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May 30, 2014

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. RR14-_-000
Report of Comparisons of Budgeted to Actual Costs for 2013
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 2013 for NERC and the Regional Entities.”

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

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

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric
Reliability Corporation

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I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2013 for NERC and the eight Regional Entities.¹ The Commission originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.² As described in §III below, in several subsequent orders, the Commission has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2013, to the budgets of NERC and each Regional Entity for that year, with explanations of significant actual cost-to-budget variances.
- Audited financial statements of NERC and each Regional Entity for the year ended December 31, 2013.
- Metrics concerning NERC and Regional Entity administrative costs in their 2013 budgets and actual results.³

This filing includes the following attachments:

Attachment 1: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

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

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

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

Attachment 2: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

Attachment 3: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 4: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

Attachment 5: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 6: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 7: 2013 Actual Cost-to-Budget Comparison for SPP RE and 2012 Audited Financial Statements for Southwest Power Pool, Inc.

Attachment 8: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 9: 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

Attachment 10: Metrics Concerning Administrative Costs in 2013 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, 2013

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

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

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

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

⁴ *2008 ERO Budget Order* at P 23.

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

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

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2013, as prepared by its independent public accounting firm.

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

- Each comparison contains a cover letter identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2013 budget, 2013 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 2013, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2013 budget, 2013 actual amounts, and the variance, for major line-item categories of Funding and Expenses.⁵
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2013 budget, 2013 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs⁶ (direct costs) and the overhead functions⁷ (indirect costs). These tables also provide explanations for significant line-item actual-to-budget variances.⁸

The Attachments also address (generally in the cover letter) (i) where applicable, whether any statutory funds were used in 2013 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2013); (ii) the impact of the entity's 2013 results on its working cash reserve for statutory programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2013)⁹; (iii) how indirect

⁵ FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2013 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 2013 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

⁶ Reliability Standards, Compliance Operations, Enforcement and Organization Registration, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection). NERC and SERC have each provided separate tables for (i) Compliance Operations and Organization Registration and (ii) Compliance Enforcement. In addition, NERC has also provided separate tables for Event Analysis and Investigations and for Critical Infrastructure Protection and ES-ISAC (Electricity Sector Information Sharing and Analysis Center).

⁷ 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.

⁸ 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.

⁹ 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 2013 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 2013; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2012 to fund 2013 expenditures.

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 2013.

As it did in its actual cost-to-budget comparisons filed with the Commission for 2011 and 2012,¹⁰ NERC has provided additional information in its 2013 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, and (2) a detailed analysis and comparison of the major sources of changes in its working capital and operating reserves for 2013, 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 2013 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. This additional information is also responsive to recommendations adopted in the approved Settlement Agreement for the Commission's financial performance audit of NERC.¹¹ The table on page 4 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2013 by NERC program area, and is followed by a detailed narrative discussion of the reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area (pages 4-5). The analysis of changes in working capital and operating reserves is provided on pages 8-9 of **Attachment 1**, including the

¹⁰ See Attachment 1 to *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2011 for NERC and the Regional Entities*, filed May 30, 2012 in Docket No. RR12-11-000 ("2011 True-Up Filing"); and Attachment 1 to *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2012 for NERC and the Regional Entities*, filed May 30, 2013 in Docket No. RR13-6-000 ("2012 True-Up Filing")

¹¹ See *North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,054 (2013), Attachment (Settlement Agreement) at §II(8)(a), specifying that NERC will "[i]ncrease the granularity of the NERC budget filings by identifying proposed budgeted expenditures, at a minimum, by the major activities to be undertaken by each program area" (Audit Staff Recommendation 4). NERC also agreed with Audit Staff Recommendation 5 to "[i]ncrease the granularity of the NERC true-up filings in line with the budget filings."

table on page 9 which shows the major sources of generation and additions to operating reserves in 2013 and the major expenditures of operating reserves in 2013.

In addition, in its 2013 report, NERC has also provided (1) details relating to Miscellaneous Expense, reporting actual expenses for employee rewards and recognition, community responsibility activities and charitable contributions (*see* page 6 of **Attachment 1**); and (2) an actual cost-to budget comparison of 2013 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). The information relating to Board of Trustees expenses is provided on page 7 of **Attachment 1**.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2013 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual-to-budget variances experienced by NERC and the Regional Entities in 2013, as identified by NERC's review of the comparisons.

- A number of entities¹² experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Savings & Retirement), in one or more program areas, due to being unable to fill budgeted positions, due to filling budgeted positions later in the year than was assumed in the budget, or due to employees in existing positions leaving the entity, resulting in a vacant position for a portion of the year. Additionally, having fewer personnel on staff than budgeted tended to reduce Meetings and/or Travel Expense below the budgeted amounts.¹³

¹² The term "entities" is used in this discussion to include NERC as well as Regional Entities.

¹³ 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

- In some instances, due to the difficulty in filling budgeted positions, the entity may have found it necessary (i) to pay higher compensation than budgeted to fill a new or vacant position, and/or (ii) to incur costs for temporary staffing services while budgeted 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 2013, or had shared FTEs who spent a greater portion of their time working in one program area and a lesser portion of time in another program area than was reflected in the budget. This resulted in actual cost-to-budget variances in Personnel Expenses and related Meeting and Travel expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- The inability to fill budgeted positions as planned, or the departure of existing employees, also resulted in some instances in higher-than budgeted Consultants & Contracts expense, due to either or both the need to use consultants or contractors to perform work that would have been done by employees, or the need to make greater use than budgeted of personnel recruiting services and search firms.
- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of numbers of FTEs in each statutory program. Therefore, due to differences in actual versus budgeted FTEs during the year in individual statutory programs, some entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- 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.
- 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) holding several meetings in the same hotel or other outside facility, thereby obtaining lower charges; and/or (iii) 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.

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.

- 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 2013 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 incurred lower than budgeted costs for Conference Calls due to entering into a new contract for teleconferencing services with the existing provider, or entering into a contract with a new provider of these services, at lower costs, during the course of the year.
- Several entities were able to spend less on Consultants and Contracts and/or Professional Services 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.
- 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.
- In addition, 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 entirely in one program area but then recording the actual costs in the program area responsible for incurring the cost (*e.g.*, budgeting all outside legal services in Legal and Regulatory but recording actual outside legal expenses in the program area(s) whose activities necessitate the services).
- 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 2013 budget were either (i) completed, or at least initiated, in late 2012, (ii) not carried out in 2013 (*i.e.*, delayed/deferred to 2014), or (iii) initiated later in 2013 than assumed in the budget and therefore not completed in 2013. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts). In other cases, projects that were planned and budgeted for execution and completion in 2012 were not fully

completed in 2012 or were delayed or deferred into 2013, resulting in unbudgeted expenditures in 2013.

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

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

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2013, as well as year-to-date actual cost-to-budget comparisons for 2014, into account in developing their business plans and budgets for 2015, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2014. In addition, the Regional Entities' working capital and operating reserve policies are being reviewed as part of the 2015 business plan and budget review process.

IV. 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 expenses and those of the Regional

Entities, and to present these metrics in future annual actual cost-to-budget filings and Business Plan and Budget filings:

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

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

The administrative functions cited in footnote 13 of the *June 19, 2008 Budget Compliance Order* (Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources and Accounting and Finance) are the functions that NERC and the Regional Entities refer to as "indirect costs" in their business plans and budgets and reports of actual expenses. It is appropriate to analyze these indirect costs in the aggregate (as the Commission did in P 39 and footnote 13 of the *June 19, 2008 Budget Compliance Order*),

rather than by individual function, due to certain necessary inconsistencies among the Regional Entities in budgeting and recording these costs. For example, as noted earlier, some of the Regional Entities budget and record all Salary expense for Legal and Regulatory, Human Resources and/or Accounting and Finance under General and Administrative, because they have only one or two employees in each of these functions, and therefore reporting the budgeted and actual Salary expense for these individual functional categories could reveal salary information of individual employees.¹⁴ As stated earlier, the actual cost-to-budget comparisons for 2013, as well as year-to-date actual cost-to-budget comparisons for 2014, are being taken into account in developing the NERC and Regional Entity business plans and budgets for 2015.

Attachment 10 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2013 budgets and 2013 actual costs. In addition, **Attachment 10** provides a comparison of these metrics values for 2011, 2012 and 2013 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures,¹⁵ and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 10**).¹⁶
- Statutory indirect full-time equivalent employees (“FTE”) as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 10**).
- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on **Attachment 10**).

These are the same metrics that NERC provided in its previous annual filings comparing

¹⁴ In addition, in some instances NERC or a Regional Entity has budgeted all of its projected costs for indirect functions such as General and Administrative, Legal and Regulatory or Information Technology in the indirect program, but has recorded some or all of the actual costs incurred for the function in the statutory program in which work was performed (*e.g.*, recording Professional Services expenses budgeted in Legal and Regulatory in the direct program for which outside legal services were performed).

¹⁵ This is the metric shown in Attachment A to the *June 19, 2008 Budget Compliance Order*.

¹⁶ The term “expenditures” is used in this discussion to mean expenses plus capital expenditures (fixed asset additions net of depreciation).

actual-to-budget costs for NERC and the Regional Entities for 2008, 2009, 2010, 2011 and 2012.¹⁷ In the *June 29, 2009 Budget Compliance Order*, the Commission indicated that these metrics were acceptable.¹⁸

In reviewing indirect expenditures, it is important to take into consideration that NERC's indirect expenses support more than NERC's internal operations. NERC's indirect expenditures also include support of software applications that interface with Regional Entities. Costs for outside audit resources in connection with Regional Entity oversight, as well as Compliance and Certification Committee oversight of NERC's compliance with its Rules of Procedure, are also included in indirect expenses. In addition, expenses incurred in NERC's legal and executive (General and Administrative) operations, as well as those of the Regional Entities, directly support the activities of the standards, compliance and enforcement, and other statutory program areas. NERC's legal department, as well as those of the Regional Entities, devotes considerable resources to supporting standards development, compliance enforcement and registration matters.

The following subsections provide discussion and analysis of the metrics provided in

Attachment 10.

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

The data and metrics in the top row of tables on **Attachment 10** measure the portions of

¹⁷ *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order – Comparisons of Budgeted to Actual Costs for 2008 for NERC and the Regional Entities*, filed April 1, 2009 in Docket No. RR07-16-005; *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2009 for NERC and the Regional Entities*, filed June 1, 2010 in Docket No. RR08-6-000; *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2010 for NERC and the Regional Entities*, filed May 31, 2011 in Docket No. RR11-4-000; *2011 True-Up Filing*; *2012 True-Up Filing*.

¹⁸ *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 127 FERC ¶ 61,307 (2009) ("*June 29, 2009 Budget Compliance Order*"), at PP 13-14.

the total statutory expenditures of NERC and each Regional Entity, and the Electric Reliability Organization (“ERO”) in the aggregate, that are being expended on statutory direct functions and on statutory indirect functions. Based on 2013 actual data, statutory indirect expenditures averaged 33.61% of total statutory expenditures for NERC and the Regional Entities, and the average statutory direct expenditure per dollar of statutory indirect expenditure was \$1.98.¹⁹ The actual average statutory indirect expenditure percentage was almost equal, and the actual average statutory direct expenditure per dollar of indirect expenditure was equal, to the averages based on the NERC and Regional Entity budgets (33.51% and 1.98, respectively). Further, the 2011 and 2012 actual results are not significantly different from the 2013 actual results for these metrics. The 2013 actual average statutory indirect expenditure percentage was 33.61% while the 2011 and 2012 actual average statutory indirect expenditure percentages were 31.06% and 30.35%, respectively. The three-year average for this metric for 2011, 2012 and 2013 combined was 31.72%. The 2013 actual average statutory direct expenditure per dollar of indirect expenditure was \$1.98 while the 2011 and 2012 statutory direct expenditure per dollar of statutory indirect expenditure was \$2.22 and \$2.29, respectively. The three-year average for 2011, 2012 and 2013 combined for this metric was \$2.15.

Looking at the 2013 values of these metrics for the individual entities compared to the 2013 averages, the percentages of actual statutory indirect expenditures to total statutory expenditures for NERC and SPP RE were noticeably higher than the overall weighted and

¹⁹ These figures are essentially weighted averages, *i.e.*, they are calculated using the sums of the total statutory expenditures, total statutory direct expenditures, and total statutory indirect expenditures, for NERC and the eight Regional Entities. Since NERC’s and WECC’s expenditures are substantially larger than those of the other Regional Entities, the NERC and WECC results significantly influence the weighted averages. (The significance of the WECC data to the averages is further magnified due to the amount of U.S. Department of Energy grant funds and related expenditures included in WECC’s 2013 budget and actual results.) The arithmetic averages for these two metrics are 34.53% for statutory indirect expenditures as a percent of total statutory expenditures, and \$2.57 for statutory direct expenditures per dollar of statutory indirect expenditures.

arithmetic averages, and their 2013 ratios of actual statutory direct expenditures to statutory indirect expenditures were noticeably lower than the overall weighted and arithmetic averages.

For NERC, its total actual direct statutory expenditures were approximately \$337,600 less than budgeted while its total statutory indirect expenditures exceeded budget by approximately \$766,300, resulting in its percentage of statutory indirect expenditures to total statutory expenditures rising from 43.06% in its budget to 44.13% actual. NERC's lower-than budgeted direct statutory expenditures was primarily due to: (1) lower than budgeted Personnel Expenses, which were collectively under budget \$581,200, due to unfilled positions in the Compliance Enforcement, Situation Awareness and Training, Education, and Operator Certification departments; (2) lower than budgeted Meetings, Travel and Conferencing expenses, which were collectively \$620,600 under budget, due primarily to management initiatives to lower these expenses; and (3) higher than budgeted Fixed Asset expenditures due to the capitalization (rather than expensing) of the Enterprise Bulk Electric System Exceptions application and the standards balloting software application.

SPP RE's actual 2013 indirect expense amount was in fact lower than budgeted (by approximately \$337,500, or about 6%), but SPP RE's 2012 statutory direct expenditures were also lower than budgeted (by approximately \$1,500,000, or about 25%), with the result that SPP RE's percentage of statutory indirect expenditures to total statutory expenditures increased from 47.33% as budgeted to 52.81% actual, and its ratio of statutory direct expenditures to statutory indirect expenditures fell from \$1.11 as budgeted to \$0.89 actual. In other words, the principal reason for SPP RE's actual percentage of statutory indirect expenditures to total statutory expenditures being higher than budgeted for 2013 was that SPP RE's actual direct statutory

expenditures were much lower than budgeted, not that its actual indirect expenses were higher than budgeted.

As shown by the data provided on the second page of **Attachment 10**, comparisons of the actual 2013 results for this first set of metrics to the actual results for 2012 and 2011 for these metrics show that, over this three-year period, NERC and the Regional Entities, in the aggregate, spent about the same portion of their total statutory expenditures on statutory indirect costs. Further, with only limited exceptions, each entity's annual values for these metrics were fairly consistent over the three-year period. This three-year view indicates that as their organizations and programs mature, with seven years of ERO and delegated function activities, each entity is reaching a steady state in terms of the portions of its total resources that are expended on statutory direct program costs and statutory indirect costs.

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

On average for NERC and the Regional Entities, 2013 actual statutory indirect FTEs were 24.28% of total statutory FTEs, and on average NERC and the Regional Entities had 3.12 statutory direct FTEs per statutory indirect FTE in 2013. The 2013 actual value for statutory indirect FTEs as a percent of total statutory FTEs was slightly lower than the 2012 value for this metric of 24.65% and slightly higher than the 2011 value for this metric of 23.42%; while the 2013 actual value for the number of statutory direct FTEs per statutory indirect FTE was slightly higher than the 2012 value for this metric of 3.06, and lower than the 2011 value for this metric of 3.27. Overall, however, the annual averages for this metric were fairly consistent across the three-year period 2011-2013.

In 2013, the actual percentage of statutory indirect FTEs to statutory total FTEs was less than 25% for each entity in the ERO except NERC (for which the percentage was 30.84%) and

SERC (26.94%); and NERC and each Regional Entity had at least 2.24 statutory direct FTE per statutory indirect FTE. Among the Regional Entities, FRCC, MRO, Texas RE and WECC each had a lower actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 than in 2012 and 2011. NPCC and SERC each experienced higher actual percentages of statutory indirect FTEs to statutory total FTEs in 2013 than in 2012 and 2011. NERC's actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 was approximately equal to its value for this metric in 2012 and was somewhat higher than its value for this metric in 2011. ReliabilityFirst's actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 was lower than its value for this metric in 2012 and higher than its value for this metric in 2011.

Similarly, FRCC, MRO, Texas RE and WECC each had a higher actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 than in 2012 and 2011, while NPCC and SERC each had lower actual ratios of statutory direct FTEs per statutory indirect FTE in 2013 than in 2012 and 2011. NERC's actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 was equal to its 2012 value, and lower than its 2011 value, for this metric. ReliabilityFirst's actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 was higher than its value for this metric in 2012 and lower than its value for this metric in 2011.

The three-year average percentage of actual statutory indirect FTEs to total statutory FTEs was 24.14%. The three-year average actual ratio of statutory direct FTEs per statutory indirect FTE was 3.14. As noted above in the discussion of the first set of metrics, comparisons of the actual 2013 results for this second set of metrics to the actual results for 2012 and 2011 for these metrics show that, over this three-year period, NERC and the Regional Entities, in the aggregate, had about the same percentage of indirect FTEs to total statutory FTEs and about the same ratio of statutory direct FTEs per statutory indirect FTEs for each of the three years (*i.e.*,

the highest annual average value for each metric was within 7% or less of the lowest annual average value for the metric).

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

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

- The actual average total statutory expenditures per statutory FTE were approximately 7.6% higher than budgeted (\$273,210 actual versus \$253,971 budgeted).
- The actual average statutory direct expenditures per statutory direct FTE were also approximately 7.6% higher than budgeted (\$239,565 actual versus \$222,630 budgeted).
- The actual average statutory indirect expenditures per statutory indirect FTE were 7.3% higher than budgeted (\$378,131 actual versus \$352,402 budgeted).
- The actual average statutory indirect expenditures per total statutory FTE were higher than budgeted by 7.9% (\$91,815 actual versus \$85,109).

Overall, for NERC and the Regional Entities in the aggregate, the actual 2013 value for each of the first three metrics was lower than the actual values for 2012 and 2011, with only one exception:

- The actual average total statutory expenditures per statutory FTE were \$273,210 in 2013, as compared to \$278,306 in 2012 and as compared to \$291,503 in 2011. The three-year average value for this metric was \$281,007.
- The actual average statutory direct expenditures per statutory direct FTE were \$239,565 in 2013 as compared to \$257,242 in 2012 and as compared to \$262,409 in 2011. The three-year average value for this metric was \$253,072.

- The actual average statutory indirect expenditures per statutory indirect FTE were \$378,131 in 2013 as compared to \$342,707 in 2012 and as compared to \$386,650 in 2011. The three-year average value for this metric was \$369,163.

This latter comparison shows that from 2011 to 2013, the ERO's FTE staffing (both direct function and indirect function personnel) grew faster than statutory expenditures grew, indicating an increase in the efficiency of use of the ERO's personnel.

