,618	23,696,159
Long-Term Liabilities		
Deferred rent - non-current	3,569,492	3,817,478
Deferred compensation - non-current	783,446	597,514
Insurance reserve	500,000	-
Long-term debt	456,806	-
Capital lease obligations - non-current	216,481	-
Total Long-Term Liabilities	5,526,225	4,414,992
Total Liabilities	38,726,843	28,111,151
Net Assets		
Unrestricted	8,485,940	7,914,592
Temporarily restricted	3,965,000	445,000
Total Net Assets	12,450,940	8,359,592
Total Liabilities and Net Assets	\$ 51,177,783	\$ 36,470,743

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

Statements of Activities

	For the Year Ended December 31, 2014			For the Year Ended December 31, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
NERC assessments	\$ 51,401,382	\$ -	\$ 51,401,382	\$ 47,604,156	\$ -	\$ 47,604,156
Penalty income	-	3,810,000	3,810,000	-	445,000	445,000
Third-Party funding	1,587,876	-	1,587,876	-	-	-
Testing / fees	1,659,137	-	1,659,137	1,822,154	-	1,822,154
Services and software	77,000	-	77,000	86,075	-	86,075
Workshops	231,090	-	231,090	320,725	-	320,725
Rental income	242,589	-	242,589	293,000	-	293,000
Interest	2,830	-	2,830	3,197	-	3,197
Loss on disposal of fixed assets	(9,142)	-	(9,142)	(99,708)	-	(99,708)
Miscellaneous revenues	58	-	58	224	-	224
Net assets (penalties) released from restrictions	290,000	(290,000)	-	2,512,500	(2,512,500)	-
Total revenues	55,482,820	3,520,000	59,002,820	52,542,323	(2,067,500)	50,474,823
Expenses:						
Salaries	25,729,089	-	25,729,089	25,465,466	-	25,465,466
Employee costs	4,665,434	-	4,665,434	4,395,066	-	4,395,066
Retirement and savings plans	2,336,382	-	2,336,382	2,252,973	-	2,252,973
Travel and meetings	3,486,930	-	3,486,930	3,414,306	-	3,414,306
Services	10,485,664	-	10,485,664	10,511,000	-	10,511,000
Rent	2,980,370	-	2,980,370	3,015,106	-	3,015,106
Office costs	1,472,572	-	1,472,572	1,622,635	-	1,622,635
Computer	1,796,180	-	1,796,180	1,607,057	-	1,607,057
Depreciation and amortization	1,845,951	-	1,845,951	1,945,946	-	1,945,946
Property tax expense	52,312	-	52,312	48,606	-	48,606
Provision for bad debts	10,554	-	10,554	45,610	-	45,610
Miscellaneous expenses	19,861	-	19,861	20,608	-	20,608
Interest	30,173	-	30,173	3,114	-	3,114
Total expenses	54,911,472	-	54,911,472	54,347,493	-	54,347,493
Change in net assets	571,348	3,520,000	4,091,348	(1,805,170)	(2,067,500)	(3,872,670)
Net assets, beginning of year	7,914,592	445,000	8,359,592	9,719,762	2,512,500	12,232,262
Net assets, end of year	\$ 8,485,940	\$ 3,965,000	\$ 12,450,940	\$ 7,914,592	\$ 445,000	\$ 8,359,592

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

Statements of Cash Flow

For the Years Ended December 31,	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 4,091,348	\$ (3,872,670)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,845,951	1,945,946
Straight-line rent accrual	(181,138)	258,362
Loss on disposal of fixed assets	9,142	99,708
Provision for bad debts	10,554	45,610
Change in value of insurance policies	-	337,414
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	(1,715,661)	882,097
Prepaid expenses	113,149	18,211
Security deposits	-	15,767
Receipt of funds for regional entities	94,703,215	152,966,084
Disbursements of funds to regional entities	(94,703,215)	(152,966,084)
Accounts payable and accrued expenses	1,923,684	803,926
Deferred revenue	4,895,294	109,293
Insurance Reserve	500,000	-
Regional assessments collected in advance	2,011,161	(187,536)
Deferred compensation	(22,293)	(324,105)
Accrued retirement liabilities	118,939	379,076
Net cash provided by operating activities	13,600,130	511,099
Cash flows from investing activities		
Purchases of property and equipment	(1,806,735)	(2,200,782)
Proceeds from sales of property and equipment	11,519	975
Net cash used in investing activities	(1,795,216)	(2,199,807)
Cash flows from financing activities		
Proceeds from financing activities	1,265,000	-
Debt service	(386,527)	-
Capital lease payments	(54,651)	(65,928)
Net cash provided by (used in) financing activities	823,822	(65,928)
Net (decrease) increase in cash and cash equivalents	12,628,736	(1,754,636)
Cash and cash equivalents, beginning of year	26,182,060	27,936,696
Cash and cash equivalents, end of year	\$ 38,810,796	\$ 26,182,060
Supplemental disclosure of non-cash information		
Fixed asset purchases within accounts payable	\$ 63,646	\$ 270,753
Capital lease obligation for equipment	280,481	-
Supplemental disclosure of cash paid		
Interest	\$ 30,173	\$ 3,114
Reconciliation of Cash		
Cash and cash equivalents	\$ 38,310,796	\$ 26,182,060
Restricted cash	500,000	-
Cash and cash equivalents, end of year	\$ 38,810,796	\$ 26,182,060

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

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 United States Federal Energy Regulatory Commission ("FERC") as the Electric Reliability Organization ("ERO") within the United States. In the United States, the Corporation has the authority to levy fines and penalties against any of the individual users, owners and operators of the bulk power system for non-compliance with the reliability standards that govern the bulk power system. The Corporation has also been recognized as the ERO by governmental authorities in Canada.

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

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

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

Annually, the Board of Trustees approves an operating budget for the Corporation that includes a provision for working capital and operating reserves, which are recovered through assessments to Load-Serving Entities ("LSE"). The determination of the annual working capital and operating reserve requirements and the authorization of management to access these funds is governed by the Corporation's "Working Capital and Operating Reserve Policy." The Corporation assesses each LSE a proportional share of its annual operating budget based on "net energy for load." During 2014, the assessments to LSEs made up approximately 87.1% of the total funding for the Corporation. Assessments to U.S. entities in 2014 were offset by \$290,000 in penalties received in prior years, but restricted from use until 2014 per the Corporation's policy on the "Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards." The Corporation also generates funding from the collection of fees charged for various services. These services include management of some contracts associated with the Electricity Sector Information Sharing and Analysis Center (ES-ISAC), the maintenance of a certification program for system operators, the development of reports and software programs, and the hosting of workshops to educate the industry on various reliability matters.

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

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

2 Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the Corporation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets as of December 31, 2014 or 2013. Net assets totaling \$3,965,000 and \$445,000 were temporarily restricted as of December 31, 2014 and 2013, respectively, 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. A total of \$500,000 has been set aside for the insurance reserve in current assets and non-current liabilities and is restricted from use for any other purpose.

Use of Estimates

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

Revenue Recognition

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

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

Deferred Revenue

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

Accounts Receivable

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

Property and Equipment

Purchased property and equipment are capitalized at cost. 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:

	Years
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, 2014 and 2013, the Corporation has recorded accrued compensated absences of \$565,999 and \$543,126 related to days earned, which is included with accounts payable and accrued expenses on the statements of financial position.

Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Corporation is subject to income taxes on revenues from unrelated business activities. The Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2014 or 2013.

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 2011. Tax years 2011 through 2014 remain subject to examination by major tax jurisdictions.

Reclassifications

Certain reclassifications have been made to prior years' functional classification of operational program expenses to conform to current year presentation. These classifications had no effect on previously reported changes in net assets.

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, 2014 through May 7, 2015, the date the financial statements were available for issuance.

On January 29, 2015, the Corporation entered into an agreement to expand the amount of leased space in Atlanta, Georgia with an expiration date in 2022, which is coterminous with the term of the original lease. On March 2, 2015, the Corporation entered into an agreement to expand the amount of leased space in Washington, DC with an expiration date in 2022, which is coterminous with the term of the original lease (see Note 8).

3 Property and Equipment

Property and equipment consist of the following at December 31:

December 31,	2014	2013
Software development	\$ 4,392,007	\$ 2,986,517
Furniture and equipment	6,805,180	6,860,119
Leasehold improvements	1,100,816	1,100,281
	12,298,003	10,946,917
Accumulated depreciation and amortization	(6,368,637)	(5,301,801)
	\$ 5,929,366	\$ 5,645,116

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$1,845,951 and \$1,945,946, respectively.

4 Non-Revolving Credit Facility and Line of Credit

On January 13, 2014, the company secured a non-revolving credit facility under the Capital Financing Program that was approved by the Board of Trustees and the FERC as part of the Corporation's 2014 Business Plan and Budget. The interest rate is floating and equal to LIBOR plus 275 basis points, which yielded a rate of 2.91% at closing. The total size of this facility is \$7,500,000, with the total authorized borrowings each year limited to the amount approved by the Board of Trustees and FERC in that year's business plan and budget. This facility is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. Borrowings outstanding as of December 31, 2014 were \$878,473.

The Corporation has a line of credit with a bank that expires in June 2015. The line of credit provides for up to \$4,000,000 of availability to be used for working capital needs. In connection with the non-revolving credit facility secured on January 13, 2014, the line of credit was amended and restated. The line of credit accrues interest at a rate per annum equal to LIBOR plus 275 basis points, which yielded a rate of 2.91% at closing. 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 amended and restated line of credit note, the Corporation is no longer required to maintain the \$400,000 non-interest bearing account with the lender. In 2013, the \$400,000 was classified within cash and cash equivalents on the statement of financial position as of December 31, 2013. There were no borrowings outstanding at December 31, 2014 or 2013. At December 31, 2014 and 2013, the available amount under the line of credit was reduced by open letters of credit totaling \$140,772 which represent security deposits for the Corporation's office lease agreements.

Both loan agreements contain various positive and negative covenants, and the Corporation was in compliance with these covenants as of December 31, 2014.

5 Penalty Income

The Corporation received \$3,810,000 and \$445,000 of penalty income in 2014 and 2013, respectively, which is temporarily restricted. The penalty income will be utilized in accordance with the timing of the receipt of the income and FERC's requirement for the use of penalty income to reduce assessments. NERC transferred \$290,000 of penalty income from temporarily restricted net assets to unrestricted net assets during 2014. During 2013, NERC transferred \$2,512,500 of penalty income from temporarily restricted net assets to unrestricted net assets.

6 Regional Assessments Collected in Advance

In addition to the Corporation assessments billed to LSEs or designees, a regional assessment is also billed by the Corporation on behalf of the Regional Entities. The regional assessment is based on approved budgets of the eight Regional Entities and remitted to the Regional Entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSEs or designees before the regional assessments are due to the Regional Entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill in a subsequent period for any uncollected assessments. Regional assessments billed and remitted for 2014 and 2013 were as follows:

For the Year Ended December 31,	2014	2013
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	\$ 92,683,354	\$ 113,584,703
Total regional assessments remitted to Regional Entities	(92,648,361)	(113,480,310)
Billings over remittances	\$ 34,993	\$ 104,393

As of December 31, 2014 and 2013, regional assessments collected in advance and not yet remitted to the Regional Entities based upon the remittance schedule set forth in the delegation agreements totaled \$11,438,454 and \$9,427,293, respectively.

7 Deferred Compensation

Agreements and Life Insurance Policies

During 2005, the Council entered into a deferred compensation agreement with a retiring executive that provided benefits payable over a period selected by the retiring employee, payable to the retiree or his surviving spouse. The Corporation assumed the liability upon merger with the Council. The original agreement was superseded in 2008 and a variable universal life policy was used to fund the liability. This life policy, including the cash surrender value, was assigned and transferred to the retired executive in January 2009. In accordance with the new agreement, the Corporation will continue to pay the policy premiums through 2015. At December 31, 2014 and 2013, the present value of the unfunded liability, using a discount rate of 0.75% was \$14,257. The present value of the unfunded liability as of December 31, 2014 and 2013 is included in current deferred compensation on the statements of financial position.

Deferred Compensation Plan

The Corporation established a deferred compensation plan for certain employees in 2012 in accordance with Internal Revenue Code Section 457. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In 2014, the plan was amended to allow the company to make discretionary, non-elective contributions to the plan on behalf of the employee. The asset and liability for this deferred compensation plan of \$522,756 and \$320,660 at December 31, 2014 and 2013, respectively, are included in 457b Plan Assets and non-current deferred compensation on the statements 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 limited number of current and transitional retirees and their dependents up to a maximum monthly benefit of \$550 paid directly to the applicable insurer. Assumptions used in recording the retiree medical benefits included the 2009 Social Security Administration Actuarial Period Life Table, annual inflation rate of 1.5% and discount rate of 3.8%. At December 31, 2014 and 2013 the accrued retiree medical benefits liability was \$256,694 and \$276,855, respectively, and is included in non-current deferred compensation on the statements of financial position. The retiree medical expense related to this policy was \$9,507 and \$26,616, respectively for the years ended December 31, 2014 and 2013.

8 Commitments

Operating Leases

The Corporation leases office space in Washington, D.C. and Atlanta, Georgia under non-cancellable lease agreements, with expiration dates through 2022. The lease for office space in Princeton, NJ expired in 2013.

In 2012 and 2015, the Corporation entered into agreements to expand the amount of leased space in Atlanta, Georgia with an expiration date in 2022, which is coterminous with the term of the lease for the original premises.

In 2015, the Corporation entered into an agreement to expand the amount of leased space in Washington, D.C. with an expiration date in 2022, which is coterminous with the term of the lease for the original premises.

In 2011, the Corporation entered into separate sub-lease agreements for a portion of the office space in Princeton, New Jersey, which expired in 2013, and for one of the two locations in Washington D.C., with an expiration date of February 2017. On June 23, 2014, the Corporation and sub-tenant agreed to amend the sublease agreement for the space in Washington D.C., to reduce the amount of space subleased to sub-tenant and to reduce the rate of rent due under the terms of the sublease agreement.

Approximate future minimum payments on office lease space at December 31, 2014 are as follows, net of rental income for sub-leased space and including lease agreements entered into subsequently in January, 2015:

Years Ending December 31,	Leased Space		Sub-leased Space		Net
2015	\$	3,219,000	\$	(206,000)	\$ 3,013,000
2016		3,467,000		(213,000)	3,254,000
2017		3,275,000		(36,000)	3,239,000
2018		3,300,000		-	3,300,000
2019		3,386,000		-	3,386,000
Thereafter		9,449,000		-	9,449,000
	\$	26,096,000	\$	(455,000)	\$ 25,641,000

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The Corporation had received tenant improvement allowances as of December 31, 2013 totaling \$381,632. The difference between rent expense calculated ratably over the lease term and actual payments under the agreements are recorded as a deferred rent obligation on the statements of financial position in the amount of \$3,818,761 and \$3,999,899 at December 31, 2014 and 2013, respectively.

Office rent expense, net of sub-lease income of \$242,589 and \$293,000, was \$2,534,672 and \$2,574,909 for the years ended December 31, 2014 and 2013, respectively.

Capital Leases

The Corporation has entered into capital lease agreements for office equipment. Depreciation expense related to these capital leases was \$51,227 and \$65,407 for the years ended December 31, 2014 and 2013, respectively.

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

December 31, 2014	
Copier leases	\$ 280,481
Accumulated depreciation	(5,843)
Net Book Value	\$ 274,638

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, 2014:

Years ending December 31,	Future Minimum Payments
2015	\$ 91,000
2016	91,000
2017	91,000
2018	83,000
Total Minimum Lease Payment	356,000
Less: Amounts representing interest and maintenance	(83,062)
Future Obligation Net of Interest and Maintenance	\$ 272,938

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
2015	\$ 222,000
2016	227,000
2017	59,000
Total Service Agreements	\$ 508,000

9 Savings and Investment Plan

The Corporation sponsors an employee savings 401(k) plan (the "Plan") whereby eligible employees may elect to contribute up to the Internal Revenue Service Code 402(g)(1) limit. The Corporation contributes a 75% match of the first 6% of a participant's elective contribution. 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, 2014 and 2013 were \$2,336,382 and \$2,252,973, respectively. The contributions accrued as of December 31, 2014 and 2013 amounted to \$1,907,563 and \$1,788,624, respectively, and are included in accrued retirement liabilities in the statements of financial position.

10 Concentration of Credit Risk

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

11 Functional Classification

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

The following table shows the functional classification of expenses for the years ended December 31, 2014 and 2013.

For the Years Ended December 31,	2014	2013
Operational Programs:		
Reliability Standards	\$ 4,435,265	\$ 5,429,867
Compliance Operations	5,011,773	4,683,625
Compliance Enforcement	2,347,294	2,437,377
Reliability Assessment and Performance Analysis	5,289,551	4,506,619
Event Analysis	1,976,454	2,283,712
Situation Awareness	2,839,878	3,845,999
Training, Education and Operator Certification	1,561,112	1,696,223
Critical Infrastructure Department	5,783,518	4,855,518
	29,244,845	29,738,940
Administrative Programs:		
General and Administrative	9,331,197	8,656,304
Legal and Regulatory	3,946,155	4,046,516
Information Technology	8,484,162	7,815,620
Human Resources	1,075,167	1,318,387
Finance and Accounting	2,829,946	2,771,726
	25,666,627	24,608,553
Total Expenses	\$ 54,911,472	\$ 54,347,493

Supplemental Schedules of Selected Expenses

For the Years Ended December 31,	2014	2013
Employee costs:		
Payroll taxes (FICA, SUI, FUI, Medicare)	\$ 1,615,713	\$ 1,527,728
Employee benefits - medical	2,210,021	2,053,703
Employee benefits - life / disability	198,766	173,915
Employee benefits - officers' life	-	33,328
Insurance - workers' compensation	74,343	54,219
Relocation expenses	93,176	149,215
Educational	473,415	402,958
	\$ 4,665,434	\$ 4,395,066
Travel and meetings:		
Meetings	\$ 862,026	\$ 741,766
Workshops	130,661	363,969
Travel	2,175,616	2,001,968
On-line meetings	318,627	306,603
	\$ 3,486,930	\$ 3,414,306
Services:		
Insurance - commercial	\$ 126,127	\$ 109,765
Contract and consultants	7,857,813	8,293,693
Independent trustee fees	1,010,000	931,250
Search fees	93,239	6,495
Temporary office services and agency fees	181,392	180,924
Accounting and auditing fees	162,167	143,271
Legal fees	1,054,926	845,602
	\$ 10,485,664	\$ 10,511,000
Office costs:		
Publications and subscriptions	\$ 84,296	\$ 76,993
Dues	40,862	40,862
Postage	13,854	8,022
UPS, express mail, etc.	20,215	29,509
Telephone	506,292	517,742
Office and equipment repair/services	74,528	86,810
Copying	70,426	44,720
Stationery and office forms	2,080	176
Office supplies	171,176	187,170
Bank charges	42,620	22,967
Sales and use tax	-	3,782
Card fees	82,241	81,782
Internet expenses	363,982	522,100
	\$ 1,472,572	\$ 1,622,635

ATTACHMENT 2

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

True Up 2014

2014 Budget Variance Explanations Based on Audited Financials

Statutory Funding

Total Funding – Favorable Variance \$26k

A training program for the new software to support reliability assessments was offered for a fee and was not planned in the budget creating a favorable variance of \$21k. The balance of the favorable variance is due to FRCC System Operator Subcommittee (SOS) fees collected that were more than budgeted by \$5k. Because these are both pass through items, the expense for both offset the revenue.

Statutory Expenditures

Total Favorable Variance \$795k

Statutory Personnel Expenses

Total Favorable Variance \$709k

The favorable variance is due to open positions unfilled for portions of the 12 months (see RSD and Compliance below) and less time charged to RA (see Reliability Assessment). The Employer Discretionary Contribution and 401(k) match and fewer health premiums due to the unfilled positions accounts for a large portion of the favorable variance; additionally, health insurance is less than budgeted due to lower rates than budgeted; educational benefits and relocation expenses were under budget due to unfilled positions. These expense reductions are partially offset by the use of contract employees.

The FTE status by Program is:

Reliability Standards Development	(0.64)
Compliance Enforcement	(2.62)
Reliability Assessment	(1.16)
Training & Education	(0.14)
Situational Awareness	(0.04)
General Administrative	(0.21)
Total Statutory FTE Variance	(4.81)

Statutory Meeting Expenses

Total Favorable Variance \$65k

Less travel by Standards and Compliance

Favorable Variance \$45k

Favorable variance in meeting expense is due to a change in venue for the SOS training seminars at a significant savings and fewer committee meetings with the creation of the Regional Entity Committee and Compliance Forum (RECCF).

Favorable Variance \$18k

Conference Calls costs were less than budgeted.

Favorable Variance \$2k

Statutory Operating Expenses

Total Favorable Variance \$33k

Legal fees less than budgeted	-\$87k
RA Consulting Projects (Short Circuit Databank, Reliability & Security, Data Verification, MMWG and Load Forecast) were less than budgeted	-\$39k
RA Consulting by committee members budgeted but not billed	-\$32k
Revised allocation for RA activities after the creation of the RECCF	-\$12k
SOS Training less than budgeted	-\$7k
Amortization Expense for the Compliance Software additions is greater than anticipated resulting in an unfavorable variance	+\$45k
Compliance Software maintenance enhancements primarily for support needed to implement NERC's changes in Business Rules	+\$32k
Training program fees for the new software to support reliability assessments was not planned in the budget (See Revenue for favorable offset)	+\$22k
Strategic Plan Consultant not budgeted	+\$19k
Towers Watson Salary Survey Conducted, not budgeted	+\$11k
Internal Auditor not budgeted	+\$10k
ERAG Fees are greater than budgeted	+\$3k
All Other expenses	+\$2k

Statutory Fixed Asset Expenditures

Total Unfavorable Variance \$12k:

Capitalized Compliance software enhancements needed for changes to the Technical Feasibility Exception (TFE) process and scoping the Reliability Assurance Initiative (RAI) changes needed prior to implementation of RAI offset by depreciation and computers not purchased	+\$12k
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Non Statutory (Member Services) Funding:

Total Funding – Unfavorable Variance \$56k:

Pass through billing to members for the FRCCnet Sprint MPLS network is greater than expected due to running redundant systems until full conversion to the new backup network was complete. Because this is a pass through item, it will affect the expenses by the same amount.

Non Pension Post Retirement

Total Favorable Variance \$53k

Total Unfavorable Variance \$109

Non Statutory Expenditures

Total Unfavorable Variance \$463k

Non Statutory Operating Expenses (Reliability Coordinator & other operations)	+\$462k
Non Statutory Personnel Expenses	+\$28k
Non Statutory Meeting Expenses	-\$27k

Other Non-Operating Expenses

Total Favorable Variance \$1,090k

Change in Non Pension, Non Cash Post Retirement Obligation of medical insurance to a limited number of grandfathered individuals from an actuarial study was not budgeted

Non Statutory Fixed Asset Expenditures

Total Favorable Variance \$4k

Change in Working Capital for the Year ended 12/31/2014:

Addition to Working Capital	\$415k
Statutory – Addition to Working Capital	\$821k
Member Services Non Statutory – Use of Working Capital	(\$406k)
Total Net Assets As Of 12/31/2014: Surplus	\$2,820k
Statutory – Surplus of	\$1,922k
Member Services Non Statutory – Surplus of	\$ 898k

Statements Concerning Work Completed in 2014:

Compliance Monitoring & Enforcement Program

Specifically, the Compliance Department verifies that:

1. All O&P Compliance audits (11) planned for 2014 were completed as scheduled;
2. All CIP Audits (11) planned for 2014 were completed as scheduled;
3. Conducted Risk Assessment for eleven (11) registered entities prior to each on-site/off-site audit;
4. The Technical Feasibility Exception (TFE) program related to the CIP Standards completed its fifth year in 2014. FRCC processed sixty-seven (67) requests for material changes of which sixty (60) were approved and seven (7) were not approved.
5. The annual self-certification of all registered entities in the region was completed on schedule;
6. Review, acceptance or rejection was completed for forty-five (45) Mitigation Plans and eight (8) Mitigation Plan Revisions submitted by registered entities in 2014;
7. Verification of entity completion was finalized for forty (40) Mitigation plans during 2014; and
8. Regional Compliance Evaluations were completed for eight (8) entity reliability events during 2014, of which four (4) events occurred in 2013;
9. Conducted one (1) Spot Check in 2014 as a result of an Event Compliance Evaluation.

Reliability Assessment Program

NERC Reliability Assessments (Summer, Winter and Long Term Reliability Assessment) including a Probabilistic Assessment were all completed as scheduled. In addition, the FRCC continues to support the transition to a new Bulk Electric System (BES) definition by processing Self-determined Notifications and BES Exception Requests using the NERC BESnet application.

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

For Statutory activities, no cash reserves were used by the FRCC in 2014.

For Non-Statutory activities, there was a planned use of reserves which was used largely to complete projects budgeted in 2013 but not completed until 2014.

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

No Statutory Funds were used to pay for Member Services Functions in 2014 and no Member Services Funds were used to pay for Statutory Functions.

Florida Reliability Coordinating Council, Inc.
Statement of Activities and Capital Expenditures Based on Audited Financials
TOTAL COMPANY
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,488,056	\$ 5,488,057	\$ (1)	
Penalty Sanctions	343,000	343,000	-	
Total ERO Funding	<u>\$ 5,831,056</u>	<u>\$ 5,831,057</u>	<u>\$ (1)</u>	<u>\$ -</u>
Membership Dues	\$ 6,916,763	\$ 6,916,762	1	
Testing Fees	-	-	-	
Services & Software	354,412	301,419	52,993	
Workshops	115,904	90,000	25,904	
Interest	-	-	-	
Special Assessment	-	-	-	
NonCash Post Ret Gain (Loss)	(108,814)	-	(108,814)	
Total Funding	<u>\$ 13,109,321</u>	<u>\$ 13,139,238</u>	<u>\$ (29,917)</u>	<u>-0.2%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 5,600,880	\$ 5,915,455	(314,575)	
Payroll Taxes	353,268	372,333	(19,065)	
Benefits	855,969	1,008,050	(152,081)	
Retirement Costs	735,317	931,148	(195,831)	
Total Personnel Expenses	<u>\$ 7,545,434</u>	<u>\$ 8,226,986</u>	<u>\$ (681,552)</u>	<u>-8.3%</u>
Meeting Expenses				
Meetings	\$ 96,181	\$ 118,445	(22,264)	
Travel	163,244	230,925	(67,681)	
Conference Calls	43,969	45,879	(1,910)	
Total Meeting Expenses	<u>\$ 303,394</u>	<u>\$ 395,249</u>	<u>\$ (91,855)</u>	<u>-23.2%</u>
Operating Expenses				
Consultants & Contracts	\$ 4,247,959	\$ 4,006,436	241,523	
Office Rent	812,686	779,924	32,762	
Office Costs	593,025	537,455	55,570	
Professional Services	53,105	196,552	(143,447)	
Miscellaneous	185,000	-	185,000	
Depreciation	192,463	134,388	58,075	
Total Operating Expenses	<u>\$ 6,084,238</u>	<u>\$ 5,654,755</u>	<u>\$ 429,483</u>	<u>7.6%</u>
Total Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other Non-Operating Expenses	<u>\$ (1,090,170)</u>	<u>\$ -</u>	<u>\$ (1,090,170)</u>	
Total Expenses	<u>\$ 12,842,896</u>	<u>\$ 14,276,990</u>	<u>\$ (1,434,094)</u>	<u>-10.0%</u>
Change in Assets	<u>\$ 266,425</u>	<u>\$ (1,137,752)</u>	<u>\$ 1,404,177</u>	<u>-100.0%</u>
Non-Cash Expenses & Fixed Asset Expenditures				
Depreciation	\$ (192,463)	\$ (134,388)	\$ (58,075)	
Net Non Pension Post Retir. Oblig	981,356	-	981,356	
Software CapEx	144,832	50,000	94,832	
Furniture & Fixtures CapEx	4,494	14,750	(10,256)	
Equipment & Computers CapEx	25,311	40,575	(15,264)	
Leasehold Improvements	-	3,000	(3,000)	
Increase/(Decrease) in Fixed Assets	<u>\$ 963,530</u>	<u>\$ (26,063)</u>	<u>\$ 989,593</u>	<u>100.0%</u>
Total Budget	<u>\$ 13,806,426</u>	<u>\$ 14,250,927</u>	<u>\$ (444,501)</u>	<u>-3.1%</u>
CHANGE IN WORKING CAPITAL	<u>\$ (697,105)</u>	<u>\$ (1,111,689)</u>	<u>\$ 414,584</u>	<u>100.0%</u>
FTEs	41.96	47.24	(5.28)	
Beginning Working Capital 1/1/2014	3,542,040	2,299,266	1,242,774	
Change in Working Capital	(697,105)	(1,111,689)	414,584	
Working Capital at 12/31/2014	2,844,935	1,187,577	1,657,358	

Florida Reliability Coordinating Council, Inc.
Statement of Activities and Capital Expenditures Based on Audited Financials
TOTAL Statutory Only
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,488,056	\$ 5,488,057	\$ (1)	
Penalty Sanctions	343,000	343,000	-	
Total ERO Funding	<u>\$ 5,831,056</u>	<u>\$ 5,831,057</u>	<u>\$ (1)</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	24,000	24,000	-	
Workshops	115,904	90,000	25,904	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 5,970,960</u>	<u>\$ 5,945,057</u>	<u>\$ 25,903</u>	0.4%
Expenses				
Personnel Expenses				
Salaries	\$ 3,414,283	\$ 3,806,631	\$ (392,348)	
Payroll Taxes	216,176	239,599	(23,423)	
Benefits	514,881	657,255	(142,374)	
Retirement Costs	451,593	602,881	(151,288)	
Total Personnel Expenses	<u>\$ 4,596,933</u>	<u>\$ 5,306,366</u>	<u>\$ (709,433)</u>	-13.4%
Meeting Expenses				
Meetings	\$ 63,639	\$ 80,930	\$ (17,291)	
Travel	121,969	167,209	(45,240)	
Conference Calls	16,803	18,771	(1,968)	
Total Meeting Expenses	<u>\$ 202,411</u>	<u>\$ 266,910</u>	<u>\$ (64,499)</u>	-24.2%
Operating Expenses				
Consultants & Contracts	\$ 357,495	\$ 348,768	\$ 8,727	
Office Rent	553,809	555,089	(1,280)	
Office Costs	124,505	118,343	6,162	
Professional Services	27,635	116,642	(89,007)	
Miscellaneous	-	-	-	
Depreciation	153,180	110,490	42,690	
Total Operating Expenses	<u>\$ 1,216,624</u>	<u>\$ 1,249,332</u>	<u>\$ (32,708)</u>	-2.6%
Total Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 6,015,968</u>	<u>\$ 6,822,608</u>	<u>\$ (806,640)</u>	-11.8%
Change in Assets	<u>\$ (45,008)</u>	<u>\$ (877,551)</u>	<u>\$ 832,543</u>	-94.9%
Fixed Asset Expenditures				
Depreciation	\$ (153,180)	\$ (110,490)	\$ (42,690)	
Software CapEx	117,832	50,000	67,832	
Furniture & Fixtures CapEx	594	3,550	(2,956)	
Equipment & Computers CapEx	19,109	26,264	(7,155)	
Leasehold Improvements	-	3,000	(3,000)	
Increase/(Decrease) in Fixed Assets	<u>\$ (15,645)</u>	<u>\$ (27,676)</u>	<u>\$ 12,031</u>	-43.5%
Total Budget	<u>\$ 6,000,323</u>	<u>\$ 6,794,932</u>	<u>\$ (794,609)</u>	-11.7%
CHANGE IN WORKING CAPITAL	<u>\$ (29,363)</u>	<u>\$ (849,875)</u>	<u>\$ 820,512</u>	-96.5%
FTEs	25.59	30.40	(4.81)	
Beginning Working Capital 1/1/2014	1,825,310	1,416,119	409,191	
Change in Working Capital	(29,363)	(849,875)	820,512	
Working Capital at 12/31/2014	1,795,947	566,244	1,229,703	

Florida Reliability Coordinating Council, Inc.

Financials

RELIABILITY STANDARDS

December 31, 2014

(In Whole Dollars)

			2014		
	2014 Actual	2014 Budget	Variance		%
Funding					
ERO Funding					
ERO Assessments	\$ 387,520	\$ 387,519	\$ 1		0.0%
Penalty Sanctions	22,072	22,072	-		0.0%
Total ERO Funding	\$ 409,592	\$ 409,591	\$ 1		0.0%
Membership Dues		\$ -	-		
Testing Fees		-	-		
Services & Software		-	-		
Workshops		-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 409,592	\$ 409,591	\$ 1		0.0%
Expenses					
Personnel Expenses					
Salaries	141,669	\$ 217,880	(76,211)		-35.0% (1)
Payroll Taxes	8,427	13,714	(5,287)		-38.6%
Benefits	19,964	33,809	(13,845)		-41.0% (2)
Retirement Costs	16,629	34,595	(17,966)		-51.9% (3)
Total Personnel Expenses	\$ 186,689	\$ 299,998	\$ (113,309)		-37.8%
Meeting Expenses					
Meetings	\$ 1,533	\$ 2,080	(547)		-26.3%
Travel	10,548	24,913	(14,365)		-57.7% (4)
Conference Calls	8	174	(166)		-95.4%
Total Meeting Expenses	\$ 12,089	\$ 27,167	\$ (15,078)		-55.5%
Operating Expenses					
Consultants & Contracts	\$ 5,030	\$ 4,529	501		11.1%
Office Rent	16,817	23,230	(6,413)		-27.6%
Office Costs	4,769	6,324	(1,555)		-24.6%
Professional Services	1,146	7,482	(6,336)		-84.7%
Miscellaneous		-	-		
Depreciation	938	852	86		10.1%
Total Operating Expenses	\$ 28,700	\$ 42,417	\$ (13,717)		-32.3%
Total Indirect Expenses	\$ 28,726	\$ 40,017	\$ (11,291)		-28.2%
Other Non-Operating Expense	\$ -	\$ -	\$ -		
Total Expenses	\$ 256,204	\$ 409,599	\$ (153,395)		-37.5%
Change in Assets	\$ 153,388	\$ (8)	\$ 153,396		100.0%
Fixed Asset Expenditures					
Depreciation	\$ (938)	\$ (852)	\$ (86)		10.1%
Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment & Computers Ca	2,383	840	1,543		183.7%
Leasehold Improvements			-		
Increase/(Decrease) in Fixed Ass	\$ 1,445	\$ (12)	\$ 1,457		-12141.7%
Total Budget	\$ 257,649	\$ 409,587	\$ (151,938)		-37.1%
CHANGE IN WORKING CAPI	\$ 151,943	\$ 4	\$ 151,939		3798475.0%
Direct FTEs	1.09	1.73	(0.64)		-37.0%
Indirect FTE's	0.15	0.22	(0.07)		-31.8%
Total FTE's	1.24	1.95	(0.71)		-36.4%

(1) Unfilled, open position for a portion of the year (-.64 FTE).

(2) Unfilled, open position for a portion of the year (-.64 FTE) and health insurance had lower rates than budgeted.

(3) Unfilled, open position for a portion of the year (-.64 FTE).

(4) FRCC Staff stopped traveling to the Standards Development Team meetings that were budgeted for.

Florida Reliability Coordinating Council, Inc.

Financials

COMPLIANCE

December 31, 2014

(In Whole Dollars)

	2014			
	2014 Actual	2014 Budget	Variance	%
Funding				
ERO Funding				
ERO Assessments	\$4,458,038	\$ 4,458,040	\$ (2)	0.0%
Penalty Sanctions	244,311	244,311	-	0.0%
Total ERO Funding	\$ 4,702,349	\$ 4,702,351	\$ (2)	0.0%
Membership Dues	-	\$ -	-	
Testing Fees			-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	\$ 4,702,349	\$ 4,702,351	\$ (2)	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 2,222,713	\$ 2,411,701	(188,988)	-7.8%
Payroll Taxes	141,615	151,798	(10,183)	-6.7%
Benefits	344,837	452,812	(107,975)	-23.8% (1)
Retirement Costs	296,800	382,958	(86,158)	-22.5% (2)
Total Personnel Expenses	\$ 3,005,965	\$ 3,399,269	\$ (393,304)	-11.6%
Meeting Expenses				
Meetings	\$ 14,402	\$ 4,915	9,487	193.0%
Travel	67,379	92,966	(25,587)	-27.5% (3)
Conference Calls	2,444	4,565	(2,121)	-46.5%
Total Meeting Expenses	\$ 84,225	\$ 102,446	\$ (18,221)	-17.8%
Operating Expenses				
Consultants & Contracts	\$ 178,717	\$ 119,235	59,482	49.9% (4)
Office Rent	412,115	406,366	5,749	1.4%
Office Costs	73,149	69,926	3,223	4.6%
Professional Services	20,919	83,069	(62,150)	-74.8% (5)
Miscellaneous			-	
Depreciation	146,391	101,598	44,793	44.1% (6)
Total Operating Expenses	\$ 831,291	\$ 780,194	\$ 51,097	6.5%
Total Indirect Expenses	\$ 450,344	\$ 442,995	\$ 7,349	1.7%
Other Non-Operating Expense	\$ -	\$ -	\$ -	
Total Expenses	\$ 4,371,825	\$ 4,724,904	\$ (353,079)	-7.5%
Change in Assets	\$ 330,524	\$ (22,553)	\$ 353,077	-1565.5%
Fixed Asset Expenditures				
Depreciation	\$ (146,391)	\$ (101,598)	\$ (44,793)	44.1%
Software CapEx	117,832	50,000	67,832	135.7% (6)
Furniture & Fixtures CapEx	594	3,550	(2,956)	-83.3%
Equipment & Computers Ca	15,843	22,496	(6,653)	-29.6%
Leasehold Improvements		3,000	(3,000)	-100.0%
Increase/(Decrease) in Fixed Ass	\$ (12,122)	\$ (22,552)	\$ 10,430	-46.2%
Total Budget	\$ 4,359,703	\$ 4,702,352	\$ (342,649)	-7.3%
CHANGE IN WORKING CAPITAL	\$ 342,646	\$ (1)	\$ 342,647	-34264700.0%
Direct FTEs	16.64	19.26	(2.62)	-13.6%
Indirect FTE's	2.33	2.39	(0.06)	-2.5%
Total FTE's	18.97	21.65	(2.68)	-12.4%

(1) Unfilled, open positions for a portion of the year (-2.62 FTE) and health insurance had lower rates than budgeted.

(2) Unfilled, open positions for a portion of the year (-2.62 FTE).

(3) Unfilled, open positions for a portion of the year (-2.62 FTE) and less than expected travel.

(4) Software maintenance enhancements primarily for support needed to implement NERC's changes in Business Rules.

(5) Legal fees were less than projected.

(6) Software additions that were greater than anticipated for changes to the TFE process.

Florida Reliability Coordinating Council, Inc.

Financials

RELIABILITY ASSESSMENT

December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%	
Funding					
ERO Funding					
ERO Assessments	\$1,300,196	\$1,300,196	\$ -	0.0%	
Penalty Sanctions	67,103	67,103	-	0.0%	
Total ERO Funding	\$ 1,367,299	\$ 1,367,299	\$ -	0.0%	
Membership Dues	-	\$ -	-		
Testing Fees		-	-		
Services & Software	24,000	24,000	-	0.0%	
Workshops		-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 1,391,299	\$ 1,391,299	\$ -	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 551,170	\$ 662,404	(111,234)	-16.8%	(1)
Payroll Taxes	34,626	41,693	(7,067)	-17.0%	
Benefits	80,475	99,378	(18,903)	-19.0%	(2)
Retirement Costs	70,926	105,185	(34,259)	-32.6%	(3)
Total Personnel Expenses	\$ 737,197	\$ 908,660	\$ (171,463)	-18.9%	
Meeting Expenses					
Meetings	\$ 6,372	\$ 6,674	(302)	-4.5%	
Travel	41,348	43,265	(1,917)	-4.4%	
Conference Calls	8,558	8,543	15	0.2%	
Total Meeting Expenses	\$ 56,278	\$ 58,482	\$ (2,204)	-3.8%	
Operating Expenses					
Consultants & Contracts	\$ 118,883	\$ 192,989	\$ (74,106)	-38.4%	(4)
Office Rent	65,377	70,623	(5,246)	-7.4%	
Office Costs	16,535	13,480	3,055	22.7%	
Professional Services	5,051	22,829	(17,778)	-77.9%	(5)
Miscellaneous		-	-		
Depreciation	3,498	3,376	122	3.6%	
Total Operating Expenses	\$ 209,344	\$ 303,297	\$ (93,953)	-31.0%	
Total Indirect Expenses	\$ 111,823	\$ 121,676	\$ (9,853)	-8.1%	
Other Non-Operating Expense	\$ -	\$ -	\$ -		
Total Expenses	\$ 1,114,642	\$ 1,392,115	\$ (277,473)	-19.9%	
Change in Assets	\$ 276,657	\$ (816)	\$ 277,473	-34004.0%	
Fixed Asset Expenditures					
Depreciation	\$ (3,498)	\$ (3,376)	\$ (122)	3.6%	
Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment & Computers Ca	731	2,562	(1,831)	-71.5%	
Leasehold Improvements			-		
Increase/(Decrease) in Fixed Ass	\$ (2,767)	\$ (814)	\$ (1,953)	239.9%	
Total Budget	\$ 1,111,875	\$ 1,391,301	\$ (279,426)	-20.1%	
CHANGE IN WORKING CAPITAL	\$ 279,424	\$ (2)	\$ 279,426	-13971300.0%	
Direct FTEs	4.13	5.29	(1.16)	-21.9%	
Indirect FTE's	0.58	0.66	(0.08)	-12.1%	
Total FTE's	4.71	5.95	(1.24)	-20.8%	

(1) Less Staff time charged during the year (-1.16 FTE).

(2) Less Staff time charged during the year (-1.16 FTE) and health insurance had lower rates than budgeted.

(3) Less Staff time charged during the year (-1.16 FTE).

(4) Consulting projects (Short Circuit Databank, Reliability & Security, Data Verification, MMWG and Load Forecast) were less than budgeted and consulting by committee members budgeted but not billed.

(5) Legal fees were less than projected.

Florida Reliability Coordinating Council, Inc.

Financials

TRAINING AND EDUCATION

December 31, 2014

(In Whole Dollars)

			2014		
	2014 Actual	2014 Budget	Variance		%
Funding					
ERO Funding					
ERO Assessments	\$ 173,812	\$ 173,812	\$ -		0.0%
Penalty Sanctions	8,499	8,499	-		0.0%
Total ERO Funding	\$ 182,311	\$ 182,311	\$ -		0.0%
Membership Dues	-	\$ -	-		
Testing Fees		-	-		
Services & Software			-		
Workshops	115,904	90,000	25,904		28.8% (1)
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 298,215	\$ 272,311	\$ 25,904		9.5%
Expenses					
Personnel Expenses					
Salaries	\$ 72,421	\$ 83,896	(11,475)		-13.7% (2)
Payroll Taxes	4,621	5,281	(660)		-12.5%
Benefits	20,781	11,616	9,165		78.9%
Retirement Costs	10,458	13,325	(2,867)		-21.5%
Total Personnel Expenses	\$ 108,281	\$ 114,118	\$ (5,837)		-5.1%
Meeting Expenses					
Meetings	\$ 41,298	\$ 67,248	(25,950)		-38.6% (3)
Travel	2,634	5,996	(3,362)		-56.1%
Conference Calls	5,793	5,481	312		5.7%
Total Meeting Expenses	\$ 49,725	\$ 78,725	\$ (29,000)		-36.8%
Operating Expenses					
Consultants & Contracts	\$ 51,695	\$ 29,259	22,436		76.7% (4)
Office Rent	8,732	8,945	(213)		-2.4%
Office Costs	23,779	22,610	1,169		5.2%
Professional Services	449	2,916	(2,467)		-84.6%
Miscellaneous			-		
Depreciation	725	590	135		22.9%
Total Operating Expenses	\$ 85,380	\$ 64,320	\$ 21,060		32.7%
Total Indirect Expenses	\$ 15,449	\$ 15,412	\$ 37		0.2%
Other Non-Operating Expense	\$ -	\$ -	\$ -		
Total Expenses	\$ 258,835	\$ 272,575	\$ (13,740)		-5.0%
Change in Assets	\$ 39,380	\$ (264)	\$ 39,644		-15016.7%
Fixed Asset Expenditures					
Depreciation	\$ (725)	\$ (590)	\$ (135)		22.9%
Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment & Computers Ca	142	327	(185)		-56.6%
Leasehold Improvements			-		
Increase/(Decrease) in Fixed Ass	\$ (583)	\$ (263)	\$ (320)		121.7%
Total Budget	\$ 258,252	\$ 272,312	\$ (14,060)		-5.2%
CHANGE IN WORKING CAPITAL	\$ 39,963	\$ (1)	\$ 39,964		-3996400.0%
Direct FTEs	0.54	0.68	(0.14)		-20.6%
Indirect FTE's	0.08	0.08	-		0.0%
Total FTE's	0.62	0.76	(0.14)		-18.4%

(1) A training program for the new software to support reliability assessments was offered for a fee and was not planned in the budget, and SOS fees collected that were more than budgeted.

(2) Less staff time charged to T&E due to unfilled, open positions for a portion of the year (-.14 FTE)

(3) There was a change in venue for the SOS training seminars at a significant savings.

(4) Training program fees for the new software to support reliability assessments was not planned in the budget.

Florida Reliability Coordinating Council, Inc.
Financials

SITUATIONAL AWARENESS

December 31, 2014

(In Whole Dollars)

			2014		
	2014 Actual	2014 Budget	Variance	%	
Funding					
ERO Funding					
ERO Assessments	\$ 18,365	\$ 18,365	\$ -	0.0%	
Penalty Sanctions	1,015	1,015	-	0.0%	
Total ERO Funding	\$ 19,380	\$ 19,380	\$ -	0.0%	
Membership Dues	-	\$ -	-		
Testing Fees		-	-		
Services & Software			-		
Workshops			-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 19,380	\$ 19,380	\$ -	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 6,362	\$ 10,017	(3,655)	-36.5%	
Payroll Taxes	446	631	(185)	-29.3%	
Benefits	789	1,387	(598)	-43.1%	
Retirement Costs	879	1,591	(712)	-44.8%	
Total Personnel Expenses	\$ 8,476	\$ 13,626	\$ (5,150)	-37.8%	
Meeting Expenses					
Meetings	\$ 34	\$ 13	21	161.5%	
Travel	60	69	(9)	-13.0%	
Conference Calls	-	8	(8)	-100.0%	
Total Meeting Expenses	\$ 94	\$ 90	\$ 4	4.4%	
Operating Expenses					
Consultants & Contracts	\$ 217	\$ 209	8	3.8%	
Office Rent	738	1,068	(330)	-30.9%	
Office Costs	1,996	2,162	(166)	-7.7%	
Professional Services	70	346	(276)	-79.8%	
Miscellaneous			-		
Depreciation	1,628	2,431	(803)	-33.0%	
Total Operating Expenses	\$ 4,649	\$ 6,216	\$ (1,567)	-25.2%	
Total Indirect Expenses	\$ 1,243	\$ 1,840	\$ (597)	-32.4%	
Other Non-Operating Expense	\$ -	\$ -	\$ -		
Total Expenses	\$ 14,462	\$ 21,772	\$ (7,310)	-33.6%	
Change in Assets	\$ 4,918	\$ (2,392)	\$ 7,310	-305.6%	
Fixed Asset Expenditures					
Depreciation	\$ (1,628)	\$ (2,431)	\$ 803	-33.0%	
Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment & Computers Ca	10	39	(29)	-74.4%	
Leasehold Improvements			-		
Increase/(Decrease) in Fixed Ass	\$ (1,618)	\$ (2,392)	\$ 774	-32.4%	
Total Budget	\$ 12,844	\$ 19,380	\$ (6,536)	-33.7%	
CHANGE IN WORKING CAPITAL	\$ 6,536	\$ -	\$ 6,536	100.0%	
Direct FTEs	0.04	0.08	(0.04)	-50.0%	
Indirect FTE's	0.01	0.01	-	0.0%	
Total FTE's	0.05	0.09	(0.04)	-44.4%	

Florida Reliability Coordinating Council, Inc.

Financials

GENERAL ADMINISTRATIVE

December 31, 2014

(In Whole Dollars)

			2014		
	2014 Actual	2014 Budget	Variance		%
Funding					
ERO Funding					
ERO Assessments	\$ (849,875)	\$ (849,875)	\$ -		0.0%
Penalty Sanctions		-	-		
Total ERO Funding	\$ (849,875)	\$ (849,875)	\$ -		0.0%
Membership Dues	-	\$ -	-		
Testing Fees		-	-		
Services & Software			-		
Workshops			-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ (849,875)	\$ (849,875)	\$ -		0.0%
Expenses					
Personnel Expenses					
Salaries	\$ 419,948	\$ 420,733	\$ (785)		-0.2%
Payroll Taxes	26,441	26,482	(41)		-0.2%
Benefits	48,035	58,253	(10,218)	(1)	-17.5%
Retirement Costs	55,901	65,227	(9,326)		-14.3%
Total Personnel Expenses	\$ 550,325	\$ 570,695	\$ (20,370)		-3.6%
Meeting Expenses					
Meetings			\$ -		
Travel			-		
Conference Calls		-	-		
Total Meeting Expenses	\$ -	\$ -	\$ -		
Operating Expenses					
Consultants & Contracts	\$ 2,953	\$ 2,547	\$ 406		15.9%
Office Rent	50,030	44,857	5,173		11.5%
Office Costs	4,277	3,841	436		11.4%
Professional Services		-	-		
Miscellaneous			-		
Depreciation		1,643	(1,643)		-100.0%
Total Operating Expenses	\$ 57,260	\$ 52,888	\$ 4,372		8.3%
Total Indirect Expenses	\$ (607,585)	\$ (621,940)	\$ 14,355		-2.3%
Other Non-Operating Expense	\$ -	\$ -	\$ -		
Total Expenses	\$ -	\$ 1,643	\$ (1,643)		-100.0%
Change in Assets	\$ (849,875)	\$ (851,518)	\$ 1,643		-0.2%
Fixed Asset Expenditures					
Depreciation	\$ -	\$ (1,643)	\$ 1,643		-100.0%
Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment & Computers CapEx			-		
Leasehold Improvements			-		
Increase/(Decrease) in Fixed Ass	\$ -	\$ (1,643)	\$ 1,643		-100.0%
Total Budget	\$ -	\$ -	\$ -		
CHANGE IN WORKING CAPI	\$ (849,875)	\$ (849,875)	\$ -		0.0%
FTEs	3.15	3.36	(0.21)		-6.3%

(1) Health insurance had lower rates than budgeted.

Florida Reliability Coordinating Council, Inc.
Statement of Activities and Capital Expenditures Based on Audited Financials
TOTAL MEMBER SERVICES - NON STATUTORY
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Membership Dues	6,916,763	6,916,762	1	
Testing Fees	-	-	-	
Services & Software	330,412	277,419	52,993	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	(108,814)	-	(108,814)	
Total Funding	\$ 7,138,361	\$ 7,194,181	\$ (55,820)	-0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 2,186,597	\$ 2,108,824	77,773	
Payroll Taxes	137,092	132,734	4,358	
Benefits	341,088	350,795	(9,707)	
Retirement Costs	283,724	328,267	(44,543)	
Total Personnel Expenses	\$ 2,948,501	\$ 2,920,620	\$ 27,881	1.0%
Meeting Expenses				
Meetings	\$ 32,542	\$ 37,515	(4,973)	
Travel	41,275	63,716	(22,441)	
Conference Calls	27,166	27,108	58	
Total Meeting Expenses	\$ 100,983	\$ 128,339	\$ (27,356)	-21.3%
Operating Expenses				
Consultants & Contracts	\$ 3,890,464	\$ 3,657,668	232,796	
Office Rent	258,877	224,835	34,042	
Office Costs	468,520	419,112	49,408	
Professional Services	25,470	79,910	(54,440)	
Miscellaneous	185,000	-	185,000	
Depreciation	39,283	23,898	15,385	
Total Operating Expenses	\$ 4,867,614	\$ 4,405,423	\$ 462,191	10.5%
Total Indirect Expenses				
Other Non-Operating Expenses	\$ (1,090,170)	\$ -	\$ (1,090,170)	
Total Expenses	\$ 6,826,928	\$ 7,454,382	\$ (627,454)	-8.4%
Change in Assets	\$ 311,433	\$ (260,201)	\$ 571,634	
Non-Cash Expenses & Fixed Asset Expenditures				
Depreciation	\$ (39,283)	\$ (23,898)	\$ (15,385)	
Net Non Pension Post Retir. Oblig	981,356	-	981,356	
Software CapEx	27,000	-	27,000	
Furniture & Fixtures CapEx	3,900	11,200	(7,300)	
Equipment & Computers CapEx	6,202	14,311	(8,109)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	\$ 979,175	\$ 1,613	\$ 977,562	60605.2%
Total Budget	\$ 7,806,103	\$ 7,455,995	\$ 350,108	4.7%
CHANGE IN WORKING CAPITAL	\$ (667,742)	\$ (261,814)	\$ (405,928)	
FTEs	16.37	16.84	(0.47)	
Beginning Working Capital 1/1/2014	1,716,730	883,147	833,583	
Change in Working Capital	(667,742)	(261,814)	(405,928)	
Working Capital at 12/31/2014	1,048,988	621,333	427,655	

**Florida Reliability
Coordinating Council, Inc.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES**

December 31, 2014



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RIGGS &
INGRAM

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Florida Reliability Coordinating Council, Inc.
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December 31, 2014

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REPORT



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Reliability Coordinating Council, Inc., (a nonprofit organization) which comprise the statement of financial position as of December 31, 2014, 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 statement of financial position of Florida Reliability Coordinating Council as of December 31, 2014 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 19 to 27 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.

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida
January 29, 2015



FINANCIAL STATEMENTS

Florida Reliability Coordinating Council, Inc.
Statement of Financial Position
December 31, 2014

<u>ASSETS</u>	
Current assets:	
Cash	\$ 5,598,797
Compliance penalty money	256,000
Member receivables	3,240,982
Related party receivable	3,174
Prepaid expenses	66,724
Total current assets	9,165,677
Property and equipment - at cost	
Equipment and computers	585,463
Software	1,055,796
Furniture and fixtures	322,226
Leasehold improvements	126,636
Total	2,090,121
Less accumulated depreciation and amortization	(1,689,494)
Total property and equipment, net	400,627
Other assets	
Deposits	150,000
Deferred compensation plans	143,187
Total other assets	293,187
Total assets	\$ 9,859,491
<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:	
Accounts payable	\$ 575,351
Current portion of accrued postretirement benefit obligation	17,908
Deferred compensation liability	143,187
Deferred revenue	3,493,661
Compliance penalty assessment	256,000
Accrued expenses	2,145,443
Total current liabilities	6,631,550
Long-term liabilities:	
Accrued postretirement benefit obligation	407,558
Net assets:	
Unrestricted statutory - FERC designated	2,553,961
Unrestricted member services - board designated	266,422
Total net assets	2,820,383
Total liabilities and net assets	\$ 9,859,491

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

Florida Reliability Coordinating Council, Inc.
Statement of Activities
December 31, 2014

Revenues:	
Nonstatutory member assessments	\$ 6,916,763
Statutory member assessments	5,488,056
Services and software	354,412
Training and education fees	115,904
Postretirement benefit loss	(108,814)
Gain on deferred compensation plans	17,237
Penalty and sanctions realized	<u>343,000</u>
Total revenue	13,126,558
Expenses:	
Salaries	5,600,880
Payroll taxes	353,268
Employee benefits	855,969
Retirement and deferred compensation plans	735,317
Meetings	96,181
Travel	163,244
Conference calls	43,969
Contracts & consultants	4,247,959
Facilities rental	812,686
Office costs	593,028
Legal and accounting	53,105
Penalty sanctions	185,000
Deferred compensation plans	17,237
Depreciation and amortization	<u>192,463</u>
Total expenses	<u>13,950,306</u>
Decrease in net assets before change in accumulated post retirement obligation	(823,748)
Net periodic change in postretirement obligation	<u>1,090,170</u>
Increase in net assets	266,422
Net assets - beginning of year	<u>2,553,961</u>
Net assets - end of year	<u><u>\$ 2,820,383</u></u>

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

Florida Reliability Coordinating Council, Inc.
Statement of Cash Flows
December 31, 2014

Cash flows from operating activities:	
Cash received from members	\$ 12,721,244
Cash paid to suppliers and employees	<u>(13,250,443)</u>
Net cash used by operating activities	(529,199)
 Cash flows from investing activities	
Purchases of software and equipment	<u>(174,636)</u>
Net cash used by investing activities	(174,636)
Net decrease in cash	<u>(703,835)</u>
Cash at beginning of year	<u>\$ 6,558,632</u>
Cash at end of year	<u><u>\$ 5,854,797</u></u>
 Reconciliation of increase in net assets to net cash used by operating activities	
Increase in net assets	\$ 266,422
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation and amortization	192,463
Increase in receivables, prepaid expenses, and other assets	(437,284)
Increase in accounts payable and accrued expenses	48,850
Change in postretirement benefit obligation	(981,356)
Increase in deferred income	<u>381,706</u>
Net cash used by operating activities	<u><u>\$ (529,199)</u></u>

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

NOTE 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Florida Reliability Coordinating Council, Inc. (the “Company”) is a group of electric utilities and energy marketers primarily doing business in the State of Florida. The 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.

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

Use of Estimates

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

Income Taxes

The Company has been approved for tax-exempt status under Section 501(c) (6) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements. Tax years after 2010 remain subject to examination by taxing authorities.

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

Management evaluates all receivables annually for collectability. As of December 31, 2014 management considers all receivables to be fully collectible, therefore; no allowance for doubtful accounts is considered necessary and no late fees are assessed. If amounts are deemed to be uncollectible, they will be charged to an allowance for doubtful accounts when that determination is made.

Florida Reliability Coordinating Council, Inc.
Notes to Financial Statements

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

Property and Equipment

Property and equipment with a cost over \$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.

Line of Credit

The Company secured a line of credit from Bank of America, N.A. for two (2) years in the amount of \$1,500,000. The line of credit is intended to be used for short term needs that arise between budget funding periods as a bridge between budget years. The covenants call for a funded debt to total unrestricted and temporarily restricted net assets not exceeding 2.0:1.0 and an out of debt period of 30 days each line year. The total charges and fees for 2 year term were paid in 2013 and none were due or paid in 2014. As of December 31, 2014, the company has not drawn on the line of credit and is in full compliance with all covenants.

Postretirement Benefits Other Than Pensions

The Company sponsors a postretirement health care or benefit plan for employees hired before October 1, 2003 (and the spouse of one retired employee) if the retiree meets certain conditions specified in their individual plan at the time of retirement. The breakdown on the plan is as follows: one retiree spouse remains on the original health care retirement plan granted in 2006 which provides for health insurance for life, one retiree converted effective November 1, 2014 to receiving an annual amount funded to a Health Retirement Account (HRA), in the amount of \$4,200 per year, in lieu of coverage on a health care policy, and three (3) current employees converted to a plan which provides health care coverage if they retire at age 60 or later from active employment from the FRCC until age 65 at which time they stop being provided with health care coverage and will then begin to receive an annual amount of \$4,200 funded to an HRA. These plans cease upon the death of the employee and all fund balances in each of the HRA accounts revert back to the company. The individual plans are noncontributory for retirees (see Note 6).

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

Date of Management's Review

Management has evaluated events and transactions for potential recognition or disclosure through January 29, 2015, which is the date the financial statements were available to be issued.