A final, overall observation on the entire set of metrics data presented in **Attachment 10** (similar to the observation stated earlier based on the first set of metrics), is that, after seven years of ERO operations, as their organizations and programs mature, with only limited exceptions, each of the nine entities appears to be reaching a steady state in terms of the portions of its total statutory expenditures and personnel resources that are being devoted to statutory direct program activities and to statutory indirect activities. While some differences remain in the individual metrics values among the entities, these differences (*i.e.* each entity's metrics values) can be seen as becoming ingrained in their organizational and program structures.

V. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission accept this filing and Attachments as compliant with the Commission's requirements for annual presentation of comparisons of actual-to-budgeted funding and costs for NERC and the Regional Entities for the year ended December 31, 2013.

Respectfully submitted,

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ATTACHMENT 1

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 AUDITED FINANCIAL REPORT

FOR

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

North American Electric Reliability Corporation 2013 Audited Results – Actual to Budget Variance Analysis

For the year ending December 31, 2013, NERC was approximately on budget with a minor over budget variance of \$428.6k (0.8%) for total expenses and fixed asset (capital) purchases, inclusive of expenditures of reserves. While there were some significant variances within the expense categories, as further explained below, this minor overall budget variance was primarily due to: (1) higher personnel expenses resulting from the addition of senior personnel, higher than budgeted expenses for temporary office services needed to support NERC's ongoing operations during times of staff vacancies, higher incentive compensation based upon year-end performance results, higher payroll tax expense due to a higher maximum salary limit subject to taxes, and the accrued expense for unused paid time off, which were partially offset by lower than budgeted benefits and retirement costs; and (2) higher than budgeted expenditures of fixed assets due to capitalization of the development costs of the Enterprise Bulk Electric System Exception (BES) software application and furniture and leasehold improvement costs required for the approved increase in lease space for the Atlanta offices. These over budget expenses were offset to a degree by lower travel expenses due to having fewer FTEs on staff, fewer telecommuters, various management initiatives to reduce overall travel expenses, and lower than budgeted consultant and contract expense. Consultant and contract expenses were under budget primarily due to the reclassification of expenses related to development of the BES software application which were partially budgeted under consulting and contract expenses, but were recorded in fixed assets as capitalized software, resulting in the over budget variance in fixed asset additions. All uses of operating reserves received necessary corporate authorizations and are further explained beginning on page 8 under the heading Operating Reserve Analysis.

2013 ACTUAL VERSUS BUDGET BY CATEGORY

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%
TOTAL FUNDING	52,349,031	52,252,656	96,375	0.2%
BUDGET - EXPENSES and FIXED ASSETS				
PERSONNEL EXPENSES	32,113,505	31,298,403	815,101	2.6%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,414,306	4,098,310	(684,005)	-16.7%
CONSULTANTS and CONTRACTS	8,293,693	8,816,254	(522,561)	-5.9%
RENT	2,722,106	2,756,840	(34,734)	-1.3%
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,461,481	5,494,346	(32,865)	-0.6%
Other Non-Operating Expenses	203,164	50,000	153,164	306.3%
FIXED ASSET PURCHASES (excludes the credit for depreciation)	2,506,631	1,772,100	734,531	41.4%
TOTAL BUDGET	54,714,886	54,286,253	428,631	0.8%
Change in Working Capital and Operating Reserves	(2,365,855)	(2,033,597)	(332,256)	
FTEs	174.75	186.25	(11.50)	-6.2%

The following is an explanation the major factors influencing actual to budget performance for 2013:

- **Funding** – Over budget variance is the net effect of over-budget variances in services and software and testing fees and under-budget variances in workshop fees and Interest. Testing fees were over budget primary due to more system operator certification tests taken and more certificate renewals than expected. Services and software were over budget primarily due to licensing of GADS data which was not planned for 2013. Workshop fees were under budget primarily due to elimination of a NASPI workshop and the elimination of fees for a compliance auditor workshop that was held at a Regional Office instead of a hotel. Interest was under-budget primarily due to extremely low rates of return on invested funds.
- **Staff Vacancies and Attrition**- The company ended the year 11.5 FTEs under budget. Staff attrition for 2013 was 19%, down from 26% in 2012.
- **Personnel Expenses** were \$815.1k (2.6%) over budget
 - Salaries expense, which is comprised of base salaries, at risk performance compensation, employment agency fees, temporary office services, and accrued vacation, or paid time off expense, was over budget \$1.4M (5.9%).
 - Base salaries were over budget \$245.5k, primarily due to the addition of senior personnel.
 - At risk performance compensation was \$847.7k over budget primarily due to the fact that the budget was not established taking into account historic results. Similar

to previous budgets, the 2013 budget for at risk performance compensation was based on a hypothetical threshold payout level of 70 percent, with the final payout level dependent upon actual performance results, as well as the availability of funding for any payout amounts in excess of budget.¹ At risk performance compensation is subject to finalization and approval of corporate and departmental performance measures and year end performance reviews of personnel, as well as the receipt of management, Corporate Governance and Human Resources Committee and Board of Trustee approvals in accordance with the company's compensation governance policies. Commencing with the 2015 budget, management is proposing to budget at risk performance compensation based on historic results. This should avoid large variances in actual to budgeted expense for this item and more closely track projected actual year end results throughout the year.

- Temporary office services expenses were approximately \$226.9k over budget due to the increased use of temporary staffing to support NERC's ongoing operations during times of staff vacancies.
- The accrual for earned but unused vacation, or paid time off expense, was increased at year end and resulted in \$89.2k in expense that was not budgeted.
- Payroll taxes were \$68.0k (4.7%) 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 \$212.6k (6.9%) under budget, primarily due to having fewer FTEs on staff than budgeted and due to lower than budgeted renewal costs associated with NERC's health plans. In the 2013 budget, NERC assumed the cost of health plans would increase 10% over 2012, but actual renewal rates, effective April 1, 2013, increased 9%.
- Retirement expenses were \$449.6k (16.6%) 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 under budget \$684.0k (16.7%), primarily due to lower travel costs, as explained above. Travel costs, which were \$736.5k lower than budget, were slightly offset by higher than budgeted meetings expense. Meetings expense, which includes the cost of rented space and catering for meetings and workshops held in hotels and the cost of catering for meetings held in NERC or Regional Entity offices, was over budget \$63.7k

¹ Over the past several years the incentive compensation budget has been based upon a threshold percentage achievement of corporate goals and per employee maximum incentive compensation eligibility. Projected incentive compensation expense was then accrued during the year based upon historic results. Beginning in 2015, the budget will be based on the three year historic average of the actual total company wide incentive compensation payment amount to actual salary expense. This methodology should more closely track actual results and avoid large variances between budgeted and actual incentive compensation expenses.

primarily due to meetings related to the standards reform initiative, Geo-Magnetic Disturbance initiatives and the Reliability Issues Steering Committee, which were not specifically budgeted.

- **Consultants and Contracts** expenses were \$522.6k (5.9%) under budget due primarily, as noted above, to the reclassification of expenses related to development of the Enterprise BES software application, which was partially budgeted under consulting and contract expenses in Information Technology, but recorded in fixed assets as capitalized software in the Reliability Assessments and Performance Analysis program. The following table summarizes the over and under budget variances for consultants and contracts by Program area.

CONSULTANTS and CONTRACTS	Actual	Budget	Over(Under)
STANDARDS	310,600	150,000	160,600
COMPLIANCE OPERATIONS	17,282	-	17,282
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	757,899	685,000	72,899
RELIABILITY RISK MANAGEMENT*	2,764,411	2,863,180	(98,769)
CRITICAL INFRASTRUCTURE DEPARTMENT**	683,667	785,000	(101,333)
TRAINING, EDUCATION and OPERATOR CERTIFICATION	604,214	848,574	(244,360)
POLICY and EXTERNAL AFFAIRS	39,223	150,000	(110,777)
LEGAL and REGULATORY	3,000	-	3,000
INFORMATION TECHNOLOGY	2,039,258	2,721,000	(681,742)
HUMAN RESOURCES	501,367	288,500	212,867
FINANCE and ACCOUNTING	572,770	325,000	247,770
TOTAL CONTRACTS and CONSULTANTS	8,293,693	8,816,254	(522,561)

*Includes Event Analysis and Situation Awareness Departments

**Includes Critical Infrastructure and ES-ISAC

- The over budget variance in the Reliability Standards Program was related to the NERC standards reform initiative which utilized outside expert consulting resources to review existing standards. These costs were funded from Unknown Contingency operating reserves.
- Compliance Operations – Over budget \$17.3k for outside consulting assistance in connection with the reliability assurance initiative. These costs were funded from the Unknown Contingency operating reserves.
- Reliability Assessments and Performance Analysis – Over budget \$72.9k primarily related to change orders in connection with improvements to the GADS and TADS databases and to evaluate the development of a web-based replacement for pcGAR. These costs were funded from the Unknown Contingency operating reserves.
- Critical Infrastructure Department – Under budget \$101.3k due to lower than budget expenses related to cyber risk preparedness assessments and outside contract and consulting support for deployment of the secure communications portal within the ES-ISAC.

- Reliability Risk Management – Collectively under budget \$98.8k for events analysis and situation awareness. The use of subject matter experts to support event analysis was not required, resulting in an under budget variance of \$98.0k. Situation Awareness was \$0.8k under budget due to lower than budgeted costs for additional industry user licensing fees for SAFNR, which were incurred in 2012 but budgeted in 2013, and due to lower than budgeted costs for the current secure alerts system, the replacement of which is included in NERC's 2014 budget. The under budget expenses related to SAFNR and the alerts system were offset by higher than budgeted network communication expenses for NERCnet.
- Training, Education and Operator Certification – \$244.4k under budget due to lower than budgeted expenses for consulting and contract support for (1) system operator exam development, (2) web-based course development and, (3) course review in the continuing education program.
- Policy and External Affairs – Under budget \$110.8k due to reductions in external contract support and assumption of greater responsibilities by NERC staff.
- Information Technology – Under expense budget \$681.7k primarily due to: (1) the reclassification of expenses related to development of the BES Enterprise software application which was partially budgeted (\$500k) as consulting and contract expense, but recorded in fixed assets as capitalized software and required expenditure of operating reserves as reflected in the operating reserve analysis; (2) the decision to delay expenditure of \$250k for data warehouse design as the company continues to evaluate its requirements in connection with long term IT infrastructure and application planning; and (3) the decision to delay expenditure of \$150k for disaster recovery to permit funding of other higher priority projects which required additional funding. The reduction in expense associated with these projects was offset by costs for development of the Event Information Data System (EIDS), which had been recorded in fixed assets during the course of 2013, but were reclassified as consulting and contract expense prior to finalizing the 2013 audited financial report and as described in the company's March 31, 2014 unaudited variance report which has been filed with the Commission. The total EIDS development cost incurred in 2013 was \$638.8k and was funded through a combination of budgeted funds and Known Contingency Operating Reserves.
- Human Resources - \$212.9k over budget at year end, due primarily to higher than budgeted costs associated with staff and board compensation studies.
- Finance and Accounting - \$247.8k over budget to fund additional outside auditor support in connection with various risk management and internal control initiatives and for costs associated with the evaluation and implementation of upgrades to the company's accounting system.
- **Rent** - \$34.7k, 1.3%, under budget due to lower than budgeted straight-line rent expense as a result of the refund of an excess tenant improvement associated with the expansion of the Atlanta office.

- **Office Costs, Professional Services and Miscellaneous**
 - Office Costs were \$48.2k, 1.5%, over budget primarily due to higher than budgeted, (1) communication expenses (i.e. internet and cellular services), (2) equipment costs to support employee communications, and (3) equipment repair and service contracts related to NERC's leased offices in Atlanta and Washington, DC. These higher than budgeted expenses were offset by lower than budgeted costs related to copying, use taxes and merchant card fees.
 - Professional Services were \$74.0k, 3.2%, under budget due lower than budgeted use of outside counsel. The under budget variance for outside counsel expenses was offset by an increase in outside services expenses related to the implementation of a new travel and expense management system which will improve efficiency and internal controls.
 - Miscellaneous expenses, which were \$7.0k, 32.6%, under budget, consist of employee rewards and recognition expenses, costs associated with community responsibility activities, and charitable contributions. The total combined cost of year end employee recognition events in both Atlanta and DC was \$13.4k.
- **Depreciation** was \$366.1k, 23.2%, over budget due primarily to: (1) development costs of the Enterprise BES software application, which were partially budgeted as contract and consultant expense but recorded in fixed Assets as capitalized software; and (2) higher than budgeted amortization of leasehold improvements in NERC's Atlanta and Washington, DC offices.
- **Other Non-Operating Expenses**, were over budget \$153.2k, 306.3%, due primarily to recording as an expense the loss on retirement or disposal of certain fixed assets, principally assets in the situation room in Princeton which was closed in 2013, and the expense of moving certain of the assets to other NERC locations.
- **Fixed Asset Purchases**, excluding a credit for depreciation, were \$734.5k, 41.5%, over budget primarily due to, (1) capitalization of the development costs of the Enterprise BES software application, as previously noted, and (2) furniture and leasehold improvement costs required for the approved increase in lease space for the Atlanta offices. As described in 2013 quarterly variance reports, the costs associated with the increase in lease space required for the Atlanta office was not fully known and was estimated at the time the budget was developed, but were within the range of projected expenditures at the time the lease amendment and associated improvements were authorized by the board and committee. Total costs also include the use of operating reserve funding for the standards balloting software (SBS) application and the Enterprise BES software application which are further detailed in the Operating Reserve Analysis and received necessary corporate authorizations in accordance with NERC's Working Capital and Operating Reserve Policy.
- **Allocation of Indirect Expenses and Fixed Assets by Program** – Total direct expenses of the administrative programs were \$24.4M, which was 1.3M, 5.8% over budget. Direct expenses were over budget primarily due to higher personnel expenses as a result of having more FTEs on staff than budgeted, the addition of senior staff, higher incentive compensation than budgeted, and an

increase in accrued, unused paid time off. The actual and budgeted allocations of indirect expenses by FTE were \$202.0k and \$172.9k, respectively, for an increase per FTE of \$29.1k. Total fixed assets, net of depreciation for the administrative programs were (\$272.1k), which was \$569.9k, 191.4%, under budget. Total fixed assets was 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 on page 21. Collectively, the total budget for administrative programs was \$766.3k, 3.3% over budget. The actual and budgeted allocations of fixed assets net of depreciation by FTE were (\$2.3k) and \$2.2k, respectively for a decrease of \$4.4k 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.

Board of Trustees Expenses

The following table provides actual and budgeted expenses of the Board of Trustees. The amounts reflected in this table are included in the totals by expense category in the tables presented above. Trustee expenses were under budget \$20.8k, 1.5%, primarily due to lower than budgeted trustee compensation, which was due to a reduction in the total number of independent trustees from eleven to ten, offset by an increase in trustee compensation as approved by the Board on August 15, 2013. Trustee travel expenses were over budget primarily due to 2012 travel expense that was recorded and reimbursed in 2013.

Board of Trustee Expenses	2013 Actual	2013 Budget	Variance Over (Under)	%
Meetings and Travel Expenses				
Quarterly Board Meetings	243,984	234,000	9,984	4.3%
Trustee Travel	166,481	155,000	11,481	7.4%
Total Board of Trustees Meetings and Travel Expenses	410,465	389,000	21,465	5.5%
Professional Services				
Independent Trustee Fees	931,250	980,000	(48,750)	-5.0%
Trustee Search Fees	6,495	-	6,495	
Total Board of Trustee Professional Services Expenses	937,745	980,000	(42,255)	-4.3%
Total Board of Trustee Expenses	1,348,210	1,369,000	(20,790)	-1.5%

Operating Reserve Analysis

As detailed by the table on page 9, the use of “Known Contingency Reserves” included: (1) \$209.0k for the development of the BES Enterprise software application, of which \$50.1k in non-capitalized costs was recorded in contracts and consultants and \$772.2k was recorded as capitalized software²; (2) \$206.3k for EIDS³; (3) consulting support for the Reliability Assurance Initiative and risk management audits, collectively \$158.2k; and (4) implementation of additional back office accounting and expense management systems, together with consulting support, related to implementation of the FERC Audit recommendations, \$92.7k. The use of “Unknown Contingency Reserves” included: (1) the Standards Overview Project, \$160.6k; (2) GADS and TADS upgrades and maintenance and development of a web-based replacement application for pcGAR, collectively \$253.7k; (3) a total of \$164.2k in costs in excess of the tenant improvement allowance associated with an increase in lease space for the Atlanta office, of which \$49.6k was recorded as operating expenses and \$114.6k of which was recorded in fixed assets⁴; and (4) \$5.1k development of the SBS application, which was not specifically budgeted but was available from reserves due to under runs in the IT capital budget which were transferred to reserves⁵.

The working capital and operating reserve analysis reflects that NERC’s 2013 approved budget included a reduction in assessments associated with the return of \$2,033,600 in excess working capital and operating reserves, which would be funded from \$1,686,310 from Unknown Contingency Reserves and \$347,290 from the System Operator Reserves. The actual reduction in excess working capital and operating reserves was \$2,193,106, of which \$2,106,494 came from Known and Unknown Contingency Reserves⁶ and \$86,613 came from the System Operator Reserves. The lower than budgeted reduction in System Operator reserves, (\$86,613 compared to the budgeted reduction of \$347,290) was due primarily to (1) higher than budgeted funding from testing fees and certificate renewals, and (2) lower than budgeted Contract and Consultant expenses related to exam development.

² The total amount budgeted in contracts and consultants was \$613.3k.

³ The total cost of EIDS in 2013 was \$638.8k. The total amount budgeted in contracts and consultants and fixed assets was \$432.5k

⁴ As previously reported, the total cost of construction, furniture, equipment, leasehold improvements, and operating expenses was \$915,162. The tenant improvement allowance was \$751,007. The difference between these two figures of \$164,155 represents the total cash outlay by NERC for the build out of the additional leased space.

⁵ Total 2013 development costs of SBS was \$250.1, \$245k of which was funded from the IT capital budget.

⁶ The \$2,365,855 reduction in excess working capital and operating reserves from budgeted operations and the use of known and unknown contingencies was offset by the \$172,749 adjustment to reserves related to the excess tenant improvement allowance associated with expansion of NERC’s Atlanta office.

OPERATING RESERVE ANALYSIS

	2013 Actual	2013 Budget	Generation (Use) of Reserves	2013 Generation (Use) of Reserves in Excess of Budget		
				Known Contingency Reserves	Unknown Contingency Reserves ¹	System Operator Reserves
Beginning Working Capital and Operating Reserves						
Balance as of 12/31/12 - per audit	8,305,675	5,440,748	2,864,927			
Less: Adjustment for future liabilities	(3,665,375)		(3,665,375)			
Available Working Capital and Operating Reserves	4,640,300	5,440,748	(800,448)	1,000,000	2,036,821	1,603,479
(1) Generation (Use) of Operating Reserves from Budgeted Operations						
Funding	52,262,956	52,252,656	10,300		10,300	
Personnel	(32,113,505)	(31,298,405)	(815,101)		(815,101)	
Meetings, Travel and Conference Calls	(3,414,306)	(4,098,310)	684,005		684,005	
Contracts and Consultants	(6,504,577)	(7,417,968)	913,391		913,391	
Operating Expenses (excl. contracts, consultants & depreciation)	(8,057,549)	(8,214,186)	156,638		243,250	(86,613)
Non-Operating Expenses	(103,456)	(50,000)	(53,456)		(53,456)	
Fixed Assets (excluding depreciation)	(1,336,565)	(1,444,600)	108,035		108,035	
Total Operating Reserves Generated(Used) from Budgeted Operations	732,999	(270,814)	1,003,812	-	1,090,425	(86,613)
(2) Additions to Operating Reserves						
Services and Software Fees not budgeted	86,075	-	86,075		86,075	
Total Additions to Operating Reserves	86,075	-	86,075	-	86,075	-
(3) Expenditures of Operating Reserves						
Contracts and Consultants						
NERC Standards Overview Project	(310,600)	(150,000)	(160,600)		(160,600)	
GADS and TADS Change Management and Consulting	(269,479)	(80,000)	(189,479)		(189,479)	
pcGAR web-based application development	(64,225)	-	(64,225)		(64,225)	
BES - non-capitalized costs	(50,150)	(613,286)	563,136	563,136		
EIDS	(638,755)	(350,000)	(288,755)	(288,755)		
Reliability Assurance Initiative and Other Auditing	(363,232)	(205,000)	(158,232)	(158,232)		
Systems review and implementation (FERC Audit)	(92,675)		(92,675)	(92,675)		
Subtotal	(1,789,116)	(1,398,286)	(390,830)	23,474	(414,304)	-
Operating Expenses						
Travel and invoice system implementation	(76,452)	(37,000)	(39,452)	(39,452)		
Atlanta Office Expansion	(49,587)		(49,587)		(49,587)	
Subtotal	(126,039)	(37,000)	(89,039)	(39,452)	(49,587)	-
Other Non-Operating Expenses						
Disposal of assets	(99,708)		(99,708)		(99,708)	
Subtotal	(99,708)	-	(99,708)	-	(99,708)	-
Fixed Assets						
SAS Software Upgrade	(33,190)	-	(33,190)		(33,190)	
Atlanta Office Expansion - net in excess of TIA	(114,568)	-	(114,568)		(114,568)	
ERO Applications - BES Exceptions - Capitalized Costs	(772,177)	-	(772,177)	(772,177)		
ERO Applications - EIDS		(82,500)	82,500	82,500		
Standards Balloting Software	(250,131)	(245,000)	(5,131)		(5,131)	
Subtotal	(1,170,066)	(327,500)	(842,566)	(689,677)	(152,889)	-
Total Expenditure of Operating Reserves	(3,184,929)	(1,762,786)	(1,422,143)	(705,655)	(716,488)	-
(4) Net Expenditure of Operating Reserves	(3,098,855)	(1,762,786)	(1,336,069)	(705,655)	(630,414)	-
Total Generation (Use) of Operating Reserves	(2,365,855)	(2,033,600)	(332,256)	(705,655)	460,011	(86,613)
TOTAL Operating Reserves				2013 Reserve Balance		
Beginning Balance 1/1/2013	4,640,300	5,440,748	(800,448)	1,000,000	2,036,821	1,603,479
Generation (Use) from Budgeted Operations	732,999	(270,814)	1,003,812	-	819,612	(86,613)
Generation (Use) - Known and Unknown Contingency Reserve	(3,098,855)	(1,762,786)	(1,336,069)	(705,655)	(2,393,200)	
Other adjustments to reserves ²	172,749		172,749		172,749	
Balance 12/31/13	2,447,194	3,407,148	(959,955)	294,345	635,982	1,516,866

¹The use of Unknown Contingency Reserves includes the \$1,686,310 budgeted reduction in reserves. The 2013 budget also included a \$347,290 planned reduction in the System Operator Reserves, for a total budgeted reduction in reserves of \$2,033,600.

²Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement), including true-up of current versus non-current deferred rent obligation. The increase to reserves in 2013 was due to excess tenant improvement allowance received as part of NERC's expansion in the Atlanta office.

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
Statement of Activities and Fixed Assets
(Audited)
For the period ended 12/31/2013

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%
Funding				
Assessments	47,604,156	47,604,156	0	
Penalties	2,512,500	2,512,500	(0)	
Testing	1,822,154	1,680,000	142,154	
Services & Software	86,075	-	86,075	
Workshop Fees	320,725	436,000	(115,275)	
Interest	3,197	20,000	(16,803)	
Miscellaneous	224	-	224	
A Total Funding	52,349,031	52,252,656	96,375	0.2%
Expenses				
Personnel Expenses				
Salaries	25,465,466	24,056,166	1,409,301	
Payroll Taxes	1,527,728	1,459,710	68,018	
Employee Benefits	2,867,337	3,079,941	(212,604)	
Savings & Retirement	2,252,973	2,702,588	(449,615)	
Total Personnel Expenses	32,113,505	31,298,405	815,101	2.6%
Meeting Expenses				
Meetings	1,105,734	1,042,000	63,734	
Travel	2,001,968	2,738,500	(736,532)	
Conference Calls	306,603	317,810	(11,207)	
Total Meeting Expenses	3,414,306	4,098,310	(684,005)	-16.7%
Operating Expenses				
Consultants and Contracts	8,293,693	8,816,254	(522,561)	
Rent & Improvements	2,722,106	2,756,840	(34,734)	
Office Costs	3,229,693	3,181,515	48,178	
Professional Services	2,217,307	2,291,331	(74,024)	
Miscellaneous	14,482	21,500	(7,018)	
Depreciation	1,945,946	1,579,801	366,145	
Total Operating Expenses	18,423,226	18,647,242	(224,015)	-1.2%
Other Non-Operating Expenses	203,164	50,000	153,164	306.3%
Indirect Expenses	-	-	-	
B Total Expenses	54,154,201	54,093,957	60,245	0.1%
=A-B Net Change in Assets	(1,805,170)	(1,841,301)	36,130	-2.0%
Fixed Assets				
Depreciation	(1,945,946)	(1,579,801)	(366,145)	
Computer & Software CapEx	1,536,218	1,556,100	(19,882)	
Furniture & Fixtures CapEx	354,745	-	354,745	
Equipment CapEx	540,478	216,000	324,478	
Leasehold Improvements	75,189	-	75,189	
Allocation of Fixed Assets	-	-	-	
C Incr(Dec) in Fixed Assets	560,685	192,299	368,386	191.6%
=B+C Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	54,714,886	54,286,256	428,631	0.8%
=A-B-C Change in Operating Reserves (Total Funding less Total Budget)	(2,365,855)	(2,033,600)	(332,256)	16.3%
FTE's	174.75	186.25	(11.50)	-6.2%

North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget

STANDARDS	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments	9,156,330	9,156,330	-	0.0%	
Penalties	510,788	510,788	-	0.0%	
Testing		-	-		
Services & Software		-	-		
Workshop Fees	99,250	104,000	(4,750)	-4.6%	
Interest	688	3,970	(3,282)	-82.7%	
Miscellaneous	48		48		
Total Funding	9,767,104	9,775,088	(7,984)	-0.1%	
Expenses					
Personnel Expenses					
					Lower than budgeted salaries due to fewer FTEs was offset by higher than budgeted incentive compensation as explained in the cover letter, and costs related to temporary office services which was budgeted in HR.
Salaries	3,428,381	3,335,519	92,862	2.8%	
Payroll Taxes	215,109	213,052	2,057	1.0%	
Employee Benefits	371,555	350,484	21,071	6.0%	Relocation and education benefits budgeted in HR, offset by lower than budgeted health benefits.
Savings & Retirement	328,236	362,334	(34,098)	-9.4%	Under budget due to timing of hiring and later eligibility in the plan
Total Personnel Expenses	4,343,281	4,261,389	81,892	1.9%	
Meeting Expenses					
Meetings	224,755	164,000	60,755	37.0%	Standards/Compliance workshop expense \$30k higher than budgeted, but largely offset by workshop fees; and meetings of standards drafting teams \$30k higher than budgeted
Travel	352,082	372,500	(20,418)	-5.5%	Due to having fewer telecommuters and management initiatives to lower overall corporate travel
Conference Calls	117,670	108,500	9,170	8.5%	
Total Meeting Expenses	694,507	645,000	49,507	7.7%	
Operating Expenses					
Consultants and Contracts	310,600	150,000	160,600	107.1%	Higher than budget due to costs of standards overview project.
Rent & Improvements		-	-		
Office Costs	78,654	77,850	804	1.0%	
Professional Services		-	-		
Miscellaneous	500	500	(0)	0.0%	
Depreciation	2,324	-	2,324		
Total Operating Expenses	392,078	228,350	163,728	71.7%	
Other Non-Operating Expenses					
	-	-	-	0.0%	
Indirect Expenses	5,252,332	4,581,241	671,091	14.6%	
Total Expenses	10,682,199	9,715,980	966,219	9.9%	
Net Change in Assets	(915,094)	59,108	(974,203)		
Fixed Assets					
Depreciation	(2,324)	-	(2,324)		
Computer & Software CapEx	252,330	-	252,330		\$245k -Funded SBS from IT capital budget that was released to reserves and laptop purchase, also budgeted in IT
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(58,544)	59,108	(117,652)		
Incr(Dec) in Fixed Assets	191,462	59,108	132,354	223.9%	
Total Budget	10,873,661	9,775,088	1,098,573	11.2%	
Change in Working Capital	(1,106,556)	0	(1,106,556)		
FTE's	26.00	26.50	(0.50)	-1.9%	Due to staff vacancies

North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget

**COMPLIANCE OPERATIONS ,
ORGANIZATION REGISTRATION, and
INVESTIGATIONS**

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments	8,422,798	8,422,798	-	0.0%	
Penalties	462,601	462,601	-	0.0%	
Testing		-	-		
Services & Software		-	-		
					Compliance auditor workshop held at Regional Office so no fees were charged
Workshop Fees		40,000	(40,000)	-100.0%	
Interest	599	3,595	(2,996)	-83.3%	
Miscellaneous	42	-	42		
Total Funding	8,886,040	8,928,994	(42,954)	-0.5%	
Expenses					
Personnel Expenses					
Salaries	3,263,844	3,202,041	61,803	1.9%	
Payroll Taxes	200,837	202,103	(1,266)	-0.6%	
					Primarily due to education, training, relocation and other employee benefits which were budgeted in HR but recorded in the employee's home department.
Employee Benefits	382,147	325,580	56,567	17.4%	
Savings & Retirement	299,376	368,031	(68,655)	-18.7%	Due to fewer FTEs and timing of hiring which impacts eligibility
Total Personnel Expenses	4,146,204	4,097,755	48,449	1.2%	
Meeting Expenses					
Meetings	79,986	80,000	(14)	0.0%	Due to having fewer FTEs on staff, fewer telecommuters, and various management initiatives to reduce overall travel expenses
Travel	294,303	440,500	(146,197)	-33.2%	
					The budget for conference calls was based upon historical usage, which was lower in 2013 than prior years. Also, \$12.1k for conference calls related to the Operating Committee were recorded in the Events Analysis department because the employee liason to the committee transferred to that department in 2013.
Conference Calls	12,077	34,235	(22,158)	-64.7%	
Total Meeting Expenses	386,366	554,735	(168,369)	-30.4%	
Operating Expenses					
Consultants and Contracts	17,282	-	17,282		
Rent & Improvements	-	-	-		
					Telephone, office supplies, and dues were under budget \$18k; offset by \$2k office costs that were over budget.
Office Costs	57,358	73,424	(16,066)	-21.9%	
Professional Services	7,529	-	7,529		Meeting and interview transcripts that was not budgeted
Miscellaneous	-	500	(500)	-100.0%	
Depreciation	64,869	60,630	4,239	7.0%	
Total Operating Expenses	147,038	134,554	12,484	9.3%	
Other Non-Operating Expenses					
	4,017	-	4,017		Loss from disposal of assets
Indirect Expenses	4,571,549	4,149,048	422,501	10.2%	
Total Expenses	9,255,174	8,936,092	319,082	3.6%	
Net Change in Assets	(369,134)	(7,098)	(362,036)		
Fixed Assets					
Depreciation	(64,869)	(60,630)	(4,239)	7.0%	
Computer & Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(50,956)	53,532	(104,488)		
Incr(Dec) in Fixed Assets	(115,825)	(7,098)	(108,727)	1531.8%	
Total Budget	9,139,348	8,928,994	210,355	2.4%	
Change in Working Capital	(253,309)	0	(253,309)		
FTE's	22.63	24.00	(1.37)	-5.7%	Due to staff vacancies and transfer of 1 position to another department

North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget

COMPLIANCE ENFORCEMENT	2013	2013	2013 Variance	%	Comments (Explain variances < +/- 10% and \$10,000)
	Actual	Budget	Over(Under)		
Funding					
Assessments	6,317,083	6,317,083	-	0.0%	
Penalties	404,775	404,775	-	0.0%	
Testing		-	-		
Services & Software		-	-		
Workshop Fees		-	-		
Interest	413	3,146	(2,733)	-86.9%	
Miscellaneous	29	-	29		
Total Funding	6,722,300	6,725,004	(2,704)	0.0%	
Expenses		-	-		
Personnel Expenses		-	-		
Salaries	1,854,459	2,152,370	(297,910)	-13.8%	Due to open positions and transfers to other departments, all personnel costs are under budget.
Payroll Taxes	115,289	140,794	(25,505)	-18.1%	
Employee Benefits	199,134	274,882	(75,748)	-27.6%	
Savings & Retirement	188,524	247,200	(58,676)	-23.7%	
Total Personnel Expenses	2,357,406	2,815,246	(457,839)	-16.3%	
Meeting Expenses					
Meetings	4,704	5,000	(296)	-5.9%	Due to open positions and transfers to other departments and management initiatives to reduce costs
Travel	42,477	186,000	(143,523)	-77.2%	
Conference Calls	3,950	-	3,950		
Total Meeting Expenses	51,131	191,000	(139,869)	-73.2%	
Operating Expenses		-	-		
Consultants and Contracts		-	-		
Rent & Improvements		-	-		
Office Costs	26,116	41,000	(14,884)	-36.3%	Primarily due to lower telecommunications costs due to having fewer FTEs on staff
Professional Services		-	-		
Miscellaneous	-	500	(500)	-100.0%	
Depreciation	2,724	-	2,724		
Total Operating Expenses	28,840	41,500	(12,660)	-30.5%	
Other Non-Operating Expenses		-	-		
Indirect Expenses	3,155,439	3,630,417	(474,978)	-13.08%	
Total Expenses	5,592,816	6,678,163	(1,085,347)	-16.3%	
Net Change in Assets	1,129,484	46,841	1,082,643		
Fixed Assets					
Depreciation	(2,724)	-	(2,724)		
Computer & Software CapEx	2,199		2,199		Laptop purchase budgeted in IT
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(35,172)	46,841	(82,013)		
Incr(Dec) in Fixed Assets	(35,697)	46,841	(82,538)	-176.2%	
Total Budget	5,557,119	6,725,004	(1,167,885)	-17.4%	
Change in Working Capital	1,165,181	0	1,165,181		
FTE's	15.62	21.00	(5.38)	-25.6%	Due to staff vacancies and transfers to other departments

North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments	7,358,220	7,358,220	-	0.0%	
Penalties	361,407	361,407	-	0.0%	
Testing					
Services & Software	82,500	-	82,500		The 2013 budget did not include anticipated funding from licensing GADS software to third parties because there were no plans to actively pursue this source of funding. The funding received is reflected in the Operating Reserve Analysis as an addition to the Unknown Contingence Reserve.
Workshop Fees	16,900	40,000	(23,100)	-57.8%	The budget was for a GADS workshop that was not offered in 2013. The funding received was for a modeling workshop that was not planned.
Interest	445	2,809	(2,364)	-84.2%	
Miscellaneous	31	-	31		
Total Funding	7,819,503	7,762,436	57,067	0.7%	
Expenses					
Personnel Expenses					
Salaries	2,395,766	2,429,590	(33,823)	-1.4%	
Payroll Taxes	149,180	150,215	(1,036)	-0.7%	
Employee Benefits	263,635	262,761	874	0.3%	Due to fewer FTEs and timing of hiring which impacts eligibility in the
Savings & Retirement	210,672	269,736	(59,064)	-21.9%	plan
Total Personnel Expenses	3,019,253	3,112,303	(93,050)	-3.0%	
Meeting Expenses					
Meetings	114,636	78,000	36,636	47.0%	Additional GMD and RISC meetings that were not budgeted
Travel	309,465	410,000	(100,535)	-24.5%	Due to having fewer telecommuters and management initiatives to
Conference Calls	28,384	31,950	(3,566)	-11.2%	lower overall corporate travel
Total Meeting Expenses	452,485	519,950	(67,465)	-13.0%	
Operating Expenses					
Consultants and Contracts	757,899	685,000	72,899	10.6%	Primarily related to change orders in connection with improvements to the GADS and TADS databases and to evaluate the development of a web-based replacement for pcGAR.
Rent & Improvements					
Office Costs	122,082	161,416	(39,334)	-24.4%	Telecommunications under budget \$11.1k primarily due to fewer FTEs on staff; Maintenance & service agreements \$20.65k under budget
Professional Services					due to lower cost of software used in modeling and asset tracking
Miscellaneous	258	500	(242)	-48.5%	
Depreciation	154,643	37,450	117,193	312.9%	The BES database was partially budgeted as Contract and Consulting expense in IT, but was recorded as capitalized software. Depreciation began in July when the asset was put into production.
Total Operating Expenses	1,034,882	884,366	150,516	17.0%	
Other Non-Operating Expenses					
Indirect Expenses	3,397,854	3,241,444	156,410	4.8%	
Total Expenses	7,904,473	7,758,064	146,411	1.9%	
Net Change in Assets	(84,970)	4,372	(89,344)	-2043.7%	
Fixed Assets					
Depreciation	(154,643)	(37,450)	(117,193)	312.9%	Depreciation of the BES database which was not budgeted - See above \$772.2k for development of BES exception database which was partially budgeted as an expense; \$31k for SAS Software; and laptop purchase budgeted in IT
Computer & Software CapEx	810,517	-	810,517		
Furniture & Fixtures CapEx					
Equipment CapEx					
Leasehold Improvements					
Allocation of Fixed Assets	(37,874)	41,822	(79,696)		
Incr(Dec) in Fixed Assets	618,000	4,372	613,628		
Total Budget	8,522,473	7,762,436	760,038	9.8%	
Change in Working Capital	(702,970)	(0)	(702,970)		
FTE's	16.82	18.75	(1.93)	-10.3%	Due to staff vacancies