NOTE 2: FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

The following is a description of the valuation methodologies used for the Organization's securities invested in the deferred compensation plans measured at fair value as of December 31, 2014:

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

Florida Reliability Coordinating Council, Inc.
Notes to Financial Statements

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

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

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

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

	December 31, 2014			
	Fair Value	Level 1	Level 2	Level 3
Cash & equivalents	\$ 1,968	\$ 1,968		
Mutual funds - fixed income	19,409	19,409		
Mutual funds - equities	121,731	121,731		
Total	\$ 143,108	\$ 143,108	\$ -	\$ -

The fair value and cost of the Company's securities invested in the deferred compensation plans, as of December 31, 2014 are as follows:

	Cost Value	Market Value
Cash & equivalents	\$ 1,968	\$ 1,968
Mutual funds - fixed income	20,426	19,409
Mutual funds - equities	96,638	121,731
Total	\$ 119,032	\$ 143,108

NOTE 3: DEFERRED REVENUE

The contracts with the members of FRCC have a provision in them that provides that they have 30 days from the date of invoice for a new budgetary year (January through December) to withdraw from membership. Therefore, the Company made a decision to invoice all members on December 1 for the first quarterly installment of the 2015 budget, thus at December 31, 2014 it would be known whether all members are continuing with their membership.

NOTE 4: COMMITMENTS

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

In December 2006, the Company entered into an agreement with Open Access Technology International, Inc. to provide the Florida Transaction Management System (“FTMS”) services for the Company’s customers. The initial term of the agreement was 36 months at \$3,750 per month and has been renewed for an additional 12-month period each year thereafter. In 2014, the Company renewed this contract for 36 months at an annual cost of \$61,000. In addition, several enhancements to the FTMS service were agreed upon of which \$27,000 was paid for in 2014 for the completion of the enhancements. The Company also has the option to purchase the system for \$100,000; however, at this time, the Company has no intention of doing so.

In November 2007, the Company entered into an agreement to purchase Compliance Tracking System software from Guidance Solutions, Inc. In 2008, the Company entered into an agreement with several of the other regional entities to form a consortium and share the cost of future enhancements and program modules to add to the Compliance Tracking System originally purchased from Guidance Solutions, Inc. In June of 2011, the consortium broke up with certain member regions deciding to change software and vendors and go in a different direction for their Compliance Tracking System. The Company decided to remain with Guidance and has agreed to share costs of software enhancements with two other regions that remain with Guidance. The cost of enhancements added or in progress for 2014 was \$117,831. The Company is obligated for enhancements in progress as of December 31, 2014 from this regional agreement of approximately \$184,000 for enhancements to be completed in 2015. The Company is also obligated for enhancements of their own system for \$70,000 to be completed in 2015.

In May of 2013, the Company entered into an agreement with other Eastern Interconnection Reliability Coordinators and created the Interchange Distribution Calculator (IDC) Tools Member Association to manage the IDC Application contract that in prior years was managed by NERC. This tool is used to manage transmission congestion across the Eastern Interconnection. The agreement calls for the Company to make a minimum service commitment of \$118,600 for each contract year of the term.

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

Florida Reliability Coordinating Council, Inc.
Notes to Financial Statements

NOTE 4: COMMITMENTS (Continued)

In July 2013, the company entered into an agreement with TW Telecom Holdings, Inc. (TW Telecom) to provide required redundant telecommunications for the FRCCnet wide area network that provides data to the FRCC reliability Coordinator. The initial term of the agreement is 36 months and calls for the Company to make a minimum service commitment of \$68,400 for each contract year of the term.

NOTE 5: OPERATING LEASES

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

Year Ended December 31,		
2015	\$	766,199
2016		787,166
2017		808,832
2018		831,070
2019		854,008
2020 and thereafter		644,842
	<u>\$</u>	<u>4,692,117</u>

Rent expense charged to operations during the year ended December 31, 2014 was \$812,686, including the effects of lease payment escalations over the term of the leases.

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

Year Ended December 31,		
2015	\$	750,602
2016		750,602
2017		750,602
2018		750,602
2019		750,602
2020 and thereafter		562,952
	<u>\$</u>	<u>4,315,962</u>

Florida Reliability Coordinating Council, Inc.
Notes to Financial Statements

NOTE 6: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company adheres to ASC 715-30, *Defined Benefit Plans - Other Post Retirement*, which requires companies to report the funded status (defined as the difference between the fair value of plan assets and the plan's benefit obligation) of their postretirement plan. The current year effect is a \$1,090,170 increase to unrestricted net assets.

This substantial change is the result of the conversion of the original plan (by four of the five eligible persons) to other appropriate plans. The census for this benefit is as follows: one retiree spouse remains on the original health care retirement plan granted in 2006 which provides for health insurance for life, one retiree converted effective November 1, 2014 to receiving an annual amount funded to a Health Retirement Account (HRA), in the amount of \$4,200 per year, in lieu of coverage on a health care policy, and three (3) current employees converted to a plan which provides health care coverage if they retire at age 60 or later, from active employment from the FRCC, until age 65 at which time they stop being provided with health care coverage and will then begin to receive an annual amount of \$4,200 funded to an HRA. These plans cease upon the death of the employee and all fund balances in each of the HRA accounts revert back to the company.

The following table sets forth the Plan's funded status reconciled with the amount shown in the Company's statement of financial position at December 31, 2014:

Accumulated postretirement benefit obligation:	
Plan assets at fair value	-0-
Funded status	-0-
Accrued postretirement benefit obligation:	
Current portion	\$ 17,908
Long-term portion	407,558
	\$ 425,466

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, 2014.

Florida Reliability Coordinating Council, Inc.
Notes to Financial Statements

NOTE 6: 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,	
2015	\$ 17,908
2016	18,863
2017	23,921
2018	24,670
2019	25,275
2020 and thereafter	116,501
	\$ 227,138

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2014.

Service Cost	\$ (39,983)
Interest Cost	(66,042)
Amortization of unrecognized net obligation	(10,664)
Amortization of unrecog prior service cost/(asset)	
Recognition of net actuarial loss	(25,039)
Net periodic postretirement benefit cost	(141,728)
Benefits paid during 2014	32,914
Net postretirement benefit loss	\$ (108,814)
Items not yet recognized as a component of net periodic postretirement benefit costs	
Unrecognized net gain	\$ 300,690
Net unrecognized prior service cost	344,780
Transitional effect of ASC 715-30	645,470
Postretirement effect of ASC 715-30 as of December 31 2013	\$ (444,700)
Net periodic change in postretirement obligation	1,090,170
Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2014	\$ 645,470

NOTE 6: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

Amounts included in unrestricted net assets and expected to be recognized as components of net periodic benefit gain (cost) next year include amortization of unrecognized net obligation and net actuarial loss of approximately (\$11,000) and (\$25,000), respectively. For measurement purposes, an 8% annual rate increase in the per capita cost of covered health care benefits was assumed for 2016; the rate was assumed to decrease to 7% for 2017; 6% for 2018 and remain at 5% thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, if assumed health care cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at December 31, 2014 would be increased \$62,079 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2014 would be increased by \$980.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 4.0%. Mortality was based on the RP-2000 Combined Mortality Tables for Healthy Males and Females. The measurement date of the accumulated postretirement benefit obligation was December 31, 2014.

Glossary

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

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

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

NOTE 7: RETIREMENT PLAN

Effective January 1, 2001, the Company adopted a 401(k) Plan ("Plan") intended to benefit substantially all employees with 6 months of service and 21 years of age. On September 30, 2007, the Plan was amended to enable employees with one hour of service to be eligible to enter the Plan. Participants can contribute any amount of their compensation for the Plan year, not to exceed the limits determined by the Internal Revenue Code. The Company may make matching contributions with prescribed limits. The Company may also make additional non-elective discretionary contributions to the Plan. The Company made matching contributions to the Plan of \$297,473 and a discretionary contribution to the Plan of \$409,491 (net of forfeitures) for the year ending December 31, 2014.

NOTE 7: RETIREMENT PLAN (Continued)

Deferred Compensation – The Company implemented an executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2004. For the year ended December 31, 2014, the Company contributed \$8,492 to benefit the participant in this Plan.

In 2013, the Company adopted a Nonqualified 457(b) Retirement Plan (“Retirement Plan”), to be effective January 1, 2014, intended to benefit key managerial employees of the Company. The Company funded the account in 2014 \$16,775 for the 2013 liability and expensed \$28,736 in 2014 that will be funded in 2015.

NOTE 8: RELATED PARTIES

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

The Company has decided to continue providing FCG with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 1.97% of the Company’s administrative expenses in 2014. 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 2014. Currently the company is in the process of negotiating a new contract for 2015. At December 31, 2014, the Company had billed and collected a total of \$192,217 from FCG relating to the service agreement and has a receivable from FCG in the amount of \$3,174.

The Company is purchasing the services from Florida Power and Light (“FPL”), a member of the Company, to fulfill the responsibilities of reliability coordinator, operations planning coordinator, state capacity emergency coordinator as well as various other services. The Company paid FPL \$3,219,144 for these services and at December 31, 2014 had \$651,213 of accrued expenses recorded on the books.

NOTE 9: CONCENTRATIONS

Two members make up approximately 54.9% of the member services assessments and dues. The same two members comprise 67.1% of the statutory assessment that NERC bills directly in order to fund the Company for its statutory function.

NOTE 10: CONTINGENCIES

As part of the Company's Delegation Agreement with NERC, the Company has the authority to fine entities within its region for violation of reliability standards. During 2013, six (6) 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 \$111,000 as of December 31, 2014, 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, 2014, a total of \$256,000 penalty assessment is being held for future use of which \$175,000 was accounted for in the 2015 budget submission and will be taken into operating income at the beginning of 2015 to offset funding from all entities in the region. The balance, plus any penalties billed and collected prior to June 30, 2015 will be held and accounted for in the 2015 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 \$75,000 to \$200,000, however the Company cannot conclude that any amount within this range is a better estimate than any other. At December 31, 2014 the Company had \$75,000 of accrued expenses recorded on the books for possible penalties.

Florida Reliability Coordinating Council, Inc.
Notes to Financial Statements

NOTE 11: FUNCTIONAL EXPENSES

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

Statutory expenses:	
Reliability Standards Development	\$ 256,204
Compliance & Enforcement	4,371,825
Reliability Assessment & Performance Analysis	1,114,642
Training & Education	258,835
Situational Awareness & Infrastructure	<u>14,462</u>
Total statutory expenses	\$ 6,015,968
Member Services expenses:	
Planning Committee	\$ 908,894
Operating Committee	7,008,204
General & Administrative	<u>(1,090,170)</u>
Total member services expenses	\$ 6,826,928
Total Expenses	<u><u>\$ 12,842,896</u></u>

NOTE 12: NET ASSETS

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

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

Statutory	\$ 1,921,880
Member Services	<u>898,503</u>
Total unrestricted-board designated net assets	<u><u>\$ 2,820,383</u></u>

Florida Reliability Coordinating Council, Inc.
Total Summary

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TOTAL COMPANY
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,488,056	\$ 5,488,057	\$ (1)	
Penalty Sanctions	343,000	343,000	-	
Total ERO Funding	\$ 5,831,056	\$ 5,831,057	\$ (1)	\$ -
Membership Dues	\$ 6,916,763	\$ 6,916,762	1	
Testing Fees	-	-	-	
Services & Software	354,412	301,419	52,993	
Workshops	115,904	90,000	25,904	
Interest	-	-	-	
Special Assessment	-	-	-	
NonCash Post Ret Gain (Loss)	(108,814)	-	(108,814)	
Total Funding	\$ 13,109,321	\$ 13,139,238	\$ (29,917)	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 5,600,880	\$ 5,915,455	(314,575)	
Payroll Taxes	353,268	372,333	(19,065)	
Benefits	855,969	1,008,050	(152,081)	
Retirement Costs	735,317	931,148	(195,831)	
Total Personnel Expenses	\$ 7,545,434	\$ 8,226,986	\$ (681,552)	-8.3%
Meeting Expenses				
Meetings	\$ 96,181	\$ 118,445	(22,264)	
Travel	163,244	230,925	(67,681)	
Conference Calls	43,969	45,879	(1,910)	
Total Meeting Expenses	\$ 303,394	\$ 395,249	\$ (91,855)	-23.2%
Operating Expenses				
Consultants & Contracts	\$ 4,247,959	\$ 4,006,436	241,523	
Office Rent	812,686	779,924	32,762	
Office Costs	593,025	537,455	55,570	
Professional Services	53,105	196,552	(143,447)	
Miscellaneous	185,000	-	185,000	
Depreciation	192,463	134,388	58,075	
Total Operating Expenses	\$ 6,084,238	\$ 5,654,755	\$ 429,483	7.6%
Total Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ (1,090,170)	\$ -	\$ (1,090,170)	
Total Expenses	\$ 12,842,896	\$ 14,276,990	\$ (1,434,094)	-10.0%
Change in Assets	\$ 266,425	\$ (1,137,752)	\$ 1,404,177	-100.0%
Non-Cash Expenses & Fixed Asset Expenditures				
Depreciation	\$ (192,463)	\$ (134,388)	\$ (58,075)	
Net Non Pension Post Retir. Oblig	981,356	-	981,356	
Software CapEx	144,832	50,000	94,832	
Furniture & Fixtures CapEx	4,494	14,750	(10,256)	
Equipment & Computers CapEx	25,311	40,575	(15,264)	
Leasehold Improvements	-	3,000	(3,000)	
Increase/(Decrease) in Fixed Assets	\$ 963,530	\$ (26,063)	\$ 989,593	100.0%
Total Budget	\$ 13,806,426	\$ 14,250,927	\$ (444,501)	-3.1%
CHANGE IN WORKING CAPITAL	\$ (697,105)	\$ (1,111,689)	\$ 414,584	100.0%
FTEs	41.96	47.24	(5.28)	
Beginning Working Capital 1/1/2014	3,542,040	2,299,266	1,242,774	
Change in Working Capital	(697,105)	(1,111,689)	414,584	
Working Capital at 12/31/2014	2,844,935	1,187,577	1,657,358	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statutory Summary

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TOTAL Statutory Only
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,488,056	\$ 5,488,057	\$ (1)	
Penalty Sanctions	343,000	343,000	-	
Total ERO Funding	<u>\$ 5,831,056</u>	<u>\$ 5,831,057</u>	<u>\$ (1)</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	24,000	24,000	-	
Workshops	115,904	90,000	25,904	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 5,970,960</u>	<u>\$ 5,945,057</u>	<u>\$ 25,903</u>	<u>0.4%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 3,414,283	\$ 3,806,631	\$ (392,348)	
Payroll Taxes	216,176	239,599	(23,423)	
Benefits	514,881	657,255	(142,374)	
Retirement Costs	451,593	602,881	(151,288)	
Total Personnel Expenses	<u>\$ 4,596,933</u>	<u>\$ 5,306,366</u>	<u>\$ (709,433)</u>	<u>-13.4%</u>
Meeting Expenses				
Meetings	\$ 63,639	\$ 80,930	\$ (17,291)	
Travel	121,969	167,209	(45,240)	
Conference Calls	16,803	18,771	(1,968)	
Total Meeting Expenses	<u>\$ 202,411</u>	<u>\$ 266,910</u>	<u>\$ (64,499)</u>	<u>-24.2%</u>
Operating Expenses				
Consultants & Contracts	\$ 357,495	\$ 348,768	\$ 8,727	
Office Rent	553,809	555,089	(1,280)	
Office Costs	124,505	118,343	6,162	
Professional Services	27,635	116,642	(89,007)	
Miscellaneous	-	-	-	
Depreciation	153,180	110,490	42,690	
Total Operating Expenses	<u>\$ 1,216,624</u>	<u>\$ 1,249,332</u>	<u>\$ (32,708)</u>	<u>-2.6%</u>
Total Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 6,015,968</u>	<u>\$ 6,822,608</u>	<u>\$ (806,640)</u>	<u>-11.8%</u>
Change in Assets	<u>\$ (45,008)</u>	<u>\$ (877,551)</u>	<u>\$ 832,543</u>	<u>-94.9%</u>
Fixed Asset Expenditures				
Depreciation	\$ (153,180)	\$ (110,490)	\$ (42,690)	
Software CapEx	117,832	50,000	67,832	
Furniture & Fixtures CapEx	594	3,550	(2,956)	
Equipment & Computers CapEx	19,109	26,264	(7,155)	
Leasehold Improvements	-	3,000	(3,000)	
Increase/(Decrease) in Fixed Assets	<u>\$ (15,645)</u>	<u>\$ (27,676)</u>	<u>\$ 12,031</u>	<u>-43.5%</u>
Total Budget	<u>\$ 6,000,323</u>	<u>\$ 6,794,932</u>	<u>\$ (794,609)</u>	<u>-11.7%</u>
CHANGE IN WORKING CAPITAL	<u>\$ (29,363)</u>	<u>\$ (849,875)</u>	<u>\$ 820,512</u>	<u>-96.5%</u>
FTEs	25.59	30.40	(4.81)	
Beginning Working Capital 1/1/2014	1,825,310	1,416,119	409,191	
Change in Working Capital	(29,363)	(849,875)	820,512	
Working Capital at 12/31/2014	1,795,947	566,244	1,229,703	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statutory By Program

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
RELIABILITY STANDARDS
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 387,520	\$ 387,519	\$ 1	
Penalty Sanctions	22,072	22,072	-	
Total ERO Funding	<u>\$ 409,592</u>	<u>\$ 409,591</u>	<u>\$ 1</u>	
Membership Dues		\$ -	-	
Testing Fees		-	-	
Services & Software		-	-	
Workshops		-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 409,592</u>	<u>\$ 409,591</u>	<u>\$ 1</u>	0.0%
Expenses				
Personnel Expenses				
Salaries	141,669	\$ 217,880	(76,211)	
Payroll Taxes	8,427	13,714	(5,287)	
Benefits	19,964	33,809	(13,845)	
Retirement Costs	16,629	34,595	(17,966)	
Total Personnel Expenses	<u>\$ 186,689</u>	<u>\$ 299,998</u>	<u>\$ (113,309)</u>	-37.8%
Meeting Expenses				
Meetings	\$ 1,533	\$ 2,080	(547)	
Travel	10,548	24,913	(14,365)	
Conference Calls	8	174	(166)	
Total Meeting Expenses	<u>\$ 12,089</u>	<u>\$ 27,167</u>	<u>\$ (15,078)</u>	-55.5%
Operating Expenses				
Consultants & Contracts	\$ 5,030	\$ 4,529	501	
Office Rent	16,817	23,230	(6,413)	
Office Costs	4,769	6,324	(1,555)	
Professional Services	1,146	7,482	(6,336)	
Miscellaneous			-	
Depreciation	938	852	86	
Total Operating Expenses	<u>\$ 28,700</u>	<u>\$ 42,417</u>	<u>\$ (13,717)</u>	-32.3%
Total Indirect Expenses	<u>\$ 28,726</u>	<u>\$ 40,017</u>	<u>\$ (11,291)</u>	-28.2%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 256,204</u>	<u>\$ 409,599</u>	<u>\$ (153,395)</u>	-37.5%
Change in Assets	<u>\$ 153,388</u>	<u>\$ (8)</u>	<u>\$ 153,396</u>	100.0%
Fixed Asset Expenditures				
Depreciation	\$ (938)	\$ (852)	\$ (86)	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	2,383	840	1,543	
Leasehold Improvements			-	
Increase/(Decrease) in Fixed Assets	<u>\$ 1,445</u>	<u>\$ (12)</u>	<u>\$ 1,457</u>	-12141.7%
Total Budget	<u>\$ 257,649</u>	<u>\$ 409,587</u>	<u>\$ (151,938)</u>	-37.1%
CHANGE IN WORKING CAPITAL	<u>\$ 151,943</u>	<u>\$ 4</u>	<u>\$ 151,939</u>	
Direct FTEs	1.09	1.73	(0.64)	-37.0%
Indirect FTE's	0.15	0.22	(0.07)	-31.8%
Total FTE's	1.24	1.95	(0.71)	-36.4%

See Independent Auditors' Report

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

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
COMPLIANCE
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 4,458,038	\$ 4,458,040	\$ (2)	
Penalty Sanctions	244,311	244,311	-	
Total ERO Funding	<u>\$ 4,702,349</u>	<u>\$ 4,702,351</u>	<u>\$ (2)</u>	
Membership Dues	-	\$ -	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 4,702,349</u>	<u>\$ 4,702,351</u>	<u>\$ (2)</u>	<u>0.0%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 2,222,713	\$ 2,411,701	(188,988)	
Payroll Taxes	141,615	151,798	(10,183)	
Benefits	344,837	452,812	(107,975)	
Retirement Costs	296,800	382,958	(86,158)	
Total Personnel Expenses	<u>\$ 3,005,965</u>	<u>\$ 3,399,269</u>	<u>\$ (393,304)</u>	<u>-11.6%</u>
Meeting Expenses				
Meetings	\$ 14,402	\$ 4,915	9,487	
Travel	67,379	92,966	(25,587)	
Conference Calls	2,444	4,565	(2,121)	
Total Meeting Expenses	<u>\$ 84,225</u>	<u>\$ 102,446</u>	<u>\$ (18,221)</u>	<u>-17.8%</u>
Operating Expenses				
Consultants & Contracts	\$ 178,717	\$ 119,235	59,482	
Office Rent	412,115	406,366	5,749	
Office Costs	73,149	69,926	3,223	
Professional Services	20,919	83,069	(62,150)	
Miscellaneous			-	
Depreciation	146,391	101,598	44,793	
Total Operating Expenses	<u>\$ 831,291</u>	<u>\$ 780,194</u>	<u>\$ 51,097</u>	<u>6.5%</u>
Total Indirect Expenses	<u>\$ 450,344</u>	<u>\$ 442,995</u>	<u>\$ 7,349</u>	<u>1.7%</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 4,371,825</u>	<u>\$ 4,724,904</u>	<u>\$ (353,079)</u>	<u>-7.5%</u>
Change in Assets	<u>\$ 330,524</u>	<u>\$ (22,553)</u>	<u>\$ 353,077</u>	
Fixed Asset Expenditures				
Depreciation	\$ (146,391)	\$ (101,598)	\$ (44,793)	
Software CapEx	117,832	50,000	67,832	
Furniture & Fixtures CapEx	594	3,550	(2,956)	
Equipment & Computers CapEx	15,843	22,496	(6,653)	
Leasehold Improvements		3,000	(3,000)	
Increase/(Decrease) in Fixed Assets	<u>\$ (12,122)</u>	<u>\$ (22,552)</u>	<u>\$ 10,430</u>	
Total Budget	<u>\$ 4,359,703</u>	<u>\$ 4,702,352</u>	<u>\$ (342,649)</u>	<u>-7.3%</u>
CHANGE IN WORKING CAPITAL	<u>\$ 342,646</u>	<u>\$ (1)</u>	<u>\$ 342,647</u>	
Direct FTEs	16.64	19.26	(2.62)	-13.6%
Indirect FTE's	2.33	2.39	(0.06)	-2.5%
Total FTE's	18.97	21.65	(2.68)	-12.4%

See Independent Auditors' Report

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

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
RELIABILITY ASSESSMENT
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 1,300,196	\$ 1,300,196	\$ -	
Penalty Sanctions	67,103	67,103	-	
Total ERO Funding	<u>\$ 1,367,299</u>	<u>\$ 1,367,299</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	24,000	24,000	-	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 1,391,299</u>	<u>\$ 1,391,299</u>	<u>\$ -</u>	<u>0.0%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 551,170	\$ 662,404	(111,234)	
Payroll Taxes	34,626	41,693	(7,067)	
Benefits	80,475	99,378	(18,903)	
Retirement Costs	70,926	105,185	(34,259)	
Total Personnel Expenses	<u>\$ 737,197</u>	<u>\$ 908,660</u>	<u>\$ (171,463)</u>	<u>-18.9%</u>
Meeting Expenses				
Meetings	\$ 6,372	\$ 6,674	(302)	
Travel	41,348	43,265	(1,917)	
Conference Calls	8,558	8,543	15	
Total Meeting Expenses	<u>\$ 56,278</u>	<u>\$ 58,482</u>	<u>\$ (2,204)</u>	<u>-3.8%</u>
Operating Expenses				
Consultants & Contracts	\$ 118,883	\$ 192,989	\$ (74,106)	
Office Rent	65,377	70,623	(5,246)	
Office Costs	16,535	13,480	3,055	
Professional Services	5,051	22,829	(17,778)	
Miscellaneous	-	-	-	
Depreciation	3,498	3,376	122	
Total Operating Expenses	<u>\$ 209,344</u>	<u>\$ 303,297</u>	<u>\$ (93,953)</u>	<u>-31.0%</u>
Total Indirect Expenses	<u>\$ 111,823</u>	<u>\$ 121,676</u>	<u>\$ (9,853)</u>	<u>-8.1%</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 1,114,642</u>	<u>\$ 1,392,115</u>	<u>\$ (277,473)</u>	<u>-19.9%</u>
Change in Assets	<u>\$ 276,657</u>	<u>\$ (816)</u>	<u>\$ 277,473</u>	
Fixed Asset Expenditures				
Depreciation	\$ (3,498)	\$ (3,376)	\$ (122)	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	731	2,562	(1,831)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (2,767)</u>	<u>\$ (814)</u>	<u>\$ (1,953)</u>	<u>239.9%</u>
Total Budget	<u>\$ 1,111,875</u>	<u>\$ 1,391,301</u>	<u>\$ (279,426)</u>	<u>-20.1%</u>
CHANGE IN WORKING CAPITAL	<u>\$ 279,424</u>	<u>\$ (2)</u>	<u>\$ 279,426</u>	
Direct FTEs	4.13	5.29	(1.16)	-21.9%
Indirect FTE's	0.58	0.66	(0.08)	-12.1%
Total FTE's	4.71	5.95	(1.24)	-20.8%

See Independent Auditors' Report

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

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TRAINING AND EDUCATION
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 173,812	\$ 173,812	\$ -	
Penalty Sanctions	8,499	8,499	-	
Total ERO Funding	<u>\$ 182,311</u>	<u>\$ 182,311</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	115,904	90,000	25,904	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 298,215</u>	<u>\$ 272,311</u>	<u>\$ 25,904</u>	9.5%
Expenses				
Personnel Expenses				
Salaries	\$ 72,421	\$ 83,896	(11,475)	
Payroll Taxes	4,621	5,281	(660)	
Benefits	20,781	11,616	9,165	
Retirement Costs	10,458	13,325	(2,867)	
Total Personnel Expenses	<u>\$ 108,281</u>	<u>\$ 114,118</u>	<u>\$ (5,837)</u>	-5.1%
Meeting Expenses				
Meetings	\$ 41,298	\$ 67,248	(25,950)	
Travel	2,634	5,996	(3,362)	
Conference Calls	5,793	5,481	312	
Total Meeting Expenses	<u>\$ 49,725</u>	<u>\$ 78,725</u>	<u>\$ (29,000)</u>	-36.8%
Operating Expenses				
Consultants & Contracts	\$ 51,695	\$ 29,259	22,436	
Office Rent	8,732	8,945	(213)	
Office Costs	23,779	22,610	1,169	
Professional Services	449	2,916	(2,467)	
Miscellaneous	-	-	-	
Depreciation	725	590	135	
Total Operating Expenses	<u>\$ 85,380</u>	<u>\$ 64,320</u>	<u>\$ 21,060</u>	32.7%
Total Indirect Expenses	<u>\$ 15,449</u>	<u>\$ 15,412</u>	<u>\$ 37</u>	0.2%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 258,835</u>	<u>\$ 272,575</u>	<u>\$ (13,740)</u>	-5.0%
Change in Assets	<u>\$ 39,380</u>	<u>\$ (264)</u>	<u>\$ 39,644</u>	
Fixed Asset Expenditures				
Depreciation	\$ (725)	\$ (590)	\$ (135)	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	142	327	(185)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (583)</u>	<u>\$ (263)</u>	<u>\$ (320)</u>	121.7%
Total Budget	<u>\$ 258,252</u>	<u>\$ 272,312</u>	<u>\$ (14,060)</u>	-5.2%
CHANGE IN WORKING CAPITAL	<u>\$ 39,963</u>	<u>\$ (1)</u>	<u>\$ 39,964</u>	
Direct FTEs	0.54	0.68	(0.14)	-20.6%
Indirect FTE's	0.08	0.08	-	0.0%
Total FTE's	<u>0.62</u>	<u>0.76</u>	<u>(0.14)</u>	-18.4%

See Independent Auditors' Report

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

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
SITUATIONAL AWARENESS
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 18,365	\$ 18,365	\$ -	
Penalty Sanctions	1,015	1,015	-	
Total ERO Funding	<u>\$ 19,380</u>	<u>\$ 19,380</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 19,380</u>	<u>\$ 19,380</u>	<u>\$ -</u>	<u>0.0%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 6,362	\$ 10,017	(3,655)	
Payroll Taxes	446	631	(185)	
Benefits	789	1,387	(598)	
Retirement Costs	879	1,591	(712)	
Total Personnel Expenses	<u>\$ 8,476</u>	<u>\$ 13,626</u>	<u>\$ (5,150)</u>	<u>-37.8%</u>
Meeting Expenses				
Meetings	\$ 34	\$ 13	21	
Travel	60	69	(9)	
Conference Calls	-	8	(8)	
Total Meeting Expenses	<u>\$ 94</u>	<u>\$ 90</u>	<u>\$ 4</u>	<u>4.4%</u>
Operating Expenses				
Consultants & Contracts	\$ 217	\$ 209	8	
Office Rent	738	1,068	(330)	
Office Costs	1,996	2,162	(166)	
Professional Services	70	346	(276)	
Miscellaneous	-	-	-	
Depreciation	1,628	2,431	(803)	
Total Operating Expenses	<u>\$ 4,649</u>	<u>\$ 6,216</u>	<u>\$ (1,567)</u>	<u>-25.2%</u>
Total Indirect Expenses	<u>\$ 1,243</u>	<u>\$ 1,840</u>	<u>\$ (597)</u>	<u>-32.4%</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 14,462</u>	<u>\$ 21,772</u>	<u>\$ (7,310)</u>	<u>-33.6%</u>
Change in Assets	<u>\$ 4,918</u>	<u>\$ (2,392)</u>	<u>\$ 7,310</u>	
Fixed Asset Expenditures				
Depreciation	\$ (1,628)	\$ (2,431)	\$ 803	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	10	39	(29)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (1,618)</u>	<u>\$ (2,392)</u>	<u>\$ 774</u>	<u>-32.4%</u>
Total Budget	<u>\$ 12,844</u>	<u>\$ 19,380</u>	<u>\$ (6,536)</u>	<u>-33.7%</u>
CHANGE IN WORKING CAPITAL	<u>\$ 6,536</u>	<u>\$ -</u>	<u>\$ 6,536</u>	
Direct FTEs	0.04	0.08	(0.04)	-50.0%
Indirect FTE's	0.01	0.01	-	0.0%
Total FTE's	<u>0.05</u>	<u>0.09</u>	<u>(0.04)</u>	<u>-44.4%</u>

See Independent Auditors' Report

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

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
GENERAL ADMINISTRATIVE
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ (849,875)	\$ (849,875)	\$ -	
Penalty Sanctions		-	-	
Total ERO Funding	<u>\$ (849,875)</u>	<u>\$ (849,875)</u>	<u>\$ -</u>	
Membership Dues	-	\$ -	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ (849,875)</u>	<u>\$ (849,875)</u>	<u>\$ -</u>	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 419,948	\$ 420,733	\$ (785)	
Payroll Taxes	26,441	26,482	(41)	
Benefits	48,035	58,253	(10,218)	
Retirement Costs	55,901	65,227	(9,326)	
Total Personnel Expenses	<u>\$ 550,325</u>	<u>\$ 570,695</u>	<u>\$ (20,370)</u>	-3.6%
Meeting Expenses				
Meetings			\$ -	
Travel			-	
Conference Calls		-	-	
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Operating Expenses				
Consultants & Contracts	\$ 2,953	\$ 2,547	\$ 406	
Office Rent	50,030	44,857	5,173	
Office Costs	4,277	3,841	436	
Professional Services			-	
Miscellaneous			-	
Depreciation		1,643	(1,643)	
Total Operating Expenses	<u>\$ 57,260</u>	<u>\$ 52,888</u>	<u>\$ 4,372</u>	8.3%
Total Indirect Expenses	<u>\$ (607,585)</u>	<u>\$ (621,940)</u>	<u>\$ 14,355</u>	
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ -</u>	<u>\$ 1,643</u>	<u>\$ (1,643)</u>	-100.0%
Change in Assets	<u>\$ (849,875)</u>	<u>\$ (851,518)</u>	<u>\$ 1,643</u>	-0.2%
Fixed Asset Expenditures				
Depreciation	\$ -	\$ (1,643)	\$ 1,643	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx			-	
Leasehold Improvements			-	
Increase/(Decrease) in Fixed Assets	<u>\$ -</u>	<u>\$ (1,643)</u>	<u>\$ 1,643</u>	
Total Budget	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
CHANGE IN WORKING CAPITAL	<u>\$ (849,875)</u>	<u>\$ (849,875)</u>	<u>\$ -</u>	0.0%
FTEs	3.15	3.36	(0.21)	-6.3%

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Non-statutory Summary

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TOTAL MEMBER SERVICES - NON STATUTORY
December 31, 2014

(In Whole Dollars)

	2014 Actual	2014 Budget	2014 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Membership Dues	6,916,763	6,916,762	1	
Testing Fees	-	-	-	
Services & Software	330,412	277,419	52,993	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	(108,814)	-	(108,814)	
Total Funding	\$ 7,138,361	\$ 7,194,181	\$ (55,820)	-0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 2,186,597	\$ 2,108,824	77,773	
Payroll Taxes	137,092	132,734	4,358	
Benefits	341,088	350,795	(9,707)	
Retirement Costs	283,724	328,267	(44,543)	
Total Personnel Expenses	\$ 2,948,501	\$ 2,920,620	\$ 27,881	1.0%
Meeting Expenses				
Meetings	\$ 32,542	\$ 37,515	(4,973)	
Travel	41,275	63,716	(22,441)	
Conference Calls	27,166	27,108	58	
Total Meeting Expenses	\$ 100,983	\$ 128,339	\$ (27,356)	-21.3%
Operating Expenses				
Consultants & Contracts	\$ 3,890,464	\$ 3,657,668	232,796	
Office Rent	258,877	224,835	34,042	
Office Costs	468,520	419,112	49,408	
Professional Services	25,470	79,910	(54,440)	
Miscellaneous	185,000	-	185,000	
Depreciation	39,283	23,898	15,385	
Total Operating Expenses	\$ 4,867,614	\$ 4,405,423	\$ 462,191	10.5%
Total Indirect Expenses				
Other Non-Operating Expenses	\$ (1,090,170)	\$ -	\$ (1,090,170)	
Total Expenses	\$ 6,826,928	\$ 7,454,382	\$ (627,454)	-8.4%
Change in Assets	\$ 311,433	\$ (260,201)	\$ 571,634	
Non-Cash Expenses & Fixed Asset Expenditures				
Depreciation	\$ (39,283)	\$ (23,898)	\$ (15,385)	
Net Non Pension Post Retir. Oblig	981,356	-	981,356	
Software CapEx	27,000	-	27,000	
Furniture & Fixtures CapEx	3,900	11,200	(7,300)	
Equipment & Computers CapEx	6,202	14,311	(8,109)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	\$ 979,175	\$ 1,613	\$ 977,562	60605.2%
Total Budget	\$ 7,806,103	\$ 7,455,995	\$ 350,108	4.7%
CHANGE IN WORKING CAPITAL	\$ (667,742)	\$ (261,814)	\$ (405,928)	
FTEs	16.37	16.84	(0.47)	
Beginning Working Capital 1/1/2014	1,716,730	883,147	833,583	
Change in Working Capital	(667,742)	(261,814)	(405,928)	
Working Capital at 12/31/2014	1,048,988	621,333	427,655	

See Independent Auditors' Report



FINANCIAL STATEMENTS

January 29, 2015

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

We are pleased to present the results of our audit of the 2014 financial statements of Florida Reliability Coordinating Council, Inc. (the "Organization").

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

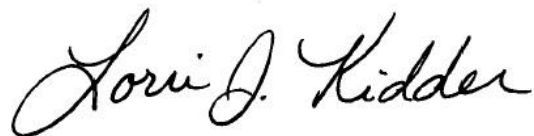
Our audit was designed, primarily to express an opinion on the Organization's 2014 financial statements. We considered the Organization's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you expect. We received the full support and assistance of Florida Reliability Coordinating Council, Inc. (the "Organization") personnel.

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

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

We appreciate this opportunity to work with you. If you have any questions or comments, please contact me at 727-324-1241 or lkidder@cricpa.com.

Very truly yours,



Lorri J. Kidder, CPA, CFE, CGMA
Partner

Required Communications

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

- Perform audit services, as requested by the Committee, in accordance with auditing standards generally accepted in the United States of America, in order to express an opinion on the Organization’s financial statements for the year ended December 31, 2014;
- Communicate directly with the Committee regarding the results of our procedures;
- Address with the Committee any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Committee; and
- Other audit-related projects as they arise and upon request.

Required Communications

We have audited the financial statements of Florida Reliability Coordinating Council, Inc. for the year ended December 31, 2014, and have issued our report thereon dated January 29, 2015. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
Auditor's responsibility under Generally Accepted Auditing Standards	<p>As stated in our engagement letter dated August 29, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Organization. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
Client's responsibility	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the statements of revenue and expenses, and the statements of assets, liabilities, and net assets in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
Planned scope and timing of the audit	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
Management judgments and accounting estimates <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditor's conclusion regarding the reasonableness of those estimates.</i>	<p>Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality."</p>
Potential effect on the financial statements of any significant risks and exposures <i>Major risks and exposures facing the Fund and how they are disclosed.</i>	<p>No such risks or exposures were noted.</p>

Required Communications

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

Required Communications

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

Required Communications

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

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

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

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

Management Representation Letter



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

January 29, 2015

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

This representation letter is provided in connection with your audit of the financial statements of Florida Reliability Coordinating Council, Inc., which comprise the statements of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

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

We confirm, to the best of our knowledge and belief, as of January 29, 2015, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 29, 2014, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

- 6) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.

- 16) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessment whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
- 19) The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 20) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
- 21) Florida Reliability Coordinating Council, Inc. is an exempt organization under Section 501(c)6 of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- 22) We acknowledge our responsibility for presenting the Statutory and Non-statutory schedules ("supplementary information") in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the Statutory and Non-statutory schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.



Reva Maskewitz, Controller



Stacy Dochoda, President & CEO

Communication of Internal Control Related Matters

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

In planning and performing our audit of the financial statements of Florida Reliability Coordinating Council, Inc. as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

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

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida
January 29, 2015

ATTACHMENT 3

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

MIDWEST RELIABILITY ORGANIZATION



Midwest Reliability Organization

2014 MRO Budget True-Up

Date: April 28, 2015

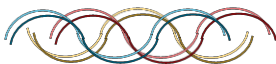


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2014 Statutory Summary Budget Variance

Consolidated	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	8,741,442	8,741,442	-	
Penalty Sanctions	136,501	136,501	-	
Total ERO Funding	\$ 8,877,943	\$ 8,877,943	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 8,877,943	\$ 8,877,943	\$ -	
Expenses				
Personnel Expenses				
Salaries	5,188,857	5,178,538	10,319	0.20%
Payroll Taxes	325,022	339,154	(14,132)	-4.17%
Employee Benefits	381,964	412,222	(30,258)	-7.34%
Savings & Retirement	836,802	968,920	(132,118)	-13.64%
Total Personnel Expenses	6,732,645	6,898,833	(166,189)	-2.41%
Meeting Expenses				
Meetings	79,231	100,514	(21,283)	-21.17%
Travel	492,858	598,900	(106,042)	-17.71%
Conference Calls	251	-	251	
Total Meeting Expenses	572,340	699,414	(127,074)	-18.17%
Operating Expenses				
Consultants & Contracts	929,195	543,100	386,095	71.09%
Rent & Improvements	492,489	524,827	(32,338)	-6.16%
Office Costs	450,368	503,124	(52,756)	-10.49%
Professional Services	113,970	205,000	(91,030)	-44.40%
Miscellaneous	-	-	-	
Depreciation	477,930	471,000	6,930	1.47%
Total Operating Expenses	2,463,952	2,247,051	216,901	9.65%
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	241,454	-	241,454	
Total Expenses (B)	10,010,391	9,845,298	165,092	
Change in Assets (A - B)	(1,132,448)	(967,355)	(165,092)	
Fixed Assets				
Depreciation	(477,930)	(471,000)	(6,930)	1.47%
Computer & Software CapEx	67,864	320,500	(252,636)	-78.83%
Furniture & Fixtures CapEx	6,844	-	6,844	
Equipment CapEx	-	-	-	
Leasehold Improvements	6,930	50,000	(43,070)	-86.14%
(Inc)Dec in Fixed Assets	\$ (396,292)	\$ (100,502)	\$ (295,792)	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	(396,292)	(100,502)	(295,792)	
TOTAL BUDGET (B + C)	9,614,099	9,744,796	(130,700)	-1.34%
Change in Working Capital (A-B-C)	(736,156)	(866,853)	130,700	
FTEs	39.6	40.8	(1.2)	

Summary of Financials and Resources

MRO staff reports the audited final numbers for 2014 to be 1.34% under budget. Prior to the annual actuarial calculation of post-retirement medical benefit obligation (discount rate, expected rate of return on plan assets and health care cost trend rate), MRO staff reported 2014 expenses to be 2.55% under budget.

While MRO was under budget, MRO staff believes the principal responsibilities under the delegation agreement were met in 2014. Some highlights:

- Conducted twelve audits, including six combined CIP/operations and planning audits and one joint audit lead by another Regional Entity
- Closed 184 instances of noncompliance (violations, remediated issues, or compliance exceptions) in 2014, reducing the numbers of days in CMEP processing from 533 in 2013 to 165 days by the end of 2014, an improvement of 368 days (over 300%)
- Processed 15 revisions to registration
- Completed the seasonal and long-term reliability assessments for the year
- Provided oversight on the analysis of 14 events in the region. Data was collected for the metrics developed on the events and causes, as well as for the performance of protection systems, and assessed situation awareness information provided by Registered Entities.
- Organized and completed several workshops in support of regional reliability, in addition to other outreach activities
- Contributed to numerous NERC working groups, including 3,389 staff hours to the Reliability Assurance Initiative

As requested, the year-to-date variances greater than \$10,000 and 10 percent are explained below, as well as expenses not budgeted.

Personnel Expenses (Actual - \$166,189 (-2.41%) under budget)

Although total Personnel Expenses were only 2.41% under budget, Savings & Retirement expense was \$132,118 (13.63%) under budget because the annual post-retirement adjustment reduced the net periodic cost for 2014 provided by third party advisors.

Meeting and Travel Expenses (Actual - \$127,074 (-18.17%) under budget)

Meeting expenses were under budget by \$21,283. Staff is able to host more meetings in the new MRO facility. Eliminating the rental costs of meeting rooms and audio visual equipment, as well as lowering catering costs, reduced costs more than anticipated.

Travel expenses were under budget by \$106,042. Greater than budgeted internally-hosted meetings reduced travel. Other contributing factors included: shorter duration of on-site audits and participation by fewer auditors; in-person participation in fewer working group meetings; and attendance at fewer NERC Board of Trustee meetings.

Conference call expenses were over budget by \$251. Back-up service for conferencing was not budgeted for in 2014.

Consultants & Contracts (Actual – \$386,095 (71.09%) over budget)

MRO had an increase in consultant use due to the upgrade of MRO's website, the implementation of SharePoint, and the use of a recruiter for certain positions. The costs incurred for these unbudgeted items were offset by reductions in other areas, most notably a decrease in the need for capital expenditures. By accelerating capital expenditures in late 2013, MRO was able to partially offset the 2014 overage in consulting and contracts.

Office Costs (Actual - \$52,756 (-10.49%) under budget)

Training costs were lower than budget partially due to dollars being budgeted in the discretionary tuition reimbursement program that were not pursued by staff in 2014. Additionally, staff is encouraged if possible to take training locally. Finally, when staff has more than one certification or required CEUs in more than one area, they are strongly encouraged to seek training opportunities that can be applied to more than one area.

Professional Services (Actual - \$91,030 (-44.40%) under budget)

External professional services are difficult to project because of the nature of these costs. Normally, costs are incurred in response to specific situations that develop. For 2014, the need for external professional services, including legal services and the time of independent MRO board members, was less than anticipated.

Other Non-Operating Expenses (Actual - \$241,454 over budget)

The actuarial assessment of the post-retirement medical plan benefit obligation resulted in a reduction of costs of \$241k.

Fixed Assets (Actual - \$295,792 under budget)

By accelerating capital expenditures in late 2013 there was a decrease in the need for capital expenditures in 2014. Facility reconfigurations were pushed into a future date in order to offset the 2014 excess costs in other areas.

Change in Assets and Year-End

MRO was under budget by \$131k as explained above, resulting in a \$131k increase in Working Capital.

MRO had no non-statutory activities in 2104; therefore, there were no allocations of costs between statutory and non-statutory activities and no statutory funds were used for non-statutory purposes.

Section A — Statutory Programs

1. Reliability Standards, Organization Registration and Certification Program

RELIABILITY STANDARDS, REGISTRATION AND CERTIFICATION	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	429,997	429,997	-	0.00%
Penalty Sanctions	5,361	5,361	-	0.00%
Total ERO Funding	\$ 435,358	\$ 435,358	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	435,358	435,358	-	0.00%
Expenses				
Personnel Expenses				
Salaries	167,659	175,057	(7,398)	-4.23%
Payroll Taxes	8,471	9,981	(1,510)	-15.13%
Employee Benefits	10,291	12,129	(1,838)	-15.15%
Savings & Retirement	29,334	34,167	(4,833)	-14.15%
Total Personnel Expenses	215,755	231,334	(15,579)	-6.73%
Meeting Expenses				
Meetings	1,276	4,000	(2,724)	-68.10%
Travel	20,320	28,900	(8,580)	-29.69%
Conference Calls	41	-	41	
Total Meeting Expenses	21,637	32,900	(11,263)	-34.23%
Operating Expenses				
Consultants & Contracts	12,300	12,000	300	2.50%
Rent & Improvements	-	-	-	
Office Costs	4,638	3,194	1,444	45.21%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	16,938	15,194	1,744	11.48%
Indirect Expenses	161,298	159,877	1,421	0.89%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	415,628	439,305	(23,677)	-5.39%
Change in Assets (A - B)	19,730	(3,947)	23,677	-599.88%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	(14,962)	(3,947)	(11,015)	279.08%
Total Inc(Dec) in Fixed Assets (C)	(14,962)	(3,947)	(11,015)	279.08%
TOTAL BUDGET (B + C)	400,665	435,358	(34,693)	-7.97%
Change in Working Capital (A-B-C)	(34,693)	-	(34,693)	
FTEs	1.1	1.2	(0.1)	-6.84%

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

- Back-up service for conferencing not budgeted for.

Other Non-Operating Expenses

N/A

Fixed Asset Additions

Total actual fixed costs were under budget; therefore, there were less asset costs than budgeted allocated to this program.

2. Compliance Monitoring and Enforcement Program (CMEP)

COMPLIANCE MONITORING AND ENFORCEMENT	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	6,600,177	6,600,177	-	0.00%
Penalty Sanctions	97,415	97,415	-	0.00%
Total ERO Funding	\$ 6,697,592	\$ 6,697,592	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	6,697,592	6,697,592	-	0.00%
Expenses				
Personnel Expenses				
Salaries	2,585,820	2,631,450	(45,630)	-1.73%
Payroll Taxes	164,399	179,885	(15,486)	-8.61%
Employee Benefits	192,815	222,055	(29,240)	-13.17%
Savings & Retirement	347,876	461,742	(113,866)	-24.66%
Total Personnel Expenses	3,290,910	3,495,132	(204,222)	-5.84%
Meeting Expenses				
Meetings	2,163	5,500	(3,337)	-60.67%
Travel	119,319	137,000	(17,681)	-12.91%
Conference Calls	-	-	-	
Total Meeting Expenses	121,482	142,500	(21,018)	-14.75%
Operating Expenses				
Consultants & Contracts	114,073	127,000	(12,927)	-10.18%
Rent & Improvements	-	-	-	
Office Costs	66,882	94,560	(27,678)	-29.27%
Professional Services	-	5,000	(5,000)	-100.00%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	180,955	226,560	(45,605)	-20.13%
Indirect Expenses	2,928,513	2,905,124	23,389	0.81%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	6,521,860	6,769,316	(247,456)	-3.66%
Change in Assets (A - B)	175,732	(71,724)	247,456	-345.01%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	(271,653)	(71,723)	(199,930)	278.75%
Total Inc(Dec) in Fixed Assets (C)	(271,653)	(71,723)	(199,930)	278.75%
TOTAL BUDGET (B + C)	6,250,207	6,697,593	(447,386)	-6.68%
Change in Working Capital (A-B-C)	(447,385)	1	(447,386)	-44738606.03%
FTEs	19.8	21.3	(1.5)	-6.91%

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

- Employee Benefits: Medical premiums were budgeted at a 5% increase but the 2014 actuals came in flat.
- Savings & Retirement: Annual post-retirement adjustment reduced the net periodic cost for 2014 provided by third party advisors.

Meeting Expenses

- Reduced travel costs due to shorter duration of on-site audits and participation by fewer auditors; in-person participation in fewer working group meetings; and attendance at fewer NERC Board of Trustee meetings.

Operating Expenses**Consultants and Contracts**

- Multiple regions shared the cost of changes required in the information tracking applications which resulted in lower costs to MRO. By sharing these costs among the regions, each region benefited from the economy of scale.

Office Costs

- Less office costs related to training. Training costs were lower than budget partially due to dollars being budgeted in the discretionary tuition reimbursement program that were not pursued by staff in 2014. Additionally, staff is encouraged if possible to take training locally. Finally, when staff has more than one certification or required CEUs in more than one area, they are strongly encouraged to seek training opportunities that can be applied to more than one area.

Other Non-Operating Expenses

N/A

Fixed Asset Additions

Total actual fixed costs were under budget; therefore, there were less asset costs than budgeted allocated to this program.

3. Reliability Assessment and Performance Analysis Program

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS Includes Event Analysis	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	2,164,689	2,164,689	-	0.00%
Penalty Sanctions	29,738	29,738	-	0.00%
Total ERO Funding	\$ 2,194,427	\$ 2,194,427	\$ -	0.00%
Federal Grants	-	-	-	-
Membership Fees	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	2,194,427	2,194,427	-	0.00%
Expenses				
Personnel Expenses				
Salaries	962,732	793,111	169,621	21.39%
Payroll Taxes	60,781	53,718	7,063	13.15%
Employee Benefits	76,070	68,241	7,829	11.47%
Savings & Retirement	190,590	170,310	20,280	11.91%
Total Personnel Expenses	1,290,173	1,085,380	204,793	18.87%
Meeting Expenses				
Meetings	6,280	5,500	780	14.18%
Travel	196,854	81,000	115,854	143.03%
Conference Calls	167	-	167	-
Total Meeting Expenses	203,301	86,500	116,801	135.03%
Operating Expenses				
Consultants & Contracts	90,661	126,700	(36,039)	-28.44%
Rent & Improvements	-	-	-	-
Office Costs	11,046	30,900	(19,854)	-64.25%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	-	-	-	-
Total Operating Expenses	101,707	157,600	(55,893)	-35.47%
Indirect Expenses	1,117,245	886,842	230,403	25.98%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	2,712,426	2,216,322	496,104	22.38%
Change in Assets (A - B)	(517,999)	(21,895)	(496,104)	2265.83%
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	-
Allocation of Fixed Assets	(103,637)	(21,895)	(81,742)	373.34%
Total Inc(Dec) in Fixed Assets (C)	(103,637)	(21,895)	(81,742)	373.34%
TOTAL BUDGET (B + C)	2,608,789	2,194,427	414,362	18.88%
Change in Working Capital (A-B-C)	414,362	-	414,362	-
FTEs	7.6	6.5	1.1	16.33%

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

- More personnel costs associated with the event analysis function than what was budgeted. The additional costs in this program were offset in the other program areas. The variance also reflects the attendance at the NERC level activities previously charged under program Forums (1100) as explained below under Meeting Expenses.

Meeting Expenses

- Due to the increased number of activities in this area there was more travel than anticipated. Activities included but were not limited to BES, RAPA, and Event Analysis meetings at the NERC level. MRO staff attendance at NERC level activities that was originally budgeted under program Forums (1100) was charged to RAPA after 06/30/2013 based on the treatment by the other regions. This impacted the 2014 actual to budget variance since the 2014 BP&B was MRO Board approved in June 2013.
- Back-up service for conferencing was not budgeted for.

Operating Expenses**Consultants and Contracts**

- RAPA has three contracts that are budgeted based on an estimated number of required hours; actual hours can fluctuate greatly. Fewer hours were required under these contracts in 2014 than was anticipated.

Office Costs

- Dropped NAESB membership because the benefits of membership did not justify the costs.

Indirect Expenses

- Reflects the higher than budgeted FTE since the indirect expenses are spread on a FTE basis.

Other Non-Operating Expenses

N/A

Fixed Asset Additions

- Total actual fixed costs were under budget; therefore, there were less asset costs than budgeted allocated to this program.

4. Training, Education, and Operator Certification Program

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	330,159	330,159	-	0.00%
Penalty Sanctions	2,978	2,978	-	0.00%
Total ERO Funding	\$ 333,137	\$ 333,137	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	333,137	333,137	-	0.00%
Expenses				
Personnel Expenses				
Salaries	133,982	135,804	(1,822)	-1.34%
Payroll Taxes	7,278	6,128	1,150	18.77%
Employee Benefits	5,445	6,856	(1,411)	-20.58%
Savings & Retirement	20,740	22,921	(2,181)	-9.52%
Total Personnel Expenses	167,445	171,709	(4,264)	-2.48%
Meetings	45,134	49,000	(3,866)	-7.89%
Travel	16,298	20,800	(4,502)	-21.64%
Conference Calls	-	-	-	
Total Meeting Expenses	61,432	69,800	(8,368)	-11.99%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	1,196	5,000	(3,804)	-76.08%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	1,196	5,000	(3,804)	-76.08%
Indirect Expenses	41,434	88,821	(47,387)	-53.35%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	271,507	335,330	(63,823)	-19.03%
Change in Assets (A - B)	61,630	(2,193)	63,823	-2910.29%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	(3,843)	(2,193)	(1,650)	75.26%
Total Inc(Dec) in Fixed Assets (C)	(3,843)	(2,193)	(1,650)	75.26%
TOTAL BUDGET (B + C)	267,664	333,137	(65,473)	-19.65%
Change in Working Capital (A-B-C)	(65,473)	-	(65,473)	
FTEs	0.28	0.65	(0.4)	-56.92%

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

Indirect Expenses

- Total actual indirect costs were under budget, therefore fewer indirect costs than budgeted allocated to this program.

Other Non-Operating Expenses

N/A

5. Situation Awareness and Infrastructure Security Program

SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection)	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	83,275	83,275	-	0.00%
Penalty Sanctions	1,008	1,008	-	0.00%
Total ERO Funding	\$ 84,283	\$ 84,283	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	84,283	84,283	-	0.00%
Expenses				
Personnel Expenses				
Salaries	30,409	39,332	(8,923)	-22.69%
Payroll Taxes	2,163	2,173	(10)	-0.46%
Employee Benefits	2,675	2,320	355	15.30%
Savings & Retirement	6,668	6,138	530	8.63%
Total Personnel Expenses	41,915	49,963	(8,048)	-16.11%
Meeting Expenses				
Meetings	150	-	150	
Travel	17,698	-	17,698	
Conference Calls	-	-	-	
Total Meeting Expenses	17,848	-	17,848	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	5,531	5,000	531	10.62%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	5,531	5,000	531	10.62%
Indirect Expenses	23,677	30,062	(6,385)	-21.24%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	88,971	85,025	3,946	4.64%
Change in Assets (A - B)	(4,688)	(742)	(3,946)	531.77%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	(2,196)	(742)	(1,454)	196.00%
Total Inc(Dec) in Fixed Assets (C)	(2,196)	(742)	(1,454)	196.00%
TOTAL BUDGET (B + C)	86,774	84,283	2,491	2.96%
Change in Working Capital (A-B-C)	2,491	-	2,491	
FTEs	0.16	0.22	(0.06)	-27.27%

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

- One staff and two MRO representatives attended NERC CIPC quarterly meetings. These costs were not budgeted for in 2014.

Other Non-Operating Expenses

N/A

6. Administrative Services

Methodology for Allocation of Administrative Services Expenses to Programs

All expenses for the Administrative Services Programs, referred to as indirect expenses, are allocated to the delegated program areas based on their respective number of FTEs. This allocation provides improved financial perspective for the delegated functions.

6a. Technical Committees and Member Forums

MEMBER FORUMS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	286,447	(286,447)	-100.00%
Payroll Taxes	-	15,986	(15,986)	-100.00%
Employee Benefits	-	15,715	(15,715)	-100.00%
Savings & Retirement	-	58,368	(58,368)	-100.00%
Total Personnel Expenses	-	376,516	(376,516)	-100.00%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	228,700	(228,700)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	-	228,700	(228,700)	-100.00%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	-	-	-	
Indirect Expenses	-	(605,216)	605,216	-100.00%
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	-	-	-	
(Inc)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)	-	-	-	
FTEs	-	1.7	(1.7)	-100.00%

Eliminated 07/01/2013 to conform to how other regions are recording NERC participation. All other regions and NERC record costs in the program of the participant. We will track NERC time separately. This impacted the 2014 actual versus budget variance since the 2014 BP&B was MRO Board approved in June 2013.

Personnel Expenses

- Actuals are substantially below budget because as of 7/1/2013 MRO stopped recording costs to Member Forums. Please see above comment for details.

Meeting Expenses

- Actuals are substantially below budget because as of 7/1/2013 MRO stopped recording costs to Member Forums. Please see above comment for details.

Operating Expenses

- Actuals are substantially below budget because as of 7/1/2013 MRO stopped recording costs to Member Forums. Please see above comment for details.

Indirect Expenses

- Actuals are substantially below budget because as of 7/1/2013 MRO stopped recording costs to Member Forums. Please see above comment for details.

6b. General and Administrative

GENERAL and ADMINISTRATIVE	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(866,855)	(866,855)	-	0.00%
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ (866,855)	\$ (866,855)	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	(866,855)	(866,855)	-	0.00%
Expenses				
Personnel Expenses				
Salaries	363,588	289,381	74,207	25.64%
Payroll Taxes	17,866	15,884	1,982	12.48%
Employee Benefits	19,268	14,661	4,607	31.42%
Savings & Retirement	70,106	49,575	20,531	41.41%
Total Personnel Expenses	470,828	369,501	101,327	27.42%
Meeting Expenses				
Meetings	23,433	35,864	(12,431)	-34.66%
Travel	99,701	83,000	16,701	20.12%
Conference Calls	43	-	43	
Total Meeting Expenses	123,177	118,864	4,313	3.63%
Operating Expenses				
Consultants & Contracts	47,748	40,000	7,748	19.37%
Rent & Improvements	-	-	-	
Office Costs	63,708	64,000	(292)	-0.46%
Professional Services	63,000	100,000	(37,000)	-37.00%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	174,456	204,000	(29,544)	-14.48%
Indirect Expenses	(768,461)	(692,365)	(76,096)	10.99%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	(866,855)	(866,855)	-	0.00%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
(Inc)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)	866,855	866,855	-	0.00%
FTEs	1.7	1.9	(0.2)	-10.82%

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

- MRO staff attendance at the Board of Trustees that was budgeted under program Forums (1100) was charged to G&A after 06/30/2013 based on the treatment by the other regions. This impacted the 2014 actual versus budget variance since the 2014 BP&B was MRO Board approved in June 2013.

Meeting Expenses

- Approximately the same number of meetings at a much lower cost due to hosting at MRO's facility. Savings resulted from eliminating meeting room and audio visual rental costs as well as lowering catering costs.
- The BOT travel that was budgeted under program Forums (1100) was charged to G&A after 06/30/2013 based on the treatment by the other regions.
- Back-up service for conferencing was not budgeted for.

Operating Expenses**Professional Services**

- Dollars were budgeted for the Independent Board members whose activities fluctuate based on need. In 2014, the Independent Board members were required to spend less time than was anticipated.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE count to the direct programs.