North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget

TRAINING, EDUCATION and OPERATOR CERTIFICATION

	2013		2013		Comments (Explain variances < +/- 10% and \$10,000)
	Actual	Budget	Variance Over(Under)	%	
Funding					
Assessments	1,449,793	1,449,793	0	0.0%	
Penalties	93,484	93,484	-	0.0%	
Testing	1,822,154	1,680,000	142,154	8.5%	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	182	1,199	(1,017)	-84.8%	
Miscellaneous	13	-	13		
Total Funding	3,365,625	3,224,476	141,149	4.4%	
Expenses					
Personnel Expenses	-	-	-	-	
Salaries	648,971	837,645	(188,674)	-22.5%	Due to staff vacancies and lower than budget average salaries due to evaluation of future requirements for open positions
Payroll Taxes	55,655	54,087	1,568	2.9%	
Employee Benefits	111,634	112,396	(762)	-0.7%	
Savings & Retirement	57,056	94,203	(37,147)	-39.4%	Due to fewer FTEs and timing of hiring that impacts eligibility in the plan
Total Personnel Expenses	873,315	1,098,331	(225,015)	-20.5%	
Meeting Expenses	-	-	-	-	
Meetings	53,277	30,000	23,277	77.6%	The Personnel Certification Governance Committee (PCGC) held quarterly meetings at hotels which in prior years had been held via conference call
Travel	45,692	70,000	(24,308)	-34.7%	Less travel than budgeted due to management initiative to lower total corporate travel expense.
Conference Calls	33,257	27,000	6,257	23.2%	The Training department increased training opportunities for NERC employees through the use of webinars.
Total Meeting Expenses	132,226	127,000	5,226	4.1%	
Operating Expenses	-	-	-	-	
Consultants and Contracts	604,214	848,574	(244,360)	-28.8%	Under budget primarily due to lower than budgeted expenses for consulting and contract support for (1) system operator exam development, (2) web-based course development and, (3) course review in the continuing education program
Rent & Improvements	-	-	-	-	
Office Costs	85,908	96,500	(10,592)	-11.0%	\$3.4k due to lower telecommunications costs; \$3k due to lower merchant credit card fees; \$2.7k lower dues and subscription expenses
Professional Services	-	-	-	-	
Miscellaneous	80	500	(420)	-84.0%	
Depreciation	480	-	480		
Total Operating Expenses	690,682	945,574	(254,892)	-27.0%	
Other Non-Operating Expenses	-	-	-	-	
Indirect Expenses	1,387,828	1,383,016	4,812	0.3%	
Total Expenses	3,084,051	3,553,921	(469,870)	-13.2%	
Net Change in Assets	281,574	(329,445)	611,019	-185.5%	
Fixed Assets					
Depreciation	(480)	-	(480)		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	9,595	-	9,595		Equipment purchased for producing training materials that can be saved and posted on NERC's website and internal intranet for future use
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(15,469)	17,844	(33,313)		
Incr(Dec) in Fixed Assets	(6,354)	17,844	(24,198)	-135.6%	
Total Budget	3,077,697	3,571,765	(494,068)	-13.8%	
Change in Working Capital	287,928	(347,289)	635,217	-182.9%	
FTE's	6.87	8.00	(1.13)	-14.1%	Due to staff vacancies

**North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget**

EVENT ANALYSIS	2013	2013	2013 Variance		Comments (Explain variances < +/- 10% and \$10,000)
	Actual	Budget	Over(Under)	%	
Funding					
Assessments	3,501,894	3,501,894	-		
Penalties	183,113	183,113	-		
Testing			-		
Services & Software			-		
					Fees collected for Human Performance Workshop less than budgeted. The cost of the workshop, recorded as Meetings Expense, was under budget \$5k.
Workshop Fees	43,650	52,000	(8,350)	-16.1%	
Interest	269	1,423	(1,154)	-81.1%	
Miscellaneous	19	-	19		
Total Funding	3,728,945	3,738,430	(9,485)	-0.3%	
Expenses					
Personnel Expenses					
Salaries	1,612,923	1,340,677	272,246	20.3%	FTEs were over budget 7% due to transfer of staff from another department. Personnel expenses are 18% higher because the 2013 budget for personnel expenses included a 3% reduction in salaries, payroll taxes and retirement costs to budget for attrition and timing of new hires, but the 3% reduction was not applied to budgeted FTEs. Salaries expense was also higher due to higher than budgeted incentive compensation. Higher salaries expense also contributed to higher retirement expenses.
Payroll Taxes	94,740	82,107	12,633	15.4%	
Employee Benefits	129,757	125,336	4,421	3.5%	
Savings & Retirement	168,223	153,189	15,034	9.8%	
Total Personnel Expenses	2,005,644	1,701,309	304,335	17.9%	
Meeting Expenses					
Meetings	76,184	62,000	14,184	22.9%	Meetings of the Operating Committee were budgeted in another department resulting in an over budget variance of \$19.2k; offset by \$5k under budget cost of the Human Performance workshop as noted above.
Travel	132,958	155,000	(22,042)	-14.2%	Primarily due to management initiatives to reduce overall travel expense.
Conference Calls	12,519	-	12,519		Conference calls were collectively budgeted in Compliance Operations due to the lack of historical data to support an allocation to Event Analysis
Total Meeting Expenses	221,662	217,000	4,662	2.1%	
Operating Expenses					
Consultants and Contracts	22,050	120,000	(97,950)	-81.6%	The use of subject matter experts to support event analysis was not required
Rent & Improvements			-		
Office Costs	32,606	36,100	(3,494)	-9.7%	
Professional Services			-		
Miscellaneous	909	500	409	81.8%	
Depreciation	842	-	842		
Total Operating Expenses	56,407	156,600	(100,193)	-64.0%	
Other Non-Operating Expenses					
Indirect Expenses	2,054,470	1,642,332	412,138	25.1%	
Total Expenses	4,338,183	3,717,240	620,941	16.7%	
Net Change in Assets	(609,238)	21,190	(630,426)		
Fixed Assets					
Depreciation	(842)	-	(842)		
Computer & Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(22,900)	21,190	(44,090)		
Incr(Dec) in Fixed Assets	(23,742)	21,190	(44,932)	-212.0%	
Total Budget	4,314,441	3,738,430	576,009	15.4%	
Change in Working Capital	(585,495)	(0)	(585,495)		
FTE's	10.17	9.50	0.67	7.1%	Staff transfer from another department

North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget

SITUATION AWARENESS	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments	5,093,049	5,093,049	-	0.0%	
Penalties	125,288	125,288	-	0.0%	
Testing			-		
Services & Software	3,575	-	3,575		FIST Royalties and TSIN fees not budgeted due to unpredictability
Workshop Fees	88,405	105,000	(16,595)	-15.8%	NASPI workshop fees lower than budgeted due to elimination of 1 of 3 planned workshops
Interest	131	974	(843)	-86.6%	
Miscellaneous	9		9		
Total Funding	5,310,457	5,324,311	(13,854)	-0.3%	
Expenses					
Personnel Expenses					
Salaries	662,124	856,927	(194,802)	-22.7%	Lower salaries and payroll tax expense due to having fewer FTE's on staff than budgeted
Payroll Taxes	43,913	56,925	(13,011)	-22.9%	Medical and Dental \$8.7k under budget due to fewer FTEs; offset by \$24k in costs for education and relocation benefits that were budgeted in HR
Employee Benefits	106,891	87,659	19,232	21.9%	Due to fewer FTEs and timing of hiring that impacts eligibility in the plan
Savings & Retirement	50,303	98,496	(48,194)	-48.9%	
Total Personnel Expenses	863,231	1,100,007	(236,775)	-21.5%	
Meeting Expenses					
Meetings	107,491	198,000	(90,509)	-45.7%	Budget included three NASPI workshops but only two were held and the department held all other meetings in NERC's offices rather than hotels
Travel	29,235	72,500	(43,265)	-59.7%	Due to open positions and management initiatives to lower overall travel costs
Conference Calls	2,544	24,175	(21,631)	-89.5%	The budget for conference calls was based upon historical usage. In prior years, the Situation Awareness and Critical Infrastructure (CID) departments were combined. This under budget variance is offset by the over budget variance in CID.
Total Meeting Expenses	139,270	294,675	(155,405)	-52.7%	
Operating Expenses					
Consultants and Contracts	2,742,361	2,743,180	(819)	0.0%	
Rent & Improvements			-		Primarily due to lower telecommunications costs due to having fewer FTEs on staff.
Office Costs	40,145	47,750	(7,605)	-15.9%	
Professional Services	-	-	-		
Miscellaneous	-	500	(500)	-100.0%	
Depreciation	4,645	7,395	(2,750)	-37.2%	
Total Operating Expenses	2,787,151	2,798,825	(11,674)	-0.4%	
Other Non-Operating Expenses					
	56,346	-	56,346		Primarily due to loss on disposal of assets in the situation room in the Princeton office which was closed in 2013
Indirect Expenses	997,943	1,123,701	(125,758)	-11.2%	
Total Expenses	4,843,942	5,317,208	(473,266)	-8.9%	
Net Change in Assets	466,515	7,103	459,412	6467.5%	
Fixed Assets					
Depreciation	(4,645)	(7,395)	2,750	-37.2%	
Computer & Software CapEx	2,155		2,155		Laptop purchase budgeted in IT
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(11,123)	14,498	(25,621)		
Incr(Dec) in Fixed Assets	(13,613)	7,103	(20,716)	-291.7%	
Total Budget	4,830,328	5,324,311	(493,982)	-9.3%	
Change in Working Capital	480,128	0	480,128		
FTE's	4.94	6.50	(1.56)	-24.0%	Due to staff vacancies

North American Electric Reliability Corp
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CRITICAL INFRASTRUCTURE and ES-ISAC	2013	2013	2013 Variance	%	Comments (Explain variances < +/- 10% and \$10,000)
	Actual	Budget	Over(Under)		
Funding					
Assessments	7,991,299	7,991,299	-	0.0%	
Penalties	371,044	371,044	-	0.0%	
Testing			-		
Services & Software			-		
					Lower than budgeted fees collected for the Grid Security Conference. As noted below under Meetings, the expense of the conference was under budget \$34k.
Workshop Fees	72,520	95,000	(22,480)	-23.7%	
Interest	471	2,884	(2,413)	-83.7%	
Miscellaneous	33	-	33		
Total Funding	8,435,367	8,460,227	(24,860)	-0.3%	
Expenses					
Personnel Expenses					
Salaries	2,838,325	2,853,871	(15,546)	-0.5%	
Payroll Taxes	165,139	172,586	(7,447)	-4.3%	
					Education, training, relocation and parking/mass transit benefits budgeted in HR and collectively \$54.59k over budget; offset by medical, life, and other benefits \$11.40k under budget
Employee Benefits	294,135	250,885	43,250	17.2%	Due to fewer FTEs and timing of hiring which affects eligibility in the plan
Savings & Retirement	288,819	312,315	(23,496)	-7.5%	
Total Personnel Expenses	3,586,418	3,589,657	(3,239)	-0.1%	
Meeting Expenses					
Meetings	120,648	145,000	(24,352)	-16.8%	The cost of CIPC meetings was \$10k over budgeted, offset by \$34k Grid Security Conference that was under budget
Travel	278,628	420,000	(141,372)	-33.7%	Fewer FTEs on staff than budgeted and lower costs due to management initiatives to lower total corporate travel expense
					The budget for conference calls was based upon historical usage. In prior years, the Situation Awareness and Critical Infrastructure (CID) departments were combined. This over budget variance is offset by the over budget variance in Situation Awareness.
Conference Calls	40,831	24,000	16,831	70.1%	
Total Meeting Expenses	440,107	589,000	(148,893)	-25.3%	
Operating Expenses					
Consultants and Contracts	683,667	785,000	(101,333)	-12.9%	Lower than budgeted expenses related to cyber risk preparedness assessments and outside contract and consulting support for deployment of the secure communications portal within the ES-ISAC
Rent & Improvements			-		
Office Costs	128,724	125,250	3,474	2.8%	
Professional Services	-	-	-		
Miscellaneous	-	500	(500)		
Depreciation	16,602	-	16,602		Depreciation of capitalized software supporting the ES-ISAC that was purchased after the 2013 budget was developed.
Total Operating Expenses	828,993	910,750	(81,757)	-9.0%	
Other Non-Operating Expenses					
Indirect Expenses	3,597,847	3,327,882	269,965	8.1%	
Total Expenses	8,453,365	8,417,290	36,076	0.4%	
Net Change in Assets	(17,998)	42,937	(60,936)	-141.9%	
Fixed Assets					
Depreciation	(16,602)	-	(16,602)		Depreciation of capitalized software supporting the ES-ISAC that was purchased after the 2013 budget was developed.
Computer & Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements	3,159		3,159		Improvements specifically related to ES-ISAC
Allocation of Fixed Assets	(40,103)	42,937	(83,040)		
Incr(Dec) in Fixed Assets	(53,546)	42,937	(96,483)	-224.7%	
Total Budget	8,399,819	8,460,227	(60,407)	-0.7%	
Change in Working Capital	35,547	(0)	35,547		
			0		
FTE's	17.81	19.25	(1.44)	-7.5%	Due to staff vacancies

**North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget**

**GENERAL and ADMINISTRATIVE,
including Executive and Policy &
External Affairs**

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments	(1,686,309)	(1,686,309)	-	0.0%	
Penalties	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding	(1,686,309)	(1,686,309)	-	0.0%	
Expenses					
Personnel Expenses					
Salaries	2,477,017	1,342,080	1,134,938	84.6%	Due to transfers from other departments, addition of senior management, higher than budgeted incentive compensation, increase in accrued but unpaid vacation expense and the 3% reduction in the 2013 budgeted expenses to adjust for attrition
Payroll Taxes	113,386	60,640	52,746	87.0%	Due to additional FTEs on staff
Employee Benefits	286,595	156,238	130,357	83.4%	Due to additional FTEs on staff
Savings & Retirement	92,594	175,179	(82,585)	-47.1%	Higher retirement expenses due to having additional FTEs on staff was offset by forfeited unvested benefits
Total Personnel Expenses	2,969,592	1,734,136	1,235,456	71.2%	
Meeting Expenses					
Meetings	305,054	260,000	45,054	17.3%	The cost of BOT meetings was approximately \$10k over budget; \$15k sponsorship of Electric Infrastructure Security Council not budgeted; and \$21.1k participation in Canadian Electricity Assoc cross-border forum, also not budgeted
Travel	332,176	322,000	10,176	3.2%	
Conference Calls	28,633	57,500	(28,868)	-50.2%	Conference call expense was budgeted based upon historical average. Decreased usage in 2013 from prior years.
Total Meeting Expenses	665,862	639,500	26,362	4.1%	
Operating Expenses					
Consultants and Contracts	39,223	150,000	(110,777)	-73.9%	Due to reductions in external contract support for Policy & External Affairs department and assumption of greater responsibilities by NERC staff
Rent & Improvements	2,722,106	2,756,840	(34,734)	-1.3%	
Office Costs	392,437	507,000	(114,563)	-22.6%	Office supplies, computer supplies, and equipment maintenance and repair were collectively \$75k over budget, offset by under budget variances in all other expenses in this category
Professional Services	1,116,638	1,132,053	(15,415)	-1.4%	
Miscellaneous	1,279	5,500	(4,221)	-76.7%	
Depreciation	489,488	350,526	138,962	39.6%	Primarily due to higher than budgeted amortization of leasehold improvements
Total Operating Expenses	4,761,172	4,901,919	(140,747)	-2.9%	
Other Non-Operating Expenses					
Indirect Expenses	66,385	50,000	16,385		Loss from disposal of assets and cost to move remaining useable equipment from Princeton to other NERC offices
Total Expenses	(8,463,012)	(7,325,556)	(1,137,456)	15.5%	
Net Change in Assets	(1,686,309)	(1,686,309)	(0)	0.0%	
Fixed Assets					
Depreciation	(489,488)	(350,526)	(138,962)	39.6%	See above
Computer & Software CapEx	2,199	-	2,199		Laptop purchase budgeted in IT
Furniture & Fixtures CapEx	354,745	-	354,745		Furniture for the expansion of the Atlanta office
Equipment CapEx	-	-	-		
Leasehold Improvements	72,030	-	72,030		Expansion of Atlanta office
Allocation of Fixed Assets	60,513	350,526	(290,013)		
Incr(Dec) in Fixed Assets	(0)	-	(0)		
Total Budget	(0)	(0)	0		
Change in Working Capital	(1,686,309)	(1,686,309)	(0)	0.0%	
FTE's	11.21	8.00	3.21	40.1%	Transfers from other department

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LEGAL and REGULATORY	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
Total Funding	-	-	-		
Expenses					
Personnel Expenses					
Salaries	2,536,703	2,325,293	211,410	9%	The budget for salaries, payroll taxes and retirement expenses were reduced by 3% based upon estimated attrition and timing of hiring, but the reduction was not applied to budgeted FTEs. This department was fully staffed in 2013, resulting in the over budget variance for salaries and payroll taxes. Payroll taxes are also higher due to higher maximum salary subject to FICA tax. Retirement expense was under budget due to timing of hiring which affects eligibility. Employee benefits was over budget primarily due to education, training and other benefits that were budgeted in HR.
Payroll Taxes	149,302	119,177	30,125	25%	
Employee Benefits	227,659	185,835	41,825	23%	
Savings & Retirement	217,503	261,724	(44,221)	-17%	
Total Personnel Expenses	3,131,168	2,892,029	239,138	8%	
Meeting Expenses					
Meetings	10,572	5,000	5,572	111%	Meetings of the ERO Legal Group were not included in the budget due to being newly formed and lack of historical data
Travel	83,449	144,500	(61,051)	-42%	Less travel due to management initiative to lower overall corporate travel expenses
Conference Calls	10,724	3,200	7,524	235%	Conference call expense was budgeted based upon historical average. Increased usage in 2013 from prior years.
Total Meeting Expenses	104,745	152,700	(47,955)	-31%	
Operating Expenses					
Consultants and Contracts	3,000	-	3,000		Industry survey related to the 5-Yr performance assessment
Rent & Improvements			-		Telephone expense and subscription/publication expense higher than budgeted
Office Costs	68,053	50,500	17,553	35%	
Professional Services	735,807	950,000	(214,193)	-23%	All outside counsel fees are budgeted in Legal, but actual fees charged to department managing the engagement. In total, NERC was under budget for outside counsel fees \$104.4k.
Miscellaneous	364	500	(136)	-27%	
Depreciation	3,380	-	3,380		
Total Operating Expenses	810,604	1,001,000	(190,396)	-19%	
Other Non-Operating Expenses			-		
Indirect Expenses	(4,046,516)	(4,045,729)	(787)	0.02%	
Total Expenses	0	0	(0)	-59%	
Net Change in Assets	(0)	(0)	0	-59%	
Fixed Assets					
Depreciation	(3,380)	-	(3,380)		
Computer & Software CapEx	4,310		4,310		Laptop purchases budgeted in IT
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(929)		(929)		
Incr(Dec) in Fixed Assets	0	-	0		
Total Budget	0	0	(0)		
Change in Working Capital	(0)	(0)	0		
FTE's	13.80	14.00	(0.20)		