Other Non-Operating Expenses

N/A

6c. Legal and Regulatory

LEGAL and REGULATORY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments			-	
Penalty Sanctions			-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	215,792	173,407	42,385	24.44%
Payroll Taxes	11,759	8,754	3,005	34.33%
Employee Benefits	1,815	2,848	(1,033)	-36.27%
Savings & Retirement	29,890	28,163	1,727	6.13%
Total Personnel Expenses	259,256	213,172	46,084	21.62%
Meeting Expenses				
Meetings	-	150	(150)	-100.00%
Travel	16,903	12,500	4,403	35.22%
Conference Calls	-	-	-	
Total Meeting Expenses	16,903	12,650	4,253	33.62%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	5,098	6,000	(902)	-15.03%
Professional Services	5,854	40,000	(34,146)	-85.37%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	10,952	46,000	(35,048)	-76.19%
Indirect Expenses	(287,111)	(271,822)	(15,289)	5.62%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	0.00	0.00	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
(Inc)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)	-	-	-	
FTEs	1.2	0.9	0.3	33.33%

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

- MRO staff attendance at the Board of Trustees that was budgeted under program Forums (1100) was charged to Legal after 06/30/2013 based on the treatment by the other regions. This impacted the 2014 since the 2014 BP&B was MRO Board approved June 2013.

Operating Expenses**Professional Services**

- External professional services were difficult to trend because of the nature of the costs. Normally these costs are incurred in response to a specific situation that has developed. There was less need for external professional services in 2014 than had been anticipated.

Other Non-Operating Expenses

N/A

6d. Information Technology

INFORMATION TECHNOLOGY		2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding					
	ERO Funding				
	Assessments				-
	Penalty Sanctions				-
	Total ERO Funding	\$ -	\$ -	\$ -	
	Federal Grants	-	-	-	
	Membership Fees	-	-	-	
	Testing	-	-	-	
	Services & Software	-	-	-	
	Workshop Fees	-	-	-	
	Interest	-	-	-	
	Miscellaneous	-	-	-	
	Total Funding (A)	-	-	-	
Expenses					
	Personnel Expenses				
	Salaries	391,114	305,832	85,282	27.89%
	Payroll Taxes	29,210	23,186	6,024	25.98%
	Employee Benefits	41,935	33,013	8,922	27.03%
	Savings & Retirement	82,144	66,171	15,973	24.14%
	Total Personnel Expenses	544,403	428,202	116,201	27.14%
	Meeting Expenses				
	Meetings	795	-	795	
	Travel	843	4,000	(3,157)	-78.93%
	Conference Calls	-	-	-	
	Total Meeting Expenses	1,638	4,000	(2,362)	-59.05%
	Operating Expenses				
	Consultants & Contracts	528,357	212,400	315,957	148.76%
	Rent & Improvements	-	-	-	
	Office Costs	185,725	179,050	6,675	3.73%
	Professional Services	-	-	-	
	Miscellaneous	-	-	-	
	Depreciation	477,763	471,000	6,763	1.44%
	Total Operating Expenses	1,191,845	862,450	329,395	38.19%
	Indirect Expenses	(1,737,886)	(1,294,652)	(443,234)	34.24%
	Other Non-Operating Expenses	-	-	-	
	Total Expenses (B)	-	-	-	
	Change in Assets (A - B)	-	-	-	
	Fixed Assets				
	Depreciation	(477,763.00)	(471,000.00)	(6,763)	1.44%
	Computer & Software CapEx	67,864	320,500	(252,636)	-78.83%
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	-	-	-	
	Leasehold Improvements	-	-	-	
	(Inc)Dec in Fixed Assets	\$ (409,899)	\$ (150,500)	\$ (259,399)	
	Allocation of Fixed Assets	409,899	150,500	259,399	172.36%
	Total Inc(Dec) in Fixed Assets ©	-	-	-	
	TOTAL BUDGET (B + C)	-	-	-	
	Change in Working Capital (A-B-C)	-	-	-	
	FTEs	4.2	3.1	1.1	35.46%

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

- Senior management time charged to the IT area was greater than budgeted because MRO began several significant projects: SharePoint, Website and Lync.

Operating Expenses**Consultants and Contracts**

- Unbudgeted upgrade of MRO's website and implementation of SharePoint.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE count to the direct programs.

Other Non-Operating Expenses

N/A

Fixed Asset Additions

- By accelerating capital expenditures in late 2013 there was a decrease in the need for capital expenditures in 2014.
- Total actual fixed costs were under budget; therefore, there were less asset costs than budgeted allocated to this program.

6e. Human Resources

Human Resources costs are included in Finance and Accounting.

6f. Human Resources, Finance, and Accounting

HUMAN RESOURCES, FINANCE and ACCOUNTING	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	337,761	348,717	(10,956)	-3.14%
Payroll Taxes	23,095	23,459	(364)	-1.55%
Employee Benefits	31,650	34,384	(2,734)	-7.95%
Savings & Retirement	59,454	71,365	(11,911)	-16.69%
Total Personnel Expenses	451,960	477,925	(25,965)	-5.43%
Meeting Expenses				
Meetings	-	500	(500)	-100.00%
Travel	4,922	3,000	1,922	64.07%
Conference Calls	-	-	-	
Total Meeting Expenses	4,922	3,500	1,422	40.63%
Operating Expenses				
Consultants & Contracts	136,056	25,000	111,056	444.22%
Rent & Improvements	492,489	524,827	(32,338)	-6.16%
Office Costs	106,544	115,420	(8,876)	-7.69%
Professional Services	45,116	60,000	(14,884)	-24.81%
Miscellaneous	-	-	-	
Depreciation	167	-	167	
Total Operating Expenses	780,372	725,247	55,125	7.60%
Indirect Expenses	(1,478,708)	(1,206,672)	(272,036)	22.54%
Other Non-Operating Expenses	241,454	-	241,454	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	(167)	-	(167)	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	6,844	-	6,844	
Equipment CapEx	-	-	-	
Leasehold Improvements	6,930	50,000	(43,070)	-86.14%
(Inc)Dec in Fixed Assets	13,607	50,000	(36,393)	
Allocation of Fixed Assets	(13,607)	(50,000)	36,393	-72.79%
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
FTEs	3.5	3.3	0.2	6.36%

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

- Annual post-retirement adjustment reduced the net periodic cost for 2014 provided by third party advisors.

Operating Expenses**Consultants and Contracts**

- MRO used outside recruiters for certain positions.

Professional Services

- The IT audit scope was charged through the IT program; however, this had been budgeted for in the Finance and Accounting program.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE count to the direct programs.

Other Non-Operating Expenses

- Trending in higher medical premiums and a 2014 new mortality rate increasing life expectancy increased the required balance for 2014 provided by third party advisors.

Fixed Asset Additions

- Facility reconfigurations were pushed into a future date in order to offset the 2014 excess costs in consultants and contracts.
- Total actual fixed costs were under budget; therefore, there were less asset costs than budgeted allocated to this program.

Section B — Supplemental Financial Information

Statement of Activities and Capital Expenditures by Program	Functions in Delegation Agreement																
	2014 Actual	Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 600 & 900)	Situation Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	
Funding																	
ERO Funding																	
NERC Assessments	8,741,442	8,741,442	-	-	8,741,442	429,997	6,600,177	2,164,689	330,159	83,275	-	(866,855)	-	-	-	-	-
Penalty Sanctions	136,500	136,500	-	-	136,500	5,361	97,415	29,738	2,978	1,008	-	-	-	-	-	-	-
Total NERC Funding	8,877,942	8,877,942	-	-	8,877,942	435,358	6,697,592	2,194,427	333,137	84,283	-	(866,855)	-	-	-	-	-
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding (A)	8,877,942	8,877,942	-	-	8,877,942	435,358	6,697,592	2,194,427	333,137	84,283	-	(866,855)	-	-	-	-	-
Expenses																	
Personnel Expenses																	
Salaries	5,188,857	5,188,857	-	-	5,188,857	167,659	2,585,820	962,732	133,982	30,409	-	363,588	215,792	391,114	-	-	337,761
Payroll Taxes	325,022	325,022	-	-	325,022	8,471	164,399	60,781	7,278	2,163	-	17,866	11,759	29,210	-	-	23,095
Benefits	381,964	381,964	-	-	381,964	10,291	192,815	76,070	5,445	2,675	-	19,268	1,815	41,935	-	-	31,650
Retirement Costs	836,802	836,802	-	-	836,802	29,334	347,876	190,590	20,740	6,668	-	70,106	29,890	82,144	-	-	59,454
Total Personnel Expenses	6,732,645	6,732,645	-	-	6,732,645	215,755	3,290,910	1,290,173	167,445	41,915	-	470,828	259,256	544,403	-	-	451,960
Meeting Expenses																	
Meetings	79,231	79,231	-	-	79,231	1,276	2,163	6,280	45,134	150	-	23,433	-	795	-	-	-
Travel	492,858	492,858	-	-	492,858	20,320	119,319	196,854	16,298	17,698	-	99,701	16,903	843	-	-	4,922
Conference Calls	251	251	-	-	251	41	-	167	-	-	-	43	-	-	-	-	-
Total Meeting Expenses	572,340	572,340	-	-	572,340	21,637	121,482	203,301	61,432	17,848	-	123,177	16,903	1,638	-	-	4,922
Operating Expenses																	
Consultants & Contracts	929,195	929,195	-	-	929,195	12,300	114,073	90,661	-	-	-	47,748	-	528,357	-	-	136,056
Office Rent	492,489	492,489	-	-	492,489	-	-	-	-	-	-	-	-	-	-	-	492,489
Office Costs	450,368	450,368	-	-	450,368	4,638	66,882	11,046	1,196	5,531	-	63,708	5,098	185,725	-	-	106,544
Professional Services	113,970	113,970	-	-	113,970	-	-	-	-	-	-	63,000	5,854	-	-	-	45,116
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	477,930	477,930	-	-	477,930	-	-	-	-	-	-	-	-	477,763	-	-	167
Total Operating Expenses	2,463,952	2,463,952	-	-	2,463,952	16,938	180,955	101,707	1,196	5,531	-	174,456	10,952	1,191,845	-	-	780,372
Total Direct Expenses	9,768,937	9,768,937	-	-	9,768,937	254,330	3,593,347	1,595,181	230,073	65,294	-	768,461	287,111	1,737,886	-	-	1,237,254
Indirect Expenses																	
	-	-	-	-	-	161,298	2,928,513	1,117,245	41,434	23,677	-	(768,461)	(287,111)	(1,737,886)	-	-	(1,478,708)
Other Non-Operating Expenses	241,454	241,454	-	-	241,454	-	-	-	-	-	-	-	-	-	-	-	241,454
Total Expenses (B)	10,010,391	10,010,391	-	-	10,010,391	415,628	6,521,860	2,712,426	271,507	88,971	-	-	-	-	-	-	-
Change in Assets	(1,132,449)	(1,132,449)	-	-	(1,132,449)	19,730	175,732	(517,999)	61,630	(4,688)	-	(866,855)	-	-	-	-	-
Fixed Assets																	
Depreciation	(477,930)	(477,930)	-	-	(477,930)	-	-	-	-	-	-	-	-	(477,763)	-	-	(167)
Computer & Software CapEx	67,864	67,864	-	-	67,864	-	-	-	-	-	-	-	-	67,864	-	-	-
Furniture & Fixtures CapEx	6,844	6,844	-	-	6,844	-	-	-	-	-	-	-	-	-	-	-	6,844
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	6,930	6,930	-	-	6,930	-	-	-	-	-	-	-	-	-	-	-	6,930
Allocation of Fixed Assets	0	0	-	-	0	(14,962)	(271,653)	(103,637)	(3,843)	(2,196)	-	-	-	409,899	-	-	(13,607)
Ind(Dec) in Fixed Assets (C)	(396,292)	(396,292)	-	-	(396,292)	(14,962)	(271,653)	(103,637)	(3,843)	(2,196)	-	-	-	-	-	-	-
TOTAL BUDGET (=B + C)	9,614,099	9,614,099	-	-	9,614,099	400,665	6,250,207	2,608,789	267,664	86,774	-	-	-	-	-	-	-
TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)	(736,157)	(736,157)	-	-	(736,157)	34,693	447,385	(414,362)	65,473	(2,491)	-	(866,855)	-	-	-	-	-
FTEs	39.59	39.59	-	-	39.59	1.09	19.79	7.55	0.28	0.16	-	1.73	1.24	4.24	-	-	3.51

MIDWEST RELIABILITY ORGANIZATION
Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

MIDWEST RELIABILITY ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Midwest Reliability Organization (the "Organization"), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
April 2, 2015

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2014 and 2013

ASSETS		
	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,655,712	\$ 3,739,704
Restricted cash	395,044	136,516
Accounts receivable	6,762	34,726
Prepaid expenses	<u>188,536</u>	<u>263,633</u>
Total Current Assets	4,246,054	4,174,579
PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET	877,691	1,194,569
OTHER ASSETS		
Restricted cash - non-current	95,008	320,013
Security Deposit - non-current	39,858	39,858
Capitalized software costs, net of accumulated amortization of \$522,839 and \$439,510, respectively	<u>106,808</u>	<u>186,220</u>
TOTAL ASSETS	<u>\$ 5,365,419</u>	<u>\$ 5,915,239</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 215,943	\$ 207,901
Accrued liabilities	733,084	638,307
Retirement plan contribution	453,228	407,436
Deferred assessments	<u>395,044</u>	<u>136,512</u>
Total Current Liabilities	1,797,299	1,390,156
OTHER LIABILITIES		
Postretirement medical benefit obligation	410,296	153,171
Deferred assessments - non-current	95,008	320,013
Deferred rent - non-current	<u>452,941</u>	<u>309,572</u>
Total Liabilities	<u>2,755,544</u>	<u>2,172,912</u>
MEMBERS' EQUITY	<u>2,609,875</u>	<u>3,742,327</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 5,365,419</u>	<u>\$ 5,915,239</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY
For the Years Ended December 31, 2014 and 2013

	2014	2013
REVENUE		
Assessments	\$ 8,741,442	\$ 9,098,927
Penalty sanctions	136,500	14,000
Total Revenue	8,877,942	9,112,927
EXPENSES		
Personnel expenses		
Salaries	5,188,857	4,760,887
Payroll taxes	325,023	310,791
Employee benefits	381,964	380,894
Retirement benefits	836,804	724,304
Total personnel expenses	6,732,648	6,176,876
Meeting expenses		
Conference calls	251	15,142
Meetings	79,322	91,601
Travel	492,766	475,020
Total meeting expenses	572,339	581,763
Operating expenses		
Building rent and facilities	492,489	487,109
Consulting	929,197	490,643
Office costs	928,298	853,446
Professional services	113,969	147,338
Total operating expenses	2,463,953	1,978,536
Total Expenses	9,768,940	8,737,175
CHANGE IN MEMBERS' EQUITY BEFORE POSTRETIREMENT RELATED CHANGES	(890,998)	375,752
POSTRETIREMENT-RELATED CHANGES		
Postretirement medical benefit obligation changes other than net periodic cost	241,454	(194,304)
CHANGE IN MEMBERS' EQUITY	(1,132,452)	570,056
MEMBERS' EQUITY - Beginning of Year	3,742,327	3,172,271
MEMBERS' EQUITY - END OF YEAR	\$ 2,609,875	\$ 3,742,327

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in members' equity	\$ (1,132,452)	\$ 570,056
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation	394,601	354,848
Software amortization	83,329	55,411
Change in assets and liabilities:		
Accounts receivable	27,964	156,640
Prepaid expenses	75,097	(63,357)
Accounts payable - trade	47,561	(128,156)
Accrued liabilities	94,777	57,940
Retirement plan contribution	45,792	49,636
Deferred assessments	33,527	338,520
Deferred rent	143,369	187,596
Postretirement medical benefit obligation	257,125	(194,163)
Change from Operating Activities	<u>70,690</u>	<u>1,384,971</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(33,523)	(338,524)
Purchases of property, improvements and equipment and software	<u>(121,159)</u>	<u>(497,575)</u>
Change from Investing Activities	<u>(154,682)</u>	<u>(836,099)</u>
Net Change in Cash and Cash Equivalents	(83,992)	548,872
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,739,704</u>	<u>3,190,832</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,655,712</u>	<u>\$ 3,739,704</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Equipment and software additions included in accounts payable	<u>\$ 14,275</u>	<u>\$ 53,795</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Services

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

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 \$3,000 are capitalized for the years ended December 31, 2014 and 2013, 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. Accumulated amortization totaled \$522,839 and \$439,510 for the years ended December 31, 2014 and 2013, respectively. Amortization expense totaled \$83,329 and \$55,411 for the years ended December 31, 2014 and 2013, respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Assessments

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

Tax Status

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under Section 501(c)(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, 2014 and 2013. 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 2011 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 April 2, 2015, 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, 2014 and 2013

NOTE 2 - NERC TRANSACTIONS

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

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that equitably allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted revenues from NERC were \$8,741,442 and \$9,098,927 for the years ended December 31, 2014 and 2013, respectively, which agree with the amounts received.

NOTE 3 - LEASE COMMITMENTS

The Organization has an operating lease for office space in St Paul, Minnesota. Rent expense was \$237,745 for the years ended December 31, 2014 and 2013, respectively.

Future expected minimum lease payments under the lease as of December 31, 2014 are as follows:

Years Ending December 31	
2015	\$ 266,514
2016	274,537
2017	282,812
2018	291,277
2019	300,058
Thereafter	<u>900,078</u>
	<u>\$ 2,315,276</u>

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 4 - PROPERTY, IMPROVEMENTS AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Equipment	\$ 1,795,454	\$ 1,731,631
Furniture	429,772	422,802
Leasehold improvements	<u>328,136</u>	<u>321,206</u>
	2,553,362	2,475,639
Less: Accumulated depreciation	<u>(1,675,671)</u>	<u>(1,281,070)</u>
Net Property, Improvements and Equipment	<u>\$ 877,691</u>	<u>\$ 1,194,569</u>

NOTE 5 - LINE OF CREDIT

The Organization has a revolving line of credit from National Cooperative Service Corporation (NCSC) with an established credit limit of \$2,000,000. The interest rate is equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the *Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization, and expires on February 26, 2017. There were no outstanding balances at December 31, 2014 or 2013, respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

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:

	2014	2013
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 882,395	\$ 880,141
Service cost	161,535	169,757
Interest cost	44,340	36,195
Actuarial (gain) loss	163,942	(200,476)
Benefits paid	(4,564)	(3,222)
Benefit obligation at end of year	1,247,648	882,395
 Change in plan assets		
Fair value of plan assets at beginning of year	729,224	532,807
Actual return on plan assets	7,851	59,097
Employer contribution	104,841	140,542
Benefits paid	(4,564)	(3,222)
Fair value of plan assets at end of year	837,352	729,224
 Unfunded status recognized as a noncurrent liability	\$ (410,296)	\$ (153,171)
 Weighted average assumptions used to calculate the benefit obligation-discount rate	4.01%	5.04%

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

	2014	2013
Components of net periodic benefit cost		
Service cost	\$ 161,535	\$ 169,757
Interest cost	44,340	36,195
Expected return on plan assets	(46,762)	(35,073)
Amortization of prior service credit	(38,601)	(38,601)
Amortization of actuarial loss	-	8,405
Net periodic benefit cost	\$ 120,512	\$ 140,683
 Weighted-average assumptions used to calculate the net periodic benefit cost		
Discount rate	5.04%	4.12%
Expected return on plan assets	6.00%	6.00%
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, 2014 and 2013

NOTE 6 - RETIREMENT PLANS (Continued)

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

	2014	2013
Health care cost trend rate assumed for next year	9.3%	9.7%
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	\$ 57,867	\$ (42,703)
Effect on postretirement benefit obligation	304,331	(230,340)

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

	2014	2013
Actuarial (gain) loss arising during the year	\$ 202,853	\$ (232,905)
Amortization of prior year service cost	38,601	38,601
	\$ 241,454	\$ (194,304)

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

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

	2014	2013
Equity Securities	35%	36%
Debt Securities	44%	53%
Other	21%	11%

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

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:

	2014	2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
Asset category		
Cash equivalents	\$ 8,906	\$ 7,490
Mutual funds-bonds	372,528	383,724
Mutual funds-equities	290,396	265,854
Mutual funds-balanced	165,522	72,156
	\$ 837,352	\$ 729,224

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

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

There have been no changes in the fair market valuation techniques and inputs as of December 31, 2014 and 2013.

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, 2014 are as follows:

Years Ending December 31	
2015	\$ 5,530
2016	6,637
2017	11,083
2018	20,405
2019	33,685
2020 - 2024	317,779

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 \$100,967 to the plan in 2015.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 - RETIREMENT PLANS (Continued)

Defined Contribution Pension Plan

The Organization has a thrift savings plan to replace the terminated multiple-employer plan for the benefit of its employees. The Organization's previous 401(k) plan was converted into the new plan as well as the establishment of a new, non-elective employer contribution plan. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50% matching contribution from the Organization. For employees to receive the non-elective or employer contribution, they must have worked 1,000 hours during the plan year. The Organization matched \$255,776 and \$241,044 of employee deferrals as of December 31, 2014 and 2013, respectively. In addition, the Organization elected to make an employer contribution in the amount of \$430,111 and \$370,263 for the years ended December 31, 2014 and 2013, respectively.

The Organization also has a 457B plan. Eligible employees may contribute an elective deferral, with a discretionary matching contribution from the Organization. Employee contributions were \$20,875 and \$16,226, for the years ended December 31, 2014 and 2013, respectively. The Organization matched \$10,438 and \$6,675, of employee deferrals for the years ended December 31, 2014 and 2013, respectively.

The Organization also has a 457F plan. Employer contribution amounts for employees in excess of IRS contribution limits are deposited to the 457F. The Organization contributed in the amounts of \$23,117 and \$20,950, for the years ended December 31, 2014 and 2013, respectively.

ATTACHMENT 4

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

NORTHEAST POWER COORDINATING COUNCIL, INC.



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

April 28, 2015

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

Subject: NPCC 2014 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2014 Financial Statements

Dear Michael:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2014 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on March 27, 2015 and forwarded to NERC for its information and provision to FERC.

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

No Regional Entity division assessments were used to fund CS division activities. Allocation between the RE division and CS division represents a 95/5 split for 2014 based upon total corporate FTEs of 36.86 in the RE division and 2.14 in the CS division. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC does not budget for interest income and reports such income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses for NPCC's RE division for 2014 were \$13,777,528 (excluding non-operating expenses which represent change in pension liability on a termination basis vs. liability for the plan on an ongoing basis consistent with actuarial review and a Board of Directors approved additional contribution to the pension plan associated with plan termination initiated due to cross-testing IRS rules) which is \$493,479 or 3.5% under the 2014 operating budget of \$14,271,007. Actual total expenses for NPCC's CS division for 2014 were \$1,084,317 (excluding non-operating expenses) which is \$4,783 or 0.4% under the 2014 operating budget of \$1,089,100. In the aggregate, actual total expenses (excluding non-operating expenses) for the NPCC RE and CS divisions were \$14,861,847 which is \$498,260 or 3.2% under the 2014 total corporate budget of \$15,360,107. Indirect expenses are allocated to the direct programs based on FTE ratio. As approved by its Board of Directors, NPCC used reserves in the amount of \$2,500,000 in order to increase the funded level of the pension plan closer to projected liabilities based upon 2014 mortality tables and segmented interest rate assumptions. NPCC filed the IRS required documentation in December, 2014 to facilitate pension plan termination. Operating cash reserves were not used to fund any other activities or services in 2014.

Variations from budget in total for NPCC, total non-statutory, total statutory and total by statutory 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. A single consolidated budget versus actual cost comparison is presented for Administrative Services in order to be consistent with the presentation in NPCC's 2014 Business Plan and Budget. Explanations of significant expense variances are provided for the Regional Entity division in total and by program area where the explanation differs from that for the Regional Entity total.

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

Sincerely,

Jessica Hala

Jessica Hala
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.
2014 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	13,611,880	13,611,881	-
Penalty Sanctions	153,000	153,000	-
Total ERO Funding	13,764,880	13,764,881	-
Federal Grants	-	-	-
Non-Statutory Assessments	989,708	989,708	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	62,579	64,000	(1,421)
Interest	12,291	-	12,291
Miscellaneous	5,245	-	5,245
Total Funding (A)	14,834,703	14,818,589	16,115
Expenses			
Personnel Expenses			
Salaries	6,144,364	6,223,393	(79,029)
Payroll Taxes	407,020	405,848	1,172
Employee Benefits	1,205,396	1,494,415	(289,019)
Savings & Retirement	1,203,166	1,254,179	(51,013)
Total Personnel Expenses	8,959,946	9,377,836	(417,890)
Meeting Expenses			
Meetings	285,176	375,000	(89,824)
Travel	757,752	953,000	(195,248)
Conference Calls	32,720	77,000	(44,280)
Total Meeting Expenses	1,075,648	1,405,000	(329,352)
Operating Expenses			
Consultants & Contracts	2,230,942	1,979,433	251,509
Rent & Improvements	744,102	737,272	6,830
Office Costs	548,279	536,500	11,779
Professional Services	939,353	966,500	(27,147)
Miscellaneous	41,592	83,567	(41,975)
Depreciation	321,986	274,000	47,986
Total Operating Expenses	4,826,254	4,577,272	248,982
Indirect Expenses	-	-	-
Other Non-Operating Expenses	1,383,663	-	1,383,664
Total Expenses (B)	16,245,511	15,360,108	885,404
Change in Assets (A - B)	(1,410,808)	(541,519)	(869,289)
Fixed Assets			
Depreciation	(321,986)	(274,000)	(47,986)
Computer & Software CapEx	31,171	108,000	(76,829)
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	(70,131)	-	(70,131)
Leasehold Improvements	3,657	-	3,657
Incr(Dec) in Fixed Assets	(357,289)	(166,000)	(191,289)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(357,289)	(166,001)	(191,288)
TOTAL BUDGET (B + C)	15,888,222	15,194,107	694,116
Change in Working Capital (A-B-C)	(1,053,519)	(375,518)	(678,001)
FTE's	38.42	39.00	(0.58)

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

TOTAL STATUTORY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	13,611,880	13,611,881	-	0.00%
Penalty Sanctions	153,000	153,000	-	0.00%
Total ERO Funding	13,764,880	13,764,881	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	62,579	64,000	(1,421)	-2.22%
Interest	11,616	-	11,616	
Miscellaneous	5,245	-	5,245	
Total Funding (A)	13,844,320	13,828,881	15,440	0.11%
Expenses				
Personnel Expenses				
Salaries	5,785,898	5,911,227	(125,329)	-2.12%
Payroll Taxes	383,221	384,312	(1,091)	-0.28%
Employee Benefits	1,106,658	1,430,262	(323,604)	-22.63%
Savings & Retirement	1,071,843	1,124,361	(52,518)	-4.67%
Total Personnel Expenses	8,347,620	8,850,162	(502,542)	-5.68%
Meeting Expenses				
Meetings	284,156	365,000	(80,844)	-22.15%
Travel	713,452	890,000	(176,548)	-19.84%
Conference Calls	32,720	77,000	(44,280)	-57.51%
Total Meeting Expenses	1,030,328	1,332,000	(301,672)	-22.65%
Operating Expenses				
Consultants & Contracts	2,220,677	1,924,433	296,244	15.39%
Rent & Improvements	744,102	737,272	6,830	0.93%
Office Costs	547,325	536,500	10,825	2.02%
Professional Services	939,353	966,500	(27,147)	-2.81%
Miscellaneous	41,141	80,000	(38,859)	-48.57%
Depreciation	306,844	250,000	56,844	22.74%
Total Operating Expenses	4,799,442	4,494,705	304,737	6.78%
Indirect Expenses				
	(399,862)	(405,860)	5,998	-1.48%
Other Non-Operating Expenses				
	1,167,994	-	1,167,995	
Total Expenses (B)	14,945,522	14,271,007	674,516	4.73%
Change in Assets (A - B)	(1,101,202)	(442,127)	(659,076)	149.07%
Fixed Assets				
Depreciation	(306,844)	(250,000)	(56,844)	22.74%
Computer & Software CapEx	31,171	108,000	(76,829)	-71.14%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	(70,131)	-	(70,131)	
Leasehold Improvements	3,657	-	3,657	
Incr(Dec) in Fixed Assets	(342,147)	(142,000)	(200,147)	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	(342,147)	(142,001)	(200,146)	140.95%
TOTAL BUDGET (B + C)	14,603,375	14,129,006	474,370	3.36%
Change in Working Capital (A-B-C)	(759,055)	(300,126)	(458,930)	152.91%
FTE's	36.28	36.86	(0.58)	-1.57%

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

NON-STATUTORY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	989,708	989,708	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	675	-	675	
Miscellaneous	-	-	-	
Total Funding (A)	990,383	989,708	675	0.07%
Expenses				
Personnel Expenses				
Salaries	358,466	312,166	46,300	14.83%
Payroll Taxes	23,799	21,536	2,263	10.51%
Employee Benefits	98,738	64,153	34,585	53.91%
Savings & Retirement	131,323	129,818	1,505	1.16%
Total Personnel Expenses	612,326	527,674	84,652	16.04%
Meeting Expenses				
Meetings	1,020	10,000	(8,980)	-89.80%
Travel	44,300	63,000	(18,700)	-29.68%
Conference Calls	-	-	-	
Total Meeting Expenses	45,320	73,000	(27,680)	-37.92%
Operating Expenses				
Consultants & Contracts	10,265	55,000	(44,735)	-81.34%
Rent & Improvements	-	-	-	
Office Costs	954	-	954	
Professional Services	-	-	-	
Miscellaneous	451	3,567	(3,116)	-87.36%
Depreciation	15,142	24,000	(8,858)	-36.91%
Total Operating Expenses	26,812	82,567	(55,755)	-67.53%
Indirect Expenses	399,859	405,859	(6,000)	-1.48%
Other Non-Operating Expenses	215,669	-	215,669	
Total Expenses (B)	1,299,986	1,089,100	210,886	19.36%
Change in Assets (A - B)	(309,603)	(99,392)	(210,211)	211.50%
Fixed Assets				
Depreciation	(15,142)	(24,000)	8,858	-36.91%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	(15,142)	(24,000)	8,858	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	(15,142)	(24,000)	8,858	-36.91%
TOTAL BUDGET (B + C)	1,284,844	1,065,100	219,744	20.63%
Change in Working Capital (A-B-C)	(294,461)	(75,392)	(219,069)	290.57%
FTE's	2.14	2.14	-	0.00%

TOTAL NPCC

Personnel Expenses

In 2014 NPCC experienced several partial year vacancies but ended the year fully staffed. These vacancies resulted in lower salary and associated incentive compensation. Despite not being at a full staff complement at times during the year, NPCC performed all of its 2014 delegated responsibilities as well as its goals and objectives, including:

- Conducted 33 off-site Operations & Planning (O&P) audits, five on-site O&P audits, 31 off-site CIP audits, seven on-site CIP audits and 473 individual spot checks were performed involving 35 registered entities;
- Processed 201 Technical Feasibility Exception (TFE) submittals from 19 registered entities: 123 new TFEs, 59 Material Change Reports(MCRs) and 19 Terminations for TFEs;
- Closed 140 violations;
- Accepted mitigation plans for 72 violations;
- Examined 85 events of which five were category two or higher;
- Processed 20 new entity registrations, 18 deactivations, 8 entity name changes and three certification reviews.

In the benefits area, NPCC was able to trim insurance renewal expenses resulting in significant cost savings. Additionally, a substantial number of professionals continue to waive health insurance coverage opting for superior coverage from a prior employer or spousal insurance coverages.

WECC CEA Revenue and Expenses

WECC CEA related expenses and offsetting revenue of \$5,245 were related to the O&P and CIP audits conducted during 2012. The total actual expenses related to the WECC audits were trued up with WECC in 2014, as per the CEA Agreement.

Meeting Expenses

Continued efforts to limit the number of attendees sent to off-site meetings, and to hold more meetings onsite or via webinar where effective, have kept meeting, travel and conference call expenses under budget. Conference calls underage was also based on lower negotiated rates with a new provider and credit negotiated for service interruption.

Consultants and Contracts

Overage is primarily due to additional use of consultants in the Reliability Assessment and Performance Analysis (RAPA) program area related to implementation of the revised BES definition and providing BESnet support to NERC; added use of contractors in the Compliance program during periods of staff vacancy; and additional efforts related to system frequency response and generator governor response and the implementation of the NPCC program for the Simultaneous Activation of Reserve (SAR) in the Situation Awareness and Infrastructure Security program.

Miscellaneous

Under budget due to ongoing cost cutting efforts in all areas.

Depreciation

Over budget due to additional assets placed in service related to CMEP Data Administration Application (CDAA) software development to enhance the efficiencies of compliance activities for both registered entities and Regional Entity staffs.

Non-Operating Expenses

Changes in NPCC's pension liability based on actuarial report are reflected in the non-operating expense line.

Fixed Assets

Computer & Software capital expenditures were under budget due to a portion of costs related to CMEP Data Administration Application (CDAA) software being expensed rather than capitalized based on GAAP. Equipment capital expenditure represents the write off of old equipment during 2014.

Compliance Hearings

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

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

RELIABILITY STANDARDS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	1,431,239	1,431,239	-	0.00%
Penalty Sanctions	16,091	16,091	-	0.00%
Total ERO Funding	1,447,330	1,447,330	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	1,447,330	1,447,330	-	0.00%
Expenses				
Personnel Expenses				
Salaries	468,322	502,840	(34,518)	-6.86%
Payroll Taxes	34,110	31,305	2,805	8.96%
Employee Benefits	86,708	131,342	(44,634)	-33.98%
Savings & Retirement	80,829	87,449	(6,620)	-7.57%
Total Personnel Expenses	669,969	752,936	(82,967)	-11.02%
Meeting Expenses				
Meetings	6,986	25,000	(18,014)	-72.06%
Travel	107,950	110,000	(2,050)	-1.86%
Conference Calls	-	-	-	
Total Meeting Expenses	114,936	135,000	(20,064)	-14.86%
Operating Expenses				
Consultants & Contracts	7,235	30,000	(22,765)	-75.88%
Rent & Improvements	-	-	-	
Office Costs	1,403	-	1,403	
Professional Services	-	-	-	
Miscellaneous	38	-	38	
Depreciation	-	-	-	
Total Operating Expenses	8,676	30,000	(21,324)	-71.08%
Indirect Expenses	546,443	555,686	(9,243)	-1.66%
Other Non-Operating Expenses	90,757	-	90,757	
Total Expenses (B)	1,430,781	1,473,622	(42,841)	-2.91%
Change in Assets (A - B)	16,549	(26,292)	42,841	-162.94%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	(39,261)	(26,292)	(12,969)	49.33%
Total Inc(Dec) in Fixed Assets (C)	(39,261)	(26,292)	(12,969)	49.33%
TOTAL BUDGET (B + C)	1,391,520	1,447,330	(55,810)	-3.86%
Change in Working Capital (A-B-C)	55,810	-	55,810	
FTE's	2.93	2.93	-	0.00%

RELIABILITY STANDARDS

Consultants and Contracts

Under budget as a result of judicious use of contractor and consultant services to complement staff functions.

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

WECC CEA Responsibilities	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	-	-	-
Penalty Sanctions	-	-	-
Total ERO Funding	-	-	-
Federal Grants	-	-	-
Non-Statutory Assessments	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	-	-	-
Miscellaneous	5,245	-	5,245
Total Funding (A)	5,245	-	5,245
Expenses			
Personnel Expenses			
Salaries	5,245	-	5,245
Payroll Taxes	-	-	-
Employee Benefits	-	-	-
Savings & Retirement	-	-	-
Total Personnel Expenses	5,245	-	5,245
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)	5,245	-	5,245
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)	5,245	-	5,245
Change in Working Capital (A-B-C)	-	-	-
FTE's	-	-	-

WECC CEA Revenue and Expenses

WECC CEA related expenses and offsetting revenue of \$5,245 were related to the O&P and CIP audits conducted during 2012. The total actual expenses related to the WECC audits were trued up with WECC in 2014, as per the CEA Agreement.

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

**COMPLIANCE OPERATIONS, ENFORCEMENT and
ORGANIZATION REGISTRATION**

	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	7,991,503	7,991,503	-	0.00%
Penalty Sanctions	87,868	87,868	-	0.00%
Total ERO Funding	8,079,371	8,079,371	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	8,079,371	8,079,371	-	0.00%
Expenses				
Personnel Expenses				
Salaries	2,152,462	2,287,504	(135,042)	-5.90%
Payroll Taxes	147,589	162,571	(14,982)	-9.22%
Employee Benefits	422,474	537,087	(114,613)	-21.34%
Savings & Retirement	245,847	298,890	(53,043)	-17.75%
Total Personnel Expenses	2,968,372	3,286,052	(317,680)	-9.67%
Meeting Expenses				
Meetings	12,054	25,000	(12,946)	-51.78%
Travel	312,710	375,000	(62,290)	-16.61%
Conference Calls	-	-	-	
Total Meeting Expenses	324,764	400,000	(75,236)	-18.81%
Operating Expenses				
Consultants & Contracts	1,541,340	1,394,433	146,907	10.54%
Rent & Improvements	-	-	-	
Office Costs	26,335	-	26,335	
Professional Services	-	-	-	
Miscellaneous	578	-	578	
Depreciation	-	-	-	
Total Operating Expenses	1,568,253	1,394,433	173,820	12.47%
Indirect Expenses	2,889,612	3,034,462	(144,850)	-4.77%
Other Non-Operating Expenses	105,481	-	105,481	
Total Expenses (B)	7,856,482	8,114,947	(258,465)	-3.19%
Change in Assets (A - B)	222,889	(35,576)	258,465	-726.52%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	31,171	108,000	(76,829)	-71.14%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	31,171	108,000	(76,829)	
Allocation of Fixed Assets	(214,397)	(143,576)	(70,821)	49.33%
Total Inc(Dec) in Fixed Assets (C)	(183,226)	(35,576)	(147,650)	415.03%
TOTAL BUDGET (B + C)	7,673,256	8,079,371	(406,115)	-5.03%
Change in Working Capital (A-B-C)	406,115	-	406,115	
FTE's	15.67	16.00	(0.33)	-2.06%

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION

Personnel

Under budget due to temporary vacancies during the year and at risk compensation component based on corporate goal attainment and individual performance. Fully staffed at year end.

Consultants and Contracts

Overage is primarily due to additional use of contractors during periods of staff vacancy.

Office Costs

Over budget due to costs related to CMEP Data Administration Application (CDAA) software ongoing maintenance being expensed rather than capitalized based on GAAP.

Fixed Assets

Computer & Software capital expenditures were under budget due to a portion of costs related to CMEP Data Administration Application (CDAA) software being expensed rather than capitalized based on GAAP.

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	2,910,322	2,910,322	-	0.00%
Penalty Sanctions	32,017	32,017	-	0.00%
Total ERO Funding	<u>2,942,339</u>	<u>2,942,339</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>2,942,339</u>	<u>2,942,339</u>	-	0.00%
Expenses				
Personnel Expenses				
Salaries	878,385	904,028	(25,643)	-2.84%
Payroll Taxes	57,767	60,329	(2,562)	-4.25%
Employee Benefits	185,396	226,225	(40,829)	-18.05%
Savings & Retirement	157,235	190,390	(33,155)	-17.41%
Total Personnel Expenses	<u>1,278,783</u>	<u>1,380,972</u>	<u>(102,189)</u>	<u>-7.40%</u>
Meeting Expenses				
Meetings	41,142	45,000	(3,858)	-8.57%
Travel	129,401	175,000	(45,599)	-26.06%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>170,543</u>	<u>220,000</u>	<u>(49,457)</u>	<u>-22.48%</u>
Operating Expenses				
Consultants & Contracts	434,436	275,000	159,436	57.98%
Rent & Improvements	-	-	-	
Office Costs	15,261	13,000	2,261	17.39%
Professional Services	-	-	-	
Miscellaneous	862	-	862	
Depreciation	-	-	-	
Total Operating Expenses	<u>450,559</u>	<u>288,000</u>	<u>162,559</u>	<u>56.44%</u>
Indirect Expenses	<u>1,087,109</u>	<u>1,105,682</u>	<u>(18,573)</u>	<u>-1.68%</u>
Other Non-Operating Expenses	<u>241,185</u>	<u>-</u>	<u>241,185</u>	
Total Expenses (B)	<u>3,228,179</u>	<u>2,994,654</u>	<u>233,525</u>	<u>7.80%</u>
Change in Assets (A - B)	<u>(285,840)</u>	<u>(52,315)</u>	<u>(233,525)</u>	<u>446.38%</u>
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	(78,121)	(52,315)	(25,806)	49.33%
Total Inc(Dec) in Fixed Assets (C)	<u>(78,121)</u>	<u>(52,315)</u>	<u>(25,806)</u>	<u>49.33%</u>
TOTAL BUDGET (B + C)	<u>3,150,058</u>	<u>2,942,339</u>	<u>207,719</u>	<u>7.06%</u>
Change in Working Capital (A-B-C)	<u>(207,719)</u>	<u>-</u>	<u>(207,719)</u>	
FTE's	<u>5.58</u>	<u>5.83</u>	<u>(0.25)</u>	<u>-4.29%</u>

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

Personnel

Under budget due to temporary vacancies during the year and at risk compensation component based on corporate goal attainment and individual performance. Fully staffed at year end.

Consultants and Contracts

Overage is primarily due to additional use of consultants in the Reliability Assessment and Performance Analysis (RAPA) program area related to implementation of the revised BES definition and providing BESnet support to NERC.

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	131,306	131,306	-	0.00%
Penalty Sanctions	549	549	-	0.00%
Total ERO Funding	131,855	131,855	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	62,579	64,000	(1,421)	-2.22%
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	194,434	195,855	(1,421)	-0.73%
Expenses				
Personnel Expenses				
Salaries	17,285	17,448	(163)	-0.93%
Payroll Taxes	1,162	1,063	99	9.31%
Employee Benefits	3,776	4,500	(724)	-16.09%
Savings & Retirement	4,424	4,776	(352)	-7.37%
Total Personnel Expenses	26,647	27,787	(1,140)	-4.10%
Meeting Expenses				
Meetings	147,920	135,000	12,920	9.57%
Travel	2,144	15,000	(12,856)	-85.71%
Conference Calls	-	-	-	
Total Meeting Expenses	150,064	150,000	64	0.04%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	2,382	-	2,382	
Professional Services	-	-	-	
Miscellaneous	1,674	-	1,674	
Depreciation	-	-	-	
Total Operating Expenses	4,056	-	4,056	
Indirect Expenses	18,426	18,965	(539)	-2.84%
Other Non-Operating Expenses	8,191	-	8,191	
Total Expenses (B)	207,384	196,752	10,632	5.40%
Change in Assets (A - B)	(12,950)	(897)	(12,053)	1343.70%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	(1,340)	(897)	(443)	49.38%
Total Inc(Dec) in Fixed Assets (C)	(1,340)	(897)	(443)	49.38%
TOTAL BUDGET (B + C)	206,044	195,855	10,189	5.20%
Change in Working Capital (A-B-C)	(11,610)	-	(11,610)	
FTE's	0.10	0.10	-	0.00%

TRAINING, EDUCATION and OPERATOR CERTIFICATION

Meeting expenses

More meetings held on-site resulted in over budget meeting expenses offset by under budget travel expenses.

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	1,447,636	1,447,636	-	0.00%
Penalty Sanctions	16,475	16,475	-	0.00%
Total ERO Funding	1,464,111	1,464,111	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	1,464,111	1,464,111	-	0.00%
Expenses				
Personnel Expenses				
Salaries	494,704	522,672	(27,968)	-5.35%
Payroll Taxes	34,781	32,961	1,820	5.52%
Employee Benefits	57,977	88,851	(30,874)	-34.75%
Savings & Retirement	108,308	117,586	(9,278)	-7.89%
Total Personnel Expenses	695,770	762,070	(66,300)	-8.70%
Meeting Expenses				
Meetings	5,438	25,000	(19,562)	-78.25%
Travel	57,495	60,000	(2,505)	-4.18%
Conference Calls	-	-	-	
Total Meeting Expenses	62,933	85,000	(22,067)	-25.96%
Operating Expenses				
Consultants & Contracts	170,076	75,000	95,076	126.77%
Rent & Improvements	-	-	-	
Office Costs	6,879	-	6,879	
Professional Services	-	-	-	
Miscellaneous	45	-	45	
Depreciation	-	-	-	
Total Operating Expenses	177,000	75,000	102,000	136.00%
Indirect Expenses	559,369	568,962	(9,593)	-1.69%
Other Non-Operating Expenses	165,096	-	165,096	
Total Expenses (B)	1,660,168	1,491,032	169,136	11.34%
Change in Assets (A - B)	(196,057)	(26,921)	(169,136)	628.27%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	(40,199)	(26,921)	(13,278)	49.32%
Total Inc(Dec) in Fixed Assets (C)	(40,199)	(26,921)	(13,278)	49.32%
TOTAL BUDGET (B + C)	1,619,969	1,464,111	155,858	10.65%
Change in Working Capital (A-B-C)	(155,858)	-	(155,858)	
FTE's	3.00	3.00	-	0.00%

SITUATION AWARENESS and INFRASTRUCTURE SECURITY

Consultants and Contracts

Over budget due to additional programs and efforts related to system frequency response and generator governor response and the implementation of the NPCC program for the Simultaneous Activation of Reserve (SAR).

Northeast Power Coordinating Council, Inc.
2014 Statement of Activities Summary

ADMINISTRATIVE SERVICES	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(300,126)	(300,126)	-	0.00%
Penalty Sanctions	-	-		
Total ERO Funding	(300,126)	(300,126)	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	11,616	-	11,616	
Miscellaneous	-	-	-	
Total Funding (A)	(288,510)	(300,126)	11,616	-3.87%
Expenses				
Personnel Expenses				
Salaries	1,769,495	1,676,735	92,760	5.53%
Payroll Taxes	107,812	96,083	11,729	12.21%
Employee Benefits	350,327	442,257	(91,930)	-20.79%
Savings & Retirement	475,200	425,270	49,930	11.74%
Total Personnel Expenses	2,702,834	2,640,345	62,489	2.37%
Meeting Expenses				
Meetings	70,616	110,000	(39,384)	-35.80%
Travel	103,752	155,000	(51,248)	-33.06%
Conference Calls	32,720	77,000	(44,280)	-57.51%
Total Meeting Expenses	207,088	342,000	(134,912)	-39.45%
Operating Expenses				
Consultants & Contracts	67,590	150,000	(82,410)	-54.94%
Rent & Improvements	744,102	737,272	6,830	0.93%
Office Costs	495,065	523,500	(28,435)	-5.43%
Professional Services	939,353	966,500	(27,147)	-2.81%
Miscellaneous	37,944	80,000	(42,056)	-52.57%
Depreciation	306,844	250,000	56,844	22.74%
Total Operating Expenses	2,590,898	2,707,272	(116,374)	-4.30%
Indirect Expenses	(5,500,820)	(5,689,617)	188,797	-3.32%
Other Non-Operating Expenses	557,284	-	557,284	
Total Expenses (B)	557,284	-	557,284	
Change in Assets (A - B)	(845,794)	(300,126)	(545,668)	181.81%
Fixed Assets				
Depreciation	(306,844)	(250,000)	(56,844)	22.74%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	(70,131)	-	(70,131)	
Leasehold Improvements	3,657	-	3,657	
Incr(Dec) in Fixed Assets	(373,318)	(250,000)	(123,318)	
Allocation of Fixed Assets	373,318	250,000	123,318	49.33%
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	557,284	-	557,284	
Change in Working Capital (A-B-C)	(845,794)	(300,126)	(545,668)	181.81%
FTE's	9.00	9.00	-	0.00%

ADMINISTRATIVE SERVICES

Interest Income

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

Consultants and Contracts

Under budget as a result of judicious use of contractor and consultant services to complement staff functions.

Miscellaneous

Under budget due to ongoing cost cutting efforts in all areas.

Depreciation

Over budget due to additional assets placed in service related to CMEP Data Administration Application (CDAA) software development to enhance the efficiencies of compliance activities for both registered entities and Regional Entity staffs.

Fixed Assets

Computer & Software capital expenditures were under budget due to a portion of costs related to CMEP Data Administration Application (CDAA) software being expensed rather than capitalized based on GAAP. Equipment capital expenditure represents the write off of old equipment during 2014.

Northeast Power Coordinating Council, Inc.

Financial Statements

December 31, 2014 and 2013

Northeast Power Coordinating Council, Inc.
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December 31, 2014 and 2013

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Northeast Power Coordinating Council, Inc., which comprise the balance sheets as of December 31, 2014 and December 31, 2013, and the related change in net assets and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Power Coordinating Council, Inc. at December 31, 2014 and December 31, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

PricewaterhouseCoopers LLP
New York, New York
March 27, 2015

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Cash	\$ 5,414,548	\$ 7,412,184
Restricted cash	648,796	611,021
Investments	2,211,002	2,210,944
Prepaid expenses	243,624	236,551
Other assets	52,878	137,191
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$1,360,479 and \$1,100,649, respectively	<u>973,224</u>	<u>1,142,418</u>
Total assets	<u>\$ 9,544,072</u>	<u>\$ 11,750,309</u>
Liabilities and Net Assets		
Accrued expenses and other liabilities	\$ 1,648,827	\$ 1,572,583
Accrued liability for pension	18,777	1,135,117
Deferred revenue	994,910	734,117
Deferred rent	<u>740,636</u>	<u>774,268</u>
Total liabilities	<u>3,403,150</u>	<u>4,216,085</u>
Net assets		
Unrestricted net assets	<u>6,140,922</u>	<u>7,534,224</u>
Total net assets	<u>6,140,922</u>	<u>7,534,224</u>
Total liabilities and net assets	<u>\$ 9,544,072</u>	<u>\$ 11,750,309</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2014 and 2013

	2014	2013
Revenue		
Assessments	\$ 989,709	\$ 1,139,688
Regional entity ERO funding	13,611,880	12,352,264
Penalty sanctions	170,500	212,000
Workshops	62,579	58,650
Interest income	12,291	17,281
Miscellaneous Income	5,245	109,867
Total revenue	<u>14,852,204</u>	<u>13,889,750</u>
Operating expenses		
Salaries and employee benefits	8,586,111	8,365,952
Administrative and consultant fees	2,584,644	2,398,006
Professional fees	587,125	572,229
Meetings and travel	1,042,927	1,131,260
Telephone and telecommunications	219,647	262,232
Office supplies and expense	358,014	316,019
Equipment leases	129,578	131,353
Rent expense	617,862	643,967
Insurance expense	51,020	39,019
Miscellaneous	41,592	43,092
Depreciation and amortization	321,986	300,260
Total operating expenses	<u>14,540,506</u>	<u>14,203,389</u>
Change in net assets before nonoperating expenses	311,698	(313,639)
Nonoperating expenses		
Pension change other than net periodic pension cost	<u>1,705,000</u>	<u>(2,347,593)</u>
(Decrease) increase in net assets	(1,393,302)	2,033,954
Net assets		
Beginning of year	<u>7,534,224</u>	<u>5,500,270</u>
End of year	<u>\$ 6,140,922</u>	<u>\$ 7,534,224</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, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ (1,393,302)	\$ 2,033,954
Depreciation and amortization	321,986	300,260
(Increase) decrease in prepaid expenses	(7,073)	34,523
Decrease in other assets	84,313	198,523
Increase in accrued expenses and other liabilities	76,244	285,543
(Decrease) in accrued liability for pension	(1,116,340)	(2,541,036)
Increase in deferred revenue	260,793	498,804
(Decrease) increase in deferred rent	(33,632)	6,367
Net cash (used in) provided by operating activities	<u>(1,807,011)</u>	<u>816,938</u>
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(152,792)	(168,619)
Purchases of investments	(58)	(50)
Restricted cash	(37,775)	38,929
Net cash (used for) investing activities	<u>(190,625)</u>	<u>(129,740)</u>
Net (decrease) increase in cash	(1,997,636)	687,198
Cash		
Beginning of year	<u>7,412,184</u>	<u>6,724,986</u>
End of year	<u>\$ 5,414,548</u>	<u>\$ 7,412,184</u>

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

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, the Company used the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash

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

Restricted Cash

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

Equipment and Leasehold Improvements

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

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 is approximately \$336,000.

Income Taxes

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

Use of Estimates

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

3. Investments

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

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
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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 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, 2014 and 2013, the Company owned 2,211,002 and 2,210,944 units of \$1 par value per unit, respectively. In 2014 and 2013, 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, 2014 and 2013 consists of the following:

	Depreciable Life	2014	2013
Furniture	10 years	\$ 202,906	\$ 202,906
Computer equipment	3 years	375,949	435,769
Website	3 years	232,000	232,000
Software	3 years	548,157	397,701
Leasehold improvements	15 years (See note 2)	<u>974,691</u>	<u>974,691</u>
		2,333,703	2,243,067
Less: Accumulated depreciation and amortization		<u>(1,360,479)</u>	<u>(1,100,649)</u>
		<u>\$ 973,224</u>	<u>\$ 1,142,418</u>

In 2014 and 2013, depreciation and amortization expense totaled \$321,986 and \$300,260, respectively.

5. Pension Plan

The Company has a trustee, noncontributory defined benefit pension plan (the “Plan”) covering employees hired prior to February 6, 2007. In November 2014, the Company decided, subject to Internal Revenue Service and Pension Benefit Guaranty Corporation approval, to terminate the Plan effective January 31, 2015 and freeze all benefits accruals for the Plan’s participants effective December 31, 2014. The plan freeze triggered curtailment accounting, which reduced the benefit obligation by \$1,421,349 as of December 31, 2014, and resulted in additional 2014 income statement charges of \$139,619. The Company’s plan contributions were \$3,150,000 and \$700,000 for the years 2014 and 2013, respectively.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
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The following tables provide information with respect to the defined benefit plan as of and for the years ended December 31, 2014 and 2013:

	2014	2013
Components of net periodic benefit cost		
Service cost	\$ 281,933	\$ 298,867
Interest cost	511,899	477,051
Expected return on plan assets	(712,715)	(599,893)
Amortization of prior service cost	20,532	20,532
Recognized actuarial loss	87,391	310,000
Curtailment loss	139,619	-
Net periodic benefit cost	<u>\$ 328,659</u>	<u>\$ 506,557</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 10,293,237	\$ 11,279,973
Service cost	281,933	298,867
Interest cost	511,899	477,051
Actuarial (gain)loss	3,186,110	(1,660,662)
Curtailements	(1,421,349)	-
Benefits paid and expected expenses	(103,307)	(101,992)
Benefit obligation at end of year	<u>12,748,523</u>	<u>10,293,237</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	9,158,120	7,603,820
Actual return on plan assets	524,933	956,292
Company contribution	3,150,000	700,000
Benefits paid and actual expenses	(103,307)	(101,992)
Fair value of plan assets at end of year	<u>12,729,746</u>	<u>9,158,120</u>
Funded status at end of year	<u>\$ (18,777)</u>	<u>\$ (1,135,117)</u>
Amounts recognized in unrestricted net assets consist of		
Loss	\$ (5,032,433)	\$ (1,745,933)
Prior service cost	-	(160,151)
	<u>\$ (5,032,433)</u>	<u>\$ (1,906,084)</u>
Changes in unrestricted assets recognized in nonoperating expenses		
Net (gain)/loss	\$ 3,373,891	\$ (2,017,061)
Amortization of prior service cost	(160,151)	(20,532)
Amortization of net gain/(loss)	(87,391)	(310,000)
	<u>\$ 3,126,349</u>	<u>\$ (2,347,593)</u>
Amounts of unrestricted net assets expected to be recognized in net periodic benefit cost in 2015		
Amortization of loss	\$ 501,011	

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

	2014	2013
Weighted-average assumptions as of December 31 used for obligation		
Discount rate	4.00 %	5.00 %
Expected return on plan assets	0.00 %	7.50 %
Rate of compensation increase	0.00 %	3.00 %
Weighted-average assumptions as of December 31 used for net periodic benefit cost		
Discount rate	4.00 %	5.00 %
Expected return on plan assets	7.50 %	7.50 %
Rate of compensation increase	3.00 %	3.00 %

The accumulated benefit obligation at December 31, 2014 and 2013 was \$12,748,523 and \$10,293,237, 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.

As a result of the decision to terminate the Plan, all investments were liquidated and all plan assets are being held in cash or cash equivalents as of December 31, 2014.

The Company's defined benefit plan weighted average asset allocation at December 31, 2014 and 2013 by asset category is as follows:

	Allocation Percentage	
	2014	2013
Equity securities	0.0%	70.6%
Debt securities	0.0%	28.0%
Cash	100.0%	1.4%
	<u>100.0%</u>	<u>100.0%</u>

Expected employer contribution for the year ended December 31, 2015 is \$460,000.

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

2015	\$ 98,139
2016	13,686,738
Thereafter	-

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

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 2014 and 2013 was 8% of base compensation and totaled \$239,139 for 2014 and \$189,215 for 2013. Company contributions to the 401(k) plan were \$201,834 and \$185,546 for 2014 and 2013, 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 \$29,300 and \$26,500 to this supplemental plan for 2014 and 2013, respectively. During 2013, the Company adopted a 457(f) plan for the President and CEO to provide benefits not provided under the Pension Plan as a result of the IRS code limitations. The Company contributed \$30,000 to this plan for each of the years 2014 and 2013.

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 various computer and equipment leases with expiration dates through 2017. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$747,440 and \$775,320 for 2014 and 2013, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2014 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31			
2015	\$ 672,392	\$ 103,332	\$ 775,724
2016	672,392	34,838	707,230
2017	672,392	14,696	687,088
2018	672,392	-	672,392
2019	704,392	-	704,392
Thereafter	3,121,699	-	3,121,699
	<u>\$ 6,515,659</u>	<u>\$ 152,866</u>	<u>\$ 6,668,525</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

8. Functional Expenses

During 2014 and 2013 salaries and employee benefits consist of the following:

	2014	2013
President, COO and technical staff	\$ 5,943,449	\$ 5,510,411
Administrative support	183,120	175,493
Payroll taxes, insurance, pension and educational assistance	<u>2,459,542</u>	<u>2,680,048</u>
Total salaries and employee benefits	<u>\$ 8,586,111</u>	<u>\$ 8,365,952</u>

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$3,171,769 and \$2,970,235 in 2014 and 2013, respectively, and consist of the following:

	2014	2013
Consultants	\$ 1,805,738	\$ 1,734,733
Accounting, legal and other services	1,313,535	1,197,113
Pension administration	<u>52,496</u>	<u>38,389</u>
Total administrative, consultant and professional fees	<u>\$ 3,171,769</u>	<u>\$ 2,970,235</u>

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

10. Related Party Transactions

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

NPCC's criteria services division was fully funded by regional independent system operator or balancing authority areas and operated on assessments to and funded from these six entities. Dues were based upon a "Net Energy for Load" funding formula. During 2014 and 2013, total assessments billed amounted to \$989,709 and \$1,139,688, respectively.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Description	2014		2013	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	28.82 %	\$ 285,198	28.56 %	\$ 325,481
Independent Electricity System Operator	22.03 %	218,018	21.94 %	250,013
ISO-New England, Inc.	19.97 %	197,640	20.65 %	235,313
New Brunswick System Operator	2.17 %	21,458	2.12 %	24,185
New York Independent System Operator	25.39 %	251,279	24.91 %	283,927
Nova Scotia Power Inc.	1.62 %	16,116	1.82 %	20,769
Total assessments	100.00 %	\$ 989,709	100.00 %	\$ 1,139,688

11. Line of Credit

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

12. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through March 27, 2015, the date the financial statements were available to be issued.

ATTACHMENT 5

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

RELIABILITYFIRST CORPORATION



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

May 11, 2015

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

Re: ReliabilityFirst's 2014 Actual Cost-To-Budget Comparison

Dear Mr. Michael Walker:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year audited 2014 Actual Cost-To-Budget Comparison. A summary of significant variances are explained in the Introduction Section, while more detailed explanations of variances are provided by program area.

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.

For more information, please contact me at 216.503.0600 or jill.lewton@rfirst.org.

Very truly yours,

RELIABILITYFIRST CORPORATION

Jill S. Lewton

Jill S. Lewton
Controller

Introduction

This Actual Cost-To-Budget Comparison includes a summary of significant variances, followed by more detailed analyses by program areas. In 2014, ReliabilityFirst performed only statutory activities, and therefore all funding and expenses shown are for those functions delegated to ReliabilityFirst by the ERO. The financial information included in this comparison is based on the results of ReliabilityFirst's 2014 independent audit that was performed by McGladrey LLP and completed on April 30, 2015.

For the year ending December 31, 2014, ReliabilityFirst Corporation was \$1,599K (9%) over budget. This variance included \$1,692K of office costs, office relocation, computer hardware & software, furniture & fixtures, and leasehold improvement expenses associated with the March 2014 office and data center relocation, which were not included in the 2014 budget. Without these expenses, the year ending variance was \$93K (.51%) under budget.

Funding

The variance in Investment Income was due to the unrealized change in the value of the company's investment portfolio. This variance is reflected in each direct program as a result of it being allocated proportionately based on FTE count to the direct programs.

The variance in Miscellaneous Income was due to the corporate credit card points that were redeemed for cash and used to help offset the office relocation expenses. This variance is reflected in each direct program as a result of it being allocated proportionately based on FTE count to the direct programs.

Budget Expenses

Personnel Expenses

Salaries, Benefits, and Retirement Costs were under budget due to personnel variances below the approved staffing levels.

Payroll Taxes was over budget due to a prior year tax rate adjustment and additional tax payments that occurred at the end of the year.

Meeting Expenses

Meeting expenses were over budget due to a higher than expected attendance and associated costs experienced at the Compliance and CIP V5 Workshops.

Operating Expenses

Consultants & Contracts was under budget as a result of more effective utilization of staff resources, therefore there was less need to utilize contractors for compliance work.

Office Rent was over budget due to the straight line rent for the new office lease which was not included in the budget.

Professional Services was over budget due to the fees associated with the search for a new independent director.

Depreciation expense directly correlates to current fixed asset activities. Therefore, as a result of the fixed assets purchased for the office move more depreciation was being calculated than budgeted.

Non-Operating Expenses

The variance in Non-Operating Expenses was due to the expenses incurred to physically move the office, along with the losses recorded for the fixed assets that were written off or disposed of as a result of the office move.

Fixed Assets

Computer Hardware & Software was over budget as a result of the hardware and software purchases made for the new office.

The variance in Furniture & Fixtures was a result of the purchase of office furniture for staff offices, conference rooms, and common areas for the new office.

The variance in Leasehold Improvements was a result of the improvements made to the new office.

ReliabilityFirst Corporation's 2014 Actual Cost-To-Budget Comparison

Statement of Activities, Fixed Assets and Change in Working Capital January 1, 2014 - December 31, 2014 ReliabilityFirst Corporation				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 15,159,784	\$ 15,159,784	\$ 0	0.00%
Penalty Sanctions	1,358,133	1,358,133	0	0.00%
Total ReliabilityFirst Funding	\$ 16,517,917	\$ 16,517,917	\$ 0	0.00%
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	45,242	-	45,242	0.00%
Miscellaneous	43,600	-	43,600	0.00%
Total Funding	\$ 16,606,759	\$ 16,517,917	\$ 88,842	0.54%
Expenses				
Personnel Expenses				
Salaries	\$ 10,472,419	\$ 10,674,551	\$ (202,132)	-1.89%
Payroll Taxes	659,647	646,319	13,328	2.06%
Benefits	1,337,200	1,405,661	(68,461)	-4.87%
Retirement Costs	1,580,279	1,659,567	(79,288)	-4.78%
Total Personnel Expenses	\$ 14,049,545	\$ 14,386,098	\$ (336,553)	-2.34%
Meeting Expenses				
Meetings	\$ 190,975	\$ 149,980	\$ 40,995	27.33%
Travel	726,748	788,600	(61,852)	-7.84%
Conference Calls	43,927	38,400	5,527	14.39%
Total Meeting Expenses	\$ 961,650	\$ 976,980	\$ (15,330)	-1.57%
Operating Expenses				
Consultants & Contracts	\$ 405,260	\$ 627,597	\$ (222,337)	-35.43%
Office Rent	752,182	504,952	247,230	48.96%
Office Costs	1,047,255	981,284	65,971	6.72%
Professional Services	562,388	460,732	101,656	22.06%
Miscellaneous	39,749	34,555	5,194	15.03%
Depreciation	425,232	319,433	105,799	33.12%
Total Operating Expenses	\$ 3,232,066	\$ 2,928,553	\$ 303,513	10.36%
Total Direct Expenses	\$ 18,243,261	\$ 18,291,631	\$ (48,370)	-0.26%
Indirect Expenses	\$ (0)	\$ 1	\$ (1)	-100.00%
Non-Operating Expenses	198,399	-	198,399	0.00%
Total Expenses	\$ 18,441,660	\$ 18,291,632	\$ 150,028	0.82%
Change in Assets	\$ (1,834,901)	\$ (1,773,716)	\$ (61,185)	3.45%
Fixed Assets				
Depreciation	\$ (425,232)	\$ (319,433)	\$ (105,799)	33.12%
Computer Hardware & Software CapEx	185,178	91,000	94,178	103.49%
Furniture & Fixtures CapEx	123,701	-	123,701	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	1,337,374	-	1,337,374	0.00%
	\$ 1,221,021	\$ (228,433)	\$ 1,449,454	-634.52%
Allocation of Fixed Assets	0	-	0	0.00%
Inc/(Dec) in Fixed Assets	\$ 1,221,021	\$ (228,433)	\$ 1,449,454	-634.52%
Total Budget	\$ 19,662,681	\$ 18,063,199	\$ 1,599,482	8.85%
Total Change in Working Capital	\$ (3,055,922)	\$ (1,545,283)	\$ (1,510,639)	97.76%
WC - 12/31/2013	1,167,190	1,545,283	(378,093)	
Change in reserves from current year operations	(3,055,922)	(1,545,283)	(1,510,639)	
Other Adjustments to Reserves	1,474,752	0	1,474,752	
	(413,980)	0	(413,981)	
Operating Reserve	1,000,000	1,000,000	-	
Total Working Capital and Operating Reserve	586,020	1,000,000	(413,981)	
FTEs	69.23	72.00	(2.77)	-3.85%

Cost Allocation

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

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

Cash Reserves

ReliabilityFirst's Operating Reserve of \$1,000,000 was utilized in 2014 in the amount of \$414K. An inaccuracy occurred during the 2014 assessment calculation that resulted in the assessment being lower than what was necessary. Therefore, ReliabilityFirst had to draw from the operating reserve to fund the day to day operations.

Major Accomplishments

All statutory objectives were satisfied, including these major accomplishments:

- Developed and trained stakeholders in the Internal Controls Evaluation (ICE) and Inherit Risk Assessment (IRA) guides – Reliability Assurance Initiative (RAI)
- Completed 79 audits monitoring CIP, Operations, and Planning Standards
- Performed assist visits at 19 Entities focusing on CIP Version 5 implementation, along with creating and implementing robust mitigation plans, and discussing registered function compliance responsibilities
- Performed three organization certifications
 - Changing a BA footprint into two BA footprints
 - Integration of transmission facilities into an entity's RC footprint
 - BA and TOP certification for a registered entity's newly built control center
- Conducted two Reliability Workshops including over 400 people focusing on RAI topics and guidance on transitioning from the CIP V3 to CIP V5, along with monthly outreach calls averaging 80 people per call

- Reviewed and accepted 124 mitigation plans and verified the completion of approximately 176 mitigation plans
- Worked with Registered Entities on 38 event analysis reports and published four Lessons Learned arising from event analysis reports in the region
- Registered 15 new entities and determined that 17 Entities no longer met the criteria for certain functions and facilitated their removal from Registry
- Processed self-certifications covering 55 Standards, receiving 4,663 self-certifications covering 12,342 Standard Requirements from 342 entities
- Posted 20 periodic data submittals covering 20 Standards and received data from 233 entities
- Performed analysis to determine cause of high misoperation rate including those from events and provided power line carrier misoperation training to the Protection Subcommittee
- Led a successful pilot of the self-logging program with a large entity and the TRE and SPP regions which significantly shaped the current ERO-wide self-logging program
- Identified and established action plans for corporate risks

Reliability Standards Program

Statement of Activities, Fixed Assets and Change in Working Capital January 1, 2014 - December 31, 2014				
Reliability Standards				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ 182,202	\$ 182,202	\$ 0	0.00%
Penalty Sanctions	11,872	11,872	0	0.00%
Total ReliabilityFirst Funding	\$ 194,074	\$ 194,074	\$ 0	0.00%
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	106	-	106	0.00%
Miscellaneous	102	-	102	0.00%
Total Funding	\$ 194,282	\$ 194,074	\$ 209	0.11%
Expenses				
Personnel Expenses				
Salaries	\$ 8,854	\$ 102,707	\$ (93,853)	-91.38%
Payroll Taxes	1,876	5,794	(3,918)	-67.62%
Benefits	2,688	11,195	(8,507)	-75.99%
Retirement Costs	4,856	14,462	(9,606)	-66.42%
Total Personnel Expenses	\$ 18,274	\$ 134,158	\$ (115,884)	-86.38%
Meeting Expenses				
Meetings	\$ -	\$ -	\$ -	0.00%
Travel	2,114	12,000	(9,886)	-82.38%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	\$ 2,114	\$ 12,000	\$ (9,886)	-82.38%
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	0.00%
Office Rent	-	-	-	0.00%
Office Costs	575	2,513	(1,938)	-77.12%
Professional Services	-	-	-	0.00%
Miscellaneous	180	-	180	0.00%
Depreciation	-	-	-	0.00%
Total Operating Expenses	\$ 755	\$ 2,513	\$ (1,758)	-69.96%
Total Direct Expenses	\$ 21,143	\$ 148,671	\$ (127,528)	-85.78%
Indirect Expenses	\$ 14,461	\$ 46,452	\$ (31,991)	-68.87%
Non-Operating Expenses	\$ -	\$ -	\$ -	0.00%
Total Expenses	\$ 35,604	\$ 195,123	\$ (159,520)	-81.75%
Change in Assets	\$ 158,679	\$ (1,050)	\$ 159,728	-15218.31%
Fixed Assets				
Depreciation	\$ -	\$ -	\$ -	0.00%
Computer Hardware & Software CapEx	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
Total Fixed Assets	\$ -	\$ -	\$ -	0.00%
Allocation of Fixed Assets	\$ (3,097)	\$ (1,050)	\$ (2,047)	194.95%
Inc/(Dec) in Fixed Assets	\$ (3,097)	\$ (1,050)	\$ (2,047)	194.95%
Total Budget	\$ 32,507	\$ 194,073	\$ (161,567)	-83.25%
Total Change in Working Capital	\$ 161,776	\$ 0	\$ 161,775	38414768.51%
FTEs	0.13	0.50	(0.37)	-74.00%

Explanation of Variances - Reliability Standards Program

The expenses in the Reliability Standards Program were under budget due to the reallocation of staff to the Reliability Assurance and Compliance Monitoring Program to support the reorganization that was necessary to advance the Reliability Assurance initiatives.

Compliance Monitoring and Enforcement, and Organization Registration and Certification

Statement of Activities, Fixed Assets and Change in Working Capital January 1, 2014 - December 31, 2014 Compliance Monitoring and Enforcement, and Organization Registration and Certification				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ 12,563,972	\$ 12,563,972	\$ -	0.00%
Penalty Sanctions	1,020,974	1,020,974	-	0.00%
Total ReliabilityFirst Funding	\$ 13,584,946	\$ 13,584,946	\$ -	0.00%
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	35,832	-	35,832	0.00%
Miscellaneous	34,531	-	34,531	0.00%
Total Funding	\$ 13,655,309	\$ 13,584,946	\$ 70,363	0.52%
Expenses				
Personnel Expenses				
Salaries	\$ 6,341,716	\$ 6,071,377	\$ 270,339	4.45%
Payroll Taxes	409,083	380,483	28,600	7.52%
Benefits	848,821	869,013	(20,192)	-2.32%
Retirement Costs	896,015	950,486	(54,471)	-5.73%
Total Personnel Expenses	\$ 8,495,635	\$ 8,271,359	\$ 224,276	2.71%
Meeting Expenses				
Meetings	\$ 14,402	\$ 10,730	\$ 3,672	34.22%
Travel	484,269	533,000	(48,731)	-9.14%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	\$ 498,671	\$ 543,730	\$ (45,059)	-8.29%
Operating Expenses				
Consultants & Contracts	\$ 160,801	\$ 454,000	\$ (293,199)	-64.58%
Office Rent	-	-	-	0.00%
Office Costs	274,668	381,527	(106,859)	-28.01%
Professional Services	-	15,000	(15,000)	-100.00%
Miscellaneous	505	2,721	(2,216)	-81.44%
Depreciation	118,617	119,909	(1,292)	-1.08%
Total Operating Expenses	\$ 554,591	\$ 973,157	\$ (418,566)	-43.01%
Total Direct Expenses	\$ 9,548,897	\$ 9,788,246	\$ (239,349)	-2.45%
Indirect Expenses	\$ 4,887,672	\$ 3,994,892	\$ 892,780	22.35%
Non-Operating Expenses	\$ -	\$ -	\$ -	0.00%
Total Expenses	\$ 14,436,569	\$ 13,783,138	\$ 653,431	4.74%
Change in Assets	\$ (781,260)	\$ (198,192)	\$ (583,068)	294.19%
Fixed Assets				
Depreciation	(118,617)	(119,909)	1,292	-1.08%
Computer Hardware & Softwar	13,608	12,000	1,608	13.40%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
	(105,009)	(107,909)	2,900	-2.69%
Allocation of Fixed Assets	\$ (1,046,791)	\$ (90,284)	\$ (956,507)	1059.44%
Inc/(Dec) in Fixed Assets	\$ (1,151,800)	\$ (198,193)	\$ (953,607)	481.15%
Total Budget	\$ 13,284,768	\$ 13,584,945	\$ (300,177)	-2.21%
Total Change in Working Capital	\$ 370,540	\$ 1	\$ 370,539	37053936.11%
FTEs	43.94	43.00	0.94	2.19%

Explanation of Variances - Compliance Monitoring and Enforcement, and Organization Registration and Certification

Personnel Expenses

Salaries and Payroll Taxes were over budget due to the reallocation of staff to support the reorganization that was necessary to advance the Reliability Assurance initiatives.

Benefits was under budget due to medical benefits being less than budgeted.

Retirement Costs was under budget due to the year end adjustment that was made to reduce the discretionary contribution amount for those employees who did not meet the plan requirements.

Operating Expenses

Consultants and Contracts expenses were under budget as a result of more effective utilization of staff resources, therefore there was less need to utilize contractors for compliance work.

Office Costs was under budget as a result of changing the company wireless plan to a data share plan, along with having less change orders for the compliance portal and lower maintenance fees for the audit management software.

Professional Services was under budget due to the non-renewal of a retainer agreement for a hearing officer.

Indirect Expenses

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 variance was due to higher administrative expenditures being allocated.

Allocation of Fixed Assets

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

Reliability Assessment and Performance Analysis Program

Statement of Activities, Fixed Assets and Change in Working Capital January 1, 2014 - December 31, 2014				
Reliability Assessment and Performance Analysis				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 2,883,895	\$ 2,883,895	\$ -	0.00%
Penalty Sanctions	237,436	237,436	-	0.00%
Total ReliabilityFirst Funding	\$ 3,121,331	\$ 3,121,331	\$ -	0.00%
Membership Dues			\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	6,352	-	6,352	0.00%
Miscellaneous	6,122	-	6,122	0.00%
Total Funding	\$ 3,133,805	\$ 3,121,331	\$ 12,474	0.40%
Expenses				
Personnel Expenses				
Salaries	\$ 1,208,251	\$ 1,495,659	\$ (287,408)	-19.22%
Payroll Taxes	79,143	90,649	(11,506)	-12.69%
Benefits	121,429	150,700	(29,271)	-19.42%
Retirement Costs	196,167	236,514	(40,347)	-17.06%
Total Personnel Expenses	\$ 1,604,990	\$ 1,973,522	\$ (368,532)	-18.67%
Meeting Expenses				
Meetings	\$ 12,487	\$ 22,000	\$ (9,513)	-43.24%
Travel	89,620	85,500	4,120	4.82%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	\$ 102,107	\$ 107,500	\$ (5,393)	-5.02%
Operating Expenses				
Consultants & Contracts	\$ 80,766	\$ 77,097	\$ 3,669	4.76%
Office Rent	-	-	-	0.00%
Office Costs	59,765	54,963	4,802	8.74%
Professional Services	-	-	-	0.00%
Miscellaneous	-	200	(200)	-100.00%
Depreciation	-	-	-	0.00%
Total Operating Expenses	\$ 140,531	\$ 132,260	\$ 8,271	6.25%
Total Direct Expenses	\$ 1,847,628	\$ 2,213,282	\$ (365,654)	-16.52%
Indirect Expenses	\$ 866,522	\$ 929,045	\$ (62,523)	-6.73%
Non-Operating Expenses	\$ -	\$ -	\$ -	0.00%
Total Expenses	\$ 2,714,150	\$ 3,142,327	\$ (428,177)	-13.63%
Change in Assets	\$ 419,656	\$ (20,996)	\$ 440,652	-2098.74%
Fixed Assets				
Depreciation	-	-	-	0.00%
Computer Hardware & Software	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
Allocation of Fixed Assets	\$ (185,583)	\$ (20,996)	\$ (164,587)	783.90%
Inc/(Dec) in Fixed Assets	\$ (185,583)	\$ (20,996)	\$ (164,587)	783.90%
Total Budget	\$ 2,528,567	\$ 3,121,331	\$ (592,764)	-18.99%
Total Change in Working Capital	\$ 605,238	\$ -	\$ 605,238	0.00%
FTEs	7.79	10.00	(2.21)	-22.10%

Explanation of Variances - Reliability Assessment and Performance Analysis Program

Personnel Expenses

Personnel expenses were under budget due to the reallocation of staff to support the reorganization that was necessary to advance the Reliability Assurance initiatives.

Allocation of Fixed Assets

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

Training, Education and Operator Certification Program

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2014 - December 31, 2014				
Training, Education, and Operator Certification Program				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ 842,748	\$ 842,748	\$ -	0.00%
Penalty Sanctions	73,605	73,605	-	0.00%
Total ReliabilityFirst Funding	\$ 916,353	\$ 916,353	\$ -	0.00%
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	2,463	-	2,463	0.00%
Miscellaneous	2,373	-	2,373	0.00%
Total Funding	\$ 921,189	\$ 916,353	\$ 4,836	0.53%
Expenses				
Personnel Expenses				
Salaries	\$ 419,181	\$ 428,516	\$ (9,335)	-2.18%
Payroll Taxes	29,786	28,687	1,099	3.83%
Benefits	56,625	53,484	3,141	5.87%
Retirement Costs	66,761	67,571	(810)	-1.20%
Total Personnel Expenses	\$ 572,353	\$ 578,258	\$ (5,905)	-1.02%
Meeting Expenses				
Meetings	\$ 83,110	\$ 45,000	\$ 38,110	84.69%
Travel	6,791	11,600	(4,809)	-41.46%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	\$ 89,901	\$ 56,600	\$ 33,301	58.84%
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	0.00%
Office Rent	-	-	-	0.00%
Office Costs	15	-	15	0.00%
Professional Services	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
Depreciation	-	-	-	0.00%
Total Operating Expenses	\$ 15	\$ -	\$ 15	0.00%
Total Direct Expenses	\$ 662,269	\$ 634,858	\$ 27,411	4.32%
Indirect Expenses	\$ 335,930	\$ 288,004	\$ 47,926	16.64%
Non-Operating Expenses	\$ -	\$ -	\$ -	0.00%
Total Expenses	\$ 998,199	\$ 922,862	\$ 75,337	8.16%
Change in Assets	\$ (77,010)	\$ (6,509)	\$ (70,501)	1083.13%
Fixed Assets				
Depreciation	-	-	-	0.00%
Computer Hardware & Softwar	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
Allocation of Fixed Assets	\$ (71,946)	\$ (6,509)	\$ (65,437)	1005.33%
Inc/(Dec) in Fixed Assets	\$ (71,946)	\$ (6,509)	\$ (65,437)	1005.33%
Total Budget	\$ 926,253	\$ 916,353	\$ 9,900	1.08%
Total Change in Working Capital	\$ (5,064)	\$ -	\$ (5,064)	0.00%
FTEs	3.02	3.10	(0.08)	-2.58%

Explanation of Variances - Training, Education and Operator Certification Program

Personnel Expenses

Salaries was under budget due to a yearend banked vacation adjustment.

Payroll Taxes was over budget due to a prior year tax rate adjustment and additional tax payments that occurred at the end of the year.

Benefits was over budget due to several workers compensation adjustments.

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

Meeting Expenses

Meetings was over budget due to a higher than expected attendance and associated costs experienced at the Compliance and CIP V5 Workshops.

Indirect Expenses

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 variance was due to higher administrative expenditures being allocated.

Allocation of Fixed Assets

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

Situation Awareness and Infrastructure Security Program

Statement of Activities, Fixed Assets and Change in Working Capital January 1, 2014 - December 31, 2014				
Situation Awareness and Infrastructure Security				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 232,251	\$ 232,251	\$ -	0.00%
Penalty Sanctions	14,246	14,246	-	0.00%
Total ReliabilityFirst Funding	\$ 246,497	\$ 246,497	\$ -	0.00%
Membership Dues	-	-	-	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	489	-	489	0.00%
Miscellaneous	472	-	472	0.00%
Total Funding	\$ 247,458	\$ 246,497	\$ 961	0.39%
Expenses				
Personnel Expenses				
Salaries	\$ 111,642	\$ 123,160	\$ (11,518)	-9.35%
Payroll Taxes	6,697	6,112	585	9.57%
Benefits	10,766	7,265	3,501	48.19%
Retirement Costs	18,791	19,593	(802)	-4.09%
Total Personnel Expenses	\$ 147,896	\$ 156,130	\$ (8,234)	-5.27%
Meeting Expenses				
Meetings	\$ 4,823	\$ 7,000	\$ (2,177)	-31.10%
Travel	26,087	25,000	1,087	4.35%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	\$ 30,910	\$ 32,000	\$ (1,090)	-3.41%
Operating Expenses				
Consultants & Contracts	\$ 5,000	\$ -	\$ 5,000	0.00%
Office Rent	-	-	-	0.00%
Office Costs	6,019	3,036	2,983	98.25%
Professional Services	-	-	-	0.00%
Miscellaneous	67	848	(781)	-92.10%
Depreciation	506	425	81	19.06%
Total Operating Expenses	\$ 11,592	\$ 4,309	\$ 7,283	169.02%
Total Direct Expenses	\$ 190,398	\$ 192,439	\$ (2,041)	-1.06%
Indirect Expenses	\$ 66,741	\$ 55,743	\$ 10,998	19.73%
Non-Operating Expenses	\$ -	\$ -	\$ -	0.00%
Total Expenses	\$ 257,139	\$ 248,182	\$ 8,957	3.61%
Change in Assets	\$ (9,681)	\$ (1,685)	\$ (7,996)	474.56%
Fixed Assets				
Depreciation	(506)	(425)	(81)	19.06%
Computer Hardware & Software	4,825	-	4,825	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
	4,319	(425)	4,744	-1116.24%
Allocation of Fixed Assets	\$ (14,294)	\$ (1,260)	\$ (13,034)	1034.44%
Inc/(Dec) in Fixed Assets	\$ (9,975)	\$ (1,685)	\$ (8,290)	491.98%
Total Budget	\$ 247,164	\$ 246,497	\$ 667	0.27%
Total Change in Working Capital	\$ 294	\$ -	\$ 294	0.00%
FTEs	0.60	0.60	0.00	0.00%

Explanation of Variances - Situation Awareness and Infrastructure Security Program

Personnel Expenses

Salaries and Retirement Costs were under budget due to the various resource reallocations that occurred during the first quarter of the year.

Payroll Taxes was over budget due to a prior year tax rate adjustment and additional tax payments that occurred at the end of the year.

Benefits was over budget due to additional employee training that was taken along with changes in an employee's medical plan.

Operating Expenses

The variance in Consultants and Contracts was a result of executive coaching services that were not budgeted.

Fixed Assets

The variance in Computer Hardware was due to the purchase of hardware for the Situational Awareness room.

Indirect Expenses

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 variance was due to higher administrative expenditures being allocated.

Allocation of Fixed Assets

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

General and Administrative Program

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2014 - December 31, 2014				
General and Administrative				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ (1,545,284)	\$ (1,545,284)	\$ -	0.00%
Penalty Sanctions	-	-	-	0.00%
Total ReliabilityFirst Funding	\$ (1,545,284)	\$ (1,545,284)	\$ -	0.00%
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
Total Funding	\$ (1,545,284)	\$ (1,545,284)	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	\$ 1,118,071	\$ 1,134,062	\$ (15,991)	-1.41%
Payroll Taxes	48,857	46,893	1,964	4.19%
Benefits	66,377	68,963	(2,586)	-3.75%
Retirement Costs	152,848	155,262	(2,414)	-1.55%
Total Personnel Expenses	\$ 1,386,153	\$ 1,405,180	\$ (19,027)	-1.35%
Meeting Expenses				
Meetings	\$ 64,513	\$ 47,500	\$ 17,013	35.82%
Travel	50,311	57,500	(7,189)	-12.50%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	\$ 114,824	\$ 105,000	\$ 9,824	9.36%
Operating Expenses				
Consultants & Contracts	\$ 53,608	\$ 59,500	\$ (5,892)	-9.90%
Office Rent	699,024	404,952	294,072	72.62%
Office Costs	142,365	71,057	71,308	100.35%
Professional Services	427,060	302,400	124,660	41.22%
Miscellaneous	15,304	11,876	3,428	28.86%
Depreciation	160,927	41,920	119,007	283.89%
Total Operating Expenses	\$ 1,498,288	\$ 891,705	\$ 606,583	68.03%
Total Direct Expenses	\$ 2,999,265	\$ 2,401,885	\$ 597,380	24.87%
Indirect Expenses	\$ (3,127,218)	\$ (2,401,885)	\$ (725,333)	30.20%
Non-Operating Expenses	\$ 127,953	\$ -	\$ 127,953	0.00%
Total Expenses	\$ -	\$ -	\$ -	0.00%
Change in Assets	\$ (1,545,284)	\$ (1,545,284)	\$ -	0.00%
Fixed Assets				
Depreciation	(160,927)	(41,920)	(119,007)	283.89%
Computer Hardware & Software	-	-	-	0.00%
Furniture & Fixtures CapEx	123,701	-	123,701	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	1,099,493	-	1,099,493	0.00%
	1,062,267	(41,920)	1,104,187	-2634.03%
Allocation of Fixed Assets	\$ 1,062,267	\$ 41,920	\$ 1,020,347	2434.03%
Inc/(Dec) in Fixed Assets	\$ 2,124,533	\$ -	\$ 2,124,533	0.00%
Total Budget	\$ 2,124,533	\$ -	\$ 2,124,533	0.00%
Total Change in Working Capital	\$ (3,669,817)	\$ (1,545,284)	\$ (2,124,533)	137.48%
FTEs	3.32	3.30	0.02	0.61%

Explanation of Variances - General and Administrative Program

Funding Source

The ERO Assessment amount was additional funds from the prior year used to reduce the overall 2014 assessment.

Personnel Expenses

Payroll Taxes was over budget due to a prior year tax rate adjustment and additional tax payments that occurred at the end of the year.

Meeting Expenses

Meetings was over budget primarily due to the board meeting costs being higher than expected.

Operating Expense

Office Rent was over budget due to the straight line rent that was being recorded for the new office lease that was not included in the budget.

Office Costs was over budget as a result of the purchase of office furniture for staff offices, conference rooms, and common areas for the new office.

Professional Services was over budget due to the fees associated with the search for a new independent director.

Depreciation expense directly correlates to fixed asset activities. Therefore, as a result of the fixed assets purchased for the office move more depreciation was being calculated than budgeted.

Indirect Expenses

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 variance was due to higher General and Administrative expenditures being allocated.

Non-Operating Expenses

The variance in Non-Operating expenses was due to the expenses incurred to physically move the office, along with the losses recorded for the leasehold improvements from the old office that were written off.

Fixed Assets

The variance in Furniture & Fixtures was a result of the purchase of office furniture for staff offices, conference rooms, and common areas for the new office.

The variance in Leasehold Improvements was a result of the improvements made to the new office.

Legal and Regulatory Affairs Program

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2014 - December 31, 2014				
Legal and Regulatory Affairs				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ -	\$ -	\$ -	0.00%
Penalty Sanctions	-	-	-	0.00%
Total ReliabilityFirst Funding	\$ -	\$ -	\$ -	0.00%
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
Total Funding	\$ -	\$ -	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	\$ 465,904	\$ 399,449	\$ 66,455	16.64%
Payroll Taxes	22,426	20,114	2,312	11.49%
Benefits	31,179	28,452	2,727	9.58%
Retirement Costs	67,287	62,462	4,825	7.72%
Total Personnel Expenses	\$ 586,796	\$ 510,477	\$ 76,319	14.95%
Meeting Expenses				
Meetings	\$ 167	\$ -	\$ 167	0.00%
Travel	44,992	38,000	6,992	18.40%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	\$ 45,159	\$ 38,000	\$ 7,159	18.84%
Operating Expenses				
Consultants & Contracts	\$ 5,000	\$ 5,000	\$ -	0.00%
Office Rent	-	-	-	0.00%
Office Costs	16,253	15,655	598	3.82%
Professional Services	48,801	65,000	(16,199)	-24.92%
Miscellaneous	-	-	-	0.00%
Depreciation	-	-	-	0.00%
Total Operating Expenses	\$ 70,054	\$ 85,655	\$ (15,601)	-18.21%
Total Direct Expenses	\$ 702,009	\$ 634,132	\$ 67,877	10.70%
Indirect Expenses	\$ (702,009)	\$ (634,132)	\$ (67,877)	10.70%
Non-Operating Expenses	\$ -	\$ -	\$ -	0.00%
Total Expenses	\$ -	\$ -	\$ -	0.00%
Change in Assets	\$ -	\$ -	\$ -	0.00%
Fixed Assets				
Depreciation	-	-	-	0.00%
Computer Hardware & Software	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
Allocation of Fixed Assets	\$ -	\$ -	\$ -	0.00%
Inc/(Dec) in Fixed Assets	\$ -	\$ -	\$ -	0.00%
Total Budget	\$ -	\$ -	\$ -	0.00%
Total Change in Working Capital	\$ -	\$ -	\$ -	0.00%
FTEs	2.00	2.00	0.00	0.00%

Explanation of Variances - Legal and Regulatory Affairs Program

Personnel Expenses

Salaries was over budget due to the additional compensation required to retain experienced and qualified staff.

Operating Expense

Professional Services was under budget due to performing more legal work in house.

Indirect Expenses

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 variance was due to higher Legal and Regulatory Affairs expenditures being allocated.

Information Technology Program

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2014 - December 31, 2014				
Information Technology				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ -	\$ -	\$ -	0.00%
Penalty Sanctions	-	-	-	0.00%
Total ReliabilityFirst Funding	\$ -	\$ -	\$ -	0.00%
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
Total Funding	\$ -	\$ -	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	\$ 394,124	\$ 541,390	\$ (147,266)	-27.20%
Payroll Taxes	29,910	38,462	(8,552)	-22.23%
Benefits	68,545	89,227	(20,682)	-23.18%
Retirement Costs	63,029	86,074	(23,045)	-26.77%
Total Personnel Expenses	\$ 555,608	\$ 755,153	\$ (199,545)	-26.42%
Meeting Expenses				
Meetings	\$ 805	\$ 720	\$ 85	11.81%
Travel	12,414	11,000	1,414	12.85%
Conference Calls	43,927	38,400	5,527	14.39%
Total Meeting Expenses	\$ 57,146	\$ 50,120	\$ (7,026)	-14.02%
Operating Expenses				
Consultants & Contracts	\$ 4,884	\$ 22,000	\$ (17,116)	-77.80%
Office Rent	53,158	100,000	(46,842)	-46.84%
Office Costs	534,479	432,002	102,477	23.72%
Professional Services	-	-	-	0.00%
Miscellaneous	2,546	-	2,546	0.00%
Depreciation	142,586	154,583	(11,997)	-7.76%
Total Operating Expenses	\$ 737,653	\$ 708,585	\$ 29,068	4.10%
Total Direct Expenses	\$ 1,350,407	\$ 1,513,858	\$ (177,503)	-11.73%
Indirect Expenses	\$ (1,420,853)	\$ (1,513,858)	\$ 93,005	-6.14%
Non-Operating Expenses	\$ 70,446	\$ -	\$ 70,446	0.00%
Total Expenses	\$ -	\$ -	\$ (14,052)	0.00%
Change in Assets	\$ -	\$ -	\$ 14,052	0.00%
Fixed Assets				
Depreciation	(142,586)	(154,583)	11,997	-7.76%
Computer Hardware & Software CapEx	166,745	79,000	87,745	111.07%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	237,881	-	237,881	0.00%
	262,040	(75,583)	337,623	-446.69%
Allocation of Fixed Assets	\$ 262,040	\$ 75,583	\$ 186,457	246.69%
Inc/(Dec) in Fixed Assets	\$ 524,081	\$ -	\$ 524,081	0.00%
Total Budget	\$ 524,081	\$ -	\$ 510,029	0.00%
Total Change in Working Capital	\$ (524,081)	\$ -	\$ (510,029)	0.00%
FTEs	3.75	5.00	(1.25)	-25.00%

Explanation of Variances - Information Technology Program

Personnel Expenses

Personnel expenses were under budget due to a vacant position.

Operating Expense

Consultants & Contracts was under budget due to utilizing the tenant improvement allowance received for the office move to implement new software and hardware upgrades for the new office infrastructure, instead of using dollars budgeted for the implementation of anticipated infrastructure upgrades at the former office.

Office Rent was under budget due to the three months of free rent and the lower monthly rate that were negotiated for the offsite data center.

Office Costs was over budget due to the purchase of the new laptops.

Non-Operating Expenses

The variance in Non-Operating expenses was due to the losses recorded for the fixed assets that were disposed of as a result of the office move.

Fixed Assets

Computer Hardware & Software was over budget as a result of the hardware purchases made for the new office.

The variance in Leasehold Improvements was a result of the improvements made to the new office.

Human Resources Program

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2014 - December 31, 2014				
Human Resources				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ -	\$ -	\$ -	0.00%
Penalty Sanctions	-	-	-	0.00%
Total ReliabilityFirst Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 267,288	\$ 250,049	\$ 17,239	6.89%
Payroll Taxes	21,337	18,989	2,348	12.37%
Benefits	112,022	103,512	8,510	8.22%
Retirement Costs	92,527	46,682	45,845	98.21%
Total Personnel Expenses	<u>\$ 493,174</u>	<u>\$ 419,232</u>	<u>\$ 73,942</u>	<u>17.64%</u>
Meeting Expenses				
Meetings	\$ 10,623	\$ 17,030	\$ (6,407)	-37.62%
Travel	6,359	9,000	(2,641)	-29.34%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	<u>\$ 16,982</u>	<u>\$ 26,030</u>	<u>\$ (9,048)</u>	<u>-34.76%</u>
Operating Expenses				
Consultants & Contracts	\$ 95,201	\$ 10,000	\$ 85,201	852.01%
Office Rent	-	-	-	0.00%
Office Costs	8,481	4,428	4,053	91.53%
Professional Services	34,742	34,832	(90)	-0.26%
Miscellaneous	21,147	18,910	2,237	11.83%
Depreciation	799	799	-	0.00%
Total Operating Expenses	<u>\$ 160,370</u>	<u>\$ 68,969</u>	<u>\$ 91,401</u>	<u>132.52%</u>
Total Direct Expenses	<u>\$ 670,526</u>	<u>\$ 514,231</u>	<u>\$ 156,295</u>	<u>30.39%</u>
Indirect Expenses	<u>\$ (670,526)</u>	<u>\$ (514,231)</u>	<u>\$ (156,295)</u>	<u>30.39%</u>
Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Fixed Assets				
Depreciation	(799)	(799)	-	0.00%
Computer Hardware & Software	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
	<u>(799)</u>	<u>(799)</u>	<u>-</u>	<u>0.00%</u>
Allocation of Fixed Assets	\$ (799)	\$ 799	\$ (1,598)	-200.00%
Inc/(Dec) in Fixed Assets	<u>\$ (1,598)</u>	<u>\$ -</u>	<u>\$ (1,598)</u>	<u>0.00%</u>
Total Budget	<u>\$ (1,598)</u>	<u>\$ -</u>	<u>\$ (1,598)</u>	<u>0.00%</u>
Total Change in Working Capital	<u>\$ 1,598</u>	<u>\$ -</u>	<u>\$ 1,598</u>	<u>0.00%</u>
FTEs	<u>3.08</u>	<u>3.00</u>	<u>0.08</u>	<u>2.67%</u>

Explanation of Variances - Human Resources Program

Personnel Expenses

Retirement Costs was over budget due to the administrative fees relating to the management of the company's retirement accounts.

Operating Expenses

Consultants & Contracts was over budget due to recruitment fees, executive coaching services, and services rendered for the 457 plans.

Indirect Expenses

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 variance was due to higher Human Resources expenditures being allocated.

Finance and Accounting Program

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2014 - December 31, 2014				
Finance and Accounting				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ -	\$ -	\$ -	0.00%
Penalty Sanctions	-	-	-	0.00%
Total ReliabilityFirst Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 137,388	\$ 128,182	\$ 9,206	7.18%
Payroll Taxes	10,532	10,136	396	3.91%
Benefits	18,748	23,850	(5,102)	-21.39%
Retirement Costs	21,998	20,461	1,537	7.51%
Total Personnel Expenses	<u>\$ 188,666</u>	<u>\$ 182,629</u>	<u>\$ 6,037</u>	<u>3.31%</u>
Meeting Expenses				
Meetings	\$ 45	\$ -	\$ 45	0.00%
Travel	3,791	6,000	(2,209)	-36.82%
Conference Calls	-	-	-	0.00%
Total Meeting Expenses	<u>\$ 3,836</u>	<u>\$ 6,000</u>	<u>\$ (2,164)</u>	<u>-36.07%</u>
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	0.00%
Office Rent	-	-	-	0.00%
Office Costs	4,635	16,103	(11,468)	-71.22%
Professional Services	51,785	43,500	8,285	19.05%
Miscellaneous	-	-	-	0.00%
Depreciation	1,797	1,797	-	0.00%
Total Operating Expenses	<u>\$ 58,217</u>	<u>\$ 61,400</u>	<u>\$ (3,183)</u>	<u>-5.18%</u>
Total Direct Expenses	<u>\$ 250,719</u>	<u>\$ 250,029</u>	<u>\$ 690</u>	<u>0.28%</u>
Indirect Expenses	<u>\$ (250,719)</u>	<u>\$ (250,029)</u>	<u>\$ (690)</u>	<u>0.28%</u>
Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Fixed Assets				
Depreciation	(1,797)	(1,797)	-	0.00%
Computer Hardware & Software	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
	<u>(1,797)</u>	<u>(1,797)</u>	<u>-</u>	<u>0.00%</u>
Allocation of Fixed Assets	\$ (1,797)	\$ 1,797	\$ (3,594)	-200.00%
Inc/(Dec) in Fixed Assets	<u>\$ (3,594)</u>	<u>\$ -</u>	<u>\$ (3,594)</u>	<u>0.00%</u>
Total Budget	<u>\$ (3,594)</u>	<u>\$ -</u>	<u>\$ (3,594)</u>	<u>0.00%</u>
Total Change in Working Capital	<u>\$ 3,594</u>	<u>\$ -</u>	<u>\$ 3,594</u>	<u>0.00%</u>
FTEs	1.60	1.50	0.10	6.67%

Explanation of Variances - Finance and Accounting Program

Personnel Expenses

Benefits was under budget due to training activities and medical benefits being less than budgeted.

Operating Expenses

Office Costs was under budget due to the delay in implementing an automated expense report system.

ReliabilityFirst Corporation

Financial Report
December 31, 2014

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Independent Auditor's Report

To the Board of Directors
ReliabilityFirst Corporation
Independence, 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, 2014 and 2013, 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 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

McGladrey LLP

Chicago, Illinois
April 30, 2015

ReliabilityFirst Corporation

Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash	\$ 2,177,381	\$ 3,455,309
Investments	3,649,963	3,604,721
Receivables:		
Accounts	204,795	164,055
Lease incentives	-	855,301
Prepaid expenses	113,442	424,736
Total current assets	6,145,581	8,504,122
Fixed Assets		
Furniture and equipment	246,138	132,793
Leasehold improvements	1,888,108	859,549
Computer software and hardware	2,161,404	2,272,671
	4,295,650	3,265,013
Less accumulated depreciation and amortization	1,922,452	1,956,014
	2,373,198	1,308,999
Total assets	\$ 8,518,779	\$ 9,813,121
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 38,494	\$ 591,485
Accrued expenses (current portion)	3,349,416	3,673,974
Notes payable (current portion)	51,795	-
Total current liabilities	3,439,705	4,265,459
Long-Term Liabilities		
Accrued expenses (net of current portion)	174,686	228,348
Notes payable (net of current portion)	86,336	-
Deferred revenue	250,000	-
Deferred rent	2,419,564	855,301
	2,930,586	1,083,649
Net Assets		
Unrestricted:		
Undesignated (deficit)	(214,012)	1,620,880
Designated for reserve fund	1,000,000	1,000,000
Temporarily restricted	1,362,500	1,843,133
Total net assets	2,148,488	4,464,013
Total liabilities and net assets	\$ 8,518,779	\$ 9,813,121

See Notes to Financial Statements.

ReliabilityFirst Corporation

Statements of Activities

Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Revenues:		
Quarterly assessments	\$ 15,159,784	\$ 14,165,848
Investment gain income (loss)	45,242	(66,853)
Penalty sanctions released from restriction	1,358,133	2,979,800
Miscellaneous	43,600	-
	<u>16,606,759</u>	<u>17,078,795</u>
Expenses:		
Program:		
Standards	21,143	133,503
Compliance	8,181,135	8,567,222
Enforcement	1,249,147	-
Assessment	1,847,628	1,954,152
Training and education	662,269	646,201
Situational awareness	189,891	192,074
General and administrative	2,879,768	2,566,017
Legal and regulatory	702,010	592,849
Information technology	1,207,822	1,353,083
Human resources	669,719	632,410
Finance	248,921	308,523
	<u>17,859,453</u>	<u>16,946,034</u>
General:		
Depreciation and amortization	425,230	428,936
Loss (gain) on disposal of fixed assets	154,454	(255)
Interest expense	2,514	-
	<u>582,198</u>	<u>428,681</u>
	<u>18,441,651</u>	<u>17,374,715</u>
Decrease in unrestricted net assets	<u>(1,834,892)</u>	<u>(295,920)</u>
Temporarily Restricted Net Assets		
Penalty sanctions	877,500	860,000
Penalty sanctions released from restriction	<u>(1,358,133)</u>	<u>(2,979,800)</u>
Decrease in temporarily restricted net assets	<u>(480,633)</u>	<u>(2,119,800)</u>
Decrease in total net assets	<u>(2,315,525)</u>	<u>(2,415,720)</u>
Net assets at beginning of year	<u>4,464,013</u>	<u>6,879,733</u>
Net assets at end of year	<u>\$ 2,148,488</u>	<u>\$ 4,464,013</u>

See Notes to Financial Statements.

ReliabilityFirst Corporation

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ (2,315,525)	\$ (2,415,720)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	425,230	428,936
Loss (gain) on disposal of fixed assets	154,454	(255)
Unrealized (gain) loss on investments	(77,947)	141,889
Realized loss on investments	68,073	6,309
Changes in assets and liabilities:		
Accounts receivable	(40,740)	727,579
Lease incentives receivable	855,301	(855,301)
Prepaid expenses	311,294	(221,431)
Accounts payable	(552,991)	503,848
Accrued expenses	(378,220)	130,751
Deferred revenue	250,000	-
Deferred rent	1,564,263	855,301
Net cash provided by (used in) operating activities	263,192	(698,094)
Cash Flows from Investing Activities		
Purchase of investments	(3,689,869)	(81,345)
Sale of investments	3,654,501	1,500,000
Purchases of fixed assets	(1,646,253)	(599,808)
Proceeds from sale of fixed assets	2,370	-
Net cash used in (provided by) investing activities	(1,679,251)	818,847
Cash Flows from Financing Activities		
Borrowing on notes payable	159,110	-
Payments on notes payable	(20,979)	-
Net cash provided by financing activities	138,131	-
Net (decrease) increase in cash	(1,277,928)	120,753
Cash at beginning of year	3,455,309	3,334,556
Cash at end of year	\$ 2,177,381	\$ 3,455,309
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 2,514	\$ -

See Notes to Financial Statements.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

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

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

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

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

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

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

Receivables: Accounts receivable are carried at actual billed amounts relating to penalty sanctions and subcontractor receivables. There was no allowance for doubtful accounts recorded in 2014 or 2013. During 2013, the Corporation recorded a receivable of \$855,301 from its new landlord relating to lease incentives provided to reimburse leasehold improvements and a termination penalty on an existing lease, which related to 2013. This was collected in full during 2014.

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

The Corporation invests in fixed income corporate bonds. 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.

Prepaid expenses: Prepaid expenses consist of expenses paid for in advance that will be recognized within a future operating cycle.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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.

Accrued expenses: Accrued expenses consist primarily of salaries and related payroll expenses incurred in the current fiscal year but not paid until after year end. An amount of \$174,686 has been classified as a long-term liability as it is expected this amount will be paid after December 31, 2015.

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

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

In accordance with the accounting standard on accounting for uncertainty in income taxes, the Corporation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Corporation and various positions related to the potential sources of unrelated business taxable income (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 currently files the form 990 in the U.S. federal jurisdiction. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2011.

Net assets: Of the unrestricted net asset balance, \$1,000,000 has been designated by the Board of Directors for its operating reserve fund at December 31, 2014 and 2013. During 2014, the Corporation's Board of Directors decided to reduce the operating reserve to \$750,000 in 2015.

Temporarily restricted net assets result from the receipt of penalty sanctions which are restricted based on timing conditions as described in the Corporation's revenue recognition policy. Penalty monies are governed by a restriction by NERC as to when the funds can be used. Temporarily restricted net assets at December 31, 2014 and 2013, were \$1,362,500 and \$1,843,133, respectively.

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

ReliabilityFirst Corporation

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements

The Corporation previously maintained an investment portfolio which consisted of fixed income Class A mutual funds. In 2014, the Corporation transferred its investments to a new investment firm, and has invested in U.S. Treasury obligations, U.S. Government agency securities, and corporate bonds.

As described in Note 1, the Corporation records its investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Financial Accounting Standards Board's (FASB) 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 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, 2014 and 2013, there were no such transfers.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

The following tables present the Corporation's fair value hierarchy for its investments as of December 31, 2014 and 2013:

	December 31, 2014			Total
	Level 1	Level 2	Level 3	
U.S. Government securities	\$ 858,648	\$ -	\$ -	\$ 858,648
Corporate bonds	-	2,682,335	-	2,682,335
	<u>\$ 858,648</u>	<u>\$ 2,682,335</u>	<u>\$ -</u>	<u>3,540,983</u>
Cash and cash equivalents				108,980
				<u>\$ 3,649,963</u>

	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Fixed Income Class A Mutual Funds	<u>\$ 3,604,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,604,721</u>

The composition of investment income (loss) is as follows at December 31:

	2014	2013
Interest/dividends	\$ 74,977	\$ 81,345
Realized loss	(107,682)	(6,309)
Unrealized gain (loss)	77,947	(141,889)
	<u>\$ 45,242</u>	<u>\$ (66,853)</u>

Note 3. Line of Credit

The Corporation has a \$1,000,000 line of credit with an expiration date of July 14, 2015. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 4.199 percent. The Corporation did not make any drawdowns on the line during the year and had no outstanding balance as of December 31, 2014 or 2013. The Corporation intends to renew the line when it becomes due on July 14, 2015.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 4. Notes Payable

The Corporation entered into a note payable with a bank on July 14, 2014 for \$159,110 to fund the purchase of laptop computers. The note bears an interest rate of 3.950 percent per annum, until paid in full and requires the Corporation to pay the loan in 36 payments of \$4,698.51 (including principal and interest). The note is collateralized by the laptops that were purchased.

Maturities of notes payable are as follows as of December 31:

2015	\$	51,795
2016		53,899
2017		32,437
		<hr/>
	\$	138,131
		<hr/> <hr/>

Note 5. Operating Leases

On July 16, 2013, the Corporation provided written notice exercising its early termination right for its lease with Bath Springside, Ltd. (Bath). As a result, the Bath lease terminated on December 31, 2014 and the Corporation incurred a lease termination penalty of \$200,000, which was reimbursed by its new landlord, Investors Warranty of America, Inc. (Investors), an unrelated third party. The penalty was recorded in accounts payable at December 31, 2013, and was paid by the Corporation in 2014.

On June 14, 2013, the Corporation signed a 13 year lease with Investors. The Corporation took occupancy of the new office effective March 1, 2014. According to the Investors lease, the Corporation was provided with a \$1,854,956 tenant improvement allowance for leasehold improvements and other soft costs.

The above reimbursement of the Bath lease termination penalty and the leasehold improvement allowance totaling \$2,054,956 was received from Investors in 2014. This amount is being amortized over the life of the lease against rent expense, starting on the commencement date of the new lease (March 1, 2014).

Rental expense for operating leases amounted to \$692,003 and \$508,704 for the years ended December 31, 2014 and 2013, respectively. Rent expense in 2014 and 2013 includes \$72,537 and \$32,114, respectively, in accelerated straight-line amortization of the previous deferred rent liability due to the early termination of the Bath lease. The deferred rent liability was \$2,419,564 and \$855,301 as of December 31, 2014 and 2013, respectively.

The future minimum lease payments relating to the new lease on a straight-line basis are as follows:

2015	\$	595,603
2016		595,603
2017		595,603
2018		595,603
2019		595,603
Thereafter		4,268,490
		<hr/>
	\$	7,246,505
		<hr/> <hr/>

ReliabilityFirst Corporation

Notes to Financial Statements

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 2014 and 2013). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16 percent of employees' eligible compensation in 2014 and 2013. The Corporation's contributions to the plan for 2014 and 2013 were approximately \$1,580,000 and \$1,469,000, respectively.

Note 7. Grant from City of Independence, Ohio

In connection with the Corporation's office move during 2014, the City of Independence (City) awarded a \$350,000 grant to the Corporation. The grant agreement provides for the Corporation to meet minimum annual payroll tax requirements as well as a requirement that the Corporation will not re-locate outside of the City during the next 12 years. If the re-location requirement is not met by the Corporation, the full \$350,000 will be required to be returned to the City upon default. The Corporation received \$250,000 of this grant in 2014, and recorded this amount in deferred revenue due to the requirements of the grant not being met as of December 31, 2014. The agreement allows for the remaining \$100,000 to be paid during 2015 (but no later than 2016), which will also be reflected in deferred revenue when it is received.

ReliabilityFirst Corporation

Schedule of Program Expenses
Year Ended December 31, 2014

	Standards	Compliance	Enforcement	Assessment	Training and Education	Situational Awareness	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Finance	Total
Personnel Expenses												
Salaries	\$ 8,854	\$ 5,501,147	\$ 840,569	\$ 1,208,251	\$ 419,181	\$ 111,642	\$ 1,118,071	\$ 465,904	\$ 394,124	\$ 267,288	\$ 137,388	\$ 10,472,419
Payroll taxes	1,876	337,941	71,142	79,143	29,786	6,697	48,857	22,426	29,910	21,337	10,534	659,649
Employee benefits	2,688	702,131	146,690	121,429	56,625	10,766	66,377	31,179	68,545	112,022	18,749	1,337,201
Savings and retirement	4,856	770,217	125,798	196,167	66,761	18,791	152,848	67,287	63,029	92,527	21,998	1,580,279
Total personnel expenses	18,274	7,311,436	1,184,199	1,604,990	572,353	147,896	1,386,153	586,796	555,608	493,174	188,669	14,049,548
Meeting Expenses												
Meetings	-	10,853	3,549	12,487	83,110	4,823	64,513	167	805	10,623	45	190,975
Travel	2,114	437,446	46,823	89,620	6,791	26,087	50,311	44,992	12,414	6,359	3,790	726,747
Conference calls	-	-	-	-	-	-	-	-	43,927	-	-	43,927
Total meeting expenses	2,114	448,299	50,372	102,107	89,901	30,910	114,824	45,159	57,146	16,982	3,835	961,649
Operating Expenses												
Rent and improvements	-	-	-	-	-	-	699,024	-	53,158	-	-	752,182
Contracts	-	157,301	3,500	80,766	-	5,000	53,608	5,000	4,884	95,201	-	405,260
Office costs	575	57,277	10,956	8,228	15	2,590	26,973	16,054	145,012	5,426	1,374	274,480
Professional services	-	-	-	-	-	-	427,060	48,801	-	34,742	51,785	562,388
Computer purchase and maintenance	-	206,437	-	51,537	-	3,428	38,873	200	387,351	3,055	3,258	694,139
Furniture and equipment	-	-	-	-	-	-	76,518	-	2,117	-	-	78,635
Office relocation	-	-	-	-	-	-	41,431	-	-	-	-	41,431
Miscellaneous	180	385	120	-	-	67	15,304	-	2,546	21,139	-	39,741
Total operating expenses	755	421,400	14,576	140,531	15	11,085	1,378,791	70,055	595,068	159,563	56,417	2,848,256
Subtotal	\$ 21,143	\$ 8,181,135	\$ 1,249,147	\$ 1,847,628	\$ 662,269	\$ 189,891	\$ 2,879,768	\$ 702,010	\$ 1,207,822	\$ 669,719	\$ 248,921	17,859,453
									Depreciation and amortization			425,230
									Loss on disposal of assets			154,454
									Interest expense			2,514
									Total expenses			<u>\$ 18,441,651</u>

ReliabilityFirst Corporation

Schedule of Program Expenses
Year Ended December 31, 2013

	Standards	Compliance	Assessment	Training and Education	Situational Awareness	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Finance	Total
Personnel Expenses											
Salaries	\$ 85,293	\$ 5,456,087	\$ 1,308,756	\$ 419,851	\$ 122,270	\$ 1,209,523	\$ 374,928	\$ 592,533	\$ 250,700	\$ 187,490	\$ 10,007,431
Payroll taxes	7,190	355,198	79,803	28,288	6,222	41,727	20,144	41,223	18,791	13,244	611,830
Employee benefits	10,677	751,014	119,349	54,888	5,141	67,553	29,042	101,658	134,902	31,776	1,306,000
Savings and retirement	16,969	801,891	201,906	63,056	18,418	157,352	60,471	87,574	60,524	23,833	1,491,994
Total personnel expenses	120,129	7,364,190	1,709,814	566,083	152,051	1,476,155	484,585	822,988	464,917	256,343	13,417,255
Meeting Expenses											
Meetings	-	12,964	19,252	74,751	9,638	35,702	718	1,223	19,144	-	173,392
Travel	11,216	490,599	94,243	5,367	25,013	71,650	43,800	11,866	7,778	4,354	765,886
Conference calls	-	-	-	-	-	-	-	38,097	-	-	38,097
Total meeting expenses	11,216	503,563	113,495	80,118	34,651	107,352	44,518	51,186	26,922	4,354	977,375
Operating Expenses											
Rent and improvements	-	-	-	-	-	560,012	-	-	-	-	560,012
Contracts	-	409,643	79,557	-	-	32,750	-	9,031	78,507	-	609,488
Office costs	2,037	84,876	11,266	-	2,571	30,601	13,643	317,073	3,143	1,917	467,127
Professional services	-	15,000	-	-	-	306,661	50,095	-	37,250	42,659	451,665
Computer purchase and maintenance	-	188,691	39,961	-	1,920	39,603	-	151,166	5,173	3,250	429,764
Furniture and equipment	-	-	-	-	-	2,647	-	-	-	-	2,647
Miscellaneous	121	1,259	59	-	881	10,236	8	1,639	16,498	-	30,701
Total operating expenses	2,158	699,469	130,843	-	5,372	982,510	63,746	478,909	140,571	47,826	2,551,404
Subtotal	\$ 133,503	\$ 8,567,222	\$ 1,954,152	\$ 646,201	\$ 192,074	\$ 2,566,017	\$ 592,849	\$ 1,353,083	\$ 632,410	\$ 308,523	16,946,034
								Depreciation and amortization			428,936
								Loss on disposal of assets			(255)
								Total expenses			<u>\$ 17,374,715</u>

ATTACHMENT 6

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

SERC RELIABILITY CORPORATION



SERC Reliability Corporation
3701 Arco Corporate Drive, Suite 300
Charlotte, NC 28273
704.357.7372 | Fax 704.357.7914 | www.serc1.org

May 5, 2015

Mike Walker
Chief Financial Officer
North American Electric Reliability Corporation

SERC 2014 Budget vs. Actual Variance Analysis

Enclosed is SERC's response to your request for information on variances between the 2014 SERC budget and year-end financials.

Overall, SERC under ran 2014 budgeted revenues by \$43,859 and under spent its 2014 budgeted expenses of \$16,585,941 by \$1,181,316. The net impact was a \$1,137,457 positive variance on SERC's cash position for the year.

During 2014, SERC conducted 54 audits and spot checks including 6 on-site and 22 off-site operations and planning audits, 6 on-site and 17 off-site CIP audits, and 3 on-site CIP spot checks. There were no audits of multi-regional Registered Entities. SERC adjusted the planned audits and spot checks pursuant to supplemental guidance provided by NERC and FERC. SERC received 141 new potential violations and closed 253 enforcement actions addressing possible violations identified during the period from 2010 through 2014. In addition, SERC completed all budgeted reliability assessments for the year.

There are several mitigating circumstances, as explained below:

- Workshop fees are lower than budget due to SERC hosted most meetings in house or at a member's facilities, resulting in a savings in costs, and therefore an offsetting decrease in revenue allowing SERC to charge a reduced attendance fee, from when the budget was developed. Additionally, due to a change in format, SERC hosted less meetings than originally budgeted.
- Miscellaneous income is higher than budget due to contractual repayments of employee benefits, and proceeds from the sale of the old office furniture.
- During 2014, total personnel costs were lower than budget primarily due to SERC was not fully staffed by 11.82 FTEs. As an offset, SERC used contractors in lieu of FTEs, causing an over run in Consultants and Contractors.
- SERC moved into a new office space in 2014 with a large meeting space. Most meetings were held in-house or at a member's facilities, substantially reducing the hotel hosting costs and decreasing Meeting and Travel Expense.