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INFORMATION TECHNOLOGY	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Expenses					
Personnel Expenses					
					Base salaries were under budget due to staff vacancies, but were offset by higher incentive compensation and higher temporary office services that were required as a result of the vacancies
Salaries	1,787,073	1,651,076	135,997	8.2%	
Payroll Taxes	118,892	114,954	3,938	3.4%	
Employee Benefits	226,979	224,184	2,794	1.2%	
Savings & Retirement	166,119	178,464	(12,345)	-6.9%	Due to fewer FTEs and timing of hiring which impacts eligibility
Total Personnel Expenses	2,299,062	2,168,679	130,383	6.0%	
Meeting Expenses					
Meetings	3,371	5,000	(1,629)	-32.6%	
					Less travel due to management initiative to lower overall corporate travel expenses
Travel	32,872	62,000	(29,128)	-47.0%	
Conference Calls	5,338	4,800	538	11.2%	
Total Meeting Expenses	41,582	71,800	(30,218)	-42.1%	
Operating Expenses					
					Refer to the cover letter, which provides a detailed explanation of this variance.
Consultants and Contracts	2,039,258	2,721,000	(681,742)	-25.1%	
Rent & Improvements	-	-	-		
					Communications expense \$202.9k over budget primarily related to delays in closure of the Princeton data center and cancellation of data connection contracts; maintenance and service agreements and non-capitalized software \$38.8k over budget due to initiation of enterprise software agreements that will lower annual costs on a long-term basis.
Office Costs	2,155,419	1,893,725	261,694	13.8%	
Professional Services	4,706	-	4,706		On-site technical support for employee meetings
Miscellaneous	17	500	(483)	-96.5%	
Depreciation	1,198,919	1,123,002	75,917	6.8%	
Total Operating Expenses	5,398,320	5,738,227	(339,907)	-5.9%	
Other Non-Operating Expenses					
	76,655	-	76,655		Loss on disposal of assets not fully depreciated
Indirect Expenses	(7,815,620)	(7,978,706)	163,086	-2.0%	
Total Expenses	(0)	(0)	(0)	120.0%	
Net Change in Assets					
	0	0	0	120.0%	
Fixed Assets					
Depreciation					
	(1,198,919)	(1,123,002)	(75,917)	6.8%	
					\$245.0k for SBS recorded in Standards; \$350.0 less than budgeted for data warehouse hardware; \$202.4k for hardware recorded in Equipment CapEx; \$132.3k less for laptops (offset by \$15k recorded in other departments); \$82.5k allocated to EIDS; \$95.5k less for replacement servers that were not needed
Computer & Software CapEx	448,414	1,556,100	(1,107,686)	-71.2%	
Furniture & Fixtures CapEx	-	-	-		\$112.4k related to expansion of Atlanta office; \$202.4k for hardware budgeted as computer CapEx
Equipment CapEx	530,883	216,000	314,883	145.8%	
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	219,622	(649,098)	868,720		
Incr(Dec) in Fixed Assets	0	-	0		
Total Budget					
	(0)	(0)	(0)		
Change in Working Capital					
	0	0	0		
FTE's					
	14.88	16.75	(1.87)	-11.2%	Due to staff vacancies

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HUMAN RESOURCES	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
Total Funding	-	-	-		
Expenses					
Personnel Expenses					
					Over budget due to no attrition, which was budgeted at 3% across all departments and higher incentive compensation than budgeted
Salaries	531,365	498,723	32,642	6.5%	
Payroll Taxes	26,028	22,610	3,418	15.1%	
					Benefits budgeted in HR but charged to employee's home cost center when utilized include education and training, relocation and parking/mass transit benefits. Collectively, these expenses are \$490.49k under budget in HR, but equal to budget for total NERC. Medical benefits are \$27.96k over budget due to a higher actual cost than the budgeted average cost per employee.
Employee Benefits	111,231	573,737	(462,506)	-80.6%	
Savings & Retirement	43,971	41,348	2,623	6.3%	
Total Personnel Expenses	712,595	1,136,418	(423,823)	-37.3%	
Meeting Expenses					
Meetings	1,943	5,000	(3,057)	-61.1%	
Travel	13,829	21,000	(7,171)	-34.1%	Primarily due to management initiatives to reduce overall travel expense.
Conference Calls	1,181	600	581	96.8%	
Total Meeting Expenses	16,952	26,600	(9,648)	-36.3%	
Operating Expenses					
Consultants and Contracts	501,367	288,500	212,867	73.8%	Due primarily to higher than budgeted costs associated with staff and board compensation studies
Rent & Improvements		-	-		
					Monthly fees for performance management and benefits enrollment services were budgeted in office costs, but actuals are charged to professional fees to more accurately describe the expense. A corresponding over budget variance is reflected for professional services.
Office Costs	10,142	42,500	(32,358)	-76.1%	
Professional Services	61,562	23,278	38,284	164.5%	See comment under office costs
Miscellaneous	10,936	10,500	436	4.2%	
Depreciation	4,833	-	4,833		
Total Operating Expenses	588,840	364,778	224,062	61.4%	
Other Non-Operating Expenses		-	-		
Indirect Expenses	(1,318,387)	(1,527,796)	209,409	-13.7%	
Total Expenses	0	(0)	(0)	36.8%	
Net Change in Assets	(0)	0	0	36.8%	
Fixed Assets					
Depreciation	(4,833)	-	(4,833)		
Computer & Software CapEx	11,600		11,600		Active Strategy software budgeted in IT
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(6,767)		(6,767)		
Incr(Dec) in Fixed Assets	(0)	-	(0)		
Total Budget	0	(0)	(0)		
Change in Working Capital	(0)	0	0		
FTE's	3.00	3.00	-		

North American Electric Reliability Corp
2013 Statement of Activities and Fixed Asset Budget

FINANCE and ACCOUNTING	2013	2013	2013 Variance		
	Actual	Budget	Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
Total Funding	-	-	-		
Expenses					
Personnel Expenses					
Salaries	1,428,514	1,230,355	198,159	16.1%	Salaries and payroll taxes over budget due to the 3% reduction in budgeted expenses to adjust for attrition in all departments and temporary office services, budgeted in HR, utilized during staff leave of absence.
Payroll Taxes	80,258	70,460	9,799	13.9%	
Employee Benefits	155,986	149,964	6,022	4.0%	
Savings & Retirement	141,578	140,368	1,210	0.9%	
Total Personnel Expenses	1,806,336	1,591,146	215,190	13.5%	
Meeting Expenses					
Meetings	3,113	5,000	(1,887)	-37.7%	
Travel	54,803	62,500	(7,697)	-12.3%	
Conference Calls	9,494	1,850	7,644	413.2%	
Total Meeting Expenses	67,410	69,350	(1,940)	-2.8%	
Operating Expenses					
Consultants and Contracts	572,770	325,000	247,770	76.2%	Additional outside auditor support in connection with various risk management and internal control initiatives and costs associated with the evaluation and implementation of upgrades to the company's accounting system
Rent & Improvements		-	-		
Office Costs	32,050	28,500	3,550	12.5%	Primarily due to outside counsel fees which is budgeted in the Legal department. NERC was under budget \$104.4k for all outside counsel fees.
Professional Services	291,064	186,000	105,064	56.5%	
Miscellaneous	139	500	(361)	-72.2%	
Depreciation	2,196	798	1,398	175.2%	
Total Operating Expenses	898,219	540,798	357,421	66.1%	
Other Non-Operating Expenses	(240)	-	(240)		
Indirect Expenses	(2,771,726)	(2,201,294)	(570,432)	25.9%	
Total Expenses	(0)	0	0	43.2%	
Net Change in Assets	0	(0)	(0)	43.2%	
Fixed Assets					
Depreciation	(2,196)	(798)	(1,398)	175.2%	
Computer & Software CapEx	2,495		2,495		Additional module to accounting software
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(299)	798	(1,097)		
Incr(Dec) in Fixed Assets	0	-	0		
Total Budget	(0)	0	0	61.4%	
Change in Working Capital	0	(0)	(0)	61.4%	
FTE's	11.00	11.00	-		

Financial Statements and Report of
Independent Certified Public Accountants

North American Electric Reliability Corporation

December 31, 2013 and 2012

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Report of Independent Certified Public Accountants

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

We have audited the accompanying financial statements of North American Electric Reliability Corporation (a New Jersey non-profit corporation), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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, 2013 and 2012, 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.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of expenses shown on pages 15-16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Grant Thornton LLP

Atlanta, Georgia

May 7, 2014

Statements of Financial Position

December 31,	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 26,182,060	\$ 27,936,696
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$62,572	3,353,895	4,281,602
Prepaid expenses	869,876	888,087
Total Current Assets	30,405,831	33,106,385
Long-Term Assets		
Property and equipment, net	5,645,116	5,220,210
Security deposits	99,136	114,903
Cash surrender value of insurance policies	-	337,414
457b Plan Assets	320,660	118,243
Total Long-Term Assets	6,064,912	5,790,770
Total assets	\$ 36,470,743	\$ 38,897,155
Liabilities and net assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,943,283	\$ 5,868,604
Accrued retirement liabilities	1,788,624	1,409,548
Deferred revenue	5,287,044	5,177,751
Deferred rent - current	182,421	123,270
Deferred compensation -current	20,386	28,280
Capital lease obligations - current	47,108	65,928
Regional assessments collected in advance	9,427,293	9,614,829
Total Current Liabilities	23,696,159	22,288,210
Long-Term Liabilities		
Deferred rent - non-current	3,817,478	3,618,267
Deferred compensation - non-current	597,514	711,308
Capital lease obligations- non-current	-	47,108
Total Long-Term Liabilities	4,414,992	4,376,683
Total liabilities	28,111,151	26,664,893
Net assets		
Unrestricted	7,914,592	9,719,762
Temporarily restricted	445,000	2,512,500
Total net assets	8,359,592	12,232,262
Total liabilities and net assets	\$ 36,470,743	\$ 38,897,155

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

Statements of Activities

	For the Year Ended December 31, 2013			For the Year Ended December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
NERC assessments	\$ 47,604,156	\$ -	\$ 47,604,156	\$ 50,661,271	\$ -	\$ 50,661,271
Penalty income	-	445,000	445,000	-	100,000	100,000
Testing / fees	1,822,154	-	1,822,154	2,057,383	-	2,057,383
Services and software	86,075	-	86,075	129,618	-	129,618
Workshops	320,725	-	320,725	470,800	-	470,800
Rental Income	293,000	-	293,000	314,080	-	314,080
Interest	3,197	-	3,197	13,335	-	13,335
(Loss) gain on disposal of fixed assets	(99,708)	-	(99,708)	34	-	34
Miscellaneous revenues	224	-	224	2,081	-	2,081
Net assets (penalties) released from restrictions	2,512,500	(2,512,500)	-	-	-	-
Total revenues	52,542,323	(2,067,500)	50,474,823	53,648,602	100,000	53,748,602
Expenses:						
Salaries	25,465,466	-	25,465,466	23,391,982	-	23,391,982
Employee costs	4,395,066	-	4,395,066	4,096,501	-	4,096,501
Retirement and savings plans	2,252,973	-	2,252,973	1,793,528	-	1,793,528
Travel and meetings	3,414,306	-	3,414,306	3,616,022	-	3,616,022
Services	10,511,000	-	10,511,000	11,819,937	-	11,819,937
Rent	3,015,106	-	3,015,106	2,908,290	-	2,908,290
Office costs	1,622,635	-	1,622,635	1,829,606	-	1,829,606
Computer	1,607,057	-	1,607,057	1,284,025	-	1,284,025
Depreciation and amortization	1,945,946	-	1,945,946	2,144,184	-	2,144,184
Property tax expense	48,606	-	48,606	51,008	-	51,008
Provision for bad debts	45,610	-	45,610	(113,173)	-	(113,173)
Miscellaneous expenses	20,608	-	20,608	25,197	-	25,197
Interest	3,114	-	3,114	6,993	-	6,993
Total expenses	54,347,493	-	54,347,493	52,854,100	-	52,854,100
Change in net assets	(1,805,170)	(2,067,500)	(3,872,670)	794,502	100,000	894,502
Net assets, beginning of year	9,719,762	2,512,500	12,232,262	8,925,260	2,412,500	11,337,760
Net assets, end of year	\$ 7,914,592	\$ 445,000	\$ 8,359,592	\$ 9,719,762	\$2,512,500	\$ 12,232,262

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

Statements of Cash Flow

For the Years Ended December 31,	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (3,872,670)	\$ 894,502
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,945,946	2,144,184
Straight-line rent accrual	258,362	1,583,373
Loss (gain) on disposal of fixed assets	99,708	(34)
Provision for bad debts	45,610	(113,173)
Change in value of insurance policies	337,414	(55,316)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	882,097	(625,538)
Prepaid expenses	18,211	(336,246)
Security deposits	15,767	-
Receipt of funds for regional entities	152,966,084	115,437,437
Disbursements of funds to regional entities	(152,966,084)	(115,437,437)
Accounts payable and accrued expenses	803,926	(913,150)
Deferred revenue	109,293	2,533,575
Regional assessments collected in advance	(187,536)	4,939,801
Deferred compensation	(324,105)	26,716
Accrued retirement liabilities	379,076	(272,933)
Net cash provided by operating activities	511,099	9,805,761
Cash flows from investing activities		
Purchases of property and equipment	(2,200,782)	(804,411)
Proceeds from sales of property and equipment	975	2,381
Net cash used in investing activities	(2,199,807)	(802,030)
Cash flows from financing activities		
Capital lease payments	(65,928)	(83,185)
Net cash used in financing activities	(65,928)	(83,185)
Net (decrease) increase in cash and cash equivalents	(1,754,636)	8,920,546
Cash and cash equivalents, beginning of year	27,936,696	19,016,150
Cash and cash equivalents, end of year	\$ 26,182,060	\$ 27,936,696
Supplemental disclosure of non-cash information:		
Fixed asset purchases within accounts payable	\$ 270,753	\$ -
Capital lease obligation for equipment	\$ -	\$ 93,242
Supplemental disclosure of cash paid:		
Interest	\$ 3,113	\$ 6,993

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

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

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

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

Annually, the board of trustees approves an operating budget for the Corporation that includes a provision for 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 its proportional share of its annual operating budget based on "net energy for load". During 2013, the assessments to LSEs made up approximately 94% of the total funding for the Corporation. Assessments to U.S. entities were offset in 2013 by \$2.5M in penalties received in prior years but were restricted from use until 2013 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 the maintenance of a certification program for system operators, the development of reports and software programs, and the hosting of workshops to educate the industry on various reliability matters.

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

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

2 Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the Corporation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets as of December 31, 2013 or 2012. Net assets totaling \$445,000 and \$2,512,500 were temporarily restricted by FERC as of December 31, 2013 and 2012, 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.

Use of Estimates

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

Revenue Recognition

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

Penalty income is derived from FERC's 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 and the outcome determined. The funds are temporarily restricted due to FERC's requirement that the funds be used to reduce future NERC assessments.

Deferred Revenue

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

Accounts Receivable

Accounts receivable are recorded at 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, 2013 and 2012, the Corporation has recorded accrued compensated absences of \$543,126 and \$453,950 related to days earned, 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 related to unrelated business activities. The Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2013 or 2012.

The Corporation recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2010. Tax years 2010 through 2013 remain subject to examination by major tax jurisdictions.

Subsequent Events

The Corporation discloses material events that occur after the statement of financial position date but before financial statements are issued. In general, these events are recognized in the financial statements if the condition existed at the date of the statement of financial position, but are not recognized if the condition did not exist at the statement of financial position date. The Corporation discloses non-recognized events if required to keep the financial statements from being misleading. Management evaluated events occurring subsequent to December 31, 2013 through May 7, 2014, the date the financial statements were available for issuance.

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 Federal Energy Regulatory Commission (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 the non-revolving credit facility is \$7.5M, 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. The Corporation's line of credit was also amended. See Note 4 below.

In April, 2014, management became aware that the sub-tenant under the Washington, D.C. lease, referenced in Note 8, filed for Chapter 11 bankruptcy, but the full impact of the event is not known at this time.

3 Property and Equipment

Property and equipment consist of the following at December 31:

December 31,	2013	2012
Software development	\$ 2,986,517	\$ 1,599,433
Furniture and equipment	6,860,119	7,269,259
Leasehold improvements	1,100,281	1,241,799
	10,946,917	10,110,491
Accumulated depreciation and amortization	(5,301,801)	(4,890,281)
	\$ 5,645,116	\$ 5,220,210

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was \$1,945,946 and \$2,144,184, respectively.

4 Line of Credit

The Corporation has a line of credit with a bank that expires in June 2014. The line of credit provides for up to \$4,000,000 of availability to be used for working capital needs. The line of credit accrues interest at prime plus 0.5% (3.25% at December 31, 2013 and 2012). Total borrowings under the line of credit may not exceed 70% of the qualified accounts receivable. The line of credit is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. As part of the line of credit agreement, the Corporation was required to maintain \$400,000 in a non-interest bearing account with the lender. The \$400,000 is classified within cash and cash equivalents on the statements of financial position. There were no borrowings outstanding at December 31, 2013 or 2012. At December 31, 2013 and 2012, the available amount under the line of credit was reduced by open letters of credit totaling \$140,736 and \$101,236 respectively, which represents security deposits for the Corporation's office lease agreements. Pursuant to the line of credit agreement, the Corporation is required to comply with financial covenants primarily related to minimum net asset requirements.

In connection with the non-revolving credit facility secured on January 13, 2014, the line of credit was amended and restated. As part of the amended and restated line of credit not, the Corporation is no longer required to maintain the \$400,000 non-interest bearing account with the lender.

5 Penalty Income

The Corporation received \$445,000 and \$100,000 of penalty income in 2013 and 2012, 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 \$2,512,500 of penalty income from temporarily restricted net assets to unrestricted net assets during 2013. During 2012, NERC did not transfer any penalty income from temporarily restricted net assets to unrestricted net assets.

6 Regional Assessments Collected in Advance

In addition to Corporation assessments billed to LSEs or designees, a regional assessment is also billed by the Corporation on behalf of the regional entities. The regional assessment is based on approved budgets of the eight regional entities and remitted to the regional entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSEs or designees before the regional assessments are due to the regional entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill in a subsequent period for any uncollected assessments. Regional assessments billed and remitted for 2013 and 2012 were as follows:

For the Year Ended December 31,	2013	2012
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	\$113,584,703	\$110,280,847
Total regional assessments remitted to regional entities	(113,480,310)	(110,147,242)
Billings over remittances	\$ 104,393	\$ 133,605

As of December 31, 2013 and 2012, 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 \$9,427,293 and \$9,614,829, respectively.

7 Deferred Compensation

Agreements and Life Insurance Policies

During 2005, the Council entered into a deferred compensation agreement (the "Deferred Compensation Agreement") with a retiring executive that provided benefits to the individual upon reaching normal retirement age and was payable over a period selected by the retiring employee. Under certain circumstances, benefits were payable to his surviving spouse. The Corporation assumed the liabilities upon merger with the Council effective January 1, 2007. The present value of the estimated liability under the agreement at December 31, 2007 was accrued using a discount rate of 4.91%. The Corporation provided for some of the benefit funding through a variable universal life policy. Effective October 15, 2008, the Deferred Compensation Agreement was superseded by a new agreement. The variable universal life policy used to fund the liability, including the cash surrender value of the policy, was assigned and transferred to the retired executive in January 2009. In accordance with the new agreement, the Corporation will continue to pay the policy premiums through 2014. At December 31, 2013 and 2012, the present value of the unfunded liability, using a discount rate of 0.75% was \$14,257 and \$38,968, respectively. The present value of the unfunded liability as of December 31, 2013 is included in current deferred compensation on the statements of financial position. As of December 31, 2012, \$24,712 and \$14,257 of the present value of the unfunded liability is included in current and non-current deferred compensation, respectively.