- SERC signed a new lease, with a commencement date of April 1, 2014, which included ten months of free rent. GAAP requires rent to be recorded on a straight line basis, accounting for the free rent. SERC did not incur actual rent expense for the new office space. However, due to accounting principles, an entry for the new space was recorded on a straight line basis, causing rent expense to be higher than budget. An off-setting entry was recorded as a liability on the balance sheet.
- SERC engaged an architect and a construction manager to assist with the construction, furniture selection, and coordination of the relocation of SERC's offices; and additional work was performed on various IT projects for compliance and assessments, causing an unplanned over run in Consultants and Contractors.
- SERC purchased office furniture and equipment to furnish the new office space, causing the over 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,



Jennifer Kelly

cc: R. Scott Henry, President/CEO
Gary Taylor, Vice President/COO

SERC Reliability Corporation			
Statement of Activities			
From 1/1/2014 through 12/31/2014			
Total Statutory	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	13,734,499	13,734,499	-
Penalty Sanctions	2,054,500	2,054,500	-
Total ERO Funding	\$15,788,999	\$ 15,788,999	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	185,280	267,605	(82,325)
Interest	2,054	10,000	(7,946)
Miscellaneous	354,912	308,500	46,412
Total Funding (A)	\$16,331,245	\$ 16,375,104	\$ (43,859)
Expenses			
Personnel Expenses			
Salaries	8,694,787	10,187,444	(1,492,657)
Payroll Taxes	580,037	611,246	(31,209)
Employee Benefits	876,645	941,806	(65,161)
Savings & Retirement	1,048,875	1,394,422	(345,547)
Total Personnel Expenses	11,200,344	13,134,918	(1,934,574)
Meeting Expenses			
Meetings	256,954	317,195	(60,241)
Travel	480,897	605,484	(124,587)
Conference Calls	39,099	48,000	(8,901)
Total Meeting Expenses	776,950	970,679	(193,729)
Operating Expenses			
Consultants & Contracts	1,449,604	1,229,030	220,574
Rent & Improvements	798,011	419,861	378,150
Office Costs	750,881	477,400	273,481
Professional Services	131,166	120,400	10,766
Miscellaneous	14,537	-	14,537
Depreciation	277,062	218,653	58,409
Total Operating Expenses	3,421,261	2,465,344	955,917
Indirect Expenses	-	-	-
Other Non-Operating Expenses	6,070	15,000	(8,930)
Total Expenses (B)	15,404,625	16,585,941	(1,181,316)
Change in Assets (A - B)	926,620	(210,837)	1,137,457
Fixed Assets			
Depreciation	(277,062)	(218,653)	(58,409)
Computer & Software CapEx	227,998	460,000	(232,002)
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	50,000	(50,000)
Leasehold Improvements	187,453	-	187,453
Incr(Dec) in Fixed Assets	(138,389)	(291,347)	152,958
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(138,389)	(291,347)	152,958
TOTAL BUDGET (B - C)	15,543,014	16,877,288	(1,334,274)
Change in Working Capital (A-B+C)	788,231	(502,184)	1,290,415
FTE's	67.38	79.20	(11.82)

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
RELIABILITY STANDARDS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	466,802	466,802	-	0.00%
Penalty Sanctions	79,938	79,938	-	0.00%
Total ERO Funding	\$ 546,740	\$ 546,740	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	200	-	200	
Total Funding (A)	546,940	546,740	200	0.04%
Expenses				
Personnel Expenses				
Salaries	78,760	221,774	(143,014)	-64.49%
Payroll Taxes	5,844	13,306	(7,462)	-56.08%
Employee Benefits	23,878	24,786	(908)	-3.66%
Savings & Retirement	12,893	31,259	(18,366)	-58.75%
Total Personnel Expenses	121,375	291,125	(169,750)	-58.31%
Meeting Expenses				
Meetings	300	-	300	
Travel	1,395	11,696	(10,301)	-88.07%
Conference Calls	-	-	-	
Total Meeting Expenses	1,695	11,696	(10,001)	-85.51%
Operating Expenses				
Consultants & Contracts	16,654	-	16,654	
Rent & Improvements	-	-	-	
Office Costs	-	100	(100)	-100.00%
Professional Services	-	-	-	
Miscellaneous	300	-	300	
Depreciation	-	-	-	
Total Operating Expenses	16,954	100	16,854	16854.00%
Indirect Expenses	336,959	232,483	104,476	44.94%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	476,983	535,404	(58,421)	-10.91%
Change in Assets (A - B)	69,957	11,336	58,621	517.12%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	6,812	11,336	(4,524)	-39.91%
Total Inc(Dec) in Fixed Assets (C)	6,812	11,336	(4,524)	-39.91%
TOTAL BUDGET (B + C)	483,795	546,740	(53,897)	-9.86%
Change in Working Capital (A-B-C)	63,145	-	54,097	
FTE's	1.15	2.31	(1.16)	-50.22%

**Reliability Standards
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$169,750 under budget)

- Due to turnover and the length of time to fill vacant positions, SERC is under budget in personnel expenses. SERC budgeted 2.31 FTEs in the Standards program during 2014. SERC finished 2014 with 1.15 FTEs in the Standards program, a difference of 1.16 FTEs.
- SERC reclassified 0.2 FTEs of an existing budgeted position from Reliability Standards into General and Administrative, causing a decrease in personnel expense.

Travel Expense (Actual \$10,301 under budget)

- Due to the open positions, SERC has had less staff travel. Additionally, SERC has put a greater emphasis on hosting meetings in the Charlotte office, causing a decrease in travel expenses.

Consultants and Contracts Expense (Actual \$16,654 over budget)

- To assist with short-term needs, SERC used consultants in lieu of hiring FTEs, causing SERC to be over budget.

Indirect Expenses (Actual \$104,476 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	10,372,696	10,372,696	-	0.00%
Penalty Sanctions	1,470,713	1,470,713	-	0.00%
Total ERO Funding	\$ 11,843,409	\$11,843,409	\$ -	0.00%
Federal Grants	-	-	-	-
Membership Fees	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	840	-	840	-
Total Funding (A)	11,844,249	11,843,409	840	0.01%
Expenses				
Personnel Expenses				
Salaries	3,997,328	5,201,393	(1,204,065)	-23.15%
Payroll Taxes	279,538	313,476	(33,938)	-10.83%
Employee Benefits	396,358	523,055	(126,697)	-24.22%
Savings & Retirement	554,549	716,689	(162,140)	-22.62%
Total Personnel Expenses	5,227,773	6,754,613	(1,526,840)	-22.60%
Meeting Expenses				
Meetings	16,348	14,010	2,338	16.69%
Travel	231,063	319,556	(88,493)	-27.69%
Conference Calls	-	-	-	-
Total Meeting Expenses	247,411	333,566	(86,155)	-25.83%
Operating Expenses				
Consultants & Contracts	293,359	245,000	48,359	19.74%
Rent & Improvements	-	-	-	-
Office Costs	12,930	13,857	(927)	-6.69%
Professional Services	13,467	15,000	(1,533)	-10.22%
Miscellaneous	571	-	571	-
Depreciation	-	-	-	-
Total Operating Expenses	320,327	273,857	46,470	16.97%
Indirect Expenses	4,664,056	4,272,813	391,243	9.16%
Other Non-Operating Expenses				
-	-	-	-	-
Total Expenses (B)	10,459,567	11,634,849	(1,175,282)	-10.10%
Change in Assets (A - B)	1,384,682	208,560	1,176,122	563.93%
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Incr(Dec) in Fixed Assets	-	-	-	-
Allocation of Fixed Assets	94,363	208,560	(114,197)	-54.75%
Total Inc(Dec) in Fixed Assets (C)	94,363	208,560	(114,197)	-54.75%
TOTAL BUDGET (B + C)	10,553,930	11,843,409	(1,061,085)	-8.96%
Change in Working Capital (A-B-C)	1,290,319	-	1,061,925	
FTE's	32.00	42.50	(10.50)	-24.71%

**Compliance Operations, Enforcement and Organization Registration
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$1,526,840 under budget)

- Due to turnover and the length of time to fill vacant positions, SERC is under budget in personnel expenses. SERC budgeted 42.50 FTEs in the Compliance program during 2014. SERC finished 2014 with 32.00 FTEs in the Compliance program, a difference of 10.50 FTEs. SERC used contractors to assist in completing the work.
- SERC reclassified 2.0 FTEs existing budgeted positions from Compliance into General and Administrative, causing a decrease in personnel expense.

Travel Expense (Actual \$88,493 under budget)

- Due to the open positions, SERC has had less staff travel. Additionally, SERC has put a greater emphasis on hosting meetings in the Charlotte office, causing a decrease in travel expenses.
- SERC staff traveled to fewer audits due to a change in the process to conduct off-site audits.

Consultants and Contracts Expense (Actual \$48,359 over budget)

- In addition to the use of contractors due to vacant positions, as described above, SERC developed tools for required enhancements for compliance monitoring and data collection methods to support the transition to CIP version 5 and CIP self certification, causing an unplanned over run.

Indirect Expenses (Actual \$391,243 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
COMPLIANCE ENFORCEMENT ACTIVITY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	30,625	32,000	(1,375)	-4.30%
Total Funding (A)	30,625	32,000	(1,375)	-4.30%
Expenses				
Personnel Expenses				
Salaries	26,852	23,214	3,638	15.67%
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	26,852	23,214	3,638	15.67%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	4,306	(4,306)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	-	4,306	(4,306)	-100.00%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	-	-	-	
Indirect Expenses	3,773	4,480	(707)	-15.78%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	30,625	32,000	(1,375)	-4.30%
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)	30,625	32,000	(1,375)	-4.30%
Change in Working Capital (A-B-C)	-	-	-	
FTE's	-	-	-	

**Compliance Enforcement Activity
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

There are no variances requiring explanation. The income and expenses recorded relates to the cross regional monitoring activities for FRCC and SPP. The regional entity reimburses SERC for actual costs incurred. The 2014 Budget included \$32,000 related to activities for FRCC and SPP.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	1,938,061	1,938,061	-	0.00%
Penalty Sanctions	262,998	262,998	-	0.00%
Total ERO Funding	\$2,201,059	\$ 2,201,059	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	756	-	756	
Total Funding (A)	2,201,815	2,201,059	756	0.03%
Expenses				
Personnel Expenses				
Salaries	709,479	818,555	(109,076)	-13.33%
Payroll Taxes	58,419	49,113	9,306	18.95%
Employee Benefits	135,871	95,406	40,465	42.41%
Savings & Retirement	82,196	115,313	(33,117)	-28.72%
Total Personnel Expenses	985,965	1,078,387	(92,422)	-8.57%
Meeting Expenses				
Meetings	29,260	39,990	(10,730)	-26.83%
Travel	62,154	45,487	16,667	36.64%
Conference Calls	-	-	-	
Total Meeting Expenses	91,414	85,477	5,937	6.95%
Operating Expenses				
Consultants & Contracts	189,900	232,500	(42,600)	-18.32%
Rent & Improvements	-	-	-	
Office Costs	2,711	2,518	193	7.66%
Professional Services	81	-	81	
Miscellaneous	1,286	-	1,286	
Depreciation	-	-	-	
Total Operating Expenses	193,978	235,018	(41,040)	-17.46%
Indirect Expenses	908,768	764,881	143,887	18.81%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,180,125	2,163,763	16,362	0.76%
Change in Assets (A - B)	21,690	37,296	(15,606)	-41.84%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	18,371	37,296	(18,925)	-50.74%
Total Inc(Dec) in Fixed Assets (C)	18,371	37,296	(18,925)	-50.74%
TOTAL BUDGET (B + C)	2,198,496	2,201,059	35,287	1.60%
Change in Working Capital (A-B-C)	3,319	-	(34,531)	
FTE's	6.23	7.60	(1.37)	-18.03%

**Reliability Assessments and Performance Analysis
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$92,422 under budget)

- Due to turnover and the length of time to fill vacant positions, SERC is under budget in personnel expenses. SERC budgeted 7.60 FTEs in the Assessments program during 2014. SERC finished 2014 with 6.23 FTEs in the Assessments program, a difference of 1.37 FTEs.
- SERC reclassified 0.2 FTEs of an existing budgeted position from Reliability Assessments into General and Administrative, causing a decrease in personnel expense.
- Payroll taxes and benefits expense are higher than budget due to unbudgeted relocation costs that were incurred in filling the vacant positions.

Meeting Expense (Actual \$10,730 under budget)

- The under run in meeting expenses is due to a greater emphasis on hosting meetings at SERC's office and member facilities.

Travel Expense (Actual \$16,667 over budget)

- Due to staff transitions, more staff traveled to meetings than was originally projected to gain familiarity with the entities and regional staff they would be working with.

Consultants and Contracts Expense (Actual \$42,600 under budget)

- The Dynamic Reduction Study occurs every other year. SERC performed the Dynamic Reduction Study in 2013 as an unbudgeted expense, due to timing causing an under run in 2014, as the study was not performed in 2014.

Indirect Expenses (Actual \$143,887 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
TRAINING, EDUCATION and OPERATOR CERTIFICATION	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	742,299	742,299	-	0.00%
Penalty Sanctions	97,240	97,240	-	0.00%
Total ERO Funding	\$ 839,539	\$ 839,539	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	185,280	267,605	(82,325)	-30.76%
Interest	-	-	-	
Miscellaneous	5,907	-	5,907	
Total Funding (A)	1,030,726	1,107,144	(76,418)	-6.90%
Expenses				
Personnel Expenses				
Salaries	348,437	374,069	(25,632)	-6.85%
Payroll Taxes	24,031	22,444	1,587	7.07%
Employee Benefits	33,895	28,459	5,436	19.10%
Savings & Retirement	44,146	52,656	(8,510)	-16.16%
Total Personnel Expenses	450,509	477,628	(27,119)	-5.68%
Meeting Expenses				
Meetings	134,414	183,360	(48,946)	-26.69%
Travel	26,379	19,241	7,138	37.10%
Conference Calls	-	-	-	
Total Meeting Expenses	160,793	202,601	(41,808)	-20.64%
Operating Expenses				
Consultants & Contracts	126,270	130,000	(3,730)	-2.87%
Rent & Improvements	-	-	-	
Office Costs	1,707	320	1,387	433.44%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	127,977	130,320	(2,343)	-1.80%
Indirect Expenses	396,766	282,805	113,961	40.30%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	1,136,045	1,093,354	42,691	3.90%
Change in Assets (A - B)	(105,319)	13,790	(119,109)	-863.73%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	8,021	13,790	(5,769)	-41.83%
Total Inc(Dec) in Fixed Assets (C)	8,021	13,790	(5,769)	-41.83%
TOTAL BUDGET (B + C)	1,144,066	1,107,144	48,460	4.38%
Change in Working Capital (A-B-C)	(113,340)	-	(124,878)	
FTE's	2.72	2.81	(0.09)	-3.20%

**Training, Education and Operator Certification
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Workshop Fees (Actual \$82,325 under budget)

- SERC hosted most meetings in house or at a member's facilities, resulting in a savings in costs, and therefore an offsetting decrease in revenue allowing SERC to charge a reduced attendance fee, from when the budget was developed.
- SERC budgeted for four (4) Compliance Seminars to be held in 2014, however only hosted three (3), causing an under run.

Personnel Expenses (Actual \$27,119 under budget)

- Due to turnover and the length of time to fill vacant positions, SERC is under budget in personnel expenses. SERC budgeted 2.81 FTEs in the Training program during 2014. SERC finished 2014 with 2.72 FTEs in the Training program, a difference of 0.09 FTEs.
- SERC is over budget in Payroll Taxes and Employee Benefits due to an overlap of an FTE to ensure continuity.
- SERC reclassified 0.2 FTEs of an existing budgeted position from Training and Education into General and Administrative, causing a decrease in personnel expense.

Meeting Expense (Actual \$48,946 under budget)

- The under run in meetings expenses is due to a greater emphasis on hosting meetings at SERC's office and member facilities.

Indirect Expenses (Actual \$113,961 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection)	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	1,003,325	1,003,325	-	0.00%
Penalty Sanctions	143,611	143,611	-	0.00%
Total ERO Funding	\$ 1,146,936	\$ 1,146,936	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	207	-	207	
Total Funding (A)	1,147,143	1,146,936	207	0.02%
Expenses				
Personnel Expenses				
Salaries	382,491	505,718	(123,227)	-24.37%
Payroll Taxes	26,591	30,343	(3,752)	-12.37%
Employee Benefits	73,950	52,881	21,069	39.84%
Savings & Retirement	45,828	61,798	(15,970)	-25.84%
Total Personnel Expenses	528,860	650,740	(121,880)	-18.73%
Meeting Expenses				
Meetings	959	10,350	(9,391)	-90.73%
Travel	39,327	47,556	(8,229)	-17.30%
Conference Calls	-	-	-	
Total Meeting Expenses	40,286	57,906	(17,620)	-30.43%
Operating Expenses				
Consultants & Contracts	16,654		16,654	
Rent & Improvements	-	-	-	
Office Costs	-	260	(260)	-100.00%
Professional Services	-	-	-	
Miscellaneous	138	-	138	
Depreciation	-	-	-	
Total Operating Expenses	16,792	260	16,532	6358.46%
Indirect Expenses	535,342	417,665	117,677	28.17%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	1,121,280	1,126,571	(5,291)	-0.47%
Change in Assets (A - B)	25,863	20,365	5,498	27.00%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	10,822	20,365	(9,543)	-46.86%
Total Inc(Dec) in Fixed Assets (C)	10,822	20,365	(9,543)	-46.86%
TOTAL BUDGET (B + C)	1,132,102	1,146,936	4,252	0.37%
Change in Working Capital (A-B-C)	15,041	-	(4,045)	
FTE's	3.67	4.15	(0.48)	-11.57%

**Situation Awareness and Infrastructure Security
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$121,880 under budget)

- Due to turnover and the length of time to fill vacant positions, SERC is under budget in personnel expenses. SERC budgeted 4.15 FTEs in the Situation Awareness program during 2014. SERC finished 2014 with 3.67 FTEs in the Situation Awareness program, a difference of 0.48 FTEs.
- SERC reclassified 0.2 FTEs of an existing budgeted position from Situation Awareness and Infrastructure Security into General and Administrative, causing a decrease in personnel expense.
- Benefits expense is higher than budget due to unbudgeted relocation costs that were incurred in filling the vacant positions and higher usage of SERC's medical and dental benefits in 2014.

Consultants and Contracts Expense (Actual \$16,654 over budget)

- To assist with short-term needs, SERC used consultants in lieu of hiring FTEs, causing SERC to be over budget.

Indirect Expenses (Actual \$117,677 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
MEMBER FORUMS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	13,740	-	13,740	
Total Funding (A)	13,740	-	13,740	
Expenses				
Personnel Expenses				
Salaries	654,631	700,576	(45,945)	-6.56%
Payroll Taxes	43,889	42,035	1,854	4.41%
Employee Benefits	38,656	53,772	(15,116)	-28.11%
Savings & Retirement	76,434	94,071	(17,637)	-18.75%
Total Personnel Expenses	813,610	890,454	(76,844)	-8.63%
Meeting Expenses				
Meetings	9,635	22,300	(12,665)	-56.79%
Travel	34,552	75,139	(40,587)	-54.02%
Conference Calls	-	-	-	
Total Meeting Expenses	44,187	97,439	(53,252)	-54.65%
Operating Expenses				
Consultants & Contracts	16,654	-	16,654	
Rent & Improvements	-	-	-	
Office Costs	649	365	284	77.81%
Professional Services	777	-	777	
Miscellaneous	311	-	311	
Depreciation	-	-	-	
Total Operating Expenses	18,391	365	18,026	4938.63%
Indirect Expenses	(876,188)	(988,258)	112,070	-11.34%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	13,740	-	13,740	
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)	13,740	-	13,740	
FTE's	4.15	4.83	(0.68)	-14.08%

**Technical Committees and Member Forums
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Miscellaneous Income (Actual \$13,740 over budget)

- Amount represents contractual repayment of employee benefits, causing the unplanned over run.

Personnel Expenses (Actual \$76,844 under budget)

- Due to turnover and the length of time to fill vacant positions, SERC is under budget in personnel expenses. SERC budgeted 4.83 FTEs in the Technical Committees program during 2014. SERC finished 2014 with 4.15 FTEs in the Technical Committees program, a difference of 0.68 FTEs.
- SERC reclassified 0.2 FTEs of an existing budgeted position from Technical Committees and Member Forums into General and Administrative, causing a decrease in personnel expense.

Meeting Expense (Actual \$12,665 under budget)

- The under run in meetings expenses is due to a greater emphasis on hosting meetings at SERC's office and member facilities.

Travel Expense (Actual \$40,587 under budget)

- Due to the open positions, SERC has had less staff travel. Additionally, SERC has put a greater emphasis on hosting meetings in the Charlotte office, causing a decrease in travel expenses.

Consultants and Contracts Expense (Actual \$16,654 over budget)

- To assist with short-term needs, SERC used consultants in lieu of hiring FTEs, causing SERC to be over budget.

Indirect Expenses (Actual \$112,070 under budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
GENERAL and ADMINISTRATIVE	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(788,684)	(788,684)	-	0.00%
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ (788,684)	\$ (788,684)	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	302,637	276,500	26,137	9.45%
Total Funding (A)	(486,047)	(512,184)	26,137	-5.10%
Expenses				
Personnel Expenses				
Salaries	2,496,809	2,342,145	154,664	6.60%
Payroll Taxes	141,725	140,529	1,196	0.85%
Employee Benefits	174,037	163,447	10,590	6.48%
Savings & Retirement	232,829	322,636	(89,807)	-27.84%
Total Personnel Expenses	3,045,400	2,968,757	76,643	2.58%
Meeting Expenses				
Meetings	66,038	47,185	18,853	39.96%
Travel	86,027	82,503	3,524	4.27%
Conference Calls	39,099	48,000	(8,901)	-18.54%
Total Meeting Expenses	191,164	177,688	13,476	7.58%
Operating Expenses				
Consultants & Contracts	216,043	180,000	36,043	20.02%
Rent & Improvements	798,011	419,861	378,150	90.07%
Office Costs	522,980	250,380	272,600	108.87%
Professional Services	27,530	25,000	2,530	10.12%
Miscellaneous	10,491	-	10,491	
Depreciation	277,062	218,653	58,409	26.71%
Total Operating Expenses	1,852,117	1,093,894	758,223	69.31%
Indirect Expenses	(5,094,751)	(4,255,339)	(839,412)	19.73%
Other Non-Operating Expenses	6,070	15,000	(8,930)	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	(486,047)	(512,184)	26,137	-5.10%
Fixed Assets				
Depreciation	(277,062)	(218,653)	(58,409)	26.71%
Computer & Software CapEx	227,998	460,000	(232,002)	-50.44%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	50,000	(50,000)	-100.00%
Leasehold Improvements	187,453	-	187,453	
Incr(Dec) in Fixed Assets	(138,389)	(291,347)	152,958	
Allocation of Fixed Assets	(138,389)	(291,347)	152,958	-52.50%
Total Inc(Dec) in Fixed Assets (C)	(276,778)	(582,694)	305,916	-52.50%
TOTAL BUDGET (B + C)	(276,778)	(582,694)	(305,916)	52.50%
Change in Working Capital (A-B-C)	(209,269)	70,510	332,053	470.93%
FTE's	17.46	15.00	2.46	16.40%

**General and Administrative
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$76,643 over budget)

- SERC reclassified three existing positions into General and Administrative that were budgeted in Compliance, Reliability Assessments, Reliability Standards, Training and Education, Situation Awareness and Infrastructure Security, and Technical Committees and Member Forums, causing an increase in personnel expense.
- Due to the staffing transitions, SERC's retirement costs are under budget as SERC did not incur a full year of expenses related to the company portion match and supplemental contributions for unfilled positions.

Meeting Expense (Actual \$18,853 over budget)

- The over run in meetings expenses is due to actual costs for meeting spaces being greater than anticipated in the budget, as well as costs for additional in-house meetings.

Consultants and Contracts Expense (Actual \$36,043 over budget)

- To assist with short-term needs, SERC used consultants in lieu of hiring FTEs, causing SERC to be over budget.

Rent Expense (Actual \$378,150 over budget)

- SERC signed a new lease, with a commencement date of April 1, 2014, which included ten months of free rent. GAAP requires rent to be recorded on a straight line basis, accounting for the free rent. SERC did not incur actual rent expense for the new office space. However, due to accounting principles, an entry for the new space was recorded on a straight line basis. An off-setting entry was recorded as a liability on the balance sheet.

Office Costs (Actual \$272,600 over budget)

- At the time the 2014 budget was developed, SERC anticipated relocating into the new space during 2013, and therefore budgeted a small amount for the purchase of office furniture to furnish the new office space in 2014. Due to delays in the relocation, a significant amount of the furniture was purchased in 2014, causing the over run.

Miscellaneous Expense (Actual \$10,491 over budget)

- Miscellaneous expense includes recognition for staff and SERC members. These items were not budgeted, causing an over run.

Fixed Assets (Actual \$152,958 under budget)

- Due to the actual cost of the assets and the timing of when the assets were placed into service, depreciation expense was higher than the budget, causing the overrun.
- Due to delays in several software projects, including SERC's website and portal development, SERC is under budget.

- The 2014 budget included equipment for the new office space. This equipment was purchased in 2013, causing the under run.
- SERC anticipated relocating office space in 2013, and therefore did not budget for costs associated with the construction in the 2014 budget. Due to the delay in the relocation, a significant amount of the construction costs were incurred in 2014, causing the over run.

Indirect Expenses (Actual \$839,412 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
LEGAL and REGULATORY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
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	2,465	1,900	565	29.74%
Professional Services	54,620	35,000	19,620	56.06%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	57,085	36,900	20,185	54.70%
Indirect Expenses	(57,085)	(36,900)	(20,185)	54.70%
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	-	-	-	

**Legal and Regulatory
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Professional Services (Actual \$19,620 over budget)

- SERC incurred additional legal services to assist with corporate matters including changing SERC's state of incorporation from Alabama to North Carolina.

Indirect Expenses (Actual \$20,185 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
INFORMATION TECHNOLOGY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	-	-	-	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	-	-	-	
Operating Expenses				
Consultants & Contracts	574,070	441,530	132,540	30.02%
Rent & Improvements	-	-	-	
Office Costs	190,458	197,340	(6,882)	-3.49%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	764,528	638,870	125,658	19.67%
Indirect Expenses	(764,528)	(638,870)	(125,658)	19.67%
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	-	-	-	

**Information Technology
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

Consultants and Contracts (Actual \$132,540 over budget)

- To assist with short-term needs, SERC used consultants in lieu of hiring FTEs, causing SERC to be over budget.
- SERC used consultants for maintenance on the current tools and to develop unbudgeted software projects, all below SERC's capitalization policy, and therefore expensed the amounts, causing the over run.

Indirect Expenses (Actual \$125,658 over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2014 based on the number of FTEs in those programs.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
HUMAN RESOURCES	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
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	1,149	360	789	219.17%
Professional Services	8,421	10,000	(1,579)	-15.79%
Miscellaneous	1,440	-	1,440	
Depreciation	-	-	-	
Total Operating Expenses	11,010	10,360	650	6.27%
Indirect Expenses	(11,010)	(10,360)	(650)	6.27%
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	-	-	-	

Human Resources
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%

There are no variances requiring explanation.

SERC Reliability Corporation				
Statement of Activities				
From 1/1/2014 through 12/31/2014				
ACCOUNTING and FINANCE	2014	2014	2014	
	Actual	Budget	Variance from	
			Budget	
			Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	2,054	10,000	(7,946)	-79.46%
Miscellaneous	-	-	-	
Total Funding (A)	2,054	10,000	(7,946)	-79.46%
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	15,832	10,000	5,832	58.32%
Professional Services	26,270	35,400	(9,130)	-25.79%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	42,102	45,400	(3,298)	-7.26%
Indirect Expenses	(42,102)	(45,400)	3,298	-7.26%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	2,054	10,000	(7,946)	-79.46%
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)	2,054	10,000	(7,946)	-79.46%
FTE's	-	-	-	

**Accounting and Finance
Variance Explanations as of December 31, 2014
Variances > +/- \$10,000 and 10%**

There are no variances requiring explanation.



SERC RELIABILITY CORPORATION

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

*As of and for the Year Ended December 31, 2014 and
2013*

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, 2014 and 2013, 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, 2014 and 2013, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Supplemental Schedules

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

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

Charlotte, North Carolina
April 20, 2015

SERC RELIABILITY CORPORATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,325,763	\$ 7,685,935
Accounts receivable	896,504	68,691
Prepaid expenses and other current assets	184,338	172,213
Total Current Assets	<u>8,406,605</u>	<u>7,926,839</u>
Property and equipment, net	<u>800,868</u>	<u>662,478</u>
Total Assets	<u><u>\$ 9,207,473</u></u>	<u><u>\$ 8,589,317</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 333,364	\$ 452,530
Accrued salaries and related benefits	1,985,230	2,407,098
Deferred revenue	2,165,519	2,318,183
Total Current Liabilities	<u>4,484,113</u>	<u>5,177,811</u>
Deferred rent	<u>385,234</u>	<u>-</u>
Total Liabilities	<u>4,869,347</u>	<u>5,177,811</u>
Net Assets:		
Unrestricted and undesignated	1,238,126	2,215,987
Unrestricted and designated operating reserve	3,100,000	1,195,519
Total Net Assets	<u>4,338,126</u>	<u>3,411,506</u>
Total Liabilities and Net Assets	<u><u>\$ 9,207,473</u></u>	<u><u>\$ 8,589,317</u></u>

SERC RELIABILITY CORPORATION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Funding		
Member assessments	\$ 13,734,499	\$ 13,829,878
Penalty sanctions	2,054,500	51,000
Workshops	185,280	173,997
Interest	2,054	1,271
Miscellaneous	354,912	238,996
Total funding	<u>16,331,245</u>	<u>14,295,142</u>
Expenses		
Personnel expenses:		
Salaries	8,694,787	9,176,085
Payroll taxes	580,037	632,913
Employee benefits	876,645	896,790
Savings and retirement	1,048,875	1,169,319
Total personnel expenses	<u>11,200,344</u>	<u>11,875,107</u>
Meeting expenses:		
Meetings	256,954	276,839
Travel	480,897	646,398
Conference calls	39,099	49,760
Total meeting expenses	<u>776,950</u>	<u>972,997</u>
Operating expenses:		
Contracts and consultants	1,449,604	1,410,698
Rent and improvements	798,011	403,731
Office costs	750,881	633,768
Professional services	131,166	107,705
Depreciation	277,062	137,147
Miscellaneous	20,607	2,148
Total operating expenses	<u>3,427,331</u>	<u>2,695,197</u>
Total expenses	<u>15,404,625</u>	<u>15,543,301</u>
Change in net assets	926,620	(1,248,159)
Net assets		
Beginning of year	<u>3,411,506</u>	<u>4,659,665</u>
End of year	<u>\$ 4,338,126</u>	<u>\$ 3,411,506</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 926,620	\$ (1,248,159)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	277,062	137,147
Changes in operating assets and liabilities:		
Accounts receivable	(33,103)	(50,204)
Prepaid expenses and other current assets	(12,125)	(44,810)
Accounts payable	(119,166)	(12,989)
Accrued salaries and related benefits	(421,868)	425,278
Deferred rent	385,234	-
Deferred revenue	(152,664)	1,761,577
Net cash provided by operating activities	<u>849,990</u>	<u>967,840</u>
Cash flows from investing activities:		
Additions to property and equipment	(415,452)	(474,813)
Receivable for reimbursement of upfit costs	(794,710)	-
Net cash used in investing activities	<u>(1,210,162)</u>	<u>(474,813)</u>
Net (decrease) increase in cash and cash equivalents	(360,172)	493,027
Cash and cash equivalents		
Beginning of year	<u>7,685,935</u>	<u>7,192,908</u>
End of year	<u>\$ 7,325,763</u>	<u>\$ 7,685,935</u>

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 1—Organization and nature of operations

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

Note 2—Summary of significant accounting policies

Accounting Principles - The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Corporation is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Corporation had only unrestricted net assets as of December 31, 2014 and 2013, 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, 2014 and 2013, management has determined that an allowance for doubtful accounts is not necessary. As of December 31, 2014, accounts receivable includes \$794,710 from the lessor referred to in Note 4 as an allowance for the upfit of lease office space.

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 lives of the respective assets, are expensed currently. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets of the Corporation. Long-lived assets held and used by the Corporation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

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, 2014 AND 2013

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. Based on past history with NERC, the Corporation believes that its revenue risk exposure is limited.

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

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, 2014 or 2013 and, accordingly, no liability has been accrued. The Corporation is no longer subject to tax examinations for years prior to 2011.

Note 3—Property and equipment

Property and equipment includes the following at December 31:

	2014	2013
Leasehold improvements	\$ 240,552	\$ 53,099
Computer equipment	153,409	202,048
Software	1,138,179	918,535
	<u>1,532,140</u>	<u>1,173,682</u>
Less: Accumulated depreciation	(731,272)	(511,204)
Property and equipment, net	<u>\$ 800,868</u>	<u>\$ 662,478</u>

Depreciation expense was \$277,062 and \$137,147 for the years ended December 2014 and 2013, respectively.

Note 4—Leases

The Corporation leased office facilities under three operating leases which expired in January 2015. The leases called for monthly payments ranging from \$32,000 to \$35,000.

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 4—Leases (continued)

During the year ended December 31, 2014, the Corporation entered into an operating lease for office space which commenced on April 1, 2014 and continues through March 31, 2025. The lease provides free rent for the first 10 months of the lease period and annual rent payments ranging from \$460,000 to \$612,000 thereafter. In connection with the new office space, the Corporation entered into a construction agreement providing for an upfit allowance, whereby the Corporation will be reimbursed for upfit costs up to \$794,710. This amount was included in the accounts receivable balance on the statement of financial position for the year ended December 31, 2014.

Total rent expense for the years ended December 31, 2014 and 2013, was \$798,011 and \$403,731, respectively.

Future minimum payments on all operating leases are as follows:

<u>Year ending December 31,</u>	
2015	\$ 495,442
2016	512,767
2017	524,304
2018	536,101
2019	548,163
Thereafter	2,982,614
Total	<u>\$ 5,599,391</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, 2014) for which all outstanding borrowings shall be payable in full at maturity on August 30, 2015. The line is secured by the assets of the Corporation. The line of credit had no outstanding balance at December 31, 2014 and 2013.

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, 2014 and 2013, contribution expense related to the plan totaled \$1,024,327 and \$1,131,588, respectively.

Deferred compensation plan - The Corporation established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b) for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. During the years ended December 31, 2014 and 2013, contribution expense related to the plan totaled \$8,641 and \$21,036, respectively. The asset and liability for deferred compensation of \$90,832 and \$82,204 at December 31, 2014 and 2013, respectively, is included in prepaid expenses and other current assets and accrued salaries and related benefits in the accompanying statements of financial position.

SERC RELIABILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

Note 7—Concentrations of credit risk and uncertainties

The Corporation places its cash and cash equivalents on deposit with a North Carolina financial institution. The Federal Deposit Insurance Company (“FDIC”) covers \$250,000 for substantially all depository accounts. The Corporation from time to time may have balances in excess of the FDIC insured limits. The Corporation had funds in banks in excess of the federally insured limits of \$6,970,366 and \$7,343,667 at December 31, 2014 and 2013, respectively.

Note 8—Functional expenses

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

	<u>2014</u>	<u>2013</u>
Program expenses:		
Reliability standards	\$ 140,024	\$ 291,074
Compliance enforcement	5,822,363	6,928,256
Reliability assessment	1,271,357	1,265,510
Training and education	739,279	635,463
Situation awareness	585,938	557,238
	<u>8,558,961</u>	<u>9,677,541</u>
Committee and member forums	<u>876,188</u>	<u>853,769</u>
General and administrative expenses:		
General and administrative	5,094,751	4,391,004
Legal and regulatory	57,085	27,362
Information technology	764,528	532,388
Human resources	11,010	17,674
Accounting and finance	42,102	43,563
	<u>5,969,476</u>	<u>5,011,991</u>
Total	<u>\$ 15,404,625</u>	<u>\$ 15,543,301</u>

Note 9—Subsequent events

Management has evaluated subsequent events through April 20, 2015, the date the financial statements were issued.

ACCOMPANYING INFORMATION

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	<u>2014 YTD Actual</u>	<u>2014 YTD Budget</u>	<u>2014 YTD Variance</u>
Funding			
Member assessments	\$ 13,734,499	\$ 13,734,499	\$ -
Penalty sanctions	2,054,500	2,054,500	-
Workshops	185,280	267,605	(82,325)
Interest	2,054	10,000	(7,946)
Miscellaneous	354,912	308,500	46,412
Total funding	<u>16,331,245</u>	<u>16,375,104</u>	<u>(43,859)</u>
Expenses			
Personnel expenses:			
Salaries	8,694,787	10,187,444	(1,492,657)
Payroll taxes	580,037	611,246	(31,209)
Employee benefits	876,645	941,806	(65,161)
Savings and retirement	1,048,875	1,394,422	(345,547)
Total personnel expenses	<u>11,200,344</u>	<u>13,134,918</u>	<u>(1,934,574)</u>
Meeting expenses:			
Meetings	256,954	317,195	(60,241)
Travel	480,897	605,484	(124,587)
Conference calls	39,099	48,000	(8,901)
Total meeting expenses	<u>776,950</u>	<u>970,679</u>	<u>(193,729)</u>
Operating expenses:			
Contracts and consultants	1,449,604	1,229,030	220,574
Rent and improvements	798,011	419,861	378,150
Office costs	750,881	477,400	273,481
Professional services	131,166	120,400	10,766
Depreciation	277,062	218,653	58,409
Miscellaneous	20,607	15,000	5,607
Total operating expenses	<u>3,427,331</u>	<u>2,480,344</u>	<u>946,987</u>
Total expenses	<u>15,404,625</u>	<u>16,585,941</u>	<u>(1,181,316)</u>
Change in net assets	<u>\$ 926,620</u>	<u>\$ (210,837)</u>	<u>\$ 1,137,457</u>

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	<u>2013 YTD</u> <u>Actual</u>	<u>2013 YTD</u> <u>Budget</u>	<u>2013 YTD</u> <u>Variance</u>
Funding			
Member assessments	\$ 13,829,878	\$ 13,829,878	\$ -
Penalty sanctions	51,000	51,000	-
Workshops	173,997	246,000	(72,003)
Interest	1,271	10,000	(8,729)
Miscellaneous	238,996	65,000	173,996
Total funding	<u>14,295,142</u>	<u>14,201,878</u>	<u>93,264</u>
Expenses			
Personnel expenses:			
Salaries	9,176,085	9,925,148	(749,063)
Payroll taxes	632,913	595,509	37,404
Employee benefits	896,790	916,100	(19,310)
Savings and retirement	1,169,319	1,353,524	(184,205)
Total personnel expenses	<u>11,875,107</u>	<u>12,790,281</u>	<u>(915,174)</u>
Meeting expenses:			
Meetings	276,839	309,160	(32,321)
Travel	646,398	595,023	51,375
Conference calls	49,760	60,000	(10,240)
Total meeting expenses	<u>972,997</u>	<u>964,183</u>	<u>8,814</u>
Operating expenses:			
Contracts and consultants	1,410,698	1,166,947	243,751
Rent and improvements	403,731	405,407	(1,676)
Office costs	633,768	361,552	272,216
Professional services	107,705	105,900	1,805
Depreciation	137,147	300,389	(163,242)
Miscellaneous	2,148	-	2,148
Total operating expenses	<u>2,695,197</u>	<u>2,340,195</u>	<u>355,002</u>
Total expenses	<u>15,543,301</u>	<u>16,094,659</u>	<u>(551,358)</u>
Change in net assets	<u>\$ (1,248,159)</u>	<u>\$ (1,892,781)</u>	<u>\$ 644,622</u>

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS BY FUNCTION

YEAR ENDED DECEMBER 31, 2014

	300 RELIAB STD DEV	400 COMP ENFORCE/ ORG REG & CERT	800 RELIAB ASSES	900 TRAINING & EDUC	1000 SIT AWARE	1100 COMMITTEE & MBR FORUMS	2000 GENERAL ADMIN	2200 LEGAL & REGULATORY	2300 IT	2400 HUMAN RESOURCES	2500 ACCOUNTING & FINANCE	2014 YTD Actual	2014 YTD Budget	2014 YTD Variance
Funding														
Member assessments	466,802	10,372,696	1,938,061	742,299	1,003,325	\$ -	(788,684)	\$ -	\$ -	\$ -	\$ -	\$ 13,734,499	\$ 13,734,499	\$ -
Penalty sanctions	79,938	1,470,713	262,998	97,240	143,611	-	-	-	-	-	-	2,054,500	2,054,500	-
Workshops	-	-	-	185,280	-	-	-	-	-	-	-	185,280	267,605	(82,325)
Interest	-	-	-	-	-	-	-	-	-	-	2,054	2,054	10,000	(7,946)
Miscellaneous	200	31,465	756	5,907	207	13,740	302,637	-	-	-	-	354,912	308,500	46,412
Total funding	546,940	11,874,874	2,201,815	1,030,726	1,147,143	13,740	(486,047)	-	-	-	2,054	16,331,245	16,375,104	(43,859)
Expenses														
Personnel expenses:														
Salaries	78,760	4,024,180	709,479	348,437	382,491	654,631	2,496,809	-	-	-	-	8,694,787	10,187,444	(1,492,657)
Payroll taxes	5,844	279,538	58,419	24,031	26,591	43,889	141,725	-	-	-	-	580,037	611,246	(31,209)
Employee benefits	23,878	396,358	135,871	33,895	73,950	38,656	174,037	-	-	-	-	876,645	941,806	(65,161)
Savings and retirement	12,893	554,549	82,196	44,146	45,828	76,434	232,829	-	-	-	-	1,048,875	1,394,422	(345,547)
Total personnel expenses	121,375	5,254,625	985,965	450,509	528,860	813,610	3,045,400	-	-	-	-	11,200,344	13,134,918	(1,934,574)
Meeting expenses:														
Meetings	300	16,348	29,260	134,414	959	9,635	66,038	-	-	-	-	256,954	317,195	(60,241)
Travel	1,395	231,063	62,154	26,379	39,327	34,552	86,027	-	-	-	-	480,897	605,484	(124,587)
Conference calls	-	-	-	-	-	-	39,099	-	-	-	-	39,099	48,000	(8,901)
Total meeting expenses	1,695	247,411	91,414	160,793	40,286	44,187	191,164	-	-	-	-	776,950	970,679	(193,729)
Operating expenses:														
Contracts and consultants	16,654	293,359	189,900	126,270	16,654	16,654	216,043	-	574,070	-	-	1,449,604	1,229,030	220,574
Rent and improvements	-	-	-	-	-	-	798,011	-	-	-	-	798,011	419,861	378,150
Office costs	-	12,930	2,711	1,707	-	649	522,980	2,465	190,458	1,149	15,832	750,881	477,400	273,481
Professional services	-	13,467	81	-	-	777	27,530	54,620	-	8,421	26,270	131,166	120,400	10,766
Depreciation	-	-	-	-	-	-	277,062	-	-	-	-	277,062	218,653	58,409
Miscellaneous	300	571	1,286	-	138	311	16,561	-	-	1,440	-	20,607	15,000	5,607
Total operating expenses	16,954	320,327	193,978	127,977	16,792	18,391	1,858,187	57,085	764,528	11,010	42,102	3,427,331	2,480,344	946,987
Total expenses	140,024	5,822,363	1,271,357	739,279	585,938	876,188	5,094,751	57,085	764,528	11,010	42,102	15,404,625	16,585,941	(1,181,316)
Change in net assets	\$ 406,916	\$ 6,052,511	\$ 930,458	\$ 291,447	\$ 561,205	\$ (862,448)	\$ (5,580,798)	\$ (57,085)	\$ (764,528)	\$ (11,010)	\$ (40,048)	\$ 926,620	\$ (210,837)	\$ 1,137,457

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS BY FUNCTION

YEAR ENDED DECEMBER 31, 2013

	300 RELIAB STD DEV	400 COMP ENFORCE/ ORG REG & CERT	800 RELIAB ASSES	900 TRAINING & EDUC	1000 SIT AWARE	1100 COMMITTEE MBR FORUMS	2000 GENERAL ADMIN	2200 LEGAL & REGULATORY	2300 IT	2400 HUMAN RESOURCES	2500 ACCOUNTING & FINANCE	2013 YTD Actual	2013 YTD Budget	2013 YTD Variance
Funding														
Member assessments	\$ 698,880	\$ 11,150,647	\$ 1,937,756	\$ 701,400	\$ 1,046,920	-	\$ (1,705,725)	-	-	-	-	\$ 13,829,878	\$ 13,829,878	\$ -
Penalty sanctions	2,358	36,796	6,384	2,137	3,325	-	-	-	-	-	-	51,000	51,000	-
Workshops	-	-	-	173,997	-	-	-	-	-	-	-	173,997	246,000	(72,003)
Interest	-	-	-	-	-	-	-	-	-	-	1,271	1,271	10,000	(8,729)
Miscellaneous	87	177,319	-	87	87	87	61,329	-	-	-	-	238,996	65,000	173,996
Total funding	701,325	11,364,762	1,944,140	877,621	1,050,332	87	(1,644,396)	-	-	-	1,271	14,295,142	14,201,878	93,264
Expenses														
Personnel expenses:														
Salaries	226,234	4,556,726	723,751	300,729	380,862	639,983	2,347,800	-	-	-	-	9,176,085	9,925,148	(749,063)
Payroll taxes	17,470	331,116	56,925	20,837	20,980	46,782	138,803	-	-	-	-	632,913	595,509	37,404
Employee benefits	26,540	470,656	93,610	27,231	32,467	57,156	189,130	-	-	-	-	896,790	916,100	(19,310)
Savings and retirement	13,925	636,236	93,427	35,589	61,989	65,562	262,591	-	-	-	-	1,169,319	1,353,524	(184,205)
Total personnel expenses	284,169	5,994,734	967,713	384,386	496,298	809,483	2,938,324	-	-	-	-	11,875,107	12,790,281	(915,174)
Meeting expenses:														
Meetings	302	26,743	28,428	142,043	3,225	11,598	64,500	-	-	-	-	276,839	309,160	(32,321)
Travel	5,804	407,579	69,856	13,986	55,399	28,345	65,429	-	-	-	-	646,398	595,023	51,375
Conference calls	-	-	-	-	-	-	49,760	-	-	-	-	49,760	60,000	(10,240)
Total meeting expenses	6,106	434,322	98,284	156,029	58,624	39,943	179,689	-	-	-	-	972,997	964,183	8,814
Operating expenses:														
Contracts and consultants	-	474,637	194,865	90,077	-	2,756	211,984	-	424,779	10,000	1,600	1,410,698	1,166,947	243,751
Rent and improvements	-	-	-	-	-	-	403,731	-	-	-	-	403,731	405,407	(1,676)
Office costs	799	16,050	4,648	4,971	2,316	1,477	481,725	1,215	107,609	699	12,259	633,768	361,552	272,216
Professional services	-	8,513	-	-	-	-	37,366	26,147	-	6,975	28,704	107,705	105,900	1,805
Depreciation	-	-	-	-	-	-	137,147	-	-	-	-	137,147	300,389	(163,242)
Miscellaneous	-	-	-	-	-	110	1,038	-	-	-	1,000	2,148	-	2,148
Total operating expenses	799	499,200	199,513	95,048	2,316	4,343	1,272,991	27,362	532,388	17,674	43,563	2,695,197	2,340,195	355,002
Total expenses	291,074	6,928,256	1,265,510	635,463	557,238	853,769	4,391,004	27,362	532,388	17,674	43,563	15,543,301	16,094,659	(551,358)
Change in net assets	\$ 410,251	\$ 4,436,506	\$ 678,630	\$ 242,158	\$ 493,094	\$ (853,682)	\$ (6,035,400)	\$ (27,362)	\$ (532,388)	\$ (17,674)	\$ (42,292)	\$ (1,248,159)	\$ (1,892,781)	\$ 644,622

ATTACHMENT 7

2014 ACTUAL COST-TO-BUDGET COMPARISON

FOR

SOUTHWEST POWER POOL REGIONAL ENTITY

AND

2014 AUDITED FINANCIAL REPORT

FOR

SOUTHWEST POWER POOL, INC.



Deborah K. Currie
Manager of Regulatory Interface and Process Improvement

Southwest Power Pool Regional Entity
201 Worthen Dr.
Little Rock, AR 72223
P 501.688.8228
F 501.482.2025

April 29, 2015

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 2014 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) 2014 Actual Cost-to-Budget Comparison (2014 True Up Filing). For 2014, the SPP RE received approximately \$9.7 million in statutory funds and incurred approximately \$9.8 million in statutory expense (compared to \$11.8 million budget).

The \$2.7 thousand funding variance results from interest earned on the cash balance. The SPP RE performs only statutory activities, and therefore no statutory funding was used for non-statutory activities. The net impact on SPP RE's cash position for the year was a \$88 thousand negative variance (compared to the budgeted \$2.1 million negative variance).

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

Aggregate Expense Variances

- **Personnel Expenses** (Actual - \$4,281K or 13% below budget) – Personnel expenses were less than budget primarily due to four positions (Director of Compliance and Events, two Lead Engineers and a CIP Compliance Specialist) being unfilled as of December 31, 2014.
- **Travel and Meeting Expenses** (Actual - \$492K or 15% under budget) –Travel expenses were less than expected primarily due to the unfilled budgeted staff positions.
- **Other Operating Expenses** (Actual - \$871K or 42% under budget) – Other operating expenses trailed budget primarily due to a reduction in the use of audit contractors as a result of the increased experience of SPP RE staff and improved performance of Registered entities.

- **SPP, Inc. Indirect Expense** (Actual - \$4,173K or 14% under budget) – SPP, Inc. Indirect Expenses were less than budget due to actual FTEs being lower than budgeted FTEs and a slight decrease in the actual 2014 Overhead Rate. Indirect Expenses are discussed in greater detail below.
- **Total Expenses** (Actual \$9.8 million or 17% under budget) – Although SPP RE ended the year under budget, SPP RE completed its intended activities for 2014 principally as a result of the increased experience of RE direct staff. Other contributing factors include: a higher level of Registered Entity compliance, particularly in the Operations and Planning area, which resulted in a reduced number of incoming violations; and enhanced efficiencies in internal SPP RE processes.

Specifically, SPP RE performed 56 audits, processed 271 technical feasibility exceptions, identified 121 possible violations, processed 188 violations, reviewed 101 mitigation plans, and examined 30 reportable events. In addition, SPP RE conducted various outreach activities 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 2014, shared staff charged 6,033 hours, or 3.2 FTEs based on SPP’s standard assumption that total number of hours in a year is 1,880, to the SPP RE. 2014 budgeted shared staff FTEs were 3.75.

With respect to the costs of indirect support staff (SPP, Inc. Indirect Expenses), these costs are assessed to the SPP RE based on a fixed rate per hour per FTE. The fixed rate is calculated by

dividing the total costs for SPP, Inc. support services by the total hours worked by non-overhead personnel. The fixed rate is then multiplied by the hours charged by the shared staff and SPP RE direct staff to determine the total amount of SPP, Inc. Indirect Expenses that are assessed to the SPP RE. The SPP, Inc. Indirect Expenses assessed to the SPP RE are included in the SPP RE's Business Plan and Budget. The 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 2014 budget was the actual Indirect Overhead Rate for 2012, which was \$75.88/hour. The actual 2014 Indirect Overhead Rate was \$75.45/hour. The development of the \$75.88/hour rate that was used in the development of the 2014 budget and the \$75.45/hour rate embedded in the actual 2014 costs are shown in Attachments 2 and 3, respectively. Note that the Human Resources and Customer Services expenses detailed in the 2014 Budgeted Indirect Expense Rate calculation (Attachment 2) were included in the 2014 Actual Indirect Expense Rate calculation's Administration expenses (Attachment 3). In addition, the 2014 Actual Indirect Expense Rate calculation (Attachment 3) shows a one-time "IM Special Compensation" credit of \$2,246k that SPP awarded employees for the successful implementation of the Integrated Marketplace on March 1, 2014. This cost was not allocated to the RE.

If you have any questions related to the submitted materials please feel free to call me at 501.688.8228 or email me at dcurrie.re@spp.org.

Sincerely,

Deborah K. Currie

Deborah K. Currie

**Southwest Power Pool
Regional Entity
Statement of Activities
1/1/2014 through 12/31/2014**

Total Statutory	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	9,219,123	9,219,123	-
Penalty Sanctions	508,333	508,333	-
Total ERO Funding	\$ 9,727,456	\$ 9,727,456	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	2,678	-	2,678
Miscellaneous	-	-	-
Total Funding (A)	\$ 9,730,134	\$ 9,727,456	\$ 2,678
Expenses			
Personnel Expenses			
Salaries	3,588,436	4,103,334	(514,898)
Payroll Taxes	224,514	313,905	(89,391)
Employee Benefits	329,902	330,805	(903)
Savings & Retirement	138,799	164,133	(25,334)
Total Personnel Expenses	\$ 4,281,651	\$ 4,912,177	\$ (630,527)
Meeting Expenses			
Meetings	101,112	91,500	9,612
Travel	391,004	486,000	(94,996)
Conference Calls	-	-	-
Total Meeting Expenses	\$ 492,116	\$ 577,500	\$ (85,384)
Operating Expenses			
Consultants & Contracts	706,659	1,031,000	(324,341)
Rent & Improvements	-	-	-
Office Costs	10,995	8,000	2,995
Professional Services	153,637	466,100	(312,463)
Miscellaneous	-	-	-
Depreciation	-	-	-
Total Operating Expenses	\$ 871,292	\$ 1,505,100	\$ (633,808)
Total Direct Expenses	\$ 5,645,059	\$ 6,994,777	\$ (1,349,718)
SPP Inc. Indirect Expenses	\$ 4,173,134	\$ 4,828,852	\$ (655,718)
SPP RE Indirect Expenses ⁽¹⁾	\$ -	\$ (0)	\$ 0
Total Indirect Expenses	\$ 4,173,134	\$ 4,828,852	\$ (655,718)
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses (B)	\$ 9,818,193	\$ 11,823,629	\$ (2,005,436)
Change in Assets (A - B)	(88,059)	(2,096,173)	2,008,114
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)	\$ 9,818,193	\$ 11,823,629	\$ (2,005,436)
Change in Working Capital (A-B-C)	\$ (88,059)	\$ (2,096,173)	\$ 2,008,114
FTEs (2)	29.40	33.85	(4.45)

(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 2014 divided by 365) plus Shared Staff FTEs (2014 billed hours divided by 1880)

Reliability Standards

RELIABILITY STANDARDS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	75,211	75,211	-	0.00%
Penalty Sanctions	4,119	4,119	-	0.00%
Total ERO Funding	\$ 79,330	\$ 79,330	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 79,330	\$ 79,330	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	22,990	28,372	(5,382)	-18.97%
Payroll Taxes	1,353	2,170	(817)	-37.64%
Employee Benefits	2,448	2,067	381	18.44%
Savings & Retirement	879	1,135	(256)	-22.56%
Total Personnel Expenses	\$ 27,671	\$ 33,744	\$ (6,073)	-18.00%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ 27,671	\$ 33,744	\$ (6,073)	-18.00%
SPP Inc. Indirect Expenses	35,462	35,664	(203)	-0.57%
SPP RE Indirect Expenses	9,467	9,922	(455)	-4.59%
Total Indirect Expenses	\$ 44,928	\$ 45,586	\$ (658)	-1.44%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 72,599	\$ 79,330	\$ (6,731)	-8.48%
Change in Assets (A - B)	\$ 6,731	\$ -	\$ 6,731	
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)	\$ 72,599	\$ 79,330	\$ (6,731)	-8.48%
Change in Working Capital (A-B-C)	\$ 6,731	\$ -	\$ 6,731	
FTE's	0.25	0.25	-	0.00%

Explanation of 2014 Variance - Reliability Standards

Expenses

- The Reliability Standards program area had no expense categories that met the criteria for a variance explanation. No variances > +/- 10% and >\$10,000.

Compliance Operations, Enforcement and Organization Registration

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION (Includes Critical Infrastructure Protection)	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	8,298,748	8,298,748	-	0.00%
Penalty Sanctions	364,154	364,154	-	0.00%
Total ERO Funding	\$ 8,662,902	\$ 8,662,902	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 8,662,902	\$ 8,662,902	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	2,586,913	2,680,693	(93,780)	-3.50%
Payroll Taxes	164,689	205,073	(40,384)	-19.69%
Employee Benefits	226,169	222,723	3,446	1.55%
Savings & Retirement	102,399	107,228	(4,829)	-4.50%
Total Personnel Expenses	\$ 3,080,169	\$ 3,215,717	\$ (135,547)	-4.22%
Meeting Expenses				
Meetings	28,426	6,500	21,926	337%
Travel	311,622	310,000	1,622	0.52%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 340,048	\$ 316,500	\$ 23,548	7.44%
Operating Expenses				
Consultants & Contracts	675,670	726,000	(50,330)	-6.93%
Rent & Improvements	-	-	-	
Office Costs	8,085	-	8,085	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 683,756	\$ 726,000	\$ (42,244)	-5.82%
Total Direct Expenses	\$ 4,103,973	\$ 4,258,217	\$ (154,243)	-3.62%
SPP Inc. Indirect Expenses	2,917,797	3,152,662	(234,865)	-7.45%
SPP RE Indirect Expenses	1,404,020	1,252,024	151,996	12.14%
Total Indirect Expenses	\$ 4,321,817	\$ 4,404,686	\$ (82,869)	-1.88%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 8,425,791	\$ 8,662,902	\$ (237,112)	-2.74%
Change in Assets (A - B)	\$ 237,112	\$ -	\$ 237,112	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ 8,425,791	\$ 8,662,902	\$ (237,112)	-2.74%
Change in Working Capital (A-B-C)	\$ 237,112	\$ -	\$ 237,112	
FTE's	20.55	22.10	(1.55)	-7.01%

Explanation of 2014 Variance - Compliance Operation, Enforcement and Organization Registration (Includes Critical Infrastructure Protection)

Personnel Expenses

- Payroll taxes trailed budget due to a one-time credit adjustment made for a 2013 overpayment of payroll taxes on employee's performance compensation.

Meeting Expenses

- Meeting expenses exceeded budget due to the number of meetings held with Registered Entities, particularly for CIP V5 outreach efforts.

Indirect Expenses

- SPP RE Inc. Indirect Expenses exceeded budget due to a higher percentage being allocated to this program area based on the relative share of functional program direct expenses.

Reliability Assessments and Performance Analysis

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	2,639,558	2,639,558	-	0.00%
Penalty Sanctions	117,403	117,403	-	0.00%
Total ERO Funding	\$ 2,756,961	\$ 2,756,961	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 2,756,961	\$ 2,756,961	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	409,020	835,786	(426,766)	-51.06%
Payroll Taxes	31,439	63,938	(32,498)	-50.83%
Employee Benefits	36,465	61,910	(25,444)	-41.10%
Savings & Retirement	16,439	33,431	(16,993)	-50.83%
Total Personnel Expenses	\$ 493,363	\$ 995,065	\$ (501,701)	-50.42%
Meeting Expenses				
Meetings	622	-	622	
Travel	18,844	100,000	(81,156)	-81.16%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 19,466	\$ 100,000	\$ (80,534)	-80.53%
Operating Expenses				
Consultants & Contracts	-	250,000	(250,000)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ 250,000	\$ (250,000)	-100.00%
Total Direct Expenses	\$ 512,829	\$ 1,345,065	\$ (832,235)	-61.87%
SPP Inc. Indirect Expenses	563,838	1,016,413	(452,575)	-44.53%
SPP RE Indirect Expenses	175,445	395,483	(220,038)	-55.64%
Total Indirect Expenses	\$ 739,283	\$ 1,411,896	\$ (672,613)	-47.64%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 1,252,112	\$ 2,756,961	\$ (1,504,848)	-54.58%
Change in Assets (A - B)	\$ 1,504,849	\$ -	\$ 1,504,848	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ 1,252,112	\$ 2,756,961	\$ (1,504,848)	-54.58%
Change in Working Capital (A-B-C)	\$ 1,504,849	\$ -	\$ 1,504,848	
FTE's	3.98	7.13	(3.15)	-44.21%

Explanation of 2014 Variance – Reliability Assessments and Performance Analysis

Personnel Expenses

- Personnel Expenses, including taxes and benefits, trailed budget primarily due to the unfilled budgeted positions. As of December 31, 2014, four positions (Director of Compliance and Events, two Lead Engineers and a CIP Compliance Specialist) were unfilled. The Director is shared between the Compliance Program and the Reliability Assessment Program. The two Engineer positions are in the Reliability Assessment program.

Meeting Expenses

- Travel Expenses trailed budget primarily due to the unfilled budgeted positions.

Operating Expenses

- Consultant and Contract Expenses trailed budget primarily due to the smooth implementation of the new BES definition; no contractual services were needed.

Indirect Expenses

- SPP Inc. Indirect Expenses trailed budget due to the actual FTEs being lower than the budgeted FTEs.
- SPP RE Inc. Indirect Expenses trailed budget due to a smaller percentage being allocated to this program area based on the relative share of functional program direct expenses.

FTEs

- FTEs were lower than budget due to the unfilled budgeted positions.

Training, Education and Operator Certification

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	258,655	258,655	-	0.00%
Penalty Sanctions	20,597	20,597	-	0.00%
Total ERO Funding	\$ 279,252	\$ 279,252	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 279,252	\$ 279,252	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings	13,304	60,000	(46,696)	-77.83%
Travel	-	13,000	(13,000)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 13,304	\$ 73,000	\$ (59,696)	-81.78%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	3,769	5,000	(1,231)	-24.62%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 3,769	\$ 5,000	\$ (1,231)	-24.62%
Total Direct Expenses	\$ 17,073	\$ 78,000	\$ (60,927)	-78.11%
SPP Inc. Indirect Expenses	-	178,318	(178,318)	-100.00%
SPP RE Indirect Expenses	5,841	22,934	(17,093)	-74.53%
Total Indirect Expenses	\$ 5,841	\$ 201,252	\$ (195,411)	-97.10%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 22,914	\$ 279,252	\$ (256,338)	-91.79%
Change in Assets (A - B)	\$ 256,338	\$ -	\$ 256,338	
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)	\$ 22,914	\$ 279,252	\$ (256,338)	-91.79%
Change in Working Capital (A-B-C)	\$ 256,338	\$ -	\$ 256,338	
FTE's	-	1.25	(1.25)	-100.00%

Explanation of 2014 Variance – Training, Education and Operator Certification

Meeting Expenses

- Meeting & Travel Expenses trailed budget due to the number of meetings held at the SPP Corporate Campus. Travel Expenses for the Outreach and Standards Coordinator are in the General and Administrative program area.

Indirect Expenses

- SPP Inc. Indirect Expenses trailed budget due to the actual FTEs being lower than budgeted FTEs.
- SPP RE Indirect Expenses allocated to this program area trailed budget due to a smaller percentage being allocated to this program area based on the relative share of functional program direct expenses.

FTEs

- FTEs were lower than budget due to a reassignment of personnel to other program areas.

Situation Awareness and Infrastructure Security

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	43,124	43,124	-	0.00%
Penalty Sanctions	2,060	2,060	-	0.00%
Total ERO Funding	\$ 45,184	\$ 45,184	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 45,184	\$ 45,184	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	17,049	18,006	(957)	-5.32%
Payroll Taxes	1,304	1,377	(73)	-5.32%
Employee Benefits	1,118	1,034	84	8.13%
Savings & Retirement	682	720	(38)	-5.32%
Total Personnel Expenses	\$ 20,152	\$ 21,137	\$ (985)	-4.66%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ 20,152	\$ 21,137	\$ (985)	-4.66%
SPP Inc. Indirect Expenses	17,731	17,832	(101)	-0.57%
SPP RE Indirect Expenses	6,894	6,215	680	10.93%
Total Indirect Expenses	\$ 24,625	\$ 24,047	\$ 578	2.40%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 44,778	\$ 45,184	\$ (406)	-0.90%
Change in Assets (A - B)	\$ 406	\$ 1	\$ 406	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ 44,778	\$ 45,184	\$ (406)	-0.90%
Change in Working Capital (A-B-C)	\$ 406	\$ 1	\$ 406	
FTE's	0.13	0.13	-	0.00%

Explanation of 2014 Variance – Situation Awareness and Infrastructure Security (SAIS)

Expenses

- The SAIS program area had no expense categories that met the criteria for a variance explanation. No variances > +/- 10% and >\$10,000.

General and Administrative

GENERAL and ADMINISTRATIVE	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(2,096,173)	(2,096,173)	-	0.00%
Penalty Sanctions				
Total ERO Funding	\$ (2,096,173)	\$ (2,096,173)	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ (2,096,173)	\$ (2,096,173)	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	552,464	540,477	11,987	2.22%
Payroll Taxes	25,728	41,346	(15,618)	-37.77%
Employee Benefits	63,702	43,072	20,630	47.90%
Savings & Retirement	18,401	21,619	(3,218)	-14.89%
Total Personnel Expenses	\$ 660,295	\$ 646,515	\$ 13,780	2.13%
Meeting Expenses				
Meetings	58,760	25,000	33,760	135.04%
Travel	60,538	63,000	(2,462)	-3.91%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 119,298	\$ 88,000	\$ 31,298	35.57%
Operating Expenses				
Consultants & Contracts	30,990	55,000	(24,010)	-43.65%
Rent & Improvements		-	-	
Office Costs	2,909	8,000	(5,091)	-63.64%
Professional Services	147,797	161,100	(13,303)	-8.26%
Miscellaneous		-	-	
Depreciation		-	-	
Total Operating Expenses	\$ 181,697	\$ 224,100	\$ (42,403)	-18.92%
Total Direct Expenses	\$ 961,289	\$ 958,615	\$ 2,675	0.28%
SPP Inc. Indirect Expenses	638,307	427,963	210,344	49.15%
SPP RE Indirect Expenses	(1,599,596)	(1,386,578)	(213,019)	15.36%
Total Indirect Expenses	\$ (961,289)	\$ (958,615)	\$ (2,675)	0.28%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ 0	
Change in Assets (A - B)	\$ (2,096,173)	\$ (2,096,173)	\$ (0)	0.00%
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ -	\$ -	\$ 0	
Change in Working Capital (A-B-C)	\$ (2,096,173)	\$ (2,096,173)	\$ (0)	0.00%
FTE's	4.50	3.00	1.50	50.00%

Explanation of 2014 Variance – General and Administrative

Personnel Expenses

- Payroll taxes trailed budget due to a one-time credit adjustment made for a 2013 overpayment of payroll taxes on employee's performance compensation. Benefits exceeded budget primarily due to non-compensation related RE staff benefits such as the employee outing and team gifts being recorded in this expense category.

Meeting Expenses

- Meeting Expenses exceeded budget primarily due to an increase in the number of meetings held with Registered Entities.

Operating Expenses

- Consultant & Contract Expense and Professional Services trailed budget primarily due to a reduced need to engage these services.

Indirect Expenses

- SPP Inc. Indirect Expenses exceeded budget due to the actual FTEs being higher than the budgeted FTEs.

FTEs

- FTEs were higher than budget due to the reassignment of personnel to this program area.

Legal and Regulatory

LEGAL and REGULATORY	2014 Actual	2014 Budget	2014 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments			-	-
Penalty Sanctions			-	-
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	-
Membership Fees	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	-	-	-
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	2,071	300,000	(297,929)	-99.31%
Miscellaneous	-	-	-	-
Depreciation	-	-	-	-
Total Operating Expenses	2,071	300,000	(297,929)	-99.31%
Total Direct Expenses	2,071	300,000	(297,929)	
SPP Inc. Indirect Expenses	-	-	-	-
SPP RE Indirect Expenses	(2,071)	(300,000)	297,929	
Total Indirect Expenses	\$ (2,071)	\$ (300,000)	\$ 297,929	-99.31%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	-	-	-	-
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	-	-	-	-

Explanation of 2014 Variance – Legal and Regulatory

Operating Expenses

- Professional Services cost trailed budget because SPP RE did not have any hearings in 2014.

Member Forums

Expenses

- Expenses incurred by SPP RE for forums are included in the direct expenses of the applicable program area.

Information Technology, Human Resources, and Accounting and Finance

Expenses

- Expenses incurred by SPP RE for IT, HR and Finance are accounted for within the SPP, Inc. Indirect Expense.

Attachment 2

CALCULATION OF THE SPP INC. INDIRECT EXPENSE RATE¹

<u>Support Groups²</u>	<u>Overhead Costs to Allocate</u>
Administration	\$ 15,747,334 *
Officers	6,027,900 **
Accounting	1,202,155
SPP Compliance- Physical Security	343,273
Human Resources	2,666,116
Customer Services	578,985
Legal	1,310,727
Communications	397,133
Information Technology	17,235,217
Total Costs	\$ 45,508,840 A
<u>Non-Support Resource Groups</u>	
Ending 2012 Headcounts	319
Average Work Hours/FTE in 2012	1880
# of Work Hours in 2012	599,720 B
2012 Indirect Overhead Expense Rate (A/B)	\$ 75.88
Times Budgeted SPP RE FTEs	33.85
Times Average Work Hours/FTE	1,880
Budgeted SPP Inc. Indirect Costs	\$ 4,828,851

¹Due to the timing of the budget process/schedule, the estimated overhead rate for 2014 is based on actual 2012 costs. Any variance between the estimated overhead rate and the actual 2014 overhead rate will be included in the annual 2014 Business Plan and Budget true-up filing.

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

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

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

Attachment 3

CALCULATION OF THE SPP INC. ACTUAL INDIRECT EXPENSE RATE

<u>Support Groups</u> ¹	<u>Overhead Costs to Allocate</u>
Administration	\$ 19,188,632 *
Officers	6,495,908 **
Accounting	1,326,296
Corporate Services	5,220,237
Compliance	-
Internal Audit	-
Reliability Standards	-
Project Management	-
Process Management	-
Legal	1,525,595
Communications	406,236
Information Technology	15,883,675
Less: IM Special Comp	(2,245,579)
Total Costs	\$ 47,801,000 A
<u>Non-Support Resource Groups</u>	
Ending 2014 Headcounts	337
Average Work Hours/FTE in 2014	1880
# of Work Hours in 2014	633,560 B
2014 Indirect Overhead Expense Rate (A/B)	\$ 75.45 (75.44826)
Times ACTUAL SPP RE FTEs	29.4 (29.42085)
Times Average Work Hours/FTE	1,880
Actual SPP Inc. Indirect Costs	\$ 4,173,134

¹ 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, 2014 and 2013



Southwest Power Pool, Inc.
December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in *Note 2* to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BKD, LLP

Little Rock, Arkansas
April 13, 2015

Southwest Power Pool, Inc.

Balance Sheets

(in Thousands)

December 31, 2014 and 2013

Assets

	2014	2013 (Restated – Note 2)
Current Assets		
Cash and cash equivalents	\$ 57,534	\$ 35,262
Restricted cash deposits	222,285	76,713
Accounts receivable	41,826	24,134
Prepaid expenses and other	<u>7,204</u>	<u>6,977</u>
Total current assets	<u>328,849</u>	<u>143,086</u>
Property and Equipment, at Cost		
Land	4,812	4,812
Building	66,354	66,225
Furniture and fixtures	10,016	10,026
Equipment and machinery	44,822	41,647
Software	206,237	93,720
Software in development	<u>12,458</u>	<u>106,895</u>
	344,699	323,325
Less accumulated depreciation and amortization	<u>167,818</u>	<u>119,065</u>
	<u>176,881</u>	<u>204,260</u>
Investments (Note 3)	10,099	9,258
Other Assets, Net	<u>5,184</u>	<u>2,802</u>
	<u>\$ 521,013</u>	<u>\$ 359,406</u>

See Notes to Financial Statements

Liabilities and Members' Deficit

	2014	2013 (Restated – Note 2)
Current Liabilities		
Accounts payable	\$ 31,417	\$ 15,953
Customer deposits	222,285	76,713
Current maturities of long-term debt (<i>Note 5</i>)	24,299	22,998
Accrued expenses	57,943	29,039
Deferred revenue	<u>5,895</u>	<u>5,919</u>
Total current liabilities	341,839	150,622
Long-term Debt (<i>Note 5</i>)	247,961	235,260
Other Long-term Liabilities	18,159	14,420
Members' Deficit	<u>(86,946)</u>	<u>(40,896)</u>
	<u>\$ 521,013</u>	<u>\$ 359,406</u>

Southwest Power Pool, Inc.
Statements of Operations
(in Thousands)
Years Ended December 31, 2014 and 2013

	2014	2013 (Restated – Note 2)
Operating Income		
Tariff fees and member assessments	\$ 158,735	\$ 137,811
Other member services	<u>4,802</u>	<u>4,926</u>
	<u>163,537</u>	<u>142,737</u>
Operating Expenses		
Salaries and benefits	85,575	80,615
Employee travel	1,924	1,868
Administrative	4,399	3,967
Regulatory assessment	16,323	14,699
Meetings	833	930
Communications system	3,745	3,666
Leases	180	432
Maintenance	15,149	11,300
Consulting services	16,319	16,114
Depreciation and amortization	<u>51,046</u>	<u>19,398</u>
	<u>195,493</u>	<u>152,989</u>
Operating Loss	<u>(31,956)</u>	<u>(10,252)</u>
Other Income (Expense)		
Investment income	459	731
Interest expense	(12,554)	(7,763)
Change in fair market value of interest rate swaps	(1,528)	923
Other income	<u>75</u>	<u>258</u>
	<u>(13,548)</u>	<u>(5,851)</u>
Loss Before Unrealized Gain and Change in Funded Status of Employee Benefit Plans	(45,504)	(16,103)
Unrealized Gain on Investments	251	710
Change in Funded Status of Employee Benefit Plans	<u>(797)</u>	<u>5,225</u>
Net Loss	<u>\$ (46,050)</u>	<u>\$ (10,168)</u>

Southwest Power Pool, Inc.

Statements of Members' Deficit

(in Thousands)

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance, Beginning of Year	\$ (40,896)	\$ (30,728)
Net loss	<u>(46,050)</u>	<u>(10,168)</u>
Balance, End of Year	<u>\$ (86,946)</u>	<u>\$ (40,896)</u>

Southwest Power Pool, Inc.
Statements of Cash Flows
(in Thousands)
Years Ended December 31, 2014 and 2013

	2014	2013 (Restated – Note 2)
Operating Activities		
Net loss	\$ (46,050)	\$ (10,168)
Items not requiring cash		
Depreciation and amortization	51,046	19,398
Change in funded status of employee benefit plans	797	(5,225)
Unrealized gain on investments	(251)	(710)
Realized gain on investments	-	(157)
(Gain)/loss on disposal of fixed assets	(23)	2
Change in fair market value of interest rate swaps	1,528	(923)
Changes in assets and liabilities		
Accounts receivable	(17,692)	(6,211)
Prepaid expenses and other	(227)	(1,560)
Other assets	(2,472)	(674)
Accounts payable	15,464	6,122
Accrued expenses	28,880	(70)
Other long-term liabilities	1,414	2,696
Net cash provided by operating activities	32,414	2,520
Investing Activities		
Acquisition of property and equipment	(23,554)	(49,818)
Purchase of investments	(590)	(1,657)
Proceeds from sale of investments	-	766
Net cash used in investing activities	(24,144)	(50,709)
Financing Activities		
Repayments of long-term debt	(22,998)	(12,700)
Issuance of long-term debt	37,000	-
Net cash provided by (used in) financing activities	14,002	(12,700)
Increase/(Decrease) in Cash and Cash Equivalents	22,272	(60,889)
Cash and Cash Equivalents, Beginning of Year	35,262	96,151
Cash and Cash Equivalents, End of Year	\$ 57,534	\$ 35,262
Supplemental Cash Flow Information		
Interest paid on long-term debt (net of interest capitalized of \$363 and \$2,777 in 2014 and 2013, respectively)	\$ 10,576	\$ 7,932

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

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. Effective March 1, 2014, the EIS market was replaced with Integrated Marketplace which includes day-ahead and real time markets, transmission congestion rights, reliability unit commitment, operating reserve market, and consolidated balancing authority.

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

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, 2014 and 2013, 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.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Investments

The Company's investments include domestic and foreign issued stock and equity and fixed income mutual funds. These investments are recorded at fair value, with unrealized gains and losses reported as non-operating income. Dividends, interest income, and realized gains and losses are reported as investment income. The Company's investments are intended to be utilized in funding benefits associated with the Company's postretirement health care plan.

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 2011.

Accounts Receivable

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date are subject to interest at a rate set by FERC. No allowance for doubtful accounts has been recorded for 2014 and 2013.

Property and Equipment

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

Building	20 years
Building improvements	Shorter of useful life or remaining life of building
Furniture and fixtures	5 years
Vehicles	5 years
Equipment and machinery	3 years
Software	3 years

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$363 and \$2,777 in 2014 and 2013, respectively.

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

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Long-lived Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2014 and 2013.

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

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 2014 and 2013, all members paid a \$6 membership fee.

The Company also bills transmission customers and transmission owners a charge under Schedule 12 on all energy delivered under point-to-point transmission service and network integration transmission service. This provides a mechanism for recovering from transmission customers 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.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Deferred Revenue

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

Other Member Services

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis. The Company also provides engineering study services for long-term transmission service and generation interconnection studies.

Withdrawing Members

Members wishing to withdraw their membership from the Company must provide 24 months written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal, and the member's share of long-term obligations and related interest. Withdrawing members may also be responsible for all financial obligations incurred and costs allocated to its load for transmission facilities approved prior to their withdrawal.

Concentration of Credit Risk

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2014 and 2013, the Company maintained cash balances, including transaction accounts and short-term investment accounts that are not insured by the Federal Deposit Insurance Corporation. The Company did not have transaction accounts exceeding federal insurance limits at December 31, 2014. The Company's transaction accounts exceeded federal limits by \$9,758 at December 31, 2013. The Company's investment accounts were primarily invested in highly liquid short-term investments such as money market funds, mutual funds and repurchase agreements. The Company also requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on net earnings.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Note 2: Restatement of Prior Years' Financial Statements

In 2014, the Company corrected an error in presenting its Post-retirement Healthcare Plan. The assets intended to fund the benefits are held in an agency account at a trust company and not in a formally established trust. The impacts of this correction are: 1) the assets could no longer be considered plan assets for financial reporting purposes, 2) the return on these assets could no longer be factored into the calculation of the actuarially computed pension cost, and 3) the earnings and related expenses associated with the agency assets must be recorded in the statement of operations.

Based on this correction, assets and liabilities of the Company's noncontributory defined benefit postretirement health care plan as of December 31, 2014 are recorded on a gross basis as long term assets and liabilities, respectively. The Company previously reported these assets and liabilities on a net basis. Reclassification of the balances as of December 31, 2013 to conform to the 2014 presentation had no impact on equity.

Earnings and related expenses associated with the agency assets are reflected in the statement of operations for the year ended December 31, 2014. The addition of the incremental benefit cost and earnings and expenses of the agency assets for the year ended December 31, 2013 resulted in an offsetting adjustment to the change in funded status of employee benefit plans with no impact to net loss previously reported.

	As Restated	As Previously Reported	Effect of Change
Balance Sheet			
Cash	\$ 35,262	\$ 34,874	\$ 388
Prepaid expenses and other	6,977	6,967	10
Investments	9,258	-	9,258
Other assets	2,802	4,463	(1,661)
Total assets	359,406	351,411	7,995
Other long-term liabilities	14,420	6,425	7,995
Statement of Operations			
Salaries and benefits	80,615	79,661	954
Consulting services	16,114	16,077	37
Investment income	731	223	508
Unrealized gains	710	-	710
Change in funded status of employee benefit plans	5,225	5,452	(227)
Statement of Cash Flows			
Cash flow provided by operations	2,520	1,699	821
Cash used in investing activities	50,709	49,818	891
Beginning cash balance	96,151	95,693	458
Ending cash balance	35,262	34,874	388

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Note 3: Investment and Investment Returns

Investments at December 31 consisted of the following:

	2014	2013 (Restated – Note 2)
Mutual Funds		
Equity	\$ 3,186	\$ 3,149
Fixed Income	2,732	2,282
Financials	610	498
Alternative Assets	<u>271</u>	<u>333</u>
Total Mutual Funds	6,799	6,262
Domestic Common Stock		
Consumer discretionary	417	365
Consumer staples	393	351
Energy	229	260
Financial	452	405
Health care	456	384
Industrials	404	385
Information technology	574	512
Materials	172	163
Telecommunication	37	39
Utilities	<u>125</u>	<u>94</u>
Total Common Stock	3,259	2,959
Foreign Stocks		
Industrials	<u>41</u>	<u>38</u>
	<u>\$ 10,099</u>	<u>\$ 9,258</u>

Southwest Power Pool, Inc.
Notes to Financial Statements
(in Thousands)
December 31, 2014 and 2013

Total investment return is comprised of the following:

	2014	2013 (Restated – Note 2)
Interest and dividends reported at fair value	\$ 242	\$ 204
Net realized and unrealized gains on investments reported at fair value	468	1,013
	\$ 710	\$ 1,217

Interest, dividends, and realized gains are reported as investment income while unrealized gains are reported separately in the statement of operations.

Note 4: Line of Credit

The Company has a \$30,000 revolving line of credit expiring in 2016. At December 31, 2014 and 2013, 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, 2014.

Note 5: Long-term Debt and Interest Rate Swaps

Long-term Debt

	2014	2013
Variable Rate Term Note due 2027 (A)	\$ 3,547	\$ 3,752
Variable Rate Term Note due 2014 (B)	—	5,500
5.45% Senior Notes due 2016 (C)	9,000	15,000
4.82% Series 2010-A Senior Notes due 2042 (D)	29,060	29,541
4.82% Series 2010-B Senior Notes due 2042 (E)	33,903	34,465
3.55% Series 2010-C Senior Notes due 2024 (F)	64,750	70,000
3.00% Series 2012-D-1 Senior Notes due 2024 (G)	46,250	50,000
3.25% Series 2012-D-2 Senior Notes due 2024 (H)	48,750	50,000
3.80% Series 2014-E Senior Notes Due 2025 (I)	37,000	—
	272,260	258,258
Less current maturities	24,299	22,998
	\$ 247,961	\$ 235,260

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

- (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 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.
- (D) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commenced on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.
- (E) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commenced on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.
- (F) Due March 30, 2024; principal and interest are payable quarterly based on 13-year amortization. Principal payments commenced 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 commenced 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 commenced on December 30, 2014. The interest rate is fixed at 3.25%. The note is unsecured.
- (I) Due December 30, 2025; principal and interest are payable quarterly based on an 11 year and 9 months amortization. Principal payments commence on March 30, 2024. The interest rate is 3.80%. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2014, are:

2015	\$	24,299
2016		23,603
2017		21,409
2018		21,469
2019		22,281
Thereafter		<u>159,199</u>
	\$	<u>272,260</u>

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

On March 10, 2014, the Company obtained a \$33,000 senior unsecured term note facility. This facility remains undrawn at December 31, 2014, but allows the Company to obtain advances as needed during a two year draw period, after which it will convert into an amortizing term loan with escalating principal payments through 2024. Interest will be payable monthly at LIBOR plus 1.75%.

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, 2014.

Variable-to-Fixed Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company enters into interest rate swap agreements.

On September 15, 2006, the Company entered into an interest rate swap agreement with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of \$3,519 and \$3,723 at December 31, 2014 and 2013, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan A).

The Company entered into another interest rate swap agreement on August 23, 2007, with U.S. Bank National Association. The agreement provided 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 \$5,500 at December 31, 2013. This swap matured December 25, 2014. Under the agreement, the Company paid or received 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 Company entered into another interest rate swap agreement on March 10, 2014, with Regions Bank. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 3.225% on notional amounts of \$33,000. Under the agreement, the Company pays or receives the net interest amount monthly, commencing on March 30, 2016, with the monthly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation associated with the \$33,000 note that remains undrawn at December 31, 2014.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

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

	2014	2013
Fair value of interest rate swap agreements	\$ 2,462	\$ 934
Balance sheet location of fair value amounts	Other Long-term Liabilities	Other Long-term Liabilities
Gain/(loss) recognized in statement of operations	\$ (1,528)	\$ 923
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 6: Operating Leases

The Company has noncancellable operating leases for certain office equipment which expire on June 30, 2015. The lease for office space expired in early 2013. The Company incurred lease expense related to these operating leases of \$180 and \$432 in 2014 and 2013, respectively. Future minimum lease payments at December 31, 2014, were \$69 for contracts expiring in 2015.

Note 7: Employee Benefit Plans

Pension and Other Postretirement Benefit Plans

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$3,760 to the plan in 2015.

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.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 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	
	2014	2013	2014	2013 (Restated – Note 2)
Benefit obligation	\$ 50,702	\$ 44,090	\$ 8,900	\$ 7,995
Fair value of plan assets	<u>45,903</u>	<u>41,157</u>	<u>—</u>	<u>—</u>
Funded status	<u>\$ (4,799)</u>	<u>\$ (2,933)</u>	<u>\$ (8,900)</u>	<u>\$ (7,995)</u>

Amounts recognized in the balance sheets:

	Pension Benefits		Postretirement Health Care Benefits	
	2014	2013	2014	2013 (Restated – Note 2)
Noncurrent assets	\$ —	\$ —	\$ —	\$ —
Noncurrent liabilities	<u>(4,799)</u>	<u>(2,933)</u>	<u>(8,900)</u>	<u>(7,995)</u>
	<u>\$ (4,799)</u>	<u>\$ (2,933)</u>	<u>\$ (8,900)</u>	<u>\$ (7,995)</u>

Amounts recognized in members' equity not yet recognized as components of net periodic benefit cost as of December 31, 2014, consist of:

	Pension Benefits	Postretirement Health Care Benefits
Net loss	\$ 6,746	\$ 6,113
Prior service credit	(22)	—
Transition obligation	<u>99</u>	<u>26</u>
	<u>\$ 6,823</u>	<u>\$ 6,139</u>

The accumulated benefit obligation for the defined benefit pension plan was \$40,001 and \$34,673 at December 31, 2014 and 2013, respectively.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Other significant balances and costs are:

	Pension Benefits		Postretirement Health Care Benefits	
	2014	2013	2014	2013
Employer contributions	\$ 3,660	\$ 4,010	\$ 441	\$ 540
Benefits paid	433	256	83	35
Benefit costs	4,199	4,625	1,435	1,466

Contributions to the postretirement health care plan represent funding to the agency account holding assets intended to be utilized in providing benefits for eligible retirees.

The following amounts have been recognized in the statements of operations for the year ended December 31, 2014:

	Pension Benefits		Postretirement Health Care Benefits	
	2014	2013	2014	2013
Amounts arising during the period				
Net gain/(loss)	\$ (1,403)		\$ 143	
Amounts recognized as components of net periodic benefit cost of the period				
Net loss		58		303
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 \$105, \$1 and \$16, respectively. The estimated net gain, prior service cost, and net obligation for the defined benefit postretirement health care plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year are \$275, \$0, and \$4, respectively.

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

	Pension Benefits		Postretirement Health Care Benefits	
	2014	2013	2014	2013
Discount rate benefit obligation	5.5%	5.5%	5.5%	5.5%
Expected return on plan assets	7.0%	7.0%	—	—
Rate of compensation increase	4.0%	4.0%	—	—

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

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 2014 and 2013. The rate was assumed to decrease gradually to 5% by the year 2020 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:

	<u>Pension Benefits</u>	<u>Postretirement Health Care Benefits</u>
2015	\$ 628	\$ 117
2016	732	155
2017	839	191
2018	1,041	244
2019	1,224	287
2020–2024	9,859	2,040

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long-term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plan must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement limits investments in foreign securities to 20% of the total fair value of plan assets. The Investment Policy Statement is reviewed annually. At December 31, 2014 and 2013, plan assets by category are as follows:

	Pension Plan Assets	
	2014	2013
Fixed income securities	23%	17%
Equity securities	72	76
Cash and equivalents	<u>5</u>	<u>7</u>
	<u>100%</u>	<u>100%</u>

Pension Plan Assets

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, closed-end mutual funds and common and foreign company stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include open-end mutual funds, corporate debt obligations, foreign corporate debt obligations, government securities and foreign government securities.

In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2014 and 2013, the Company does not hold any plan assets valued using Level 3 inputs.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

The fair values of the Company's pension plan assets at December 31, 2014, by asset category are as follows:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents	\$ 1	\$ 1	\$ -	\$ -
Money Market Mutual Funds	2,356	2,356	-	-
Mutual Funds				
Alternative Assets	596	-	596	-
Equity Funds	23,118	16,029	7,089	-
Fixed Income Funds	3,584	2,069	1,515	-
	27,298	18,098	9,200	-
Domestic Common Stock				
Consumer Discretionary	68	68	-	-
Energy	4,269	4,269	-	-
Financials	1,376	1,376	-	-
Healthcare	2,068	2,068	-	-
Industrials	432	432	-	-
Materials	624	624	-	-
Telecommunication Services	613	613	-	-
	9,450	9,450	-	-
Foreign Stocks				
Energy	407	407	-	-
Materials	285	285	-	-
	692	692	-	-
Corporate Debt Obligations	4,734	-	4,734	-
Foreign Debt Obligations	774	-	774	-
Foreign Government Securities	598	-	598	-
Total	\$ 45,903	\$ 30,597	\$ 15,306	\$ 0

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

The fair values of the Company's pension plan assets at December 31, 2013, by asset category are as follows:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents	\$ 5	\$ 5	\$ -	\$ -
Money Market Mutual Funds	875	875	-	-
Mutual Funds				
Advantage Equity Funds	2,627	-	2,627	-
Equity Funds Small Cap	1,780	-	1,780	-
Equity Funds Mid Cap	3,172	-	3,172	-
Equity Funds Large Cap	8,813	-	8,813	-
International Funds	996	-	996	-
	17,388	-	17,388	-
Domestic Common Stock				
Consumer Discretionary	109	109	-	-
Energy	3,185	3,185	-	-
Financial	1,136	1,136	-	-
Healthcare	2,297	2,297	-	-
Industrials	518	518	-	-
Materials	867	867	-	-
Telecommunication	1,124	1,124	-	-
	9,236	9,236	-	-
Foreign Common Stocks				
Energy	1,685	1,685	-	-
Financial	1,136	1,136	-	-
Healthcare	327	327	-	-
Industrials	124	124	-	-
Materials	1,331	1,331	-	-
Telecommunication	175	175	-	-
	4,778	4,778	-	-
Corporate Debt Obligations	5,298	-	5,298	-
Foreign Debt Obligations	930	-	930	-
U. S. Government Securities	2,000	-	2,000	-
Foreign Government Securities	647	-	647	-
Total	\$ 41,157	\$ 14,894	\$ 26,263	\$ 0

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

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 \$2,466 and \$2,334 for 2014 and 2013, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of the *Employee Retirement Income Security Act of 1974* (ERISA). Accumulated contributions and earnings of \$1,584 and \$1,305 are recorded in other long-term liabilities at December 31, 2014 and 2013, respectively. The Company also offered a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan was intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. All accrued benefits associated with this plan were paid out in 2014. There were accrued benefits of \$1,253 recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2013.

Note 8: Related Party Transactions

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled \$31,590 and \$17,571 as of December 31, 2014 and 2013, respectively. The Company recognized revenues of \$149,170 and \$128,486, including assessments and tariff administrative fees, from members for the years ended December 31, 2014 and 2013, 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 2014 and 2013, the Company incurred \$248 and \$226, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2015 to be approximately \$338.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Note 9: Open Access Transmission and Market Operations

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 29 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, 2014 and 2013, the Company billed transmission customers \$1,505,561 and \$1,290,757, respectively. For the years ended December 31, 2014 and 2013, the Company remitted to transmission owners \$1,358,434 and \$1,171,133 respectively. At December 31, 2014 and 2013, the Company was due to collect from customers and remit to owners transmission service charges of \$110,019 and \$101,106, respectively.

In March 2014, the Company launched the Integrated Marketplace which includes a day-ahead market with transmission congestion rights, a reliability unit commitment process, a real-time balancing market replacing the EIS market, an operating reserve market, and a consolidated balancing authority. Weekly settlements of market participants' energy transactions are not reflected in the Company's statements of operations since they do not represent revenues or expenses of the Company, as the Company merely acts as an intermediary in the settlement process. In this role, the Company receives and disburses funds to/from market participants on a weekly basis. At December 31, 2014, the Company held \$28,102 in cash collections from the settlement of auction revenue rights in accordance with terms of the Company's tariff. These funds will be disbursed annually in June for collections from the previous twelve months. A corresponding liability is reflected in accrued expenses on the balance sheet.

Note 10: Commitments and Contingencies

Litigation and Regulatory Matters

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

Commitments

In December 2014, the Company committed to buy \$6,900 in IT equipment which was received in January 2015 and financed with a capital leasing arrangement. Payments are due quarterly commencing on March 1, 2015.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Note 11: Disclosures About Fair Value of Financial Instruments

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Cash Equivalents	\$ 11,241	\$ 11,241	\$ -	\$ -
Mutual Funds				
Equity	3,186	1,075	2,111	-
Fixed Income	2,732	332	2,400	-
Financials	610	-	610	-
Alternative Assets	271	271	-	-
Domestic Common Stock				
Consumer discretionary	417	417	-	-
Consumer staples	393	393	-	-
Energy	229	229	-	-
Financial	452	452	-	-
Healthcare	456	456	-	-
Industrials	404	404	-	-
Information technology	574	574	-	-
Materials	172	172	-	-
Telecommunication	37	37	-	-
Utilities	125	125	-	-
Foreign Stocks				
Industrials	41	41	-	-
Interest Rate Swap Agreements	(2,462)	-	(2,462)	-

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Cash Equivalents	\$ 14,238	\$ 14,238	\$ -	\$ -
Mutual Funds				
Equity	3,149	1,023	2,126	-
Fixed Income	2,282	345	1,937	-
Financials	498	-	498	-
Alternative Assets	333	333	-	-
Domestic Common Stock				
Consumer discretionary	365	365	-	-
Consumer staples	351	351	-	-
Energy	260	260	-	-
Financial	405	405	-	-
Healthcare	384	384	-	-
Industrials	385	385	-	-
Information technology	512	512	-	-
Materials	163	163	-	-
Telecommunication	39	39	-	-
Utilities	94	94	-	-
Foreign Stocks				
Industrials	38	38	-	-
Interest Rate Swap Agreements	(934)	-	(934)	-

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2014.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At December 31, 2014 and 2013, the company does not hold any assets valued using Level 3 inputs.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

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 and, therefore, are classified within level 1 of the valuation hierarchy.

The Company has no assets or liabilities measured and recognized in the accompanying balance sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Restricted Cash Deposits

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Customer Deposits

The carrying amount is a reasonable estimate of fair value.

Southwest Power Pool, Inc.

Notes to Financial Statements

(in Thousands)

December 31, 2014 and 2013

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, 2014 and 2013.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 57,534	\$ 57,534	\$ 35,262	\$ 35,262
Restricted cash deposits	\$ 222,285	\$ 222,285	\$ 76,713	\$ 76,713
Investments	\$ 10,099	\$ 10,099	\$ 9,258	\$ 9,258
Financial liabilities				
Customer deposits	\$ 222,285	\$ 222,285	\$ 76,713	\$ 76,713
Long-term debt	\$ 272,260	\$ 274,271	\$ 258,258	\$ 264,200
Swap agreements	\$ 2,462	\$ 2,462	\$ 934	\$ 934

Note 12: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

ATTACHMENT 8

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

TEXAS RELIABILITY ENTITY, INC.



May 4, 2015

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) 2014 Actual Cost-to-Budget Comparison

Dear Mr. Walker and Ms. Turpen,

Texas Reliability Entity (Texas RE) has completed the 2014 True-Up Analysis. The budget comparisons are compared to the 2014 Texas RE budget, formally approved by FERC.

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

Texas RE's policy is to allocate indirect expenses to programs based on the pro-rata share of FTEs to total program FTEs.

Texas RE maintains a \$2,000,000 cash reserve balance according to the policy approved by the Texas RE Board of Directors.

The significant expense variances at the aggregate statutory level are explained below. The explanations for the expense variances by statutory program area are provided in the attached files below.

INCOME

Total Statutory Income is over budget by \$23k or 0.2%. \$17,000 in Penalty revenue was collected the end of June 2013 that was not included in the 2014 budget number. According to the NERC requirements, this money should have been applied to the 2014 budget. Texas RE recognizes revenue related to fines and penalties in the period in which it is earned. Interest Revenue was \$12,620 less than budget due to lower than anticipated interest rates.

EXPENSES

Personnel Expenses are \$829,619 or 9.7% below budget due to FTE vacancies, the result of employee turnover and hiring of replacement employees.

Travel and Meeting Expenses are \$153,490 or 30.9% less than budget mainly due to cost savings efforts in all areas.

Other Operating Expenses are \$1,015,143 or 34% less than budget. Consultants and Contracts are under budget due to work being performed by staff in place of consultants or contractors. Operating expenses for the building are included in Rent and improvements. The amount is adjusted annually based on actual usage for the previous 12 months. Texas RE's portion of the actual expense was less than



budgeted. Professional fees are less than budget mainly due to the Enforcement department not utilizing the legal fees budgeted for a potential contested case. Depreciation is less than budget due to an adjusting entry made to correct Fixed Assets.

FIXED ASSETS

Budgeted assets were not acquired in 2014 causing actual expenditures to be 26.5% less than budgeted.

Texas RE has reported large budget underruns in the past years. As you can tell from the 2015 and 2016 budgets, the budgeting process has been refined to more accurately align costs with budget amount in the future.

Although Texas RE ended the year \$1.9 million under budget, Texas RE completed its intended activities for 2014.

Texas RE completed 30 Non-CIP audits, 8 CIP audits with Critical Cyber Assets (CCA's), 19 CIP audits without CCA's, and 1 spot check.

Texas RE identified 80 non-compliance matters and completely resolved 144 violations to reduce violation caseload from 105 to 41.

In 2014, a total of 91 events were examined, as follows: 77 – non-qualified events (below threshold for Categories 1-5), 11 -Category 1, 2 - Category 2 and 1 - Category 3. There were no Category 4 or 5 level events.

100 technical feasibility exceptions were processed in 2014.

Texas RE verified mitigation plans or mitigation activities for 90 possible violations.

In 2014, Texas RE processed 22 entity registrations, 16 entity deactivations/de-registrations and 5 entity name changes. Also, Texas RE conducted 1 TOP certification and 1 certification review associated with a control center relocation.

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

Judy.foppiano@texasre.org

512.583.4959 (Direct)

713.417.2769 (Cell)



Texas Reliability Entity, Inc.
2014 Statutory & Non-Statutory Statement of Activities
Audited

Total Statutory & State (Non-Statutory) Combined

Funding	2014 Actual	2014 Budget	2014 Variance from Budget	%
ERO Funding				
Assessments	\$ 10,509,309	\$ 10,509,309	\$ -	
Penalty Sanctions	419,833	402,834	17,000	
Total ERO Funding	\$ 10,929,142	\$ 10,912,143	\$ 17,000	0.2%
Membership Fees	\$ 19,500	\$ 18,250	\$ 1,250	
PUCT Fees	970,000	970,000	-	
Interest	2,179	14,466	(12,287)	
Total Funding	\$ 11,920,821	\$ 11,914,859	\$ 22,963	0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 6,455,026	\$ 6,648,384	\$ (193,358)	
Payroll Taxes	442,710	619,272	(176,562)	
Employee Benefits	816,577	1,053,804	(237,227)	
Savings & Retirement	671,260	959,729	(288,469)	
Total Personnel Expenses	\$ 8,385,572	\$ 9,281,188	\$ (895,616)	-9.6%
Meeting & Travel Expenses				
Meetings	\$ 38,914	\$ 95,213	\$ (56,299)	
Travel	295,299	410,072	(114,774)	
Conference Expenses	8,703	3,500	5,203	
Total Meeting & Travel Expenses	\$ 342,915	\$ 508,785	\$ (165,870)	-32.6%
Operating Expenses				
Consultants & Contracts	\$ 319,830	\$ 514,926	\$ (195,096)	
Rent & Improvements	538,638	555,287	(16,649)	
Office Costs	588,464	693,244	(104,779)	
Professional Services	414,739	1,107,846	(693,107)	
Depreciation	214,110	301,186	(87,076)	
Total Operating Expenses	\$ 2,075,782	\$ 3,172,489	\$ (1,096,707)	-34.6%
Indirect Allocation				
Total Expenses	\$ 10,804,270	\$ 12,962,462	\$ (2,158,192)	-16.6%
Change in Assets	\$ 1,116,552	\$ (1,047,603)	\$ 2,164,154	-206.6%
Fixed Assets				
Depreciation	\$ (214,110)	\$ (263,213)	\$ 49,103	
Computer & Software CapEx	-	42,000	(42,000)	
Allocation of Fixed Assets				
Incr(Dec) in Fixed Assets	\$ (214,110)	\$ (221,213)	\$ 7,103	-3.2%
TOTAL BUDGET	\$ 10,590,159	\$ 12,741,249	\$ (2,151,089)	-16.9%
Change in Working Capital	\$ 1,330,662	\$ (826,390)	\$ 2,157,052	
FTE's	57.0	65.0	(8.0)	



Texas Reliability Entity, Inc.
2014 Statutory Statement of Activities
Audited

Statutory

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ 10,509,309	\$ 10,509,309	\$	-
Penalty Sanctions	419,833	402,833		17,000
Total ERO Funding	\$ 10,929,142	\$ 10,912,142	\$	17,000 0.2%
Membership Fees	19,500	18,249		1,251
Interest	1,846	14,466		(12,620)
Total Funding	\$ 10,950,488	\$ 10,944,857	\$	22,631 0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 5,886,607	\$ 6,087,780	\$	(201,173)
Payroll Taxes	402,764	571,041		(168,277)
Employee Benefits	791,460	971,875		(180,415)
Savings & Retirement	602,973	882,728		(279,755)
Total Personnel Expenses	\$ 7,683,804	\$ 8,513,423	\$	(829,619) -9.7%
Meeting & Travel Expenses				
Meetings	\$ 38,914	\$ 95,213	\$	(56,299)
Travel	295,198	397,592		(102,394)
Conference Expenses	8,703	3,500		5,203
Total Meeting & Travel Expenses	\$ 342,815	\$ 496,305	\$	(153,490) -30.9%
Operating Expenses				
Consultants & Contracts	\$ 317,722	\$ 496,071	\$	(178,349)
Rent & Improvements	489,912	556,864		(66,952)
Office Costs	575,939	639,497		(63,558)
Professional Services	421,521	1,027,088		(605,567)
Depreciation	162,496	263,213		(100,717)
Total Operating Expenses	\$ 1,967,590	\$ 2,982,733	\$	(1,015,143) -34.0%
Indirect Allocation				
Total Expenses	\$ 9,994,209	\$ 11,992,461	\$	(1,998,252) -16.7%
Change in Assets	\$ 956,279	\$ (1,047,604)	\$	2,003,883 -191.3%
Fixed Assets				
Depreciation	\$ (162,496)	\$ (263,213)	\$	100,717
Computer & Software CapEx	-	42,000		(42,000)
Allocation of Fixed Assets	-	-		-
Incr(Dec) in Fixed Assets	\$ (162,496)	\$ (221,213)	\$	58,717 -26.5%
TOTAL BUDGET	\$ 9,831,713	\$ 11,771,248	\$	(1,939,534) -16.5%
Change in Working Capital	\$ 1,118,775	\$ (826,390)	\$	1,945,164
FTE's	52.00	60.00		(8.00)



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RELIABILITY STANDARDS

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ 433,387	\$ 433,387	\$ -	0.0%
Penalty Sanctions	12,958	16,359	(3,401)	
Total ERO Funding	\$ 446,345	\$ 449,746	\$ -	0.0%
Membership Fees	792	741	51	
Interest	75	-	75	
Total Funding	\$ 447,212	\$ 450,487	\$ 126	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 236,969	\$ 184,058	\$ 52,911	
Payroll Taxes	16,668	20,720	(4,052)	
Employee Benefits	28,259	28,527	(268)	
Savings & Retirement	24,593	26,688	(2,095)	
Total Personnel Expenses	\$ 306,489	\$ 259,993	\$ 46,496	17.9%
Meeting & Travel Expenses				
Meetings	\$ 264	\$ -	\$ 264	
Travel	13,142	11,268	1,874	
Total Meeting & Travel Expenses	\$ 13,406	\$ 11,268	\$ 2,138	19.0%
Operating Expenses				
Consultants & Contracts	\$ 350	\$ 10,992	\$ (10,642)	
Office Costs	232	1,004	(773)	
Total Operating Expenses	\$ 582	\$ 11,996	\$ (11,415)	-95.2%
Indirect Allocation	\$ 117,554	\$ 176,009	\$ (10,642)	-6.0%
Total Expenses	\$ 438,030	\$ 459,267	\$ (21,237)	-4.6%
Change in Assets	\$ 9,182	\$ (8,780)	\$ 17,961	-204.6%
Fixed Assets				
Computer & Software CapEx	-	-	-	
Furniture & Fixture CapEx	-	-	-	
Allocation of Fixed Assets	(5,015)	(8,780)	-	
Incr(Dec) in Fixed Assets	\$ (5,015)	\$ (8,780)	\$ 3,765	-42.9%
TOTAL BUDGET	\$ 433,015	\$ 450,487	\$ (17,472)	-3.9%
Change in Working Capital	\$ 14,197	\$ -	\$ 14,197	
FTE's	1.25	2.00	-0.75	



Reliability Standards

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

Total Personnel Expenses are over budget 17.9% due to FTE reallocation among departments. The realignment of FTEs included a high salaried employee being assigned from another department resulting in the budget overrun.

Meeting and Travel expense is 19% greater than budget due to staff attending meetings not anticipated in the budget.

Operating expenses are 95.2% less than budget due to work being performed by staff in place of Consultants and Contractors.

Indirect Allocation and Allocation of Fixed Assets is less than budget due to FTE realignment among departments.

Total Expenditures are 3.9% less than budget.



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CMEP

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ 8,994,237	\$8,994,237	\$ -	
Penalty Sanctions	334,311	327,174	7,137	
Total ERO Funding	\$ 9,328,548	\$9,321,411	\$ 7,137	0.1%
Membership Fees	15,837	14,822	1,015	
Interest	1,500	-	-	
Total Funding	\$ 9,345,885	\$9,336,233	\$ 15,290	0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 3,211,066	\$3,520,283	\$ (309,217)	
Payroll Taxes	233,992	357,639	(123,647)	
Employee Benefits	415,428	640,999	(225,571)	
Savings & Retirement	324,949	510,441	(185,492)	
Total Personnel Expenses	\$ 4,185,436	\$5,029,362	\$ (843,926)	-16.8%
Meeting & Travel Expenses				
Meetings	\$ 1,853	\$ -	\$ 1,853	
Travel	124,914	236,385	(111,471)	
Conference Expenses	-	-	-	
Total Meeting & Travel Expenses	\$ 126,767	\$ 236,385	\$ (109,618)	-46.4%
Operating Expenses				
Consultants & Contracts	\$ 146,808	\$ 287,280	\$ (140,472)	
Rent & Improvements	-	-	-	
Office Costs	13,894	13,626	268	
Professional Services	240	425,000	(424,760)	
Depreciation	-	-	-	
Total Operating Expenses	\$ 160,942	\$ 725,906	\$ (564,964)	-77.8%
Indirect Allocation	\$ 3,032,882	\$3,520,184	\$ (487,302)	-13.8%
Total Expenses	\$ 7,506,027	\$9,511,837	\$ (2,005,810)	-21.1%
Change in Assets	\$ 1,839,858	\$ (175,605)	\$ 2,021,099	-1150.9%
Fixed Assets				
Depreciation	\$ -	\$ -	\$ -	
Computer & Software CapEx	-	-	-	
Allocation of Fixed Assets	(129,395)	(175,604)	46,209	
Incr(Dec) in Fixed Assets	\$ (129,395)	\$ (175,604)	\$ 46,209	-26.3%
TOTAL BUDGET	\$ 7,376,633	\$9,336,233	\$ (1,959,600)	-21.0%
Change in Working Capital	\$ 1,969,253	\$ -	\$ 1,974,890	
FTE's	32.25	40.00	(7.75)	



CMEP

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

This department ended the year 21% less than budget due to vacancies throughout the year and FTE alignment among departments.

All areas were affected with having less personnel costs and less travel.

Consultants and Contracts are under budget due to work expected to be performed by consultants being performed by FTEs.

Professional services are less than budget due the Enforcement department not utilizing the legal fees budgeted for a potential contested case.

The FTE realignment among departments also caused a favorable variance in the Indirect Allocation and the Allocation of Fixed Assets.



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Reliability Assessments & Performance Analysis

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ 1,545,048	\$ 1,407,540	\$ 137,508	
Penalty Sanctions	51,831	38,852	12,979	
Total ERO Funding	\$ 1,596,879	\$ 1,446,392	\$ 150,487 10.4%	
Membership Fees	2,178	1,760	418	
Interest	206	-	206	
Total Funding	\$ 1,599,263	\$ 1,448,152	\$ 151,111 10.4%	
Expenses				
Personnel Expenses				
Salaries	\$ 812,342	\$ 689,636	\$ 122,706	
Payroll Taxes	57,453	52,409	5,044	
Employee Benefits	108,139	95,813	12,326	
Savings & Retirement	87,716	99,997	(12,281)	
Total Personnel Expenses	\$ 1,065,650	\$ 937,855	\$ 127,795 13.6%	
Meeting & Travel Expenses				
Meetings	\$ 658	\$ -	\$ 658	
Travel	59,392	52,288	7,104	
Total Meeting & Travel Expenses	\$ 60,050	\$ 52,288	\$ 7,762 14.8%	
Operating Expenses				
Consultants & Contracts	\$ 1,050	\$ -	\$ 1,050	
Office Costs	30,790	60,840	(30,050)	
Depreciation	-	5,000	(5,000)	
Total Operating Expenses	\$ 31,840	\$ 65,840	\$ (34,000) -51.6%	
Indirect Allocation	\$ 470,214	\$ 418,022	\$ 52,192 12.5%	
Total Expenses	\$ 1,627,754	\$ 1,474,005	\$ 153,749 10.4%	
Change in Assets	\$ (28,491)	\$ (25,853)	\$ (2,638) 10.2%	
Fixed Assets				
Depreciation	\$ -	\$ (5,000)	\$ 5,000	
Computer & Software CapEx	-	-	-	
Allocation of Fixed Assets	(20,061)	(20,853)	792	
Incr(Dec) in Fixed Assets	\$ (20,061)	\$ (25,853)	\$ 5,792 -22.4%	
TOTAL BUDGET	\$ 1,607,693	\$ 1,448,152	\$ 159,541 11.0%	
Change in Working Capital	\$ (8,429)	\$ 0	\$ (8,429)	
FTE's	5.00	4.75	0.25	



RAPA

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

The Situation Analysis department was rolled in the Reliability Standards Department during 2014 causing this department to be over budget in all areas, with a total budget variance of 11%.

Savings and Retirement is under budget 12.3% due to employees not participating fully in the retirement plan.



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Situation Awareness and Infrastructure Security Program

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)
ERO Funding			
Assessments	\$ -	\$ 137,508	\$ (137,508)
Penalty Sanctions	-	6,135	(6,135)
Total ERO Funding	\$ -	\$ 143,643	\$ (143,643) -100.0%
Membership Fees	-	278	(278)
Interest	-	-	-
Total Funding	\$ -	\$ 143,921	\$ (143,921) -100.0%
Expenses			
Personnel Expenses			
Salaries	\$ -	\$ 48,270	\$ (48,270)
Payroll Taxes	-	10,318	(10,318)
Employee Benefits	-	14,310	(14,310)
Savings & Retirement	-	6,999	(6,999)
Total Personnel Expenses	\$ -	\$ 79,897	\$ (79,897) -100.0%
Meeting & Travel Expenses			
Meetings	\$ -	\$ 1,314	\$ (1,314)
Travel	-	-	-
Conference Expenses	-	-	-
Total Meeting & Travel Expenses	\$ -	\$ 1,314	\$ (1,314) -100.0%
Operating Expenses			
Consultants & Contracts	\$ -	\$ -	\$ -
Rent & Improvements	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Depreciation	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ - 0.0%
Indirect Allocation	\$ -	\$ 66,003	\$ (66,003) -100.0%
Total Expenses	\$ -	\$ 147,214	\$ - -100.0%
Change in Assets	\$ -	\$ (3,293)	\$ - 100.0%
Fixed Assets			
Depreciation	\$ -	\$ -	\$ -
Allocation of Fixed Assets	-	(3,293)	3,293
Incr(Dec) in Fixed Assets	\$ -	\$ (3,293)	\$ 3,293 -100.0%
TOTAL BUDGET	\$ -	\$ 143,920	\$ - -100.0%
Change in Working Capital	\$ -	\$ -	\$ 0
FTE's	-	0.75	(0.75)

This department was included in the RAPA department for actual costs in 2014.



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TRAINING AND EDUCATION

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ 377,493	\$ 377,493	\$ -	
Penalty Sanctions	20,732	14,314	6,418	
Total ERO Funding	\$ 398,225	\$ 391,807	\$ 6,418	1.6%
Membership Fees	693	648	45	
Interest	66	-	66	
Total Funding	\$ 398,984	\$ 392,456	\$ 6,528	1.7%
Expenses				
Personnel Expenses				
Salaries	\$ 152,475	\$ 121,945	\$ 30,530	
Payroll Taxes	10,136	14,985	(4,849)	
Employee Benefits	25,866	28,111	(2,245)	
Savings & Retirement	15,395	17,682	(2,287)	
Total Personnel Expenses	\$ 203,872	\$ 182,722	\$ 21,150	11.6%
Meeting & Travel Expenses				
Meetings	\$ 16,339	\$ 62,136	\$ (45,797)	
Travel	5,554	312	5,242	
Conference Expenses	6,380	-	6,380	
Total Meeting & Travel Expenses	\$ 28,273	\$ 62,448	\$ (34,175)	-54.7%
Operating Expenses				
Office Costs	2,165	960	1,205	
Total Operating Expenses	2,165	960	1,205	125.5%
Indirect Allocation	\$ 188,086	\$ 154,008	\$ 34,078	22.1%
Total Expenses	\$ 422,396	\$ 400,138	\$ 22,258	5.6%
Change in Assets	\$ (23,412)	\$ (7,683)	\$ (15,728)	204.7%
Fixed Assets				
Computer & Software CapEx	-	-	-	
Allocation of Fixed Assets	(8,024)	(7,683)	(341)	
Incr(Dec) in Fixed Assets	\$ (8,024)	\$ (7,683)	\$ (341)	4.4%
TOTAL BUDGET	\$ 414,372	\$ 392,456	\$ 21,916	5.6%
Change in Working Capital	\$ (15,387)	\$ -	\$ (15,387)	
FTE's	2.00	1.75	0.25	



Training and Education

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

The Training and Education department is 5.6% over budget overall.

FTE reassignment causes Personnel expenses to be 11.6% over budget. The FTE reassignment also causes the Indirect Allocation and the Fixed Asset allocation to be under budget.

Meeting and Travel expenses are under budget 54.7% because a registered entity hosted the fall workshop that was budgeted at full Texas RE expense.



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General and Administrative

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ (840,856)	\$ (840,856)	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ (840,856)	\$ (840,856)	\$ -	
Membership Fees	-	-	-	
Interest	-	14,466	(14,466)	
Total Funding	\$ (840,856)	\$ (826,390)	\$ (14,466)	1.8%
Expenses				
Personnel Expenses				
Salaries	\$ 481,035	\$ 539,315	\$ (58,280)	
Payroll Taxes	11,614	33,225	(21,611)	
Employee Benefits	4,364	7,906	(3,542)	
Savings & Retirement	44,398	78,201	(33,803)	
Total Personnel Expenses	\$ 541,411	\$ 658,647	\$ (117,236)	-17.8%
Meeting & Travel Expenses				
Meetings	\$ 12,855	\$ 21,427	\$ (8,572)	
Travel	68,878	57,045	11,833	
Conference Expenses	-	-	-	
Total Meeting & Travel Expenses	\$ 81,733	\$ 78,472	\$ 3,261	4.2%
Operating Expenses				
Consultants & Contracts	\$ 53,033	\$ 42,600	\$ 10,433	
Rent & Improvements	483,548	510,864	(27,316)	
Office Costs	70,262	27,427	42,835	
Professional Services	249,850	384,000	(134,150)	
Depreciation	162,496	258,213	(95,717)	
Total Operating Expenses	1,019,188	1,223,104	(203,916)	-16.7%
Indirect Allocation	\$ (1,642,332)	\$ (1,960,223)	\$ (134,150)	6.8%
Total Expenses	\$ -	\$ -	\$ -	0.0%
Change in Assets	\$ (840,856)	\$ (826,390)	\$ (14,466)	1.8%
Fixed Assets				
Depreciation	\$ (162,496)	\$ (258,213)	\$ 95,717	-37.1%
Computer & Software CapEx	-	-	-	
Allocation of Fixed Assets	162,496	258,213	(95,717)	
Incr(Dec) in Fixed Assets	\$ 0	\$ -	\$ 0	0.0%
TOTAL BUDGET	\$ 0	\$ -	\$ 0	0%
Change in Working Capital	\$ (840,856)	\$ (826,390)	\$ (14,466)	
FTE's	1.00	1.75	(0.75)	



General and Administrative

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

Personnel expenses are under budget \$117,236 or 17.8%. FTE reassignment causes the favorable variance in this category.

Total Operating Expenses are under budget \$203,916 or 16.7%. Consultants and Contracts are over budget 24.5% due to engaging an executive consultant to help with strategic planning that was not budgeted. Rent and Improvements are under budget due to operating expenses for the building being included in this category. The amount is adjusted annually based on actual usage for the previous twelve months. Texas RE's portion of the actual expense was less than budget. Professional Services included budget for fees for a Board of Directors search which was not used. Depreciation is less than budget due to a adjusting entry made to correct Fixed Assets.

Again, due to FTE reassignment the Indirect Allocation and the Allocation of Fixed Assets is less than budget.



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LEGAL AND REGULATORY

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	%
ERO Funding				
Total Funding	\$ -	\$ -	\$ -	0%
Expenses				
Personnel Expenses				
Salaries	\$ 295,823	\$ 193,467	\$ 102,356	
Payroll Taxes	22,302	28,876	(6,574)	
Employee Benefits	40,116	50,710	(10,595)	
Savings & Retirement	27,571	28,053	(482)	
Total Personnel Expenses	\$ 385,812	\$ 301,106	\$ 84,705	28.1%
Meeting & Travel Expenses				
Travel	\$ 8,996	\$ 17,099	\$ (8,103)	
Conference Expenses	-	-	-	
Total Meeting & Travel Expenses	\$ 8,996	\$ 17,099	\$ (8,103)	-47.4%
Operating Expenses				
Consultants & Contracts	\$ 4,700	\$ 2,299	\$ 2,401	
Office Costs	2,686	5,392	(2,706)	
Professional Services	17,326	30,000	(12,674)	
Depreciation	-	-	-	
Total Operating Expenses	\$ 24,712	\$ 37,691	\$ (12,979)	-34.4%
Indirect Allocation	\$ (419,520)	\$ (419,520)	\$ (12,674)	3.0%
Total Expenses	\$ -	\$ -	\$ -	0.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%
Fixed Assets				
Computer & Software CapEx	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	0.0%
TOTAL BUDGET	\$ -	\$ -	\$ -	0.0%
Change in Working Capital	\$ -	\$ -	\$ -	
FTE's	2.00	3.00	(1.00)	

Legal and Regulatory

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

Personnel expenses are greater than budget due to FTE reassignment. The reassignment resulted in one less FTE, but with higher salaried FTEs being assigned to this department.

Less travel for NERC, regional entity and Trade meetings was required with reduced FTE count.

Professional services budget included legal fees for a potential contested case which was not needed.



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INFORMATION TECHNOLOGY

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 325,621	\$ 336,221	\$ (10,600)	
Payroll Taxes	23,823	20,306	3,517	
Employee Benefits	103,086	37,002	66,084	
Savings & Retirement	37,647	48,752	(11,105)	
Total Personnel Expenses	\$ 490,176	\$ 442,281	\$ 47,895	10.8%
Meeting & Travel Expenses				
Meetings	\$ 224	\$ 2,900	\$ (2,676)	
Travel	7,923	17,556	(9,633)	
Conference Expenses	2,322	3,500	(1,178)	
Total Meeting & Travel Expenses	\$ 10,469	\$ 23,956	\$ (13,487)	-56.3%
Operating Expenses				
Consultants & Contracts	\$ 32,879	\$ 37,500	\$ (4,621)	
Rent & Improvements	6,364	-	6,364	
Office Costs	426,837	486,538	(59,701)	
Professional Services	71,712	81,000	(9,288)	
Total Operating Expenses	537,793	605,038	(67,245)	-11.1%
Indirect Allocation	\$(1,038,438)	\$(1,071,275)	\$ (4,621)	0.4%
Total Expenses	\$ -	\$ -	\$ -	0.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%
Fixed Assets				
Computer & Software CapEx	-	42,000	(42,000)	
Furniture & Fixture CapEx	-	-	-	
Allocation of Fixed Assets	-	(42,000)	42,000	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	0.0%
TOTAL BUDGET	\$ -	\$ -	\$ -	0.0%
Change in Working Capital	\$ -	\$ -	\$ -	
FTE's	4.50	2.50	2.00	

Information Technology

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

Personnel expenses are 10.8% greater than budget due to FTE reassignment. Training and education not included in the budget caused the Employee Benefits overrun..