On October 15, 2008, the Corporation entered into various Executive Benefit Agreements (the "Agreements") with certain executives and the aforementioned retired executive. The Agreements supersede and replace all previous written or oral agreements between the Corporation and these executives. In accordance with the Agreements, while employed by the Corporation, the executives shall be provided with life insurance coverage, through individual and/or group policies, providing a death benefit equal to the lesser of three times base salary or \$500,000, or three times base salary depending upon the executives' employment date. The executives agreed to issue split dollar endorsement agreements with respect to such policies. The executives retired from the Corporation in 2013, and in accordance with the Agreements, ownership of the policies, including the cash surrender value, transferred to the executives within 60 days following termination of employment. The Corporation paid and expensed all the premiums that were due on these policies in 2013, prior to transfer of ownership. When ownership of the policies transferred, the asset and deferred compensation balances on the statements of financial position were written off. At December 31, 2013 and 2012, the cash surrender value of all remaining policies was \$0 and \$337,414, respectively.

Deferred Compensation Plan

The Corporation established a deferred compensation plan in 2012 in accordance with Internal Revenue Code Section 457 for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. The asset and liability for this deferred compensation plan of \$320,660 and \$118,243 at December 31, 2013 and 2012, 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 very limited number of current retirees and any and all dependents and transition retirees and any and all dependents, as defined by the board resolution, up to a maximum monthly benefit of \$550 paid directly to the applicable insurer. Assumptions used in recording the retiree medical benefits included the 2009 Social Security Administration Actuarial Period Life Table, annual inflation rate of 1.5% and discount rate of 3.8%. At December 31, 2013 and 2012 the accrued retiree medical benefits liability was \$276,855 and \$241,394, respectively, and is included in non-current deferred compensation on the statements of financial position. The retiree medical expense related to this policy was \$26,616 and \$22,170, respectively for the years ended December 31, 2013 and 2012.

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, 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 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. As indicated in Note 2, in April 2014, management became aware that the sub-leasee filed for Chapter 11 bankruptcy, but the full impact of the event is not known at this time.

Approximate future minimum payments on office lease space, net of rental income for sub-leased space, at December 31, 2013, for the next five years are as follows:

Years Ending December 31,	Leased Space		Sub-leased Space		Net
2014	\$	2,966,000	\$	(276,000)	\$ 2,690,000
2015		3,044,000		(286,000)	2,758,000
2016		3,123,000		(248,000)	2,875,000
2017		2,923,000		(50,000)	2,873,000
2018		2,939,000		-	2,939,000
Thereafter		11,490,000		-	11,490,000
	\$	26,485,000	\$	(860,000)	\$ 25,625,000

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The Corporation has received tenant improvement allowances as of December 31, 2013 and 2012 totaling \$381,632 and \$2,256,634, respectively. The difference between rent expense calculated ratably over the lease term and rent paid according to the lease is recorded as a deferred rent obligation on the statement of financial position in the amount of \$3,999,899 and \$3,741,537 at December 31, 2013 and 2012, respectively.

Office rent expense, net of sub-lease income of \$293,000 and \$314,080, was \$2,574,909 and \$2,508,580 for the years ended December 31, 2013 and 2012, respectively.

In April, 2014, management became aware that the sub-tenant under the Washington, D.C. lease filed for Chapter 11 bankruptcy, but the full impact of the event is not known at this time.

Capital Leases

The Corporation has entered into a capital lease agreements for office equipment. Depreciation expense related to these capital leases was \$65,407 for each of the years ended December 31, 2013 and 2012.

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, 2013	
Copier leases	\$ 196,221
Accumulated depreciation	(150,837)
Net Book Value	\$ 45,384

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, 2013:

Years ending December 31,	Future Minimum Payments
2014	\$ 56,697
Less: Amounts representing interest and maintenance	(9,589)
Future Obligation net of Interest and Maintenance	\$ 47,108

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
2014	\$ 196,000
2015	192,000
2016	197,000
2017	51,000
Total Service Agreements	\$ 636,000

9 Savings and Investment Plan

The Corporation sponsors an employee savings 401(k) plan (the "Plan") whereby eligible participating employees may elect to contribute up to the Internal Revenue Service Code 402(g) (1) limit. The Corporation contributes a 75% match of the participant's elective contribution, provided that the elective contribution does not exceed 6% of eligible compensation. The Corporation also makes a discretionary contribution equal to a percentage of the eligible compensation of all qualifying participants. The additional discretionary contributions are determined annually by the Board of Trustees and are subject to the limitation imposed by the Internal Revenue Service Code 401(a) (17). The Corporation's expenses related to the Plan for the years ended December 31, 2013 and 2012 were \$2,252,973 and \$1,793,528, respectively. The contributions accrued as of December 31, 2013 and 2012 amounted to \$1,788,624 and \$1,409,548, 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 which are located throughout the United States of America, Canada and a portion of Baja California, Norte, Mexico. LSEs are assessed a proportional share of the Corporation's operating budget as well as a proportional share of the operating budget of the regional entity in whose territory the LSE is located. The Corporation issues quarterly invoices directly to LSEs or, in some circumstances, designees. With respect to LSEs located within Texas Reliability Entity ("TRE"), the Corporation issues a quarterly invoice to Electric Reliability Council of Texas ("ERCOT") which then issues invoices to the LSEs in its region, collects the assessments and remits the funds to the Corporation. The Corporation then remits the regional assessments to TRE. A similar arrangement exists with respect to LSEs located within the Western Electricity Coordinating Council ("WECC"). For LSEs located within the PJM Interconnection ("PJM"), the Corporation issues invoices to PJM which issues invoices to the LSEs, collects the assessments and remits the funds to the Corporation. The Corporation then forwards the regional assessment to Reliability First Corporation ("RFC"), the regional entity. The Corporation is extending credit to the LSEs and designees and is exposed to credit risk to the extent regional assessments are paid by the Corporation to the regional entities prior to collecting assessments from the LSEs or designees. Based on past history, the Corporation believes that the risk of its trade accounts receivable credit exposure is limited.

11 Functional Classification

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

The following table shows the functional classification of expenses for the years ended December 31, 2013 and 2012:

For the Years Ended December 31,	2013	2012
Operational Programs:		
Reliability Standards	\$ 5,429,867	\$ 4,392,836
Compliance and Organization Registration Certification	9,404,714	9,352,528
Reliability Assessment and Performance Analysis	4,506,619	4,648,251
Training and Education	1,696,223	2,055,853
Situation Awareness and Infrastructure Security	8,701,517	9,815,542
	29,738,940	30,265,010
Administrative Programs:		
General & Administrative	8,656,304	7,736,048
Legal and Regulatory	4,046,516	4,093,557
Information Technology	7,815,620	7,211,151
Human Resources	1,318,387	1,456,847
Finance and Accounting	2,771,726	2,091,487
	24,608,553	22,589,090
Total Expenses	\$ 54,347,493	\$ 52,854,100

Supplemental Schedules of Expenses

For the Years Ended December 31,	2013	2012
Employee costs:		
Payroll taxes (FICA, SUI, FUI, Medicare)	\$ 1,527,728	\$ 1,417,838
Employee benefits - medical	2,053,703	1,961,176
Employee benefits - life / disability	173,915	169,987
Employee benefits - officers' life	33,328	53,188
Insurance - workers' compensation	54,219	64,697
Relocation expenses	149,215	201,182
Educational	402,958	228,433
	\$ 4,395,066	\$ 4,096,501
Travel and meetings:		
Meetings	\$ 741,766	\$ 569,258
Workshops	363,969	490,591
Travel	2,001,968	2,268,587
On-line meetings	306,603	287,586
	\$ 3,414,306	\$ 3,616,022

Supplemental Schedules of Expenses

(continued)

For the Years Ended December 31,	2013	2012
Services:		
Insurance - commercial	\$ 109,765	\$ 125,932
Contract and consultants	8,293,693	9,429,191
Independent trustee fees	931,250	970,000
Search fees	6,495	160,314
Temporary office services and agency fees	180,924	62,749
Accounting and auditing fees	143,271	39,926
Legal fees	845,602	1,031,825
	\$ 10,511,000	\$ 11,819,937
Office costs:		
Publications and subscriptions	\$ 76,993	\$ 43,075
Dues	40,862	46,079
Postage	8,022	14,007
UPS, express mail, etc.	29,509	42,202
Telephone	517,740	585,469
Office and equipment repair/services	86,810	83,775
Copying	44,720	21,754
Stationery and office forms	176	1,380
Office supplies	187,170	177,589
Bank charges	22,967	23,392
Sales and use tax	3,782	17,935
Card fees	81,782	84,058
Internet expenses	522,100	688,891
	\$ 1,622,635	\$ 1,829,606

ATTACHMENT 2

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 AUDITED FINANCIAL REPORT

FOR

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.



FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
 3000 BAYPORT DRIVE, SUITE 600
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True Up 2013

2013 Budget Variance Explanations Based on Audited Financials

Statutory Funding

Total Funding – Favorable Variance \$10k:

Revenue associated with the System Operator Seminars (SOS) (which is self funding) and Maintenance Pass-through expenses were greater than budgeted. Because these are pass through items, expenses will be up by the same amount.

Statutory Expenditures

Total Favorable Variance \$668k

Statutory Personnel Expenses

Total Favorable Variance \$625k

Replacement positions were filled later than budgeted and two additional positions that were budgeted were unfilled. The savings were partially offset by relocation expenses being expended (none were budgeted), staff educational costs being budgeted as travel but expensed as educational benefit (these will be budgeted and expensed as educational benefits going forward) and a contract programmer being utilized that will be converted to one of the open positions.

The FTE status by Program is:

Reliability Standards Development	(0.64)
Compliance Enforcement	(1.11)
Reliability Assessment	(1.07)
Training & Education	(0.51)
Situational Awareness	(0.20)
General Administrative	(0.67)
Total Statutory FTE Variance	(4.20)

Statutory Meeting Expenses

Total Favorable Variance \$90k

Travel costs were less than budgeted: Compliance \$54k less and other program areas with the remainder.

Favorable Variance \$88k

Conference Calls costs were less than budgeted

Favorable Variance \$5k

Meal costs for Compliance meetings have been greater than anticipated.

Unfavorable Variance \$3k

Statutory Operating Expenses

Total Favorable Variance \$96k

Legal fees less than budgeted	-\$129k
Office rent allocation miscalculation	-\$59k
Reliability Assessment Contract & Consultant expenses	-\$42k

(Gas Supply Study & working group projects postponed or not billed)	
General Office Costs (Postage, Supplies)	-\$39k
Telephone & Internet costs less than budgeted	-\$20k
Training & Education Program (Speakers less than budgeted)	-\$17k
CEA(SERC) expenses	+\$100k
(2014 RC audit moved to 2013 and increased enforcement costs)	
Compliance Software maintenance not budgeted	+\$78k
Reliability Assessment Software greater than budgeted	+\$32k

Statutory Fixed Asset Expenditures

Total Unfavorable Variance \$143k:

Office space build out, furniture and equipment	+\$58k
Capitalized Compliance software greater than budgeted	+\$110k
New Building Space Deposit timing difference	-\$25k

Non Statutory (Member Services) Funding:

Total Funding – Unfavorable Variance \$65k:

Pass through billing to members for the FRCCnet Sprint MPLS network is less than expected. Because this is a pass through item, it will affect the expenses by the same amount.

	Total Unfavorable Variance \$19k
Non Pension Postretirement Benefit Loss unbudgeted	Total Unfavorable Variance \$46k

Non Statutory Expenditures

Total Unfavorable Variance \$154k

Non Statutory Personnel Expenses

Total Unfavorable Variance \$102k

Operations -

Reliability Coordinator –Less shared employee time spent on Training and Situational Awareness (both Statutory Functions) than budgeted resulting in more time charged to non-statutory. **+.68 FTE** **Total Unfavorable Variance \$128k**

Non RC Operations – Relocation for budgeted addition to staff was expended but not budgeted for in 2013. **(.07) FTE** **Total Unfavorable Variance \$13k**

Planning - Programming staff that was budgeted for working on Planning Department projects was not hired as of 3rd quarter end. **(.16) FTE** **Total Favorable Variance \$39k**

Non Statutory Meeting Expenses

Total Favorable Variance \$32k

Operations

Reliability Coordinator – Travel Costs are less than budgeted -\$25k offset by meeting expenses and conference call costs +\$8k **Total Favorable Variance \$17k**

Non RC Operations – Travel costs and conference calls are down -\$17k offset by meeting expenses greater than budgeted by +\$3k **Total Favorable Variance \$14k**

Planning - Travel costs and conference calls less than budgeted -\$7k offset by meeting expenses greater than budgeted by +\$6k
Total Favorable Variance \$1k

Non Statutory Operating Expenses

Total Favorable Variance \$442k

Operations -

Reliability Coordinator –

Legal Fees for RC less than budget -\$176k

FTMS & OPWG/ATC Case Conversion delay -\$110k

RC Agent Expenses -\$101k

(EMS changes & Visualization Flow project delay & less infrastructure)

Restoration Drill Consultant delay -\$50k

FTMS less than budget -\$14k

Contingent Liability per GAAP +\$75k

IDC processing unbudgeted +\$57k

Allocated Rent miscalculation +\$26k

Office Costs (supplies, telephone, printing) +\$7k

Total Favorable Variance \$286k

Non RC Operations –

Fuel Reliability Working Group Study delay -\$37k

GMD Vulnerability Study cancelled -\$30k

Security Assessment of FRCCNet delay -\$20k

Telecommunications (including FRCCnet Sprint MPLS network) costs less than budgeted -\$18k

Legal Fees for Non RC less than budget -\$18k

CIP Seminar at FRCC offices instead of hotel & NERC paid for meals -\$12k

Allocated Rent miscalculation +\$8k

Software Maintenance Agreements greater than anticipated +\$8k

Total Favorable Variance \$119k

Planning - Certain studies and projects were budgeted to be billed by various members but they have not billed and are not expected to bill for their services. Additionally, legal costs were budgeted that did not occur.

Total Favorable Variance \$37k

Non Statutory Fixed Asset Expenditures

Total Unfavorable Variance \$6k

Office space build out, furniture and equipment +\$81k

New Building Space Deposit timing difference -\$75k

Other Non-Operating Expenses

Total Unfavorable Variance \$520k

Change in Non Pension, Non Cash Post Retirement Obligation of medical insurance to a limited number of grandfathered individuals from actuarial study unbudgeted

Change in Working Capital for the Year ended 12/31/2013:

Addition to Working Capital	\$867k
Statutory – Addition to Working Capital	\$520k
Member Services Non Statutory – Addition to Working Capital of	\$347k

Total Net Assets As Of 12/31/2013: Surplus	\$2,554k
Statutory –Surplus of	\$1,967k
Member Services Non Statutory – Surplus of	\$ 587k

Statements Concerning Work Completed in 2013:

Compliance Monitoring & Enforcement Program

Although there was significant surplus, the FRCC did complete all work as scheduled for 2013. Specifically, the Compliance Department verifies that:

1. All O&P Compliance audits (12) planned for 2013 were completed as scheduled;
2. All CIP Audits (10) planned for 2013 were completed as scheduled;
3. No Spot Checks were scheduled for 2013; however, the TFE Part-B reviews were conducted under the Spot Check monitoring process.
4. Part A-CIP reviews were completed for all fifty-two (52) TFEs submitted in 2013 per the ROP Appendix 4D and under the new Rule of procedure (18) review/approvals between September 3 and December 31, 2013;
5. Part B-reviews for fifty-two (52) TFEs were completed in 2013 and fifty-one (51) were completed within the one year rule per the ROP Appendix 4D and under the new Rule of procedure (18) approvals between September 3 and December 31, 2013;
6. The annual self-certification of all registered entities in the region was completed on schedule;
7. Review, acceptance or rejection was completed for ninety-one (91) Mitigation Plans submitted by registered entities in 2013 and 2012;
8. Verification of entity completion was finalized for seventy-five (75) Mitigation plans during 2013; and
9. Regional Compliance Assessments were completed for three (3) entity reliability events during 2013.

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 is supporting the transition to a new Bulk Electric System (BES) definition including assisting with the testing of the new BESnet application, associated training and the development of reference documents to ensure consistent application of the new BES definition and Exception Process throughout NERC.

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

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

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

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

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

Cash Reserves Statement

No Cash Reserves were used by the FRCC in 2013.

Statement concerning the use of Statutory Funds for Member Services

Expenses:

No Statutory Funds were used to pay for Member Services Functions in 2013 and no Member Services Funds were used to pay for Statutory Functions.

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
TOTAL COMPANY
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,957,970	\$ 5,957,971	\$ (1)	
Penalty Sanctions	304,500	304,500	-	
Total ERO Funding	<u>\$ 6,262,470</u>	<u>\$ 6,262,471</u>	<u>\$ (1)</u>	<u>\$ -</u>
Membership Dues	\$ 6,250,976	\$ 6,250,975	1	
Testing Fees	-	-	-	
Services & Software	314,641	333,000	(18,359)	
Workshops	99,385	90,000	9,385	
Interest	-	-	-	
Special Assessment	(45,824)	-	(45,824)	
Total Funding	<u>\$12,881,648</u>	<u>\$12,936,446</u>	<u>\$ (54,798)</u>	<u>-0.4%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 5,174,009	\$ 5,569,794	(395,785)	
Payroll Taxes	314,794	358,291	(43,497)	
Benefits	783,735	770,937	12,798	
Retirement Costs	688,048	784,397	(96,349)	
Total Personnel Expenses	<u>\$ 6,960,586</u>	<u>\$ 7,483,419</u>	<u>\$ (522,833)</u>	<u>-7.0%</u>
Meeting Expenses				
Meetings	\$ 115,998	\$ 98,669	17,329	
Travel	182,644	310,787	(128,143)	
Conference Calls	31,301	42,543	(11,242)	
Total Meeting Expenses	<u>\$ 329,943</u>	<u>\$ 451,999</u>	<u>\$ (122,056)</u>	<u>-27.0%</u>
Operating Expenses				
Consultants & Contracts	\$ 3,039,370	\$ 3,192,699	(153,329)	
Office Rent	720,244	739,044	(18,800)	
Office Costs	573,638	696,392	(122,754)	
Professional Services	83,668	422,504	(338,836)	
Miscellaneous	75,000	-	75,000	
Depreciation	138,050	117,390	20,660	
Total Operating Expenses	<u>\$ 4,629,970</u>	<u>\$ 5,168,029</u>	<u>\$ (538,059)</u>	<u>-10.4%</u>
Total Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other Non-Operating Expenses	<u>\$ 519,831</u>	<u>\$ -</u>	<u>\$ 519,831</u>	
Total Expenses	<u>\$12,440,330</u>	<u>\$13,103,447</u>	<u>\$ (663,117)</u>	<u>-5.1%</u>
Change in Assets	<u>\$ 441,318</u>	<u>\$ (167,001)</u>	<u>\$ 608,319</u>	<u>-100.0%</u>
Fixed Asset Expenditures				
Depreciation	\$ (138,050)	\$ (117,390)	\$ (20,660)	
Non Pension Post Retir Obligat	\$ (565,655)	\$ -	\$ (565,655)	
Software CapEx	109,556	25,000	84,556	
Furniture & Fixtures CapEx	27,000	-	27,000	
Equipment & Computers CapE	86,327	4,239	82,088	
Leasehold Improvements	55,137	78,461	(23,324)	
Increase/(Decrease) in Fixed Assets	<u>\$ (425,685)</u>	<u>\$ (9,690)</u>	<u>\$ (415,995)</u>	<u>100.0%</u>
Total Budget	<u>\$12,014,645</u>	<u>\$13,093,757</u>	<u>\$ (1,079,112)</u>	<u>-8.2%</u>
CHANGE IN WORKING CAPITAL	<u>\$ 867,003</u>	<u>\$ (157,311)</u>	<u>\$ 1,024,314</u>	<u>100.0%</u>
FTEs	41.07	44.82	(3.75)	

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
TOTAL STATUTORY ONLY
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,957,970	\$ 5,957,971	\$ (1)	
Penalty Sanctions	304,500	304,500	-	
Total ERO Funding	<u>\$ 6,262,470</u>	<u>\$ 6,262,471</u>	<u>\$ (1)</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	22,650	22,000	650	
Workshops	99,385	90,000	9,385	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 6,384,505</u>	<u>\$ 6,374,471</u>	<u>\$ 10,034</u>	0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 3,286,539	\$ 3,741,113	\$ (454,574)	
Payroll Taxes	201,113	240,656	(39,543)	
Benefits	489,334	533,629	(44,295)	
Retirement Costs	440,672	526,863	(86,191)	
Total Personnel Expenses	<u>\$ 4,417,658</u>	<u>\$ 5,042,261</u>	<u>\$ (624,603)</u>	-12.4%
Meeting Expenses				
Meetings	\$ 86,452	\$ 83,259	\$ 3,193	
Travel	144,350	232,363	(88,013)	
Conference Calls	14,301	19,347	(5,046)	
Total Meeting Expenses	<u>\$ 245,103</u>	<u>\$ 334,969</u>	<u>\$ (89,866)</u>	-26.8%
Operating Expenses				
Consultants & Contracts	\$ 336,548	\$ 176,977	\$ 159,571	
Office Rent	513,094	572,285	(59,191)	
Office Costs	113,063	199,513	(86,450)	
Professional Services	47,831	176,538	(128,707)	
Miscellaneous	-	-	-	
Depreciation	112,023	93,493	18,530	
Total Operating Expenses	<u>\$ 1,122,559</u>	<u>\$ 1,218,806</u>	<u>\$ (96,247)</u>	-7.9%
Total Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 5,785,320</u>	<u>\$ 6,596,036</u>	<u>\$ (810,716)</u>	-12.3%
Change in Assets	<u>\$ 599,185</u>	<u>\$ (221,565)</u>	<u>\$ 820,750</u>	-370.4%
Fixed Asset Expenditures				
Depreciation	\$ (112,023)	\$ (93,493)	\$ (18,530)	
Software CapEx	109,556	25,000	84,556	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	81,445	4,239	77,206	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ 78,978</u>	<u>\$ (64,254)</u>	<u>\$ 143,232</u>	-222.9%
Total Budget	<u>\$ 5,864,298</u>	<u>\$ 6,531,782</u>	<u>\$ (667,484)</u>	-10.2%
CHANGE IN WORKING CAPITAL	<u>\$ 520,207</u>	<u>\$ (157,311)</u>	<u>\$ 677,518</u>	-430.7%
FTEs	25.91	30.11	(4.20)	
Beginning Working Capital 1/1/2013	1,367,703	483,900	883,803	
Change in Working Capital	520,207	(157,311)	677,518	
Working Capital at 12/31/2013	1,887,910	326,589	1,561,321	

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
RELIABILITY STANDARDS
For the Year Ended 12/31/2013

(In Whole Dollars)

			2013			
	2013 Actual	2013 Budget	Variance	%		Comments (Explain Variances >+/- 10% and >\$10,000)
Funding						
ERO Funding						
ERO Assessments	\$ 381,624	\$ 381,622	\$ 2			
Penalty Sanctions	19,053	19,053	-			
Total ERO Funding	\$ 400,677	\$ 400,675	\$ 2			
Membership Dues		\$ -				
Testing Fees						
Services & Software						
Workshops						
Interest						
Miscellaneous						
Total Funding	\$ 400,677	\$ 400,675	\$ 2	0.0%		
Expenses						
Personnel Expenses						
Salaries	120,361	\$ 204,940	(84,579)			1 Position not needed due to delay of the BES implementation
Payroll Taxes	7,613	13,183	(5,570)			Effect of 1 Position not hired
Benefits	17,108	34,059	(16,951)			Effect of 1 Position not hired
Retirement Costs	15,984	28,862	(12,878)			Effect of 1 Position not hired
Total Personnel Expenses	\$ 161,066	\$ 281,044	\$(119,978)	-42.7%		
Meeting Expenses						
Meetings	\$ 876	\$ 1,002	(126)			
Travel	17,823	35,721	(17,898)			1 Position not needed due to delay of the BES implementation
Conference Calls	720	767	(47)			
Total Meeting Expenses	\$ 19,419	\$ 37,490	\$(18,071)	-48.2%		
Operating Expenses						
Consultants & Contracts	\$ 1,226	\$ -	1,226			
Office Rent	12,837	18,690	(5,853)			New Space reallocated from budget
Office Costs	4,357	9,136	(4,779)			Effect of 1 Position not hired
Professional Services	1,785	12,134	(10,349)			Legal Fees for BES did not materialize
Miscellaneous						
Depreciation	890	1,342	(452)			
Total Operating Expenses	\$ 21,095	\$ 41,302	\$(20,207)	-48.9%		
Total Indirect Expenses	\$ 27,565	\$ 41,958	\$(14,393)	-34.3%		
Other Non-Operating Expenses	\$ -	\$ -	\$ -			
Total Expenses	\$ 229,145	\$ 401,794	\$(172,649)	-43.0%		
Change in Assets	\$ 171,532	\$ (1,119)	\$ 172,651	100.0%		
Fixed Asset Expenditures						
Depreciation	\$ (890)	\$ (1,342)	\$ 452			
Software CapEx						
Furniture & Fixtures CapEx						
Equipment & Computers CapEx	3,646	223	3,423			
Leaschold Improvements						
Increase/(Decrease) in Fixed Assets	\$ 2,756	\$ (1,119)	\$ 3,875	-346.3%		
Total Budget	\$ 231,901	\$ 400,675	\$(168,774)	-42.1%		
CHANGE IN WORKING CAPITAL	\$ 168,776	\$ -	\$ 168,776			
Direct FTEs	1.01	1.65	(0.64)	-38.8%		
Indirect FTE's	0.14	0.41	(0.27)	-65.9%		
Total FTE's	1.15	2.06	(0.91)	-44.2%		

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
COMPLIANCE
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
Funding					
ERO Funding					
ERO Assessments	\$ 4,082,506	\$ 4,082,511	\$ (5)		
Penalty Sanctions	207,042	207,042	-		
Total ERO Funding	\$ 4,289,548	\$ 4,289,553	\$ (5)		
Membership Dues	-	\$ -	-		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 4,289,548	\$ 4,289,553	\$ (5)	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 2,091,678	\$ 2,227,031	(135,353)		
Payroll Taxes	126,418	143,260	(16,842)		
Benefits	332,710	321,490	11,220		
Retirement Costs	282,634	313,634	(31,000)		
Total Personnel Expenses	\$ 2,833,440	\$ 3,005,415	\$ (171,975)	-5.7%	
Meeting Expenses					
Meetings	\$ 12,154	\$ 6,501	5,653		
Travel	76,991	131,336	(54,345)		Cost of Travel Less than anticipated & Travel for Staff Training charged to Personnel Expense
Conference Calls	9,324	3,285	6,039		
Total Meeting Expenses	\$ 98,469	\$ 141,122	\$ (42,653)	-30.2%	
Operating Expenses					
Consultants & Contracts	\$ 195,037	\$ 16,800	178,237		
Office Rent	385,183	434,212	(49,029)		
Office Costs	72,858	91,091	(18,233)		
Professional Services	34,604	117,809	(83,205)		
Miscellaneous	-	-	-		
Depreciation	102,321	80,918	21,403		
Total Operating Expenses	\$ 790,003	\$ 740,830	\$ 49,173	6.6%	
Total Indirect Expenses	\$ 448,796	\$ 455,943	\$ (7,147)	-1.6%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 4,170,708	\$ 4,343,310	\$ (172,602)	-4.0%	
Change in Assets	\$ 118,840	\$ (53,757)	\$ 172,597		
Fixed Asset Expenditures					
Depreciation	\$ (102,321)	\$ (80,918)	\$ (21,403)		
Software CapEx	109,556	25,000	84,556		Guidance Software Enhancements greater than anticipated
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	57,343	2,161	55,182		Budgeted for In 2012; Actual In 2013
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	\$ 64,578	\$ (53,757)	\$ 118,335		
Total Budget	\$ 4,235,286	\$ 4,289,553	\$ (54,267)	-1.3%	
CHANGE IN WORKING CAPITAL	\$ 54,262	\$ -	\$ 54,262		
Direct FTEs	16.82	17.93	(1.11)	-6.2%	
Indirect FTE's	2.26	2.17	0.09	4.1%	
Total FTE's	19.08	20.10	(1.02)	-5.1%	

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
RELIABILITY ASSESSMENT
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
Funding					
ERO Funding					
ERO Assessments	\$ 1,314,299	\$ 1,314,299	\$ -		
Penalty Sanctions	62,701	62,701	-		
Total ERO Funding	<u>\$ 1,377,000</u>	<u>\$ 1,377,000</u>	<u>\$ -</u>		
Membership Dues	-	-	-		
Testing Fees	-	-	-		
Services & Software	22,650	22,000	650		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	<u>\$ 1,399,650</u>	<u>\$ 1,399,000</u>	<u>\$ 650</u>	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 555,631	\$ 674,444	(118,813)		FTE's are less by 1.4 due to delay of BES Implementation
Payroll Taxes	34,375	43,385	(9,010)		Result of 1.4 fewer FTE's
Benefits	78,830	97,086	(18,256)		Result of 1.4 fewer FTE's
Retirement Costs	73,102	94,982	(21,880)		Result of 1.4 fewer FTE's
Total Personnel Expenses	<u>\$ 741,938</u>	<u>\$ 909,897</u>	<u>\$ (167,959)</u>	-18.5%	
Meeting Expenses					
Meetings	\$ 3,021	\$ 4,810	(1,789)		Delay of BES Implementation
Travel	45,477	49,865	(4,388)		Result of 1.4 fewer FTE's
Conference Calls	3,309	10,387	(7,078)		Delay of BES Implementation
Total Meeting Expenses	<u>\$ 51,807</u>	<u>\$ 65,062</u>	<u>\$ (13,255)</u>	-20.4%	
Operating Expenses					
Consultants & Contracts	\$ 105,426	\$ 115,177	\$ (9,751)		
Office Rent	59,663	61,504	(1,841)		New Space reallocated from budget
Office Costs	17,254	71,379	(54,125)		New Space reallocated from budget
Professional Services	10,055	37,218	(27,163)		Legal Fees for BES did not materialize
Miscellaneous	-	-	-		
Depreciation	4,066	5,309	(1,243)		
Total Operating Expenses	<u>\$ 196,464</u>	<u>\$ 290,587</u>	<u>\$ (94,123)</u>	-32.4%	
Total Indirect Expenses	<u>\$ 119,470</u>	<u>\$ 138,080</u>	<u>\$ (18,610)</u>	-13.5%	
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Total Expenses	<u>\$ 1,109,679</u>	<u>\$ 1,403,626</u>	<u>\$ (293,947)</u>	-20.9%	
Change in Assets	<u>\$ 289,971</u>	<u>\$ (4,626)</u>	<u>\$ 294,597</u>		
Fixed Asset Expenditures					
Depreciation	\$ (4,066)	\$ (5,309)	\$ 1,243		
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	15,566	683	14,883		Budgeted for in 2012; Actual in 2013
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	<u>\$ 11,500</u>	<u>\$ (4,626)</u>	<u>\$ 16,126</u>	-348.6%	
Total Budget	<u>\$ 1,121,179</u>	<u>\$ 1,399,000</u>	<u>\$ (277,821)</u>	-19.9%	
CHANGE IN WORKING CAPITAL	<u>\$ 278,471</u>	<u>\$ -</u>	<u>\$ 278,471</u>		
Direct FTEs	4.36	5.43	(1.07)	-19.7%	
Indirect FTE's	0.59	0.92	(0.33)	-35.9%	
Total FTE's	4.95	6.35	(1.40)	-22.0%	

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
TRAINING AND EDUCATION
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
Funding					
ERO Funding					
ERO Assessments	\$ 276,132	\$ 276,136	\$ (4)		
Penalty Sanctions	12,817	12,817	-		
Total ERO Funding	\$ 288,949	\$ 288,953	\$ (4)		
Membership Dues	-	\$ -	-		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	99,385	90,000	9,385		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 388,334	\$ 378,953	\$ 9,381	2.5%	
Expenses					
Personnel Expenses					
Salaries	\$ 85,084	\$ 137,870	(52,786)		Less time by staff was necessary to prep and conduct seminars
Payroll Taxes	5,417	8,869	(3,452)		Result of less staff time
Benefits	9,594	18,009	(8,415)		Result of less staff time
Retirement Costs	11,743	19,416	(7,673)		Result of less staff time
Total Personnel Expenses	\$ 111,838	\$ 184,164	\$ (72,326)	-39.3%	
Meeting Expenses					
Meetings	\$ 70,380	\$ 70,908	(528)		
Travel	3,493	12,228	(8,735)		SOS Seminars were held in Tampa - less travel necessary to attend
Conference Calls	922	4,902	(3,980)		Cost of Webinars were less than anticipated
Total Meeting Expenses	\$ 74,795	\$ 88,038	\$ (13,243)	-15.0%	
Operating Expenses					
Consultants & Contracts	\$ 28,500	\$ 45,000	(16,500)		Cost of Seminar Speakers less than anticipated
Office Rent	9,346	12,573	(3,227)		New Space reallocated from budget
Office Costs	13,091	12,312	779		
Professional Services	1,266	7,502	(6,236)		RE Legal Fees less than anticipated
Miscellaneous	-	-	-		
Depreciation	757	823	(66)		
Total Operating Expenses	\$ 52,960	\$ 78,210	\$ (25,250)	-32.3%	
Total Indirect Expenses	\$ 19,551	\$ 28,226	\$ (8,675)	-30.7%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 259,144	\$ 378,638	\$ (119,494)	-31.6%	
Change in Assets	\$ 129,190	\$ 315	\$ 128,875		
Fixed Asset Expenditures					
Depreciation	\$ (757)	\$ (823)	\$ 66		
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	4,708	1,138	3,570		
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	\$ 3,951	\$ 315	\$ 3,636	1154.3%	
Total Budget	\$ 263,095	\$ 378,953	\$ (115,858)	-30.6%	
CHANGE IN WORKING CAPITAL	\$ 125,239	\$ -	\$ 125,239		
Direct FTEs	0.60	1.11	(0.51)	-45.9%	
Indirect FTE's	0.08	0.17	(0.09)	-52.9%	
Total FTE's	0.68	1.28	(0.60)	-46.9%	

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
SITUATIONAL AWARENESS
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
Funding					
ERO Funding					
ERO Assessments	\$ 60,714	\$ 60,714	\$ -		
Penalty Sanctions	2,887	2,887	-		
Total ERO Funding	\$ 63,601	\$ 63,601	\$ -		
Membership Dues	-	\$ -	-		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 63,601	\$ 63,601	\$ -	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 6,217	\$ 31,052	(24,835)		Less time was spent on Program than anticipated
Payroll Taxes	379	1,997	(1,618)		Result of less time spent
Benefits	805	4,070	(3,265)		Result of less time spent
Retirement Costs	827	4,373	(3,546)		Result of less time spent
Total Personnel Expenses	\$ 8,228	\$ 41,492	\$ (33,264)	-80.2%	
Meeting Expenses					
Meetings	\$ 21	\$ 38	(17)		
Travel	516	3,213	(2,697)		
Conference Calls	26	6	20		
Total Meeting Expenses	\$ 563	\$ 3,257	\$ (2,694)	-82.7%	
Operating Expenses					
Consultants & Contracts	\$ 1,726	\$ -	1,726		
Office Rent	714	2,831	(2,117)		
Office Costs	1,550	7,755	(6,205)		
Professional Services	121	1,875	(1,754)		
Miscellaneous	-	-	-		
Depreciation	2,428	2,561	(133)		
Total Operating Expenses	\$ 6,539	\$ 15,022	\$ (8,483)	-56.5%	
Total Indirect Expenses	\$ 1,313	\$ 6,357	\$ (5,044)	-79.3%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 16,643	\$ 66,128	\$ (49,485)	-74.8%	
Change in Assets	\$ 46,958	\$ (2,527)	\$ 49,485		
Fixed Asset Expenditures					
Depreciation	\$ (2,428)	\$ (2,561)	\$ 133		
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	182	34	148		
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	\$ (2,246)	\$ (2,527)	\$ 281	-11.1%	
Total Budget	\$ 14,397	\$ 63,601	\$ (49,204)	-77.4%	
CHANGE IN WORKING CAPITAL	\$ 49,204	\$ -	\$ 49,204		
Direct FTEs	0.05	0.25	(0.20)	-80.0%	
Indirect FTE's	0.01	0.07	(0.06)	-85.7%	
Total FTE's	0.06	0.32	(0.26)	-81.3%	

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
GENERAL ADMINISTRATIVE
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
Funding					
ERO Funding					
ERO Assessments	\$ (157,305)	\$ (157,311)	\$ 6		
Penalty Sanctions					
Total ERO Funding	<u>\$ (157,305)</u>	<u>\$ (157,311)</u>	<u>\$ 6</u>		
Membership Dues	-	\$			
Testing Fees					
Services & Software					
Workshops					
Interest	-				
Miscellaneous	-				
Total Funding	<u>\$ (157,305)</u>	<u>\$ (157,311)</u>	<u>\$ 6</u>	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 427,568	\$ 465,776	\$ (38,208)		
Payroll Taxes	26,911	29,962	(3,051)		
Benefits	50,287	58,915	(8,628)		
Retirement Costs	56,382	65,596	(9,214)		
Total Personnel Expenses	<u>\$ 561,148</u>	<u>\$ 620,249</u>	<u>\$ (59,101)</u>	-9.5%	
Meeting Expenses					
Meetings		\$ -	\$ -		
Travel	50		50		
Conference Calls					
Total Meeting Expenses	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ 50</u>	#DIV/0!	
Operating Expenses					
Consultants & Contracts	\$ 4,633	\$ -	\$ 4,633		
Office Rent	45,351	42,475	2,876		
Office Costs	3,953	7,840	(3,887)		
Professional Services					
Miscellaneous					
Depreciation	1,561	2,540	(979)		
Total Operating Expenses	<u>\$ 55,498</u>	<u>\$ 52,855</u>	<u>\$ 2,643</u>	5.0%	
Total Indirect Expenses	<u>\$ (616,695)</u>	<u>\$ (670,564)</u>	<u>\$ 53,869</u>		
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Total Expenses	<u>\$ 1</u>	<u>\$ 2,540</u>	<u>\$ (2,539)</u>	-100.0%	
Change in Assets	<u>\$ (157,306)</u>	<u>\$ (159,851)</u>	<u>\$ 2,545</u>	-1.6%	
Fixed Asset Expenditures					
Depreciation	\$ (1,561)	\$ (2,540)	\$ 979		
Software CapEx					
Furniture & Fixtures CapEx					
Equipment & Computers CapEx					
Leasehold Improvements					
Increase/(Decrease) in Fixed Assets	<u>\$ (1,561)</u>	<u>\$ (2,540)</u>	<u>\$ 979</u>	-38.5%	
Total Budget	<u>\$ (1,560)</u>	<u>\$ -</u>	<u>\$ (1,560)</u>		
CHANGE IN WORKING CAPITAL	<u>\$ (155,745)</u>	<u>\$ (157,311)</u>	<u>\$ 1,566</u>	-1.0%	
FTEs	3.07	3.74	(0.67)	-17.9%	