Travel and meeting expense is under budget 56.3% due to cost savings efforts and emphasis on attending meetings by conference call and Web Ex.

Operating Expenses are 11.1% less than budget primarily due to leased equipment budgeted in Office Costs beginning in March 2014 but did not occur until June 2014.



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HUMAN RESOURCES

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 85,479	\$ 91,052	\$ (5,573)	
Payroll Taxes	6,171	12,804	(6,633)	
Employee Benefits	24,577	36,740	(12,163)	
Savings & Retirement	9,484	13,203	(3,719)	
Total Personnel Expenses	\$ 125,711	\$ 153,799	\$ (28,088)	-18.3%
Meeting & Travel Expenses				
Meetings	\$ 6,721	\$ 8,750	\$ (2,029)	
Travel	4,084	1,705	2,379	
Total Meeting & Travel Expenses	\$ 10,805	\$ 10,455	\$ 350	3.3%
Operating Expenses				
Consultants & Contracts	\$ 78,727	\$ 80,400	\$ (1,673)	
Office Costs	6,103	3,652	2,451	
Professional Services	-	-	-	
Total Operating Expenses	\$ 84,830	\$ 84,052	\$ 778	0.9%
Indirect Allocation	\$ (221,346)	\$ (248,306)	\$ 26,960	-10.9%
Total Expenses	\$ -	\$ -	\$ -	0.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%
Fixed Assets				
Computer & Software CapEx	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	0.0%
TOTAL BUDGET	\$ -	\$ -	\$ -	0.0%
Change in Working Capital	\$ -	\$ -	\$ -	
FTE's	1.00	1.00	-	

Human Resources

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

Personnel expenses are 18.3% less than budget primarily due to Employee Benefits. Employee benefits includes tuition reimbursement which was not fully utilized in 2014.



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FINANCE AND ACCOUNTING

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
ERO Funding				
Total Funding	\$ -	\$ -	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 285,797	\$ 278,344	\$ 7,453	
Payroll Taxes	20,601	18,970	1,631	
Employee Benefits	43,215	30,277	12,938	
Savings & Retirement	29,631	40,360	(10,729)	
Total Personnel Expenses	\$ 379,244	\$ 367,951	\$ 11,293	3.1%
Meeting & Travel Expenses				
Travel	\$ 2,316	\$ 2,620	\$ (304)	
Conference Expenses	-	-	-	
Total Meeting & Travel Expenses	\$ 2,316	\$ 2,620	\$ (304)	-11.6%
Operating Expenses				
Consultants & Contracts	\$ 175	\$ 35,000	\$ (34,825)	
Office Costs	22,971	40,058	(17,086)	
Professional Services	82,393	153,088	(70,695)	
Depreciation	-	-	-	
Total Operating Expenses	\$ 105,539	\$ 228,146	\$ (122,606)	-53.7%
Indirect Allocation	\$ (487,100)	\$ (598,717)	\$ 111,617	-18.6%
Total Expenses	\$ -	\$ -	\$ -	0.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%
Fixed Assets				
Computer & Software CapEx	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	0.0%
TOTAL BUDGET	\$ -	\$ -	\$ -	0.0%
Change in Working Capital	\$ -	\$ -	\$ -	
FTE's	3.00	3.00	-	

Finance and Accounting

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

Total Operating Expenses are under budget \$122,606 or 53.7%. Employees were utilized where a consultant was budgeted. An increase for commercial insurance and accounting fees was not as great an anticipated in the budget.



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2014 Statement of Activities
Audited

STATE (NON-STATUTORY)

Funding	2014 Actual	2014 Budget	2014 Variance from Budget Over (Under)	
PUCT	970,000	970,000	-	
Interest	333	-	333	
Total Funding	\$ 970,333	\$ 970,000	\$ 333	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 568,420	\$ 560,604	\$ 7,816	
Payroll Taxes	39,946	48,231	(8,285)	
Employee Benefits	25,117	81,929	(56,812)	
Savings & Retirement	68,287	77,001	(8,714)	
Total Personnel Expenses	\$ 701,770	\$ 767,765	\$ (65,995)	-8.6%
Meeting & Travel Expenses				
Travel	100	12,480	(12,380)	
Total Meeting & Travel Expenses	\$ 100	\$ 12,480	\$ (12,380)	-99.2%
Operating Expenses				
Consultants & Contracts	\$ -	\$ 18,855	\$ (18,855)	
Rent & Improvements	38,560	48,423	(9,863)	
Office Costs	8,862	53,747	(44,885)	
Professional Services	9,157	30,758	(21,601)	
Depreciation	51,615	37,973	13,642	
Total Operating Expenses	\$ 108,194	\$ 189,756	\$ (81,562)	-43.0%
Indirect Allocation				
Total Expenses	\$ 810,062	\$ 970,000	\$ (159,937)	-16.5%
Change in Assets	\$ 160,271	\$ -	\$ (159,604)	0.0%
Fixed Assets				
Depreciation				
Computer & Software CapEx				
Furniture & Fixture CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvement CapEx	-	-	-	
Allocation of Fixed Assets	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	0.0%
TOTAL BUDGET	\$ 810,062	\$ 970,000	\$ (159,939)	-16.5%
Change in Working Capital	\$ 160,271	\$ -	\$ 335	
FTE's	5.00	5.00	-	



Texas Reliability Entity, Inc.
Penalty Sanctions

Date Invoiced	Date Rec'd	Amount	Year to Recognize for BP&B						
			2011	2012	2013	2014	2015	2016	
		\$ 20,000	\$ 20,000						
		\$ 198,600		\$ 198,600					
		\$ 150,000		\$ 150,000					
		\$ 28,000		\$ 28,000					
		\$ 18,000		\$ 18,000					
		\$ 3,000		\$ 3,000					
		\$ 35,000		\$ 35,000					
		\$ 900		\$ 900					
		\$ 900		\$ 900					
		\$ 900		\$ 900					
		\$ 900		\$ 900					
		\$ 2,500		\$ 2,500					
		\$ 50,000		\$ 50,000					
		\$ 3,000		\$ 3,000					
		\$ 12,000		\$ 12,000					
		\$ 4,000		\$ 4,000					
		\$ 16,000		\$ 16,000					
		\$ 9,000		\$ 9,000					
		\$ 11,000		\$ 11,000					
		\$ 6,000		\$ 6,000					
		\$ 1,230		\$ 1,230					
		\$ 8,000		\$ 8,000					
		\$ 5,000		\$ 5,000					
		\$ 3,000		\$ 3,000					
		\$ 5,000		\$ 5,000					
		\$ 22,000			\$ 22,000				
		\$ 2,000			\$ 2,000				
		\$ 3,000			\$ 3,000				
		\$ 7,000			\$ 7,000				
		\$ 107,000			\$ 107,000				
		\$ 8,000			\$ 8,000				
		\$ 45,000			\$ 45,000				
		\$ 13,000			\$ 13,000				
		\$ 7,000			\$ 7,000				
		\$ 7,000			\$ 7,000				
		\$ 5,000			\$ 5,000				
		\$ 11,000			\$ 11,000				
		\$ 12,000			\$ 12,000				
		\$ 384,000			\$ 384,000				
	Subtotal 2011	\$ 1,225,830							
		\$ 8,500			\$ 8,500				
		\$ 10,000			\$ 10,000				
		\$ 18,000			\$ 18,000				
		\$ 13,000			\$ 13,000				
		\$ 21,000			\$ 21,000				
		\$ 9,000			\$ 9,000				
		\$ 40,000			\$ 40,000				
		\$ 30,000			\$ 30,000				
		\$ 32,500			\$ 32,500				
		\$ 2,000			\$ 2,000				
		\$ 15,000			\$ 15,000				
		\$ 1,000			\$ 1,000				
		\$ 9,000			\$ 9,000				
		\$ 14,333			\$ 14,333				
		\$ 8,000			\$ 8,000				
		\$ 25,000			\$ 25,000				
		\$ 50,000			\$ 50,000				
		\$ 50,000			\$ 50,000				
		\$ 14,000			\$ 14,000				
		\$ 7,000			\$ 7,000				
		\$ 7,000			\$ 7,000				
		\$ 13,500			\$ 13,500				
		\$ 17,000			\$ 17,000				
		\$ 13,250			\$ 13,250				
		\$ 13,250			\$ 13,250				
		\$ 6,500			\$ 6,500				
	Subtotal 2012	\$ 447,833							
		\$ 6,000			\$ 6,000				
		\$ 51,000			\$ 51,000				
		\$ 10,000			\$ 10,000				
		\$ 32,000			\$ 32,000				
		\$ 30,000			\$ 30,000				
		\$ 25,000			\$ 25,000				
		\$ 10,000			\$ 10,000				
		\$ 7,000			\$ 7,000				
		\$ 137,000			\$ 137,000		\$ 137,000		
		\$ 200,000			\$ 200,000		\$ 200,000		
		\$ 9,000			\$ 9,000		\$ 9,000		
		\$ 38,000			\$ 38,000		\$ 38,000		
		\$ 12,000			\$ 12,000		\$ 12,000		
		\$ 4,800			\$ 4,800		\$ 4,800		
		\$ 15,000			\$ 15,000		\$ 15,000		
		\$ 17,200			\$ 17,200		\$ 17,200		
		\$ 12,000			\$ 12,000		\$ 12,000		
		\$ 19,000			\$ 19,000		\$ 19,000		
	Subtotal 2013	\$ 635,000							
		\$ 19,500				\$ 19,500		\$ -	
		\$ 10,750				\$ 10,750		\$ -	
		\$ 25,000						\$ 25,000	
		\$ 20,000						\$ 20,000	
		\$ 40,000						\$ 40,000	
		\$ 10,000						\$ 10,000	
		\$ 28,000						\$ 28,000	
		\$ 106,000						\$ 106,000	
		\$ 56,000						\$ 56,000	
	Subtotal 2014	\$ 315,250							
		\$ 2,623,913	\$ 20,000	\$ 572,830	\$ 832,000	\$ 419,833	\$ 494,250	\$ 285,000	

Texas RE 2014 Penalties Reconciliation	12/31/2014	12/31/2013	Change in 2014
Total Cumulative Penalties - GAAP/BKD Aud	\$ 2,623,913	\$ 2,308,663	\$ 315,250
Total Cumulative Penalties - True Up Report	\$ 1,844,663	\$ 1,424,830	\$ 419,833
	\$ 779,250	\$ 883,833	\$ (104,583)

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

Texas Reliability Entity, Inc.

Auditor's Report and Financial Statements

December 31, 2014 and 2013

Texas Reliability Entity, Inc.
December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Statutory and Nonstatutory Operating Activities and the Statutory and Nonstatutory Statement of Activity by Program are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
May 18, 2015

Texas Reliability Entity, Inc.
Statements of Financial Position
December 31, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 6,117,540	\$ 4,697,098
Assets limited to use – cash	<u>694,332</u>	<u>887,078</u>
	6,811,872	5,584,176
Accounts receivable	106,000	-
Other current assets	<u>234,500</u>	<u>239,140</u>
Total current assets	7,152,372	5,823,316
Property and Equipment, Net	<u>455,373</u>	<u>602,903</u>
Total assets	<u><u>\$ 7,607,745</u></u>	<u><u>\$ 6,426,219</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 196,154	\$ 154,575
Accrued liabilities	507,747	349,460
Deferred rent	<u>151,133</u>	<u>181,440</u>
Total current liabilities	<u>855,034</u>	<u>685,475</u>
Unrestricted Net Assets		
Undesignated	6,058,379	4,853,666
Regulator designated	<u>694,332</u>	<u>887,078</u>
Total unrestricted net assets	<u>6,752,711</u>	<u>5,740,744</u>
Total liabilities and net assets	<u><u>\$ 7,607,745</u></u>	<u><u>\$ 6,426,219</u></u>

Texas Reliability Entity, Inc.
Statements of Activities
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues, Gains and Other Support		
Statutory revenue		
Assessments	\$ 10,509,308	\$ 8,152,520
Penalty sanctions	315,250	635,000
Membership fees	19,500	19,250
Protocol revenue	970,000	1,029,100
Interest income	<u>2,179</u>	<u>9,076</u>
Total revenues, gains and other support	<u>11,816,237</u>	<u>9,844,946</u>
Expenses		
Salaries and related benefits	8,385,572	8,215,809
Facility and equipment costs	697,394	674,934
Outside services	734,570	854,729
Travel and meetings	342,916	359,880
Administrative and other	429,707	280,566
Depreciation	<u>214,111</u>	<u>672,285</u>
Total expenses	<u>10,804,270</u>	<u>11,058,203</u>
Change in Unrestricted Net Assets	1,011,967	(1,213,257)
Unrestricted Net Assets, Beginning of Year	<u>5,740,744</u>	<u>6,954,001</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 6,752,711</u></u>	<u><u>\$ 5,740,744</u></u>

Texas Reliability Entity, Inc.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Activities		
Change in net assets	\$ 1,011,967	\$ (1,213,257)
Item not requiring cash		
Depreciation	214,111	672,285
Changes in		
Accounts receivable	(106,000)	3,766
Other current assets	4,640	59,770
Accounts payable	41,579	(96,237)
Deferred rent	(30,307)	(22,548)
Accrued liabilities	158,287	(219,329)
	<u>1,294,277</u>	<u>(815,550)</u>
Investing Activities		
Capital expenditures for property and equipment and systems under development	<u>(66,581)</u>	<u>(83,411)</u>
	<u>(66,581)</u>	<u>(83,411)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,227,696	(898,961)
Cash, Beginning of Year	<u>5,584,176</u>	<u>6,483,137</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 6,811,872</u></u>	<u><u>\$ 5,584,176</u></u>

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2014 and 2013

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.

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 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, 2014 and 2013

Membership and Governance

Texas RE has the following six membership sectors under its Bylaws:

- **System Coordination and Planning:** An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP) or Interchange Authority (IA).
- **Transmission and Distribution:** An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP) and is not a Cooperative or Municipal Utility.
- **Cooperative Utility:** An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the state of Texas or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- **Municipal Utility:** An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- **Load-Serving and Marketing:** An entity that 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 a 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 Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2014 and 2013

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
- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the Bylaws and Delegation Agreement, and to elect a Chief Executive Officer to manage and be responsible for the day-to-day ongoing activities of Texas RE. The Board has one subcommittee, the Audit and Governance Committee, which is comprised of the Independent Directors.

Texas RE has two stakeholder committees, the Member Representatives Committee (MRC) and the Reliability Standards Committee (RSC). The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters, except for Standards development issues, through its elected Chair and Vice-Chair, who serve as directors. The RSC includes representatives from the six industry sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS. The RSC facilitates the Regional Standards development process, coordinates the development of Regional Standards and variances with the development of national NERC Standards, and monitors, reviews, and comments on Standards under development and Standards interpretation requests.

Note 2: Summary of Significant Accounting Policies

Use of Estimates

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

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Cash and Cash Equivalents

Texas RE considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014, cash equivalents consisted of a sweep account with a financial institution. Texas RE had no cash equivalents at December 31, 2013.

At December 31, 2014, Texas RE's cash accounts, excluding its sweep account that had a balance of \$4,000,000, exceeded federally insured limits by approximately \$2,600,000. Texas RE places its cash with a high quality financial institution, and management believes no significant risks exist with respect to uninsured balances.

Assets Limited to Use

As stipulated by NERC policies, Texas RE records fines and penalties that are required to be used in future operations as assets limited to use. Assets limited to use (maintained in a financial institution) were \$694,332 and \$887,078 at December 31, 2014 and 2013, respectively.

Revenue Recognition

Texas RE funds its statutory operations primarily from assessments NERC collects from load serving entities and pays to Texas RE in four quarterly payments, pursuant to the Delegation Agreement. All statutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE funds its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. All nonstatutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE recognizes revenue related to fines and penalties in the period in which they are earned (all appeals have been exhausted).

Related Party Transactions

Texas RE compensates its independent board directors, which is a common practice in the industry in which Texas RE operates. The authority to compensate its independent board directors is specified in the Bylaws, which were approved by the Texas RE membership. Texas RE independent board director compensation (totaling approximately \$233,000 during 2014 and \$225,000 during 2013) 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 independent board member.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Repairs and maintenance costs are expensed when incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Equipment	5 years
Computer hardware	3 years
Computer software	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, 2014 and 2013.

Deferred Rent

In 2010, Texas RE entered into an operating lease agreement, which contains provisions for future increases in rent payments. In accordance with accounting principles generally accepted in the United States of America, Texas RE records monthly rent expense equal to the total of payments due over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent.

Income Taxes

Texas RE is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Texas RE is subject to federal income tax on any unrelated business taxable income.

Texas RE files tax returns in the U.S. federal jurisdiction. With a few exceptions, Texas RE is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Note 3: Expenses by Functional Classification

While the statements of activities presents expenses by natural classification, Texas RE's expenses by functional classification for the years ended December 31 were as follows:

	<u>2014</u>	<u>2013</u>
Program	\$ 6,782,772	\$ 6,942,188
General and administrative	<u>4,021,498</u>	<u>4,116,015</u>
Total	<u>\$ 10,804,270</u>	<u>\$ 11,058,203</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>2014</u>	<u>2013</u>
Equipment	\$ 410,886	\$ 410,886
Computer hardware	732,040	701,980
Computer software	1,376,992	1,376,992
Furniture	309,512	309,512
Leasehold improvement	206,521	206,521
Work in process	<u>51,520</u>	<u>15,000</u>
Total property and equipment	3,087,471	3,020,891
Less accumulated depreciation	<u>2,632,098</u>	<u>2,417,988</u>
Total property and equipment, net	<u>\$ 455,373</u>	<u>\$ 602,903</u>

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Note 5: Line of Credit

On March 27, 2014, Texas RE renewed the \$500,000 bank line of credit originally obtained on January 29, 2013, which is now set to expire in April 2015. The line of credit is unsecured. Interest rate varies with LIBOR plus 4.260%. At December 31, 2014 and 2013, there were no borrowings against the line of credit.

Note 6: 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, 2014, were \$479,711. The future rental payments due under operating leases are as follows:

2015	\$ 661,154
2016	793,983
2017	695,265
2018	569,111
2019	616,985
Thereafter	<u>414,522</u>
	<u>\$ 3,751,020</u>

Note 7: Employee Benefit Plans

Texas RE employees are sponsored under the Texas Reliability Entity, Inc. 401(k) Savings Plan (Plan) which is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Plan utilizes a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate. Texas RE matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE match of 75% after five years. In addition, Texas RE contributes 10% of a participant's eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE contributions of 10% after three years. Employer contributions to the 401(k) plan were \$659,577 and \$813,224, respectively, in 2014 and 2013.

Note 8: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Other Information

Texas Reliability Entity, Inc.
Schedule of Statutory and Nonstatutory Operating Activities
Year Ended December 31, 2014

	<u>Statutory</u>	<u>Nonstatutory</u>	<u>Total</u>
Revenues, Gains and Other Support			
Statutory revenue	\$ 10,844,058	\$ -	\$ 10,844,058
Protocol revenue	-	970,000	970,000
Interest income	1,846	333	2,179
	<u>10,845,904</u>	<u>970,333</u>	<u>11,816,237</u>
Expenses			
Salaries and related benefits	7,683,804	701,768	8,385,572
Facility and equipment costs	658,834	38,560	697,394
Outside services	725,413	9,157	734,570
Travel and meetings	342,816	100	342,916
Administrative and other	420,845	8,862	429,707
Depreciation	162,496	51,615	214,111
	<u>9,994,208</u>	<u>810,062</u>	<u>10,804,270</u>
Change in Unrestricted Net Assets	851,696	160,271	1,011,967
Unrestricted Net Assets, Beginning of Year	<u>4,958,313</u>	<u>782,431</u>	<u>5,740,744</u>
Unrestricted Net Assets, End of Year	<u>\$ 5,810,009</u>	<u>\$ 942,702</u>	<u>\$ 6,752,711</u>

Texas Reliability Entity, Inc.
Statutory and Nonstatutory Statement of Activity by Program
Year Ended December 31, 2014

	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Statutory Total	State (Nonstatutory) Total	Total
Funding												
Assessments	\$ 433,387	\$ 8,994,237	\$ 1,545,048	\$ 377,493	\$ (840,857)	\$ -	\$ -	\$ -	\$ -	\$ 10,509,308	\$ -	\$ 10,509,308
Penalty sanctions	12,800	256,040	35,205	11,205	-	-	-	-	-	315,250	-	315,250
Membership fees	792	15,837	2,178	693	-	-	-	-	-	19,500	-	19,500
Testing fees	-	-	-	-	-	-	-	-	-	-	970,000	970,000
Interest income	75	1,500	206	65	-	-	-	-	-	1,846	333	2,179
Total funding	447,054	9,267,614	1,582,637	389,456	(840,857)	-	-	-	-	10,845,904	970,333	11,816,237
Expenses												
Personnel expenses												
Salaries	236,969	3,211,066	812,342	152,475	481,035	295,823	325,621	85,479	285,797	5,886,607	568,419	6,455,026
Payroll taxes	16,668	233,992	57,453	10,136	11,617	22,302	23,823	6,171	20,601	402,763	39,946	442,709
Employee benefits	28,585	419,915	110,926	25,866	4,364	40,509	104,939	24,728	43,257	803,089	25,170	828,259
Savings and retirement	24,267	320,462	84,930	15,395	44,398	27,178	35,793	9,333	29,589	591,345	68,233	659,578
Total personnel expenses	306,489	4,185,435	1,065,651	203,872	541,414	385,812	490,176	125,711	379,244	7,683,804	701,768	8,385,572
Meeting and travel expenses												
Meetings	264	1,853	658	16,339	12,855	-	224	6,721	-	38,914	-	38,914
Travel	13,142	124,915	59,392	5,554	68,878	8,996	7,923	4,084	2,316	295,200	100	295,300
Conference expenses	-	-	-	6,380	-	-	2,322	-	-	8,702	-	8,702
Total meeting and travel expense:	13,406	126,768	60,050	28,273	81,733	8,996	10,469	10,805	2,316	342,816	100	342,916
Operating expenses												
Consultants and contracts	350	146,808	1,050	-	53,033	4,700	32,879	78,727	174	317,721	2,107	319,828
Rent and improvements	-	-	-	-	483,548	-	6,364	-	-	489,912	25,945	515,857
Office costs	232	13,893	30,790	2,164	70,262	2,686	426,837	6,103	22,971	575,938	19,955	595,893
Professional services	-	240	-	-	249,850	17,326	71,712	-	82,393	421,521	8,572	430,093
Depreciation	-	-	-	-	162,496	-	-	-	-	162,496	51,615	214,111
Total operating expenses	582	160,941	31,840	2,164	1,019,189	24,712	537,792	84,830	105,538	1,967,588	108,194	2,075,782
Total expenses	320,477	4,473,144	1,157,541	234,309	1,642,336	419,520	1,038,437	221,346	487,098	9,994,208	810,062	10,804,270
Change in Unrestricted Net Assets	\$ 126,577	\$ 4,794,470	\$ 425,096	\$ 155,147	\$ (2,483,193)	\$ (419,520)	\$(1,038,437)	\$ (221,346)	\$ (487,098)	\$ 851,696	\$ 160,271	\$ 1,011,967

ATTACHMENT 9

**2014 ACTUAL COST-TO-BUDGET COMPARISON
(BASED ON UNAUDITED FINANCIAL STATEMENTS)
FOR
WESTERN ELECTRICITY COORDINATING COUNCIL**

2014 Unaudited Statement of Activities and Variance Explanations

Western Electricity Coordinating Council



155 North 400 West, Suite 200
Salt Lake City, Utah 84103-1114

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Overview

Summary

The Western Electricity Coordinating Council's (WECC) unaudited change in statutory working capital for the year ended December 31, 2014 is under budget by \$212,000 with grant activity and \$321,000 under budget without grant activity. The major drivers of WECC's net 2014 underrun are related to:

- An underrun of approximately \$950,000 related to consulting expenses for the Regional Transmission Expansion Planning project grant due to the use of staff for projects as opposed to higher-priced consultants;
- An overrun of \$875,000 in Personnel Expenses related to labor float rate assumptions, an unbudgeted increase in WECC's defined-contribution percentage, and lower-than-budgeted enrollment in WECC's benefits plans;
- An underrun of \$350,000 related to delayed deliverables on RAS Modeling contracts;
- An underrun of \$392,000 in Travel Expenses primarily due to a \$321,000 decrease as a result of risk-based compliance monitoring, \$46,000 for budgeted travel within Technical Committees and Member Forums but expensed within RAPA as well as department-wide cost-saving efforts;
- An underrun of \$286,000 in benefits primarily due to less-than-anticipated enrollment in insurance programs by employees;
- An underrun of \$193,000 in Meeting Expenses mainly due to holding all Board of Directors meetings in the WECC meeting space;
- An overrun of approximately \$594,000 in Professional Services related to unanticipated legal fees and the restructuring of Board Director compensation.

This document provides a summary of significant overall variances (greater than \$10,000 and 10 percent). For significant Program Area line-item variances, see the detailed statements of activities for each Program Area.

WECC substantially completed all of its goals and key deliverables as contained in the 2014 Business Plan and Budget except for the implementation of the Base Case Coordination System (BCCS). The BCCS implementation extended into 2015 due to software vendor delays.

Allocation of Indirect Costs

Administrative Services costs are allocated to program activities based on a full-time equivalent (FTE) ratio that is consistent with North American Electric Reliability Corporation's (NERC) 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 qualified as Section 215 activities.

One grant, the Regional Transmission Expansion Project (RTEP), remains in WECC's 2014 Business Plan and Budget. This grant ended in 2014.

The RTEP project, which encompasses all activities funded under this U.S. DOE grant, produces Interconnection-level transmission plans for the Western Interconnection.

RTEP is a natural expansion of the depth, breadth, and coordination of existing regional and subregional planning processes. The project 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, etc.).
- Facilitates and accelerates the development of needed transmission infrastructure.

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 2014, WECC allocated indirect costs to its non-statutory activity based on FTEs. Indirect costs include the Board of Directors, General and Administrative, Legal, Information Technology, Human Resources, and Finance programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. The allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.

Reserves

In 2014, WECC budgeted \$2.4 million of working capital reserves to offset the large increase in assessments. WECC used \$2.2 million of working capital reserves to offset 2014 statutory assessments.

2014 Unaudited Statement of Activities – Statutory and Non-Statutory

Western Electricity Coordinating Council			
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital			
Statutory and Non-Statutory			
	2014 Actual	2014 Budget	2014 Variance Over(Under)
Funding			
WECC Funding			
WECC Assessments	\$ 15,630,852	\$ 15,630,852	\$ -
Penalty Sanctions	2,933,050	2,933,050	-
Total ERO Funding	\$ 18,563,902	\$ 18,563,902	\$ -
Membership Fees	3,022,447	1,896,000	1,126,447
Grant Funding	3,638,249	3,628,308	9,941
Services & Software	-	-	-
Workshops	951,969	965,729	(13,760)
Interest	108,429	69,000	39,429
Miscellaneous	-	-	-
Total Funding	\$ 26,284,996	\$ 25,122,939	\$ 1,162,057
Expenses			
Personnel Expenses			
Salaries	13,085,114	12,446,955	638,159
Payroll Taxes	914,498	797,716	116,782
Employee Benefits	1,873,676	2,195,679	(322,003)
Savings & Retirement	1,133,172	797,716	335,456
Total Personnel Expenses	\$ 17,006,460	\$ 16,238,065	\$ 768,395
Meeting Expenses			
Meetings	681,591	886,701	(205,110)
Travel	1,098,517	1,545,456	(446,939)
Conference Calls	71,230	114,222	(42,992)
Total Meeting Expenses	\$ 1,851,338	\$ 2,546,379	\$ (695,041)
Operating Expenses			
Consultants & Contracts	3,020,841	4,393,302	(1,372,461)
Office Rent	948,561	936,072	12,489
Office Costs	1,903,634	1,962,504	(58,870)
Professional Services	1,367,987	775,256	592,731
Miscellaneous	-	-	-
Depreciation	645,784	580,000	65,784
Total Operating Expenses	\$ 7,886,807	\$ 8,647,134	\$ (760,327)
Total Direct Expenses	\$ 26,744,605	\$ 27,431,578	\$ (686,973)
Indirect Expenses	0	-	-
Other Non-Operating Expenses	\$ 31,207	\$ -	\$ 31,207
Total Expenses	26,775,812	27,431,578	(655,766)
Change in Assets	\$ (490,816)	\$ (2,308,640)	\$ 1,817,823
Fixed Assets			
Depreciation	(645,784)	(580,000)	(65,784)
Computer & Software CapEx	499,895	309,487	190,408
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	48,359	136,000	(87,641)
Leasehold Improvements	7,647	-	7,647
Allocation of Fixed Assets	(0)	-	(0)
Incr(Dec) in Fixed Assets	\$ (89,883)	\$ (134,513)	\$ 44,630
Total Budget	26,685,929	27,297,065	(611,136)
Change in Working Capital	\$ (400,933)	\$ (2,174,126)	\$ 1,773,193
FTEs	121.8	140.0	(18.2)
Headcount	127.0	140.0	(13.0)

2014 Unaudited Statement of Activities – Statutory

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Statutory Summary				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ 15,630,852	15,630,852	\$ -	0.0%
Penalty Sanctions	2,933,050	2,933,050	-	0.0%
Total ERO Funding	\$ 18,563,902	\$ 18,563,902	\$ -	0.0%
Membership Fees	-	-	-	
Grant Funding	3,638,249	3,628,308	9,941	0.3%
Services & Software	-	-	-	
Workshops	950,259	957,929	(7,670)	-0.8%
Interest	79,104	69,000	10,104	14.6%
Miscellaneous	-	-	-	
Total Funding	\$ 23,231,514	\$ 23,219,138	\$ 12,375	0.1%
Expenses				
Personnel Expenses				
Salaries	12,804,260	12,096,225	708,035	5.9%
Payroll Taxes	892,198	774,001	118,197	15.3%
Employee Benefits	1,843,630	2,129,744	(286,114)	-13.4%
Savings & Retirement	1,108,576	774,001	334,575	43.2%
Total Personnel Expenses	\$ 16,648,664	\$ 15,773,971	\$ 874,693	5.5%
Meeting Expenses				
Meetings	680,153	873,476	(193,323)	-22.1%
Travel	1,092,099	1,484,456	(392,357)	-26.4%
Conference Calls	70,344	114,222	(43,878)	-38.4%
Total Meeting Expenses	\$ 1,842,596	\$ 2,472,154	\$ (629,558)	-25.5%
Operating Expenses				
Consultants & Contracts	3,019,246	4,387,302	(1,368,056)	-31.2%
Office Rent	948,495	936,072	12,423	1.3%
Office Costs	1,452,027	1,405,454	46,573	3.3%
Professional Services	1,367,987	758,756	609,231	80.3%
Miscellaneous	-	-	-	
Depreciation	645,784	580,000	65,784	11.3%
Total Operating Expenses	\$ 7,433,539	\$ 8,067,584	\$ (634,045)	-7.9%
Total Direct Expenses	\$ 25,924,799	\$ 26,313,708	\$ (388,910)	-1.5%
Indirect Expenses	(409,077)	(541,111)	132,034	-24.4%
Other Non-Operating Expenses	\$ 12,207	\$ -	\$ 12,207	
Total Expenses	25,527,929	25,772,597	(244,669)	-0.9%
Change in Assets	\$ (2,296,415)	\$ (2,553,459)	\$ 257,044	-10.1%
Fixed Assets				
Depreciation	(645,784)	(580,000)	(65,784)	11.3%
Computer & Software CapEx	499,895	309,487	190,408	61.5%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	48,359	136,000	(87,641)	-64.4%
Leasehold Improvements	7,647	-	7,647	
Allocation of Fixed Assets	(0)	-	(0)	
Incr(Dec) in Fixed Assets	\$ (89,883)	\$ (134,513)	\$ 44,630	-33.2%
Total Budget	25,438,046	25,638,084	(200,039)	-0.8%
Change in Working Capital	\$ (2,206,530)	\$ (2,418,946)	\$ 212,414	-8.8%
FTEs	117.8	135.0	(17.2)	
Headcount	123.0	135.0	(12.0)	

2014 Unaudited Statement of Activities – Statutory Without Federal Grants

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Statutory Summary Without Grants				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ 15,630,852	15,630,852	\$ (0)	0.0%
Penalty Sanctions	2,933,050	2,933,050	-	0.0%
Total ERO Funding	\$ 18,563,902	\$ 18,563,902	\$ (0)	0.0%
Membership Fees	-	-	-	-
Grant Funding	-	-	-	-
Services & Software	-	-	-	-
Workshops	950,259	957,929	(7,670)	-0.8%
Interest	79,104	69,000	10,104	14.6%
Miscellaneous	-	-	-	-
Total Funding	\$ 19,593,265	\$ 19,590,830	\$ 2,434	0.0%
Expenses				
Personnel Expenses				
Salaries	12,117,190	11,667,376	449,814	3.9%
Payroll Taxes	843,625	746,634	96,991	13.0%
Employee Benefits	1,774,309	2,068,607	(294,298)	-14.2%
Savings & Retirement	1,047,467	746,634	300,833	40.3%
Total Personnel Expenses	\$ 15,782,591	\$ 15,229,251	\$ 553,340	3.6%
Meeting Expenses				
Meetings	661,319	863,476	(202,157)	-23.4%
Travel	1,066,933	1,454,456	(387,523)	-26.6%
Conference Calls	60,849	108,222	(47,373)	-43.8%
Total Meeting Expenses	\$ 1,789,101	\$ 2,426,154	\$ (637,053)	-26.3%
Operating Expenses				
Consultants & Contracts	1,121,777	1,587,302	(465,525)	-29.3%
Office Rent	948,495	936,072	12,423	1.3%
Office Costs	1,227,038	1,341,354	(114,316)	-8.5%
Professional Services	1,364,738	758,756	605,982	79.9%
Miscellaneous	-	-	-	-
Depreciation	474,795	481,000	(6,205)	-1.3%
Total Operating Expenses	\$ 5,136,843	\$ 5,104,484	\$ 32,359	0.6%
Total Direct Expenses	\$ 22,708,535	\$ 22,759,888	\$ (51,354)	-0.2%
Indirect Expenses	(409,077)	(541,111)	132,034	-24.4%
Other Non-Operating Expenses	\$ 12,207	\$ -	\$ 12,207	
Total Expenses	22,311,665	22,218,777	92,887	0.4%
Change in Assets	\$ (2,718,400)	\$ (2,627,946)	\$ (90,454)	3.4%
Fixed Assets				
Depreciation	(474,795)	(481,000)	6,205	-1.3%
Computer & Software CapEx	(28,608)	309,487	(338,095)	-109.2%
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	48,359	136,000	(87,641)	-64.4%
Leasehold Improvements	7,647	-	7,647	
Allocation of Fixed Assets	(0)	-	(0)	
Incr(Dec) in Fixed Assets	\$ (447,397)	\$ (35,513)	\$ (411,884)	1159.8%
Total Budget	21,864,268	22,183,264	(318,997)	-1.4%
Change in Working Capital	\$ (2,271,001)	\$ (2,592,433)	\$ 321,430	-12.4%
FTEs	117.8	135.0	(17.2)	
Headcount	123.0	135.0	(12.0)	

Significant Variance Explanations – Statutory Activities

Funding

- Interest Income: \$10,000 over budget
 - WECC earned higher-than-anticipated rates of return on cash balances.

Expenses

- Salaries: \$708,000 over budget
 - WECC's budgeted labor float rate assumptions were greater than actual vacancy rates.
- Payroll Taxes: \$118,000 over budget
 - WECC's budgeted labor float rate assumptions were greater than actual vacancy rates.
- Employee Benefits: \$286,000 under budget
 - Enrollment in benefit plans was lower than anticipated among existing employees.
 - Employee training needs were less than anticipated.
- Savings and Retirement: \$335,000 over budget
 - WECC's Board increased the defined-contribution percentage after the 2014 budget was approved.
 - WECC's budgeted labor float rate assumptions were greater than actual vacancy rates.
- Meetings: \$193,000 under budget
 - Staff increased use of webinars where feasible to minimize in-person meeting costs.
 - The June Annual Member and Board of Directors Meetings were held in the WECC meeting space and were originally budgeted to be held offsite.
- Travel: \$392,000 under budget
 - WECC staff attended fewer off-site meetings and increased meeting attendance via webinar where feasible.
 - WECC instituted company-wide cost-saving efforts to reduce expenses.
- Conference Calls: \$44,000 under budget
 - Conference call usage was less than expected.
- Consultants & Contracts: \$1.37 million under budget
 - Deliverables on a RAS modeling contract were delayed.
 - WECC used staff for some RTEP projects to minimize the cost of higher-priced consultants and maximize grant spending on other allowable costs.
 - Some smaller variances are related to classification issues between Operating Expenses and Fixed Assets.
- Professional Services: \$609,000 over budget
 - WECC incurred legal fees during 2014 related to unanticipated litigation.
 - Independent Board member compensation was restructured after the 2014 budget was approved.

- Indirect Expenses: \$132,000 under budget
 - The indirect allocation is driven by the headcount in the Western Regional Energy Information Generation System (WREGIS) Department where four of the five budgeted positions were filled in 2014.

Fixed Assets

- Computer and Software CapEx: \$190,000 over budget
 - Variance is related to classification issues between Operating Expenses and Fixed Assets.
- Equipment CapEx: \$88,000 under budget
 - Variance is related to classification issues between Operating Expenses and Fixed Assets.

Section A Statutory Programs

2014 Unaudited Statements of Activities and Variance Explanations

Reliability Standards Program

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Reliability Standards				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ 790,180	\$ 790,180	\$ -	0.0%
Penalty Sanctions	133,169	133,169	-	0.0%
Total ERO Funding	\$ 923,349	\$ 923,349	\$ -	0.0%
Membership Fees	-	-	-	
Grant Funding	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	2,984	3,133	(149)	-4.8%
Miscellaneous	-	-	-	
Total Funding	\$ 926,333	\$ 926,482	\$ (149)	0.0%
Expenses				
Personnel Expenses				
Salaries	430,402	447,768	(17,366)	-3.9%
Payroll Taxes	29,986	30,138	(152)	-0.5%
Employee Benefits	29,960	48,499	(18,539)	-38.2%
Savings & Retirement	38,508	30,138	8,370	27.8%
Total Personnel Expenses	\$ 528,856	\$ 556,544	\$ (27,688)	-5.0%
Meeting Expenses				
Meetings	-	528	(528)	-100.0%
Travel	18,951	28,360	(9,409)	-33.2%
Conference Calls	2,441	4,188	(1,747)	-41.7%
Total Meeting Expenses	\$ 21,392	\$ 33,076	\$ (11,684)	-35.3%
Operating Expenses				
Consultants & Contracts	-	-	-	
Office Rent	-	-	-	
Office Costs	5,895	8,120	(2,225)	-27.4%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 5,895	\$ 8,120	\$ (2,225)	-27.4%
Total Direct Expenses	\$ 556,143	\$ 597,740	\$ (41,597)	-7.0%
Indirect Expenses	345,562	432,890	(87,328)	-20.2%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	901,705	1,030,630	(128,925)	-12.5%
Change in Assets	\$ 24,628	\$ (104,148)	\$ 128,776	-123.6%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(5,464)	(7,628)	2,164	-28.4%
Incr(Dec) in Fixed Assets	\$ (5,464)	\$ (7,628)	\$ 2,164	-28.4%
Total Budget	896,241	1,023,002	(126,761)	-12.4%
Change in Working Capital	\$ 30,092	\$ (96,520)	\$ 126,612	-131.2%
FTEs	3.0	4.0	(1.0)	
Headcount	3.0	4.0	(1.0)	

Significant Variance Explanations – Reliability Standards Program**Personnel Expenses**

- Personnel Expenses are \$28,000 under budget due to an unfilled position.

Meeting Expenses

- Not applicable.

Operating Expenses

- Not applicable.

Indirect Expenses

- Indirect Expenses are under budget by \$87,000 due to the unfilled position in Standards and the unfilled position in WREGIS. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Western Electricity Coordinating Council					
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Compliance Monitoring and Enforcement and Organization Registration and Certification					
	2014 Actual	2014 Budget	2014 Variance		
			Over(Under)		%
Funding					
WECC Funding					
WECC Assessments	\$ 10,955,928	\$ 10,955,928	\$ -		0.0%
Penalty Sanctions	1,930,952	1,930,952	-		0.0%
Total ERO Funding	\$ 12,886,880	\$ 12,886,880	\$ -		0.0%
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	563,879	438,125	125,754		28.7%
Interest	48,534	45,426	3,108		6.8%
Miscellaneous	-	-	-		
Total Funding	\$ 13,499,293	\$ 13,370,431	\$ 128,862		1.0%
Expenses					
Personnel Expenses					
Salaries	4,972,400	4,769,767	202,633		4.2%
Payroll Taxes	375,142	322,315	52,827		16.4%
Employee Benefits	631,996	795,563	(163,567)		-20.6%
Savings & Retirement	424,499	322,315	102,184		31.7%
Total Personnel Expenses	\$ 6,404,037	\$ 6,209,960	\$ 194,077		3.1%
Meeting Expenses					
Meetings	471,531	462,503	9,028		2.0%
Travel	645,021	966,340	(321,319)		-33.3%
Conference Calls	19,915	41,780	(21,865)		-52.3%
Total Meeting Expenses	\$ 1,136,467	\$ 1,470,623	\$ (334,156)		-22.7%
Operating Expenses					
Consultants & Contracts	595,631	424,800	170,831		40.2%
Office Rent	1,407	-	1,407		
Office Costs	360,102	450,670	(90,568)		-20.1%
Professional Services	5,245	-	5,245		
Miscellaneous	-	-	-		
Depreciation	25,186	36,000	(10,814)		-30.0%
Total Operating Expenses	\$ 987,571	\$ 911,470	\$ 76,101		8.3%
Total Direct Expenses	\$ 8,528,075	\$ 8,592,053	\$ (63,978)		-0.7%
Indirect Expenses	5,620,295	6,276,897	(656,602)		-10.5%
Other Non-Operating Expenses	\$ 3,319	\$ -	\$ 3,319		
Total Expenses	14,151,689	14,868,950	(717,261)		-4.8%
Change in Assets	\$ (652,396)	\$ (1,498,519)	\$ 846,123		-56.5%
Fixed Assets					
Depreciation	(25,186)	(36,000)	10,814		-30.0%
Computer & Software CapEx	-	10,000	(10,000)		-100.0%
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	31,000	(31,000)		-100.0%
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(88,862)	(110,602)	21,740		-19.7%
Incr(Dec) in Fixed Assets	\$ (114,048)	\$ (105,602)	\$ (8,446)		8.0%
Total Budget	14,037,641	14,763,348	(725,707)		-4.9%
Change in Working Capital	\$ (538,348)	\$ (1,392,917)	\$ 854,569		-61.4%
FTEs	48.6	58.0	(9.4)		
Headcount	51.0	58.0	(7.0)		

Significant Variance Explanations – Compliance Monitoring and Enforcement**Funding**

- Workshop revenue is over budget by \$126,000 due to higher-than-anticipated registration for WECC workshops.

Personnel Expenses

- Salaries are over budget by \$203,000 due to WECC's budgeted labor float rate assumptions compared with actual vacancy rates and incentives that were budgeted in General and Administrative.
- Payroll Taxes are \$53,000 over budget due to WECC's budgeted labor float rate assumptions compared with actual vacancy rates.
- Employee Benefits are \$164,000 under budget due to lower-than-anticipated plan enrollment among existing employees and under-utilization of training.
- Savings and Retirement are \$102,000 over budget due to an unanticipated increase in the defined-contribution percentage and WECC's labor float assumptions.

Meeting Expenses

- Travel Expenses are \$321,000 under budget due to travel reductions as a result of risk-based compliance monitoring, department-wide cost-saving efforts, and budget-classification issues related to consultant travel expenditures.
- Conference Calls are \$22,000 under budget due less-than-anticipated usage.

Operating Expenses

- Consultants and Contracts are \$171,000 over budget due to the budget for the compliance WebCDMS tool originally being classified in General and Administrative. Since WebCDMS is exclusively used by Compliance, the costs were expended in Compliance.
- Office Costs are \$91,000 under budget primarily due to lower-than-anticipated computer license, maintenance, and equipment expenditures.

Indirect Expenses

- Indirect Expenses are under budget by \$657,000 due to the unfilled position in Standards. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Computer and Software CapEx are under budget by \$10,000 due to budgeted software modules for WECC's existing systems that were not purchased in 2014.
- Equipment CapEx are under budget by \$31,000 due to budgeted multimedia equipment for remote training that was not purchased in 2014.

Reliability Assessment and Performance Analysis Program

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Reliability Assessment and Performance Analysis				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ 3,767,309	\$ 3,767,309	\$ -	0.0%
Penalty Sanctions	785,698	785,698	-	0.0%
Total ERO Funding	\$ 4,553,007	\$ 4,553,007	\$ -	0.0%
Membership Fees	-	-	-	
Grant Funding	3,638,249	3,628,308	9,941	0.3%
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	25,859	18,484	7,375	39.9%
Miscellaneous	-	-	-	
Total Funding	\$ 8,217,115	\$ 8,199,799	\$ 17,316	0.2%
Expenses				
Personnel Expenses				
Salaries	2,943,923	2,014,830	929,093	46.1%
Payroll Taxes	213,472	134,116	79,356	59.2%
Employee Benefits	312,572	296,187	16,385	5.5%
Savings & Retirement	283,761	134,116	149,645	111.6%
Total Personnel Expenses	\$ 3,753,728	\$ 2,579,250	\$ 1,174,478	45.5%
Meeting Expenses				
Meetings	72,517	65,065	7,452	11.5%
Travel	158,447	148,800	9,647	6.5%
Conference Calls	28,106	30,750	(2,644)	-8.6%
Total Meeting Expenses	\$ 259,070	\$ 244,615	\$ 14,455	5.9%
Operating Expenses				
Consultants & Contracts	2,107,336	3,368,000	(1,260,664)	-37.4%
Office Rent	540	-	540	
Office Costs	282,621	113,650	168,971	148.7%
Professional Services	3,249	-	3,249	
Miscellaneous	-	-	-	
Depreciation	318,058	211,000	107,058	50.7%
Total Operating Expenses	\$ 2,711,804	\$ 3,692,650	\$ (980,846)	-26.6%
Total Direct Expenses	\$ 6,724,602	\$ 6,516,515	\$ 208,087	3.2%
Indirect Expenses	2,994,486	2,554,048	440,438	17.2%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	9,719,088	9,070,563	648,525	7.1%
Change in Assets	\$ (1,501,973)	\$ (870,764)	\$ (631,209)	72.5%
Fixed Assets				
Depreciation	(318,058)	(211,000)	(107,058)	50.7%
Computer & Software CapEx	398,193	239,487	158,706	66.3%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(47,345)	(45,003)	(2,342)	5.2%
Incr(Dec) in Fixed Assets	\$ 32,790	\$ (16,516)	\$ 49,306	-298.5%
Total Budget	9,751,878	9,054,047	697,832	7.7%
Change in Working Capital	\$ (1,534,763)	\$ (854,248)	\$ (680,515)	79.7%
FTEs	25.9	23.6	2.3	
Headcount	28.0	23.0	5.0	

Significant Variance Explanations – Reliability Assessment and Performance Analysis

Personnel Expenses

- Salaries are \$929,000 over budget due to a net increase of 4.4 FTEs (7 positions), budgeted labor float rate assumptions compared with actual vacancy rates, and incentives that were budgeted in General and Administrative. Additionally, nine positions were transferred to RAPA from Technical Committees and Member Forums, RAPA transferred one position to General and Administrative, General and Administrative transferred one executive position to RAPA to more closely align staff with work performed, and one position to Situation Awareness and Infrastructure Security. Positions were moved in 2014 to more appropriately align staff with work performed.
- Payroll Taxes are \$79,000 over budget due to the net increase in FTEs and WECC's labor float assumptions.
- Savings and Retirement are \$150,000 over budget due to an unbudgeted increase in the defined-contribution percentage, the net increase in FTEs and WECC's labor float assumptions.

Meeting Expenses

- Not applicable.

Operating Expenses

- Consultants and Contracts are \$1.26 million under budget due to several factors:
 - RAS modeling contracts were under budget by \$350,000 due to delays in vendor deliverables;
 - \$169,000 was budgeted for data modeling software maintenance fees but was actually expensed as office costs;
 - RTEP consultants were under budget by \$1.07 million due to usage of staff on some RTEP projects to minimize the cost of higher-priced consultants in order to maximize grant spending on other allowable costs and classification issues between consulting and license fees and fixed assets; and
 - Consulting dollars budgeted in Technical Committees and Forums were expensed in RAPA. The budget was \$212,000 and actual expenditures on this project were \$74,000.
 - Office Costs are \$169,000 over budget primarily due to data modeling software maintenance fees that were originally budgeted in Consultants and Contracts but expensed as Office Costs.

Indirect Expenses

- Indirect Expenses are over budget by \$440,000 due to the increase in FTEs in RAPA. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Computer and Software CapEx are over budget by \$159,000 primarily due to budget classification issues between consulting and fixed assets for the RTEP grant.

Training, Education, and Operator Certification Program

Western Electricity Coordinating Council					
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Training and Education					
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%	
Funding					
WECC Funding					
WECC Assessments	\$ 36,290	\$ 36,290	\$ -		0.0%
Penalty Sanctions	66,585	66,585	-		0.0%
Total ERO Funding	\$ 102,875	\$ 102,875	\$ -		0.0%
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	386,380	519,804	(133,424)		-25.7%
Interest	848	1,566	(718)		-45.8%
Miscellaneous	-	-	-		
Total Funding	\$ 490,103	\$ 624,245	\$ (134,142)		-21.5%
Expenses					
Personnel Expenses					
Salaries	83,916	146,942	(63,026)		-42.9%
Payroll Taxes	6,956	10,136	(3,180)		-31.4%
Employee Benefits	2,433	22,654	(20,221)		-89.3%
Savings & Retirement	8,358	10,136	(1,778)		-17.5%
Total Personnel Expenses	\$ 101,663	\$ 189,868	\$ (88,205)		-46.5%
Meeting Expenses					
Meetings	49,477	56,040	(6,563)		-11.7%
Travel	5,597	7,836	(2,239)		-28.6%
Conference Calls	319	804	(485)		-60.3%
Total Meeting Expenses	\$ 55,393	\$ 64,680	\$ (9,287)		-14.4%
Operating Expenses					
Consultants & Contracts	104,931	106,502	(1,571)		-1.5%
Office Rent	45,427	47,472	(2,045)		-4.3%
Office Costs	84,727	87,740	(3,013)		-3.4%
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 235,085	\$ 241,714	\$ (6,629)		-2.7%
Total Direct Expenses	\$ 392,141	\$ 496,262	\$ (104,121)		-21.0%
Indirect Expenses	98,237	196,829	(98,592)		-50.1%
Other Non-Operating Expenses	\$ 3,650	\$ -	\$ 3,650		
Total Expenses	494,028	693,091	(199,064)		-28.7%
Change in Assets	\$ (3,924)	\$ (68,846)	\$ 64,922		-94.3%
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(1,553)	(3,814)	2,261		-59.3%
Incr(Dec) in Fixed Assets	\$ (1,553)	\$ (3,814)	\$ 2,261		-59.3%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	492,475	689,277	(196,803)		-28.6%
Change in Working Capital (Total Funding less Total Budget)	\$ (2,371)	\$ (65,032)	\$ 62,661		-96.4%
FTEs	0.9	2.0	(1.2)		
Headcount	1.0	2.0	(1.0)		

Significant Variance Explanations – Training and Education**Funding**

- Workshop Revenue is under budget by \$133,000 due to lower-than-anticipated enrollment in WECC training classes.

Personnel Expenses

- Salaries are under budget by \$63,000 due to 1.0 vacant position.
- Employee Benefits are \$20,000 under budget due to 1.0 vacant position.

Meeting Expenses

- Not applicable.

Operating Expenses

- Not applicable.

Indirect Expenses

- Indirect Expenses are under budget by \$99,000 due to 1.0 vacant position. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

Situation Awareness and Infrastructure Security Program

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Situation Awareness and Infrastructure Security				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ 81,145	\$ 81,145	\$ -	0.0%
Penalty Sanctions	16,646	16,646	-	0.0%
Total ERO Funding	\$ 97,791	\$ 97,791	\$ -	0.0%
Membership Fees	-	-	-	
Grant Funding	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	878	391	487	124.6%
Miscellaneous	-	-	-	
Total Funding	\$ 98,669	\$ 98,182	\$ 487	0.5%
Expenses				
Personnel Expenses				
Salaries	130,656	47,976	82,680	172.3%
Payroll Taxes	9,568	3,228	6,340	196.4%
Employee Benefits	12,686	5,724	6,962	121.6%
Savings & Retirement	12,980	3,228	9,752	302.1%
Total Personnel Expenses	\$ 165,890	\$ 60,156	\$ 105,734	175.8%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contracts	-	-	-	
Office Rent	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ 165,890	\$ 60,156	\$ 105,734	175.8%
Indirect Expenses	91,587	49,207	42,380	86.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	257,477	109,363	148,114	135.4%
Change in Assets	\$ (158,807)	\$ (11,181)	\$ (147,626)	1320.3%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(1,608)	(953)	(655)	68.7%
Incr(Dec) in Fixed Assets	\$ (1,608)	\$ (953)	\$ (655)	68.7%
Total Budget	255,869	108,410	147,459	136.0%
Change in Working Capital	\$ (157,199)	\$ (10,228)	\$ (146,971)	1437.0%
FTEs	0.9	0.5	0.4	
Headcount	1.0	-	1.0	

Significant Variance Explanations – Situation Awareness and Infrastructure Security**Personnel Expenses**

- Personnel Expenses are over budget by \$106,000 due to the incremental 0.6 FTE allocation, which more accurately reflects actual time spent on Situation Awareness and Infrastructure Security activities.

Meeting Expenses

- Not applicable.

Operating Expenses

- Not applicable.

Indirect Expenses

- Indirect Expenses are over budget by \$42,000 due to the increase in actual FTEs. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

Technical Committees and Member Forums

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Technical Committees and Member Forums				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Membership Fees	-	-	-	-
Grant Funding	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Expenses				
Personnel Expenses				
Salaries	70,917	874,612	(803,695)	-91.9%
Payroll Taxes	6,573	59,075	(52,502)	-88.9%
Employee Benefits	16,326	115,178	(98,852)	-85.8%
Savings & Retirement	6,698	59,075	(52,377)	-88.7%
Total Personnel Expenses	<u>\$ 100,514</u>	<u>\$ 1,107,940</u>	<u>\$ (1,007,426)</u>	<u>-90.9%</u>
Meeting Expenses				
Meetings	76,619	278,090	(201,471)	-72.4%
Travel	82,762	128,720	(45,958)	-35.7%
Conference Calls	558	18,800	(18,242)	-97.0%
Total Meeting Expenses	<u>\$ 159,939</u>	<u>\$ 425,610</u>	<u>\$ (265,671)</u>	<u>-62.4%</u>
Operating Expenses				
Consultants & Contracts	-	212,000	(212,000)	-100.0%
Office Rent	-	-	-	-
Office Costs	7,728	35,203	(27,475)	-78.0%
Professional Services	825,863	465,756	360,107	77.3%
Miscellaneous	-	-	-	-
Depreciation	-	-	-	-
Total Operating Expenses	<u>\$ 833,591</u>	<u>\$ 712,959</u>	<u>\$ 120,632</u>	<u>16.9%</u>
Total Direct Expenses	<u>\$ 1,094,044</u>	<u>\$ 2,246,509</u>	<u>\$ (1,152,465)</u>	<u>-51.3%</u>
Indirect Expenses	(1,094,044)	(2,246,509)	1,152,465	-51.3%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	-	-	-	-
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Total Budget	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Working Capital	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
FTEs	0.7	9.0	(8.3)	
Headcount	-	9.0	(9.0)	

Significant Variance Explanations – Technical Committee and Member Forums**Personnel Expenses**

- Salaries are under budget by \$804,000 due to a shift of 9.0 positions from Technical Committees and Member Forums to RAPA to more appropriately align staffing with work performed.
- Payroll Taxes are under budget by \$53,000 due to the shift of employees.
- Employee Benefits are under budget by \$99,000 due to the shift of employees.
- Savings and Retirement are under budget by \$52,000 due to the shift of employees.

Meeting Expenses

- Meetings are under budget by \$201,500 due to an overall saving of \$135,000 for Board meetings being held onsite and \$66,300 for meetings budgeted for Technical Committees and Member Forums that has transitioned to RAPA.
- Travel is under budget by \$46,000 due to \$71,600 of travel budgeted for Technical Committees and Member Forums that has transitioned to RAPA as well as an overage of \$25,600 of higher-than-anticipated travel for the Board of Directors.
- Conference Calls are \$18,000 under budget due to lower-than-anticipated usage of \$6,200 for the Board of Directors and \$12,000 budgeted for Technical Committees and Member Forums transitioned to RAPA.

Operating Expenses

- Contracts and Consultant are \$212,000 under budget due to a contract for data validation and voltage stability shifting from Technical Committees and Member Forums to RAPA. The actual contractual cost of \$74,000 was expensed in RAPA.
- Office Costs are \$27,000 under budget due to the transfer of Technical Committees and Member Forums' FTEs to RAPA.
- Professional Services are \$360,000 over budget due to an increase in the number of compensable Board Meetings and restructured Board member compensation.

Indirect Expenses

- Indirect Expenses are under budget by \$1.15 million due to the shift of FTEs to RAPA. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

General and Administrative

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
General and Administrative				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Membership Fees	-	-	-	
Grant Funding	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Expenses				
Personnel Expenses				
Salaries	1,959,848	1,801,127	158,721	8.8%
Payroll Taxes	101,176	92,319	8,857	9.6%
Employee Benefits	181,942	188,224	(6,282)	-3.3%
Savings & Retirement	130,917	92,319	38,598	41.8%
Total Personnel Expenses	<u>\$ 2,373,883</u>	<u>\$ 2,173,989</u>	<u>\$ 199,894</u>	9.2%
Meeting Expenses				
Meetings	9,166	11,250	(2,084)	-18.5%
Travel	148,305	121,750	26,555	21.8%
Conference Calls	9,636	8,100	1,536	19.0%
Total Meeting Expenses	<u>\$ 167,107</u>	<u>\$ 141,100</u>	<u>\$ 26,007</u>	18.4%
Operating Expenses				
Consultants & Contracts	134,550	90,000	44,550	49.5%
Office Rent	900,861	888,600	12,261	1.4%
Office Costs	119,735	196,881	(77,146)	-39.2%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	202,995	205,000	(2,005)	-1.0%
Total Operating Expenses	<u>\$ 1,358,141</u>	<u>\$ 1,380,481</u>	<u>\$ (22,340)</u>	-1.6%
Total Direct Expenses	<u>\$ 3,899,131</u>	<u>\$ 3,695,570</u>	<u>\$ 203,561</u>	5.5%
Indirect Expenses	(3,899,131)	(3,695,570)	(203,561)	5.5%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Fixed Assets				
Depreciation	(202,995)	(205,000)	2,005	-1.0%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	7,647	-	7,647	
Allocation of Fixed Assets	195,348	205,000	(9,652)	-4.7%
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Budget	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
FTEs	17.5	15.2	2.3	
Headcount	17.0	16.0	1.0	

Significant Variance Explanations – General and Administrative**Personnel Expenses**

- Salaries are over by a net of \$159,000 due to a net increase of 2.3 FTEs, labor float assumptions compared to actual vacancy rates, unbudgeted recruiting fees, and an underrun in incentives that were expensed in other departments.
- Savings and Retirement are \$39,000 over budget due to an unanticipated increase in the defined-contribution percentage, the increase in FTEs and WECC's labor float assumptions.

Meeting Expenses

- Travel is over budget by \$27,000 primarily due to an increased engagement and outreach to stakeholders by WECC's new Chief Executive Officer.

Operating Expenses

- Consultants and Contracts are \$45,000 over budget primarily due to unbudgeted costs related to the Regional Executive Management Group.
- Office costs are \$77,000 under budget primarily due to a consolidation of equipment rentals and decreased office supply usage post-bifurcation.

Indirect Expenses

- Indirect Expenses are over budget by \$204,000 due to the increase in actual FTEs. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

Legal

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Legal				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	-
Membership Fees	-	-	-	-
Grant Funding	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	-
Expenses				
Personnel Expenses				
Salaries	967,809	657,788	310,021	47.1%
Payroll Taxes	56,480	44,388	12,092	27.2%
Employee Benefits	86,877	77,152	9,725	12.6%
Savings & Retirement	72,640	44,388	28,252	63.6%
Total Personnel Expenses	\$ 1,183,806	\$ 823,716	\$ 360,090	43.7%
Meeting Expenses				
Meetings	-	-	-	-
Travel	16,355	48,000	(31,645)	-65.9%
Conference Calls	2,087	1,200	887	73.9%
Total Meeting Expenses	\$ 18,442	\$ 49,200	\$ (30,758)	-62.5%
Operating Expenses				
Consultants & Contracts	675	-	675	
Office Rent	-	-	-	
Office Costs	28,102	28,690	(588)	-2.0%
Professional Services	424,238	190,000	234,238	123.3%
Miscellaneous	-	-	-	
Depreciation	8,489	8,000	489	6.1%
Total Operating Expenses	\$ 461,504	\$ 226,690	\$ 234,814	103.6%
Total Direct Expenses	\$ 1,663,752	\$ 1,099,606	\$ 564,146	51.3%
Indirect Expenses	(1,663,752)	(1,099,606)	(564,146)	51.3%
Other Non-Operating Expenses	\$ 3,090	\$ -	\$ 3,090	
Total Expenses	3,090	-	3,090	
Change in Assets	\$ (3,090)	\$ -	\$ (3,090)	
Fixed Assets				
Depreciation	(8,489)	(8,000)	(489)	6.1%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	8,489	8,000	489	6.1%
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget	3,090	-	3,090	
Change in Working Capital	\$ (3,090)	\$ -	\$ (3,090)	
FTEs	6.0	6.0	-	
Headcount	6.0	6.0	-	

Significant Variance Explanations – Legal**Personnel Expenses**

- Salaries are over budget by \$310,000 due to WECC's budgeted labor float rate assumptions compared with actual vacancy rates and incentives that were budgeted in Human Resources and General and Administrative.
- Payroll Taxes are \$12,000 over budget due to WECC's labor float assumptions and other increases in Salaries.
- Employee Benefits are \$10,000 under budget due to lower-than-anticipated plan enrollment among existing employees and under-utilization of training.
- Savings and Retirement are \$28,000 over budget due to an unanticipated increase in the defined-contribution percentage, WECC's labor float assumptions, and other increases in Salaries.

Meeting Expenses

- Travel is \$32,000 under budget due to cost-saving efforts and lower-than-anticipated travel requirements.

Operating Expenses

- Professional Services are \$234,000 over budget due to an increase in legal fees related to unanticipated litigation.

Indirect Expenses

- Indirect Expenses are over budget by \$564,000 due to the increase in actual expenditures.

Fixed Assets

- Not applicable.

Information Technology

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Information Technology				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	-
Membership Fees	-	-	-	-
Grant Funding	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	-
Expenses				
Personnel Expenses				
Salaries	633,746	670,107	(36,361)	-5.4%
Payroll Taxes	48,920	45,103	3,817	8.5%
Employee Benefits	97,999	101,928	(3,929)	-3.9%
Savings & Retirement	54,278	45,103	9,175	20.3%
Total Personnel Expenses	\$ 834,943	\$ 862,241	\$ (27,298)	-3.2%
Meeting Expenses				
Meetings	-	-	-	-
Travel	2,995	13,200	(10,205)	-77.3%
Conference Calls	6,223	7,200	(977)	-13.6%
Total Meeting Expenses	\$ 9,218	\$ 20,400	\$ (11,182)	-54.8%
Operating Expenses				
Consultants & Contracts	42,639	36,000	6,639	18.4%
Office Rent	260	-	260	
Office Costs	354,317	340,800	13,517	4.0%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	83,838	106,000	(22,162)	-20.9%
Total Operating Expenses	\$ 481,054	\$ 482,800	\$ (1,746)	-0.4%
Total Direct Expenses	\$ 1,325,215	\$ 1,365,441	\$ (40,226)	-2.9%
Indirect Expenses	(1,325,215)	(1,365,441)	40,226	-2.9%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses	-	-	-	-
Change in Assets	\$ -	\$ -	\$ -	-
Fixed Assets				
Depreciation	(83,838)	(106,000)	22,162	-20.9%
Computer & Software CapEx	101,702	60,000	41,702	69.5%
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	48,359	105,000	(56,641)	-53.9%
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(66,223)	(59,000)	(7,223)	12.2%
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ 0	0
Total Budget	-	-	0	0
Change in Working Capital	\$ -	\$ -	\$ (0)	(0)
FTEs	7.2	9.0	(1.8)	(1.8)
Headcount	8.0	9.0	(1.0)	(1.0)

Significant Variance Explanations – Information Technology**Personnel Expenses**

- Not applicable.

Meeting Expenses

- Travel is \$10,000 under budget due to lower-than-anticipated travel requirements as well as cost-saving efforts.

Operating Expenses

- Not applicable.

Indirect Expenses

- Not applicable.

Fixed Assets

- Computer and Software CapEx are \$42,000 over budget due to higher-than-anticipated costs for WECC's new website.
- Equipment CapEx is \$57,000 under budget due to lower-than-anticipated equipment needs to support WECC's new website.

Human Resources

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Human Resources				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	-
Membership Fees	-	-	-	-
Grant Funding	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	-
Expenses				
Personnel Expenses				
Salaries	257,936	384,508	(126,572)	-32.9%
Payroll Taxes	20,600	14,190	6,410	45.2%
Employee Benefits	431,923	414,876	17,047	4.1%
Savings & Retirement	39,357	14,190	25,167	177.4%
Total Personnel Expenses	\$ 749,816	\$ 827,764	\$ (77,948)	-9.4%
Meeting Expenses				
Meetings	3	-	3	
Travel	10,429	10,200	229	2.2%
Conference Calls	667	1,000	(333)	-33.3%
Total Meeting Expenses	\$ 11,099	\$ 11,200	\$ (101)	-0.9%
Operating Expenses				
Consultants & Contracts	33,484	150,000	(116,516)	-77.7%
Office Rent	-	-	-	-
Office Costs	97,165	59,100	38,065	64.4%
Professional Services	13,093	17,000	(3,907)	-23.0%
Miscellaneous	-	-	-	-
Depreciation	692	7,000	(6,308)	-90.1%
Total Operating Expenses	\$ 144,434	\$ 233,100	\$ (88,666)	-38.0%
Total Direct Expenses	\$ 905,349	\$ 1,072,064	\$ (166,715)	-15.6%
Indirect Expenses	(905,349)	(1,072,064)	166,715	-15.6%
Other Non-Operating Expenses	\$ 852	\$ -	\$ 852	
Total Expenses	852	-	852	
Change in Assets	\$ (852)	\$ -	\$ (852)	
Fixed Assets				
Depreciation	(692)	(7,000)	6,308	-90.1%
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	692	7,000	(6,308)	-90.1%
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget	852	-	852	
Change in Working Capital	\$ (852)	\$ -	\$ (852)	
FTEs	2.9	3.0	(0.1)	
Headcount	3.0	3.0	-	

Significant Variance Explanations – Human Resources**Personnel Expenses**

- Salaries are under budget by \$127,000 due to incentives budgeted in Human Resources but expensed in other departments.
- Savings and Retirement are \$25,000 over budget due to an unanticipated increase in the defined-contribution percentage and WECC's labor float assumptions.

Meeting Expenses

- Not applicable.

Operating Expenses

- Consultants and Contracts are \$117,000 under budget due to lower-than-anticipated costs of compensation surveys and consulting fees.
- Office Costs are \$38,000 over budget due to an increase in recruiting costs as well as unbudgeted expenditures for compensation survey data.

Indirect Expenses

- Indirect Expenses are under budget by \$167,000 due to the decrease in actual expenditures in Human Resources.

Fixed Assets

- Not applicable.

Finance and Accounting

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Finance and Accounting				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Membership Fees	-	-	-	-
Grant Funding	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Expenses				
Personnel Expenses				
Salaries	352,707	280,800	71,907	25.6%
Payroll Taxes	23,325	18,992	4,333	22.8%
Employee Benefits	38,916	63,758	(24,842)	-39.0%
Savings & Retirement	36,580	18,992	17,588	92.6%
Total Personnel Expenses	<u>\$ 451,528</u>	<u>\$ 382,542</u>	<u>\$ 68,986</u>	<u>18.0%</u>
Meeting Expenses				
Meetings	840	-	840	
Travel	3,237	11,250	(8,013)	-71.2%
Conference Calls	392	400	(8)	-2.0%
Total Meeting Expenses	<u>\$ 4,469</u>	<u>\$ 11,650</u>	<u>\$ (7,181)</u>	<u>-61.6%</u>
Operating Expenses				
Consultants & Contracts	-	-	-	
Office Rent	-	-	-	
Office Costs	111,635	84,600	27,035	32.0%
Professional Services	96,299	86,000	10,299	12.0%
Miscellaneous	-	-	-	
Depreciation	6,526	7,000	(474)	-6.8%
Total Operating Expenses	<u>\$ 214,460</u>	<u>\$ 177,600</u>	<u>\$ 36,860</u>	<u>20.8%</u>
Total Direct Expenses	<u>\$ 670,457</u>	<u>\$ 571,792</u>	<u>\$ 98,665</u>	<u>17.3%</u>
Indirect Expenses	(671,753)	(571,792)	(99,961)	17.5%
Other Non-Operating Expenses	<u>\$ 1,296</u>	<u>\$ -</u>	<u>\$ 1,296</u>	
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Fixed Assets				
Depreciation	(6,526)	(7,000)	474	-6.8%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	6,526	7,000	(474)	-6.8%
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Budget	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
FTEs	4.2	4.7	(0.5)	
Headcount	5.0	5.0	-	

Significant Variance Explanations – Finance and Accounting**Personnel Expenses**

- Salaries are over budget by \$72,000 due to WECC's budgeted labor float assumptions compared with actual vacancy rates and incentives that were budgeted in Human Resources.
- Employee Benefits are \$25,000 under budget due to lower-than-anticipated plan enrollment among existing employees as well as under-utilized employee training.
- Savings and Retirement are \$18,000 over budget due to an unanticipated increase in the defined-contribution percentage, WECC's labor float assumptions, and other increases in Salaries.

Meeting Expenses

- Not applicable.

Operating Expenses

- Office Costs are over budget by \$27,000 due an unanticipated tax payment to the State of Washington for Business and Occupancy taxes.
- Professional Services are over budget by \$10,000 due to higher-than-anticipated audit fees.

Indirect Expenses

- Indirect Expenses are over budget by \$100,000 due to the increase in actual costs in Finance and Accounting.

Fixed Assets

- Not applicable.

Section B Non-Statutory Programs

2014 Business Plan and Budget

Western Renewable Energy Generation Information System (WREGIS)

Western Electricity Coordinating Council				
2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Non-Statutory Summary				
	2014 Actual	2014 Budget	2014 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	-
Membership Fees	3,022,447	1,896,000	1,126,447	59.4%
Grant Funding	-	-	-	-
Services & Software	-	-	-	-
Workshops	1,710	7,800	(6,090)	-78.1%
Interest	29,325	-	29,325	-
Miscellaneous	-	-	-	-
Total Funding	\$ 3,053,482	\$ 1,903,800	\$ 1,149,682	60.4%
Expenses				
Personnel Expenses				
Salaries	280,854	350,730	(69,876)	-19.9%
Payroll Taxes	22,300	23,715	(1,415)	-6.0%
Employee Benefits	30,046	65,935	(35,889)	-54.4%
Savings & Retirement	24,596	23,715	881	3.7%
Total Personnel Expenses	\$ 357,796	\$ 464,094	\$ (106,298)	-22.9%
Meeting Expenses				
Meetings	1,438	13,225	(11,787)	-89.1%
Travel	6,418	61,000	(54,582)	-89.5%
Conference Calls	886	-	886	-
Total Meeting Expenses	\$ 8,742	\$ 74,225	\$ (65,483)	-88.2%
Operating Expenses				
Consultants & Contracts	1,595	6,000	(4,405)	-73.4%
Office Rent	66	-	66	-
Office Costs	451,607	557,050	(105,443)	-18.9%
Professional Services	-	16,500	(16,500)	-100.0%
Miscellaneous	-	-	-	-
Depreciation	-	-	-	-
Total Operating Expenses	\$ 453,268	\$ 579,550	\$ (126,282)	-21.8%
Total Direct Expenses	\$ 819,806	\$ 1,117,869	\$ (298,063)	-26.7%
Indirect Expenses	409,077	541,111	(132,034)	-24.4%
Other Non-Operating Expenses	\$ 19,000	\$ -	\$ 19,000	-
Total Expenses	1,247,883	1,658,980	(411,097)	-24.8%
Change in Assets	\$ 1,805,599	\$ 244,820	\$ 1,560,779	637.5%
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	-	-	-	-
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
Total Budget	1,247,883	1,658,980	(411,097)	-24.8%
Change in Working Capital	\$ 1,805,599	\$ 244,820	\$ 1,560,779	637.5%
FTEs	4.00	5.0	(1.0)	-
Headcount	4.00	5.0	(1.0)	-

Significant Variance Explanations – Non-Statutory**Funding**

- Membership Fees are \$1.13 million over budget due to higher-than-anticipated participation in WREGIS.
- Interest Income is \$29,000 over budget due to higher-than-anticipated rates of return on non-statutory cash balances.

Personnel Expenses

- Salaries are \$70,000 under budget due to 1.0 vacant position.
- Employee Benefits are \$36,000 under budget due to lower-than-anticipated plan enrollment with existing employees as well as employee training needs that were less than expected.

Meeting Expenses

- Meetings are \$12,000 under budget due to lower-than-anticipated costs for WREGIS meetings being held onsite and via webinar.
- Travel is \$55,000 under budget due to WREGIS offsite travel being lower than anticipated.

Operating Expenses

- Operating Expenses decrease by \$126,000 primarily due to decreases in WREGIS software licensing fees and lower-than-budgeted legal fees.

Indirect Expenses

- Indirect Expenses are under budget by \$132,000 due to the indirect allocation being based on actual FTEs.

Other Non-Operating Expenses

- Other Non-Operating Expenses are over budget by \$19,000 due to unbudgeted adjustments to the allowance for doubtful accounts.

ATTACHMENT 10

2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

PEAK RELIABILITY, INC.

Peak Reliability

2014 – Actual to Budget Variance Analysis

May 27, 2015



Peak Reliability

2014—Actual to Budget Variance Analysis

For the year ending December 31, 2014, Peak Reliability (Peak) was substantially on budget with an under budget variance of \$433.5k (1.3 percent) for total expenses and fixed asset purchases. Significant variances within expense categories include, higher personnel expenses driven by lower than planned vacancy rates which were offset by lower levels of fixed asset additions due to timing of projects, including the Enhanced Curtailment Calculator (ECC) and lower computer and maintenance costs. Higher than budgeted director compensation was offset by savings initiatives aimed at reducing meeting and travel expenses.

**2014 ACTUAL VERSUS BUDGET BY CATEGORY
STATUTORY**

	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Total Funding	<u>\$ 30,945,496</u>	<u>\$ 29,724,031</u>	<u>\$ 1,221,465</u>	<u>4.1%</u>
Expenses				
Personnel Expenses	21,342,606	19,397,409	1,945,197	10.0%
Meeting Expenses	624,742	1,155,405	(530,663)	-45.9%
Consultants & Contracts	1,411,968	1,267,500	144,468	11.4%
Office Rent	1,400,067	1,276,728	123,339	9.7%
Office Costs	5,813,051	6,986,326	(1,173,275)	-16.8%
Professional Services	903,079	663,280	239,799	36.2%
Other Non-Operating Expenses	56	-	56	
Fixed Asset Increase	1,029,593	2,212,000	(1,182,407)	-53.5%
TOTAL BUDGET	<u>\$ 32,525,163</u>	<u>\$ 32,958,648</u>	<u>(433,485)</u>	<u>-1.3%</u>
TOTAL CHANGE IN WORKING CAPITAL	<u>\$ (1,579,667)</u>	<u>\$ (3,234,617)</u>	<u>\$ 1,654,950</u>	<u>-51.2%</u>
FTEs	137.1	149.1	(12.0)	-8.0%
HC	141.0	155.0	(14.0)	-9.0%

Following is a discussion of the major factors influencing actual to budget performance in 2014:

- **Funding** – Peak was over budget primarily due to amounts paid by BC Hydro under a contract to have Peak continue to provide Reliability Coordinator functions. The amounts recognized and collected in 2014 have been used to offset 2015 assessments billed to other Load Serving Entities and will result in Peak being under

PEAK RELIABILITY — CORPORATE OFFICE

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budget in 2015 by a similar amount. Peak also received unbudgeted federal grant funds in 2014.

- **Employee Vacancies** - The company ended the year 12.0 FTEs under budget, with a vacancy rate of 8.0 percent for 2014.
- **Personnel Expenses** were \$1.95M, or 10.0 percent over budget, primarily due to lower levels of employee vacancy than the 15.0 percent budgeted.
- **Meetings, Travel, Conferencing and Webinar** expenses were under budget \$530.7k, or 45.9 percent, primarily due to lower than anticipated travel and meeting costs.
- **Consultants and Contracts** expenses were \$144.5k, or 11.4 percent over budget due primarily to consulting costs associated with the development of Peak's Performance Metrics program.
- **Rent** expense was \$123.3k, or 9.7 percent, over budget due primarily to additional space leased in Loveland, Co, which was previously unbudgeted.
- **Office Costs, Professional Services and Miscellaneous**
 - Office Costs were \$1.17M, or 16.8 percent, under budget primarily due to lower than budgeted computer supplies and maintenance costs driven by maintenance renewals at lower than budgeted rates.
 - Professional Services were \$240.0k, or 36.2 percent, over budget due primarily to higher director compensation driven by a director compensation agreement approved after budget development.
- **Depreciation** was \$497.9k, or 13.7 percent, over budget due primarily to higher levels of assets in service during the year than budgeted.
- **Fixed Asset Purchases**, excluding a credit for depreciation, were \$1.182M, or 53.5 percent, under budget primarily due to delay in spending on large projects, including ECC.
- **Allocation of Indirect Expenses and Fixed Assets by Program** – Total direct expenses of the administrative programs were \$7.7M, which was \$92.5k, or 1.2 percent under budget. Direct expenses were under budget primarily due to lower personnel expenses as a result of vacancies greater than budgeted. The actual and budgeted allocations of indirect expenses by FTE were \$66.6k and \$65.7k, respectively, for an increase per FTE of \$0.9k. Total fixed assets, net of depreciation for the administrative programs were (\$80.0k), which was \$109.0k, or 375.8%, under budget.

Use of Statutory Funds for Non-Statutory Activities

Peak did not use statutory funds for non-statutory activities as Peak's non-statutory activities operate only when they cover the costs associated with the activity.

Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget
STATUTORY

	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Funding				
Assessments	\$ 30,604,721	\$ 29,568,031	\$ 1,036,690	
Federal Grants	323,063	-	323,063	
Interest	30,836	156,000	(125,164)	
Miscellaneous	(13,124)	-	(13,124)	
Total Funding (A)	\$ 30,945,496	\$ 29,724,031	\$ 1,221,465	4.1%
Expenses				
Personnel Expenses				
Salaries	\$ 16,832,156	\$ 14,959,388	\$ 1,872,768	
Payroll Taxes	1,142,807	963,709	179,098	
Benefits	2,025,611	2,510,603	(484,992)	
Retirement Costs	1,342,032	963,709	378,323	
Total Personnel Expenses	\$ 21,342,606	\$ 19,397,409	\$ 1,945,197	10.0%
Meeting Expenses				
Meetings	\$ 120,611	\$ 306,183	\$ (185,572)	
Travel	496,811	804,138	(307,327)	
Conference Calls	7,320	45,084	(37,764)	
Total Meeting Expenses	\$ 624,742	\$ 1,155,405	\$ (530,663)	-45.9%
Operating Expenses				
Consultants & Contracts	\$ 1,411,968	\$ 1,267,500	\$ 144,468	
Office Rent	1,400,067	1,276,728	123,339	
Office Costs	5,813,051	6,986,326	(1,173,275)	
Professional Services	903,079	663,280	239,799	
Miscellaneous	-	-	-	
Depreciation	4,122,887	3,625,000	497,887	
Total Operating Expenses	\$ 13,651,053	\$ 13,818,834	\$ (167,781)	-1.2%
Total Direct Expenses	\$ 35,618,401	\$ 34,371,648	\$ 1,246,753	3.6%
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ 56	\$ -	\$ 56	
Total Expenses (B)	\$ 35,618,458	\$ 34,371,648	\$ 1,246,810	3.6%
Change in Assets	\$ (4,672,962)	\$ (4,647,617)	\$ (25,345)	0.5%
Fixed Assets				
Depreciation	\$ (4,122,887)	\$ (3,625,000)	(497,887)	
Computer & Software CapEx	249,007	1,373,000	(1,123,993)	
Furniture & Fixtures CapEx	0	36,000	(36,000)	
Equipment CapEx	711,472	803,000	(91,528)	
Leasehold Improvements	69,114	-	69,114	
Allocation of Fixed Assets	\$ -	\$ -	\$ -	
Incr(Dec) in Fixed Assets (C)	\$ (3,093,295)	\$ (1,413,000)	\$ (1,680,295)	118.9%
TOTAL BUDGET (B+C)	32,525,163	32,958,648	(433,485)	-1.3%
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ (1,579,667)	\$ (3,234,617)	\$ 1,654,950	-51.2%
FTEs	137.1	149.1	(12.0)	-8.0%

PEAK RELIABILITY — CORPORATE OFFICE

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Statutory Working Capital Reserve Analysis

Working Capital Reserve Analysis 2014			
STATUTORY			
	Actual	Budget	Variance Over(Under)
Beginning Working Capital Reserve, December 31, 2013	\$ -	\$ -	\$ -
Plus: Transfer of Reserves from WECC, January 2, 2014	5,811,568	5,811,568	0
Plus: 2014 Funding (from Load Serving Entities (LSE) or designees)	30,604,721	29,568,031	1,036,690
Plus: 2014 Other funding sources	340,775	156,000	184,775
Less: 2014 expenses & capital expenditures	(32,525,163)	(32,958,648)	433,485
Working Capital Reserve, December 31, 2014	\$ 4,231,901	\$ 2,576,951	\$ 1,654,950

Peak ended 2014 with working capital reserves of \$4.2 million, \$1.65 million greater than expected primarily due to \$1.04 million of greater funding than planned. The increased funding will offset funding budgeted in 2015.

**Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget**

SITUATION AWARENESS AND INFRASTRUCTURE SECURITY

	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Funding				
Assessments	\$ 30,604,721	\$ 29,568,031	\$ 1,036,690	3.5%
Federal Grants	323,063	-	323,063	
Interest	30,836	156,000	(125,164)	-80.2%
Miscellaneous	(13,124)	-	(13,124)	
Total Funding (A)	\$ 30,945,496	\$ 29,724,031	\$ 1,221,465	4.1%
Expenses				
Personnel Expenses				
Salaries	\$ 13,847,146	\$ 11,932,371	\$ 1,914,775	16.0%
Payroll Taxes	977,670	787,893	189,777	24.1%
Benefits	1,329,318	1,680,551	(351,233)	-20.9%
Retirement Costs	1,150,168	787,893	362,275	46.0%
Total Personnel Expenses	\$ 17,304,301	\$ 15,188,708	\$ 2,115,593	13.9%
Meeting Expenses				
Meetings	\$ 23,001	\$ 1,083	\$ 21,918	2023.8%
Travel	314,845	455,288	(140,443)	-30.8%
Conference Calls	6,125	15,384	(9,259)	-60.2%
Total Meeting Expenses	\$ 343,971	\$ 471,755	\$ (127,784)	-27.1%
Operating Expenses				
Consultants & Contracts	\$ 879,317	\$ 950,000	\$ (70,683)	-7.4%
Office Rent	120,055	27,996	92,059	328.8%
Office Costs	5,230,803	6,291,501	(1,060,698)	-16.9%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	4,008,767	3,618,000	390,767	10.8%
Total Operating Expenses	\$ 10,238,943	\$ 10,887,497	\$ (648,554)	-6.0%
Total Direct Expenses	\$ 27,887,215	\$ 26,547,960	\$ 1,339,255	5.0%
Indirect Expenses	\$ 7,731,243	\$ 7,823,688	\$ (92,445)	-1.2%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 35,618,458	\$ 34,371,648	\$ 1,246,810	3.6%
Change in Assets	\$ (4,672,962)	\$ (4,647,617)	\$ (25,345)	0.5%
Fixed Assets				
Depreciation	(4,008,767)	(3,618,000)	(390,767)	10.8%
Computer & Software CapEx	249,007	1,373,000	(1,123,993)	-81.9%
Furniture & Fixtures CapEx	0	-	0	
Equipment CapEx	686,047	803,000	(116,953)	-14.6%
Leasehold Improvements	60,389	-	60,389	
Allocation of Fixed Assets	\$ (79,970)	\$ 29,000	\$ (108,970)	-375.8%
Incr(Dec) in Fixed Assets (C)	\$ (3,093,295)	\$ (1,413,000)	\$ (1,680,295)	118.9%
TOTAL BUDGET (B+C)	32,525,163	32,958,648	(433,485)	-1.3%
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ (1,579,667)	\$ (3,234,617)	\$ 1,654,950	-51.2%
FTEs	116.1	119.1	(3.0)	

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Assessments are higher than budget due to amounts paid by BC Hydro under a contract which included agreement to pay a portion of amounts originally assessed for 2014.

Unbudgeted **Federal Grant** revenue was generated with Peak's finalization of the Western Interconnection Synchrophasor Program (WISP) grant from the Department of Energy (DOE). Amounts recorded under the not yet finalized DOE Peak Reliability Synchrophasor Program (PRSP) grant also generated unbudgeted revenue.

Interest Income is under budget due to lower cash balances driven by delayed assessment collections.

Miscellaneous income is under budget due to recognition of a loss on asset retirements.

Personnel Expense

- Salaries were higher due to lower vacancy rates than budgeted and unbudgeted higher rates of pay under a new union contract.
- Payroll taxes were higher due to higher salaries.
- Benefits were lower due to lower than budgeted enrollment in and usage of benefit plans by employees.
- Retirement costs are over budget due to higher salaries and a higher defined contribution rate than budgeted.

Meeting Expense

- Meeting costs were budgeted within the General and Administrative group but recorded in the Situational Awareness program.
- Travel costs are lower than budget due to cost savings.

Operating Expenses

- Consultants and contracts are lower than budget due to cost savings.
- Office rent is higher than budget due to higher levels of office maintenance and security activities.
- Office costs are lower than budget primarily due to lower computer maintenance and licensing costs driven by renewals at lower than budgeted rates.
- Depreciation is higher than budget due to higher levels of fixed assets in service during the year than expected.

Fixed Asset Purchases

- Computer and software equipment purchases are lower than budget primarily due to timing of software purchases and implementation.
- Equipment purchases are lower than budget due to assets budgeted as equipment purchases but placed in service as leasehold improvements.
- Leasehold improvements were budgeted in equipment purchases.

**Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget**

TECHNICAL COMMITTEES AND MEMBER FORUMS

	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Funding				
Assessments	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ -	\$ -	\$ -	
Payroll Taxes	-	-	-	
Benefits	5,103	-	5,103	
Retirement Costs	-	-	-	
Total Personnel Expenses	\$ 5,103	\$ -	\$ 5,103	
Meeting Expenses				
Meetings	\$ 94,315	\$ 260,000	\$ (165,685)	-63.7%
Travel	58,751	42,000	16,751	39.9%
Conference Calls	-	2,680	(2,680)	-100.0%
Total Meeting Expenses	\$ 153,066	\$ 304,680	\$ (151,614)	-49.8%
Operating Expenses				
Consultants & Contracts	\$ 2,149	\$ -	\$ 2,149	
Office Rent	-	-	-	
Office Costs	5,375	2,350	3,025	128.7%
Professional Services	624,480	362,280	262,200	72.4%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 632,005	\$ 364,630	\$ 267,375	73.3%
Total Direct Expenses	\$ 790,173	\$ 669,310	\$ 120,863	18.1%
Indirect Expenses	\$ (790,173)	\$ (669,310)	\$ (120,863)	18.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	\$ -	\$ -	\$ -	
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B+C)	-	-	-	
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ -	\$ -	\$ -	
FTEs	-	-	-	

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Meeting Expense

- Meeting costs were lower than budget due to cost savings.
- Travel costs were higher due to more meetings taking place than were budgeted.

Operating Expenses

- Professional services were higher than budget due to director compensation under an agreement that was higher than was budgeted.

Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget
GENERAL AND ADMINISTRATIVE

	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Funding				
Assessments	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ 1,614,049	\$ 1,366,486	\$ 247,563	18.1%
Payroll Taxes	70,323	74,191	(3,868)	-5.2%
Benefits	94,014	145,572	(51,558)	-35.4%
Retirement Costs	87,437	74,191	13,246	17.9%
Total Personnel Expenses	\$ 1,865,822	\$ 1,660,440	\$ 205,382	12.4%
Meeting Expenses				
Meetings	\$ 425	\$ 45,100	\$ (44,675)	-99.1%
Travel	63,252	237,250	(173,998)	-73.3%
Conference Calls	1,066	19,620	(18,554)	-94.6%
Total Meeting Expenses	\$ 64,742	\$ 301,970	\$ (237,228)	-78.6%
Operating Expenses				
Consultants & Contracts	\$ 431,441	\$ 197,500	\$ 233,941	118.5%
Office Rent	1,279,975	1,248,732	31,243	2.5%
Office Costs	353,768	246,111	107,657	43.7%
Professional Services	14	-	14	
Miscellaneous	-	-	-	
Depreciation	83,485	7,000	76,485	1092.6%
Total Operating Expenses	\$ 2,148,683	\$ 1,699,343	\$ 449,340	26.4%
Total Direct Expenses	\$ 4,079,247	\$ 3,661,753	\$ 417,494	11.4%
Indirect Expenses	\$ (4,079,247)	\$ (3,661,753)	\$ (417,494)	11.4%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	(83,485)	(7,000)	(76,485)	1092.6%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	36,000	(36,000)	-100.0%
Equipment CapEx	25,425	-	25,425	
Leasehold Improvements	8,725	-	8,725	
Allocation of Fixed Assets	\$ 49,335	\$ (29,000)	\$ 78,335	-270.1%
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B+C)	-	-	-	
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ -	\$ -	\$ -	
FTEs	9.0	12.0	(3.0)	-25.0%

PEAK RELIABILITY — CORPORATE OFFICE

Personnel Expense

- Salaries were higher due to higher rates of pay for filled positions, offset slightly by vacant positions.
- Benefits were lower due to vacancies and lower than budgeted enrollment in and usage of benefit plans by employees.
- Retirement costs are over budget primarily due to a higher defined contribution rate than budgeted.

Meeting Expense

- Meeting costs were lower due to lower than plan costs.
- Travel costs were lower primarily due to decreased travel of key employees and cost savings.
- Conference call costs were lower due to cost savings driven by a new service provider.

Operating Expenses

- Consultants and contracts were higher than budget due to management consultants cost associated with the development of Peak's Performance Metrics program.
- Office rent was higher than budget due to additional space leased in Loveland, CO which was unbudgeted, offset by property taxes of leased facilities charged to office costs category.
- Office costs were higher due to leased facilities property taxes which were budgeted in office rent.
- Depreciation was budgeted within the SAIS program but recorded in General and Administrative.

Fixed Asset Purchases

- Furniture and fixtures are lower than budget due to assets budget as furniture and fixtures, but placed in service as equipment.
- Equipment purchases were budgeted as furniture and fixtures purchases.

Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget
LEGAL AND REGULATORY

Funding	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Assessments	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ 234,385	\$ 753,162	\$ (518,777)	-68.9%
Payroll Taxes	17,170	51,174	(34,004)	-66.4%
Benefits	24,761	87,069	(62,308)	-71.6%
Retirement Costs	20,433	51,174	(30,741)	-60.1%
Total Personnel Expenses	\$ 296,750	\$ 942,579	\$ (645,829)	-68.5%
Meeting Expenses				
Meetings	\$ -	\$ -	\$ -	
Travel	5,963	36,000	(30,037)	-83.4%
Conference Calls	11	1,200	(1,189)	-99.1%
Total Meeting Expenses	\$ 5,975	\$ 37,200	\$ (31,225)	-83.9%
Operating Expenses				
Consultants & Contracts	\$ 17,341	\$ 120,000	\$ (102,659)	-85.5%
Office Rent	-	-	-	
Office Costs	6,851	28,864	(22,013)	-76.3%
Professional Services	245,227	190,000	55,227	29.1%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 269,418	\$ 338,864	\$ (69,446)	-20.5%
Total Direct Expenses	\$ 572,143	\$ 1,318,643	\$ (746,500)	-56.6%
Indirect Expenses	\$ (572,143)	\$ (1,318,643)	\$ 746,500	-56.6%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	\$ -	\$ -	\$ -	
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B+C)	-	-	-	
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ -	\$ -	\$ -	
FTEs	1.0	7.0	(6.0)	-85.7%

PEAK RELIABILITY — CORPORATE OFFICE

Personnel Expense

- Salaries were lower due to vacancies and the decision to utilize consultants and professional service in lieu of employees.
- Payroll taxes were lower due to lower salaries.
- Benefits were lower due to vacancies and lower than budgeted enrollment in and usage of benefit plans by employees.
- Retirement costs are under budget primarily due to vacancies.

Meeting Expense

- Travel costs were lower due to vacancies and cost savings.

Operating Expenses

- Consultants and contracts were higher to due to the decision to utilize consultants and professional service in lieu of employees.
- Office costs were lower due to cost savings.
- Professional services were higher to due to the decision to utilize consultants and professional service in lieu of employees.

Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget
INFORMATION TECHNOLOGY

	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Funding				
Assessments	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ 440,701	\$ 200,356	\$ 240,345	120.0%
Payroll Taxes	24,302	13,787	10,515	76.3%
Benefits	16,701	33,515	(16,814)	-50.2%
Retirement Costs	25,773	13,787	11,986	86.9%
Total Personnel Expenses	\$ 507,477	\$ 261,445	\$ 246,032	94.1%
Meeting Expenses				
Meetings	\$ 1,920	\$ -	\$ 1,920	
Travel	8,825	8,400	425	5.1%
Conference Calls	45	4,800	(4,755)	-99.1%
Total Meeting Expenses	\$ 10,790	\$ 13,200	\$ (2,410)	-18.3%
Operating Expenses				
Consultants & Contracts	\$ 39,120	\$ -	\$ 39,120	
Office Rent	-	-	-	
Office Costs	1,989	248,400	(246,411)	-99.2%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	23,096	-	23,096	
Total Operating Expenses	\$ 64,206	\$ 248,400	\$ (184,194)	-74.2%
Total Direct Expenses	\$ 582,473	\$ 523,045	\$ 59,428	11.4%
Indirect Expenses	\$ (582,473)	\$ (523,045)	\$ (59,428)	11.4%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	(23,096)	-	(23,096)	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	\$ 23,096	\$ -	\$ 23,096	
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B+C)	-	-	-	
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ -	\$ -	\$ -	
FTEs	3.0	3.0	-	0.0%

PEAK RELIABILITY — CORPORATE OFFICE

Personnel Expense

- Salaries were higher due to lower vacancy rates and higher rates of pay than budgeted.
- Payroll taxes were higher due to higher salary expense.
- Benefits were lower due to lower than budgeted enrollment in and usage of benefit plans by employees.
- Retirement costs are over budget primarily due to a higher defined contribution rate than budgeted.

Operating Expenses

- Consultants and contracts was budgeted within the SAIS program but recorded in Information Technology..
- Office costs were lower due to anticipated costs not being incurred.
- Depreciation was budgeted with the SAIS program but recorded in Information Technology.

Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget
HUMAN RESOURCES

Funding	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Assessments	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ 368,478	\$ 374,152	\$ (5,674)	-1.5%
Payroll Taxes	26,906	13,775	13,131	95.3%
Benefits	517,763	496,527	21,236	4.3%
Retirement Costs	29,363	13,775	15,588	113.2%
Total Personnel Expenses	\$ 942,510	\$ 898,229	\$ 44,281	4.9%
Meeting Expenses				
Meetings	\$ -	\$ -	\$ -	
Travel	33,241	10,200	23,041	225.9%
Conference Calls	73	1,000	(927)	-92.7%
Total Meeting Expenses	\$ 33,314	\$ 11,200	\$ 22,114	197.4%
Operating Expenses				
Consultants & Contracts	\$ 42,600	\$ -	\$ 42,600	
Office Rent	37	-	37	
Office Costs	105,336	83,350	21,986	26.4%
Professional Services	33,359	25,000	8,359	33.4%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 181,332	\$ 108,350	\$ 72,982	67.4%
Total Direct Expenses	\$ 1,157,156	\$ 1,017,779	\$ 139,377	13.7%
Indirect Expenses	\$ (1,157,156)	\$ (1,017,779)	\$ (139,377)	13.7%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	\$ -	\$ -	\$ -	
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B+C)	-	-	-	
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ -	\$ -	\$ -	
FTEs	4.0	3.0	1.0	33.3%

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Personnel Expense

- Payroll taxes were higher due to higher rates than budgeted.
- Retirement costs are over budget due to higher employee count and due to a higher defined contribution rate than budgeted.

Meeting Expense

- Travel costs were higher than budget due to more frequent travel between locations than budgeted.

Operating Expenses

- Consultants and contracts were higher due to unbudgeted costs for development and compensation studies.
- Office costs were higher than budget due to the cost of computer maintenance and licensing.

Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget
FINANCE AND ACCOUNTING

	2014 Actual	2014 Budget	2014 Variance Over(Under)	Variance %
Funding				
Assessments	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	327,396	\$ 332,861	\$ (5,465)	-1.6%
Payroll Taxes	26,438	22,889	3,549	15.5%
Benefits	37,951	67,369	(29,418)	-43.7%
Retirement Costs	28,858	22,889	5,969	26.1%
Total Personnel Expenses	\$ 420,642	\$ 446,008	\$ (25,366)	-5.7%
Meeting Expenses				
Meetings	951	\$ -	\$ 951	
Travel	11,934	15,000	(3,066)	-20.4%
Conference Calls	-	400	(400)	-100.0%
Total Meeting Expenses	\$ 12,885	\$ 15,400	\$ (2,515)	-16.3%
Operating Expenses				
Consultants & Contracts	-	\$ -	\$ -	
Office Rent	-	-	-	
Office Costs	108,929	85,750	23,179	27.0%
Professional Services	-	86,000	(86,000)	-100.0%
Miscellaneous	-	-	-	
Depreciation	7,539	-	7,539	
Total Operating Expenses	\$ 116,468	\$ 171,750	\$ (55,282)	-32.2%
Total Direct Expenses	\$ 549,995	\$ 633,158	\$ (83,163)	-13.1%
Indirect Expenses	\$ (550,051)	\$ (633,158)	\$ 83,107	-13.1%
Other Non-Operating Expenses	\$ 56	\$ -	\$ 56	
Total Expenses (B)	\$ (0)	\$ -	\$ (0)	
Change in Assets	\$ 0	\$ -	\$ 0	
Fixed Assets				
Depreciation	(7,539)	-	(7,539)	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	\$ 7,539	\$ -	\$ 7,539	
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B+C)	(0)	-	(0)	
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ 0	\$ -	\$ 0	
FTEs	4.0	5.0	(1.0)	-20.0%

PEAK RELIABILITY — CORPORATE OFFICE

Personnel Expense

- Benefits were lower due to lower than budgeted enrollment in and usage of benefit plans by employees.

Operating Expenses


- Office costs were higher than budget due to the cost of computer maintenance and licensing.
- Professional services were lower due to the lack of auditing work required during 2014. Audit and accounting services will be incurred going forward.

**Statement of Activities, Fixed Asset Expenditures
2014 Actual & Budget**

NON-STATUTORY

Funding	2014 Actual	2014 Budget	Variance Over(Under)	Variance %
Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Non-statutory Funding	1,311,417	-	1,311,417	
Federal Grants	-	-	-	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 1,311,417	\$ -	\$ 1,311,417	
Expenses				
Personnel Expenses				
Salaries	273,543	-	\$ 273,543	
Payroll Taxes	14,831	-	14,831	
Benefits	27,050	-	27,050	
Retirement Costs	16,940	-	16,940	
Total Personnel Expenses	\$ 332,365	\$ -	\$ 332,365	
Meeting Expenses				
Meetings	-	-	\$ -	
Travel	6,576	-	6,576	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 6,576	\$ -	\$ 6,576	
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	
Office Rent	-	-	-	
Office Costs	10,510	-	10,510	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	17,634	-	17,634	
Total Operating Expenses	\$ 28,144	\$ -	\$ 28,144	
Total Direct Expenses	\$ 367,084	\$ -	\$ 367,084	
Indirect Expenses	\$ 113,366	\$ -	\$ 113,366	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 480,451	\$ -	\$ 480,451	
Change in Assets	\$ 830,966	\$ -	\$ 830,966	
Fixed Assets				
Depreciation	(17,634)	-	(17,634)	
Computer & Software CapEx	80,123	-	80,123	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	58,550	-	58,550	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	-	-	\$ -	
Incr(Dec) in Fixed Assets (C)	\$ 121,040	\$ -	\$ 121,040	
TOTAL BUDGET (B+C)	601,490	-	601,490	
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ 709,927	\$ -	\$ 709,927	
FTEs	0.5	-	0.5	

Non-Statutory activities were not anticipated or budgeted in 2014 and therefore all increases were driven by these new activities.



Report of Independent Auditors and
Financial Statements for

Peak Reliability

December 31, 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Peak Reliability

Report on the Financial Statements

We have audited the accompanying financial statements of Peak Reliability, which comprise the statement of financial position as of December 31, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

REPORT OF INDEPENDENT AUDITORS (continued)

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 Peak Reliability as of December 31, 2014, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015 on our consideration of Peak Reliability's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Peak Reliability's internal control over financial reporting and compliance.

Moss Adams LLP

Portland, Oregon
May 26, 2015

PEAK RELIABILITY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS

Cash and cash equivalents	\$ 11,194,764
Accounts receivable	37,208,054
Prepaid expenses and other assets	1,726,017
Property, equipment, and software, net	<u>6,462,733</u>
Total assets	<u><u>\$ 56,591,568</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 1,109,021
Accrued expenses	2,503,508
Deferred revenue	41,666,546
Other liabilities	<u>117,038</u>
Total liabilities	45,396,113

UNRESTRICTED NET ASSETS

Total net assets	<u><u>\$ 56,591,568</u></u>
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**PEAK RELIABILITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

OPERATING REVENUES	
Reliability coordination funding	\$ 30,604,721
Federal grants	323,064
Other	<u>1,315,527</u>
Total operating revenues	<u>32,243,312</u>
OPERATING EXPENSES	
Labor	21,674,970
Office and equipment	7,014,519
Depreciation and amortization	4,140,521
Contract labor and consultants	1,411,968
Meetings	631,318
Professional services	903,079
Other	<u>269,168</u>
Total operating expenses	<u>36,045,543</u>
OPERATING LOSS	<u>(3,802,231)</u>
NON-OPERATING ACTIVITY	
Interest and dividend income	30,836
Net loss on asset disposal	(17,234)
Contribution from WECC	<u>14,984,084</u>
Total non-operating activity	<u>14,997,686</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>11,195,455</u>
UNRESTRICTED NET ASSETS, beginning of year	<u>-</u>
UNRESTRICTED NET ASSETS, end of year	<u><u>\$ 11,195,455</u></u>

PEAK RELIABILITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ 11,195,455
Adjustments to reconcile change in unrestricted net assets to net cash from operating activities	
Depreciation and amortization	4,140,521
Loss on disposal of fixed assets	17,234
Net contribution from WECC	(9,172,516)
Changes in assets and liabilities:	
Accounts receivable	(36,552,937)
Prepaid expenses and other assets	(1,525,756)
Accounts payable	1,079,021
Accrued expenses	1,451,616
Deferred revenue	41,666,546
Other liabilities	117,038
	12,416,222
Net cash from operating activities	12,416,222
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, equipment, and software	(1,221,458)
Net cash from investing activities	(1,221,458)
INCREASE IN CASH AND CASH EQUIVALENTS	11,194,764
CASH AND CASH EQUIVALENTS - beginning of year	-
CASH AND CASH EQUIVALENTS - end of year	\$ 11,194,764
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Noncash investing activities	
Property and equipment financed with accounts payable	\$ 30,000

PEAK RELIABILITY

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Operations

Peak Reliability (the “Company” or “Peak”) is organized and operated exclusively for the best interest of the public welfare. Peak was incorporated on October 10, 2013 and is registered for and fulfills the duties of the Reliability Coordinator and the Interchange Authority, as defined by the North American Electric Reliability Corporation (NERC), and as transferred to it by the Western Electricity Coordinating Council (WECC), for the Company’s footprint in the Western Interchange, which includes the Western U.S. and parts of Canada and northern Mexico as its primary activity (see Note 3).

Peak provides real time interconnection-wide oversight of the Bulk Electric System (BES) within the Company’s footprint, coordinating necessary real time and seasonal planning and modeling, and ensuring that data critical to the reliable and efficient operation of the BES is shared appropriately. Peak performs additional functions that promote reliability under the BES at the least cost, considering all relevant circumstances and prevailing costs throughout the economy.

The accompanying financial statements reflect the financial position and results of operations for the Company.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and presentation – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

- Unrestricted net assets – reflect the cumulative effect of net activity absent donor-imposed restrictions. There were no temporarily or permanently restricted net assets as of December 31, 2014.

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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, the allowance for doubtful accounts, the depreciable lives of property, equipment, and software. The Company bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances at the time. Accordingly, actual results could differ from those estimates under different assumptions or conditions.

PEAK RELIABILITY
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Concentrations – Peak’s funding is received from Load Serving Entities (LSE) in the western United States and portions of Canada and Mexico. The three largest LSE’s represented 42.2% of Peak’s assessment in 2014. The three largest outstanding balances at December 31, 2014 represented 43.7% of the accounts receivable balance at December 31, 2014.

Revenue recognition – Peak recognizes revenue from the statutory funding provided by the NERC for performing the statutory activities that have been sub-delegated to Peak from Western Electricity Coordinating Council (WECC). The annual assessments are collected by WECC and remitted to Peak twice monthly. Peak generally receives assessment payments early during the assessment period and records the assessment as deferred revenue until it is recognized. Assessments are recognized as revenue monthly, in the year they are intended to fund. Federal grant revenue is generated through Peak’s and Peak 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.

Cash and cash equivalents – For the purposes of the statement of cash flows, Peak considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of bank demand accounts, and money market investment accounts. Peak’s cash deposits are held with financial institutions in the United States that are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits may exceed the federally insured limits at times.

Accounts receivable – Accounts receivable consists of statutory funding, grants and other fees receivable 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. As of December 31, 2014, there was no allowance for doubtful accounts.

Property, equipment, and software – Expenditures for property, equipment, and software that exceed \$5,000 on an individual basis 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 to which they are related are expensed as incurred.

PEAK RELIABILITY

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Accrued vacation – Peak accrues accumulated unpaid vacation as the obligation is incurred. Compensated absences are included in “accrued expenses” on the accompanying statement of financial position.

Income taxes – Peak is expected to be recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(4) of the Internal Revenue Code and, as such, is not subject to federal or state income taxes on exempt purpose income. Peak recognized no unrelated business income tax benefit or expense in the year ended December 31, 2014.

Peak has identified and evaluated its significant tax positions for which the statute of limitations remain open. Peak was incorporated in 2013; therefore, open tax years are the years ended December 31, 2013 and 2014 for federal tax purposes and Utah tax purposes. Peak applied the more likely than not criteria to all tax positions and determined that 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, 2014, and it is not expected that there will be a material change in the 12 months following December 31, 2014. Peak has not incurred any income tax penalties or related interest expenses during the year ended December 31, 2014.

Functional allocation of expenses – The costs of programs and supporting services have been summarized on a functional basis. Peak’s expenses are classified as Statutory Expenses or Non-statutory Expenses as the majority of expenses incurred fulfill the purposes or mission for which Peak exists. Furthermore, the statutory expenses are classified according to the statutory functions Peak performs pursuant to the Sub-Delegation Agreement with WECC. 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.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Company’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

Peak has evaluated subsequent events through May 26, 2015 which is the date the financial statements were issued.

PEAK RELIABILITY
NOTES TO FINANCIAL STATEMENTS

Note 3 – WECC Asset Transfer

Peak was incorporated on October 10, 2013, as a subsidiary of WECC in preparation for legal separation of the Reliability Coordinator function from WECC. On January 1, 2014, Peak began operating as a wholly-owned subsidiary and on February 12, 2014, formal Federal Energy Regulatory Commission (FERC) approval of the separation and sub-delegation of the Reliability Coordinator functions was granted, at which time, Peak began operating as an independent not-for-profit Corporation. Effective January 2, 2014 WECC transferred assets related to the reliability function to Peak pursuant to an asset transfer agreement. Included in the amounts transferred from WECC were federal grants totaling \$652,933.

Total assets, liabilities and net assets transferred on January 2, 2014 are as follows:

ASSETS	
Cash	\$ 5,811,568
Accounts receivable	655,118
Prepaid expenses	200,261
Property, equipment, and software, net	<u>9,369,029</u>
Total assets	<u>\$ 16,035,976</u>
LIABILITIES	
Accrued PTO	\$ 680,695
Deferred rent	<u>371,197</u>
Total liabilities	<u>1,051,892</u>
UNRESTRICTED NET ASSETS	<u>14,984,084</u>
Total net assets	<u>\$ 16,035,976</u>

PEAK RELIABILITY
NOTES TO FINANCIAL STATEMENTS

Note 4 – Property, Equipment, and Software

Property, equipment, and software consisted of the following as of December 31, 2014:

Equipment	\$ 9,868,153
Software	7,973,899
Leashold improvements	5,514,891
Furniture and fixtures	<u>232,132</u>
Total property, equipment, and software	23,589,075
Less accumulated depreciation and amortization	(17,839,486)
Construction in progress	<u>713,144</u>
Total property, equipment, and software, net	<u>\$ 6,462,733</u>

Depreciation and amortization expense for the year ended December 31, 2014 was \$4,140,521.

Assets purchased with grant funds are secured by a lien on the assets. For the year ended December 31, 2014 those assets totaled \$4,147,046 (including assets transferred from WECC), net of accumulated depreciation.

Note 5 – Unrestricted Net Assets

Peak reports information regarding statutory and non-statutory related earnings to the FERC in accordance with its Sub-Delegation Agreement with WECC dated February 12, 2014. As of December 31, 2014, the breakdown of those earnings included in unrestricted net assets consisted of the following:

Non-statutory earnings	\$ 830,966
Statutory earnings	<u>10,364,489</u>
	<u>\$ 11,195,455</u>

PEAK RELIABILITY
NOTES TO FINANCIAL STATEMENTS

Note 6 –Commitments and Contingencies

Operating lease commitments – Peak is party to non-cancelable operating leases for office space and office equipment. Future minimum lease payments, including any escalation clauses, under non-cancelable operating leases with terms of one year or more are as follows:

2015	\$ 1,096,056
2016	1,123,419
2017	1,140,573
2018	1,138,878
2019	<u>910,993</u>
	<u>\$ 5,409,919</u>

Total rent expense under non-cancelable operating leases was \$1,147,504 for the year ended December 31, 2014.

Maintenance and licensing commitments – Peak has entered into several software maintenance and licensing agreements. Future minimum maintenance and licensing commitments, including enterprise licenses, maintenance contracts, support service agreements, and milestone payments for software under development with terms of one year or more are as follows:

2015	\$ 3,753,564
2016	2,942,880
2017	2,784,401
2018	1,955,272
2019	1,827,305
Thereafter	<u>1,215,550</u>
	<u>\$ 14,478,972</u>

Peak expects to continue to enter into new maintenance and licensing agreements in the future. The extent and cost of these future agreements are not currently known or able to be reasonably estimated and therefore have not been included in the above schedule.

Other matters – Peak may incur future losses from monetary penalties assessed by its regulators. The amounts of monetary penalties associated with regulatory action are uncertain. During 2014, Peak accrued \$60,000 for an expected penalty associated with regulatory action. Peak and its regulator have agreed on the amount and Peak expects to receive an invoice and pay the penalty in mid-2015.

PEAK RELIABILITY

NOTES TO FINANCIAL STATEMENTS

Note 7 –Retirement Plan

Employee benefit plan – Peak has a 401(k) Retirement Savings Plan (Plan) for eligible employees. The Plan requires Peak to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. Peak may also make, at its discretion, supplemental contributions for eligible employees. Plan expenses reflected in the accompanying statement of activities was \$1,356,422 for the year ended December 31, 2014.

Note 8 –Functional Expenses

The detail of functional expenses for the year ended December 31, 2014 is as follows:

Program services	
Statutory services	\$ 27,329,160
Non-statutory services	<u>480,451</u>
	<u>27,809,611</u>
Support services	
Management and general	<u>8,235,932</u>
Total operating expenses	<u><u>\$ 36,045,543</u></u>

Note 9 – Related Parties

Peak's related party consists of Peak's previous parent company, WECC. WECC was Peak's parent company until the February 12, 2014 order from FERC approving bifurcation.

Transactions with WECC included vendor payments made on Peak's behalf in 2013 and early 2014 for expenses recorded in 2014. For example, 12-month license renewals were paid by WECC in 2013 and lease payments on facilities that were due January 1st were paid by WECC on Peak's behalf. By February of 2014, no further vendor payments were made by WECC on Peak's behalf. In total, approximately \$920,000 of expenses were paid by WECC on behalf of Peak, with approximately \$720,000 of those expenses reimbursed back to WECC upon bifurcation.

WECC provides billing services on behalf of Peak. This service involves creating and submitting billing invoices to entities assessed under the FERC 215 funding process pursuant to amounts approved by FERC, as well as collection of the cash billed to those entities and subsequent remittance of that cash to Peak. WECC remits cash collected on these invoice billings to Peak on a bi-weekly basis. Amounts in accounts receivable that were billed by WECC through this billing process at December 31, 2014 amounted to \$32.8 million.

Note 10 – Concentration of Labor Risk

For the year ended December 31, 2014, approximately 24.6% of the Company's employee base consisted of employees who are subject to a collective bargaining agreement. The International Brotherhood of Electrical Workers – Local 111 represents the Company's entire unionized workforce. The collective bargaining agreement expires on September 15, 2016.

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Peak Reliability

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Peak Reliability, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 26, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Peak Reliability's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Peak Reliability's internal control. Accordingly, we do not express an opinion on the effectiveness of Peak Reliability's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Peak Reliability's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Portland, Oregon
May 26, 2015

ATTACHMENT 11

**METRICS CONCERNING ADMINISTRATIVE COSTS IN
2014 NERC AND REGIONAL ENTITY
BUDGETS AND ACTUAL COSTS**

**Analysis of Administrative (Indirect) Costs
2014 Actual and Budget**

2014 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	\$ 54,691,400	\$ 29,363,275	\$ 25,328,125	46.31%	\$ 1.16
FRCC	6,000,323	5,392,738	607,585	10.13%	8.88
MRO	9,614,099	5,738,225	3,875,874	40.31%	1.48
NPCC	14,603,378	9,318,451	5,284,927	36.19%	1.76
RFC	19,662,681	12,169,645	7,493,036	38.11%	1.62
SERC	15,543,014	8,558,961	6,984,053	44.93%	1.23
SPP RE	9,818,192	4,681,698	5,136,494	52.32%	0.91
Texas RE	9,831,713	6,185,472	3,646,241	37.09%	1.70
WECC	25,438,046	16,428,769	9,009,277	35.42%	1.82
TOTAL/Average	\$ 165,202,846	\$ 97,837,234	\$ 67,365,612	40.78%	\$ 1.45

2014 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	\$ 56,390,099	\$ 31,154,626	\$ 25,235,473	44.75%	\$ 1.23
FRCC	\$ 6,794,932	\$ 6,172,992	\$ 621,940	9.15%	9.93
MRO	\$ 9,744,799	\$ 5,774,572	\$ 3,970,227	40.74%	1.45
NPCC	\$ 14,129,006	\$ 9,095,248	\$ 5,033,758	35.63%	1.81
RFC	\$ 18,063,202	\$ 12,869,165	\$ 5,194,037	28.75%	2.48
SERC	\$ 16,877,288	\$ 10,610,814	\$ 6,266,474	37.13%	1.69
SPP RE	\$ 11,823,629	\$ 5,736,162	\$ 6,087,467	51.49%	0.94
Texas RE	\$ 11,771,251	\$ 7,653,236	\$ 4,118,015	34.98%	1.86
WECC	\$ 25,638,085	\$ 16,296,214	\$ 9,341,871	36.44%	1.74
TOTAL/Average	\$ 171,232,291	\$ 105,363,029	\$ 65,869,262	38.47%	\$ 1.60

2014 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	177.31	111.31	66.00	37.22%	1.69
FRCC	25.59	22.44	3.15	12.31%	7.12
MRO	39.59	28.94	10.65	26.90%	2.72
NPCC	36.28	27.28	9.00	24.81%	3.03
RFC	69.23	55.48	13.75	19.86%	4.03
SERC	67.38	45.77	21.61	32.07%	2.12
SPP RE	29.41	24.91	4.50	15.30%	5.54
Texas RE	52.00	40.50	11.50	22.12%	3.52
WECC	117.80	79.30	38.50	32.68%	2.06
TOTAL/Average	614.59	435.93	178.66	29.07%	2.44

2014 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	189.53	130.39	59.14	31.20%	2.20
FRCC	30.40	27.04	3.36	11.05%	8.05
MRO	40.75	29.79	10.96	26.90%	2.72
NPCC	36.86	27.86	9.00	24.42%	3.10
RFC	72.00	57.20	14.80	20.56%	3.86
SERC	79.20	59.37	19.83	25.04%	2.99
SPP RE	33.86	30.86	3.00	8.86%	10.29
Texas RE	60.00	49.25	10.75	17.92%	4.58
WECC	135.00	88.10	46.90	34.74%	1.88
TOTAL/Average	677.60	499.86	177.74	26.23%	2.81

2014 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 308,451	\$ 263,797	\$ 383,759	\$ 142,847
FRCC	234,479	240,318	192,884	23,743
MRO	242,842	198,280	363,932	97,900
NPCC	402,519	341,585	587,214	145,671
RFC	284,020	219,352	544,948	108,234
SERC	230,677	186,999	323,186	103,652
SPP RE	333,839	187,945	1,141,443	174,651
Texas RE	189,071	152,728	317,064	70,120
WECC	215,943	207,172	234,007	76,479
TOTAL/Average	\$ 268,802	\$ 224,433	\$ 377,060	\$ 109,611

2014 BUDGETED SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 297,526	\$ 238,934	\$ 426,707	\$ 133,148
FRCC	223,518	228,291	185,101	20,459
MRO	239,136	193,843	362,247	97,429
NPCC	383,315	326,463	559,306	136,564
RFC	250,878	224,985	350,948	72,139
SERC	213,097	178,723	316,010	79,122
SPP RE	349,192	185,877	2,029,156	179,783
Texas RE	196,188	155,396	383,071	68,634
WECC	189,912	184,974	199,187	69,199
TOTAL/Average	\$ 252,704	\$ 210,785	\$ 370,593	\$ 97,210