Florida Reliability Coordinating Council, Inc.
2013 Statement of Activities and Capital Expenditures Based on Audited
TOTAL MEMBER SERVICES - NON STATUTORY
For the Year Ended 12/31/2013

(In Whole Dollars)

	2013 Actual	2013 Budget	Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Membership Dues	6,250,976	6,250,975	1		
Testing Fees	-	-	-		
Services & Software	291,991	311,000	(19,009)		
Workshops	-	-	-		
Special Assessment	-	-	-		
Non Cash Postretirement	(45,824)	-	(45,824)		
Total Funding	<u>\$ 6,497,143</u>	<u>\$ 6,561,975</u>	<u>\$ (64,832)</u>	<u>-1.0%</u>	
Expenses					
Personnel Expenses					
Salaries	\$ 1,887,470	\$ 1,828,681	58,789		
Payroll Taxes	113,681	117,635	(3,954)		
Benefits	294,401	237,308	57,093		
Retirement Costs	247,376	257,534	(10,158)		
Total Personnel Expenses	<u>\$ 2,542,928</u>	<u>\$ 2,441,158</u>	<u>\$ 101,770</u>	<u>4.2%</u>	
Meeting Expenses					
Meetings	\$ 29,546	\$ 15,410	14,136		
Travel	38,294	78,424	(40,130)		Staff Training budgeted in Travel - Actual Charged to Benefits
Conference Calls	17,000	23,196	(6,196)		
Total Meeting Expenses	<u>\$ 84,840</u>	<u>\$ 117,030</u>	<u>\$ (32,190)</u>	<u>-27.5%</u>	
Operating Expenses					
Consultants & Contracts	\$ 2,702,822	\$ 3,015,722	(312,900)		FTMS & OPWG-ATC case & Restroation Drill delay, RC Agent Expenses
Office Rent	207,150	166,759	40,391		New Space reallocated from budget
Office Costs	460,575	496,879	(36,304)		Telecommunications over budgeted
Professional Services	35,837	245,966	(210,129)		Legal Fees for RC less than budgeted
Miscellaneous	75,000	-	75,000		Accrued Liability per GAAP
Depreciation	26,027	23,897	2,130		
Total Operating Expenses	<u>\$ 3,507,411</u>	<u>\$ 3,949,223</u>	<u>\$ (441,812)</u>	<u>-11.2%</u>	
Total Indirect Expenses					
Other Non-Operating Expenses	<u>\$ 519,831</u>	<u>\$ -</u>	<u>\$ 519,831</u>		
Total Expenses	<u>\$ 6,655,010</u>	<u>\$ 6,507,411</u>	<u>\$ 147,599</u>	<u>2.3%</u>	
Change in Assets	<u>\$ (157,867)</u>	<u>\$ 54,564</u>	<u>\$ (212,431)</u>		
Fixed Asset Expenditures					
Depreciation	\$ (26,027)	\$ (23,897)	\$ (2,130)		
Non Pension Post Retir. Oblig	(565,655)	-	(565,655)		
Software CapEx	27,000	-	27,000		
Furniture & Fixtures CapEx	4,882	-	4,882		
Equipment & Computers CapE	55,137	78,461	(23,324)		
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	<u>\$ (504,663)</u>	<u>\$ 54,564</u>	<u>\$ (559,227)</u>	<u>-1024.9%</u>	
Total Budget	<u>\$ 6,150,347</u>	<u>\$ 6,561,975</u>	<u>\$ (411,628)</u>	<u>-6.3%</u>	
CHANGE IN WORKING CAPITAL	<u>\$ 346,796</u>	<u>\$ -</u>	<u>\$ 346,796</u>		
FTEs	15.16	14.71	0.45		

**FLORIDA RELIABILITY
COORDINATING COUNCIL, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES**

December 31, 2013



Certified Public Accountants
Business Consultants
Limited Liability Company

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Florida Reliability Coordinating Council, Inc., (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, 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, 2013 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 18 to 26 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
Certified Public Accountants

January 31, 2014

FINANCIAL STATEMENTS

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**STATEMENT OF FINANCIAL POSITION
December 31, 2013**

ASSETS

Current assets:	
Cash	\$ 6,558,632
Member receivables	2,835,667
Related party receivable	19,403
Prepaid expenses	18,526
Total current assets	9,432,228
Property and equipment - at cost	
Equipment and computers	560,153
Software	910,964
Furniture and fixtures	317,732
Leasehold improvements	126,636
Total	1,915,485
Less accumulated depreciation and amortization	(1,497,031)
Total property and equipment, net	418,454
Other assets	
Deposits	150,000
457(f) plan	109,175
Total other assets	259,175
Total assets	\$ 10,109,857

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 379,159
Current portion of accrued postretirement benefit obligation	32,914
457(f) plan payable	109,175
Deferred revenue	3,111,955
Compliance penalty assessment	481,000
Accrued expenses	2,067,785
Total current liabilities	6,181,988
Long-term liabilities:	
Accrued postretirement benefit obligation	1,373,908
Net assets:	
Unrestricted statutory - FERC designated	1,966,888
Unrestricted member services - board designated	587,073
Total net assets	2,553,961
Total liabilities and net assets	\$ 10,109,857

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**STATEMENT OF ACTIVITIES
For the year ended December 31, 2013**

Revenues:	
Nonstatutory member assessments	\$ 6,250,976
Statutory member assessments	5,957,970
Services and software	314,641
Training and education fees	99,385
Postretirement benefit loss	(45,824)
Gain on 457(f) Plan	22,127
Penalty and sanctions realized	<u>304,500</u>
Total revenue	12,903,775
Expenses:	
Salaries	5,174,009
Payroll taxes	314,794
Employee benefits	783,735
Retirement and deferred compensation plans	688,048
Meetings	115,998
Travel	182,644
Conference calls	31,301
Contracts & consultants	3,039,370
Facilities rental	720,244
Office costs	573,638
Legal and accounting	83,668
Penalty sanctions	75,000
457(f) plan	22,127
Depreciation and amortization	<u>138,050</u>
Total expenses	<u>11,942,626</u>
Increase in net assets before change in accumulated post retirement obligation	961,149
Net periodic change in postretirement obligation	<u>(519,831)</u>
Increase in net assets	441,318
Net assets - beginning of year	<u>2,112,643</u>
Net assets - end of year	<u><u>\$ 2,553,961</u></u>

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

Cash flows from operating activities:	
Cash received from members	\$ 12,705,017
Cash paid to suppliers and employees	<u>(10,561,406)</u>
Net cash provided by operating activities	2,143,611
Cash flows from investing activities	
Purchases of software and equipment	<u>(278,020)</u>
Net cash used by investing activities	(278,020)
Net increase in cash	<u>1,865,591</u>
Cash at beginning of year	<u>\$ 4,693,041</u>
Cash at end of year	<u><u>\$ 6,558,632</u></u>
Reconciliation of increase in net assets to net cash used by operating activities	
Increase in net assets	\$ 441,318
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation and amortization	138,050
Increase in receivables, prepaid expenses, and other assets	(217,496)
Increase in accounts payable and accrued expenses	1,160,116
Change in postretirement benefit obligation	565,655
Increase in deferred income	<u>55,968</u>
Net cash provided by operating activities	<u><u>\$ 2,143,611</u></u>

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

1. General and Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Income Taxes – The Company has been approved for tax-exempt status under Section 501(c) (6) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements. Tax years after 2009 remain subject to examination by taxing authorities.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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

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

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

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

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

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

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

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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

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 amounted to \$8,095. As of December 31, 2013, 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 plan covering employees hired before October 1, 2003 if the retiree completes 10 years of service prior to retirement, is over the age of 60 at retirement and participates in the Company's IRS qualified retirement or profit-sharing plan at the time of retirement. The plan is noncontributory for retirees (see Note 6).

Date of Management's Review – Management has evaluated events and transactions for potential recognition or disclosure through January 31, 2014, which is the date the financial statements were available to be issued.

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 markets
- 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.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

2. Fair Value Measurements – (Continued)

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 457(f) Retirement Plan measured at fair value as of December 31, 2013:

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.

Mutual funds: Measured at net asset value within in 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 Organization 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 Organization's securities invested in the 457(f) Retirement Plan, classified by level, are as follows:

	December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Cash and equivalents	\$ 851	\$ 851	\$ -	\$ -
Mutual funds - fixed income	17,181	17,181	-	-
Mutual funds - equities	91,143	91,143	-	-
Total	\$ 109,175	\$ 109,175	\$ -	\$ -

The fair value and cost of the Organization's securities invested in the 457(f) Retirement Plan, as of December 31, 2013 are as follows:

	Cost Value	Market Value
Cash and equivalents	\$ 851	\$ 851
Mutual funds - fixed income	17,594	17,181
Mutual funds - equities	70,654	91,143
Total	\$ 89,099	\$ 109,175

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

3. Deferred Revenues

The contracts with the members of FRCC have a provision in them that provides that they have 30 days from the date of invoice for a new budgetary year (January through December) to withdraw from membership. Therefore, the Company made a decision to invoice all members on December 1 for the first quarterly installment of the 2014 budget, thus at December 31, 2013 it would be known whether all members are continuing with their membership.

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 2013, the Company renewed this contract for 36 months at an annual cost of \$57,000. In addition, several enhancements to the FTMS service were agreed upon of which \$27,000 was paid for in 2013 and \$27,000 will be paid in 2014 at 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 one other region that remains with Guidance. The cost of enhancements added or in progress for 2013 was \$109,556. The Company is obligated for enhancements in progress as of December 31, 2013 from this regional agreement of approximately \$28,800 for enhancements to be completed in 2014. The Company is also obligated for enhancements of their own system for \$7,000 to be completed in 2014.

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.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

4. Commitments – (Continued)

The initial term of the agreement is for 36 months and call for the Company to make a total commitment of \$130,500 over the 36-month term.

In 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.

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,	
2014	\$ 745,740
2015	766,199
2016	787,166
2017	808,832
2018	831,070
2019 and thereafter	<u>1,498,850</u>
	<u>\$ 5,437,857</u>

Rent expense charged to operations during the year ended December 31, 2013 was \$720,244, 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,	
2014	\$ 750,602
2015	750,602
2016	750,602
2017	750,602
2018	750,602
2019 and thereafter	<u>1,313,557</u>
	<u>\$ 5,066,567</u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 \$519,831 increase to unrestricted net assets.

The following table sets forth the plan's funded status reconciled with the amount shown in the Company's statement of financial position at December 31, 2013:

Accumulated postretirement benefit obligation:	
Plan assets at fair value	-0-
Funded status	-0-
Accrued postretirement benefit obligation:	
Current portion	\$ 32,914
Long-term portion	1,373,908
	\$ 1,406,822

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, 2013.

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

Year Ended December 31,	
2014	\$ 32,914
2015	35,829
2016	38,717
2017	53,993
2018	56,950
2019 and thereafter	391,970
	\$ 610,373

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

6. Postretirement Benefits Other Than Pensions – (Continued)

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2013.

Service Cost	\$ (25,156)
Interest Cost	(31,214)
Amortization of unrecognized net obligation	(10,664)
Recognition of net actuarial gain	<u>3,607</u>
Net periodic postretirement benefit cost	(63,427)
Benefits paid during 2013	<u>17,603</u>
Net postretirement benefit loss	<u><u>\$ (45,824)</u></u>
Items not yet recognized as a component of net periodic postretirement benefit costs	
Unrecognized net loss	\$ (404,717)
Unrecognized net transition obligations	<u>(39,983)</u>
Transitional effect of ASC 715-30	<u><u>(444,700)</u></u>
Postretirement effect of ASC 715-30 as of December 31 2012	\$ 75,131
Net periodic change in postretirement obligation	(519,831)
Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2013	<u><u>\$ (444,700)</u></u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 gain of approximately (\$11,000) and \$3,607, respectively. For measurement purposes, an 8% annual rate increase in the per capita cost of covered health care benefits was assumed for 2015; the rate was assumed to decrease to 7% for 2016; 6% for 2017 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, 2013 would be increased \$257,009 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2013 would be increased by \$9,353.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 3.75%. 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, 2013.

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.

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 \$250,909 and a discretionary contribution to the Plan of \$434,433 (net of forfeitures) for the year ending December 31, 2013.

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, 2013, 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 amount expensed in 2013 and to be funded in 2014 is \$16,775.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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, are under common management. FCG is a nonprofit organization operating under Section 501(c)(6) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Company is providing FCG with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 3.46% of the Company's administrative expenses in 2013. 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 2013. At December 31, 2013, the Company had billed and collected a total of \$276,901 from FCG relating to the service agreement and has a receivable from FCG in the amount of \$19,403.

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 \$2,073,322 relating all of to these services and at December 31, 2013 had \$683,463 of accrued expenses recorded on the books.

9. Concentrations

Two members make up approximately 54.8% 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 functions.

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 \$248,000 as of December 31, 2013, 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, 2013, a total of \$481,000 penalty assessment is being held for future use of which \$343,000 was accounted for in the 2014 budget submission and will be taken into operating income at the beginning of 2014 to offset funding from all entities in the region. The balance, plus any penalties billed and collected prior to June 30, 2014 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.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

10. Contingencies - (Continued)

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 \$125,000, however the Company cannot conclude that any amount within this range is a better estimate than any other, and accordingly the Company has included \$75,000 as an accrued contingent liability.

11. Functional Expenses

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

Statutory expenses:

Reliability Standards Development	\$ 229,145
Compliance & Enforcement	4,170,708
Reliability Assessment & Performance Analysis	1,109,679
Training & Education	259,144
Situational Awareness & Infrastructure	16,643
Total statutory expenses	<u>\$ 5,785,319</u>

Member Services expenses:

Planning Committee	710,959
Operating Committee	5,424,221
General & Administrative	519,831
Total member services expenses	<u>6,655,011</u>

Total Expenses \$ 12,440,330

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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	\$ 1,966,888
Member Services	<u>\$ 587,073</u>
Total unrestricted-board designated net assets	<u><u>\$ 2,553,961</u></u>

SUPPLEMENTAL INFORMATION

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TOTAL COMPANY
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,957,970	\$ 5,957,971	\$ (1)	
Penalty Sanctions	304,500	304,500	-	
Total ERO Funding	<u>\$ 6,262,470</u>	<u>\$ 6,262,471</u>	<u>\$ (1)</u>	<u>\$ -</u>
Membership Dues	\$ 6,250,976	\$ 6,250,975	1	
Testing Fees	-	-	-	
Services & Software	314,641	333,000	(18,359)	
Workshops	99,385	90,000	9,385	
Interest	-	-	-	
Special Assessment	-	-	-	
NonCash Post Ret Gain (Loss)	(45,824)	-	(45,824)	
Total Funding	<u>\$ 12,881,648</u>	<u>\$ 12,936,446</u>	<u>\$ (54,798)</u>	<u>-0.4%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 5,174,009	\$ 5,569,794	(395,785)	
Payroll Taxes	314,794	358,291	(43,497)	
Benefits	783,735	770,937	12,798	
Retirement Costs	688,048	784,397	(96,349)	
Total Personnel Expenses	<u>\$ 6,960,586</u>	<u>\$ 7,483,419</u>	<u>\$ (522,833)</u>	<u>-7.0%</u>
Meeting Expenses				
Meetings	\$ 115,998	\$ 98,669	17,329	
Travel	182,644	310,787	(128,143)	
Conference Calls	31,301	42,543	(11,242)	
Total Meeting Expenses	<u>\$ 329,943</u>	<u>\$ 451,999</u>	<u>\$ (122,056)</u>	<u>-27.0%</u>
Operating Expenses				
Consultants & Contracts	\$ 3,039,370	\$ 3,192,699	(153,329)	
Office Rent	720,244	739,044	(18,800)	
Office Costs	573,638	696,392	(122,754)	
Professional Services	83,668	422,504	(338,836)	
Miscellaneous	75,000	-	75,000	
Depreciation	138,050	117,390	20,660	
Total Operating Expenses	<u>\$ 4,629,970</u>	<u>\$ 5,168,029</u>	<u>\$ (538,059)</u>	<u>-10.4%</u>
Total Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other Non-Operating Expenses	<u>\$ 519,831</u>	<u>\$ -</u>	<u>\$ 519,831</u>	
Total Expenses	<u>\$ 12,440,330</u>	<u>\$ 13,103,447</u>	<u>\$ (663,117)</u>	<u>-5.1%</u>
Change in Assets	<u>\$ 441,318</u>	<u>\$ (167,001)</u>	<u>\$ 608,319</u>	<u>-100.0%</u>
Fixed Asset Expenditures				
Depreciation	\$ (138,050)	\$ (117,390)	\$ (20,660)	
Non Pension Post Retir. Oblig	(565,655)	-	(565,655)	
Software CapEx	136,556	25,000	111,556	
Furniture & Fixtures CapEx	4,882	-	4,882	
Equipment & Computers CapEx	136,582	82,700	53,882	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (425,685)</u>	<u>\$ (9,690)</u>	<u>\$ (415,995)</u>	<u>100.0%</u>
Total Budget	<u>\$ 12,014,645</u>	<u>\$ 13,093,757</u>	<u>\$ (1,079,112)</u>	<u>-8.2%</u>
CHANGE IN WORKING CAPITAL	<u>\$ 867,003</u>	<u>\$ (157,311)</u>	<u>\$ 1,024,314</u>	<u>100.0%</u>
FTEs	41.07	44.82	(3.75)	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TOTAL Statutory Only
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 5,957,970	\$ 5,957,971	\$ (1)	
Penalty Sanctions	304,500	304,500	-	
Total ERO Funding	<u>\$ 6,262,470</u>	<u>\$ 6,262,471</u>	<u>\$ (1)</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	22,650	22,000	650	
Workshops	99,385	90,000	9,385	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 6,384,505</u>	<u>\$ 6,374,471</u>	<u>\$ 10,034</u>	<u>0.2%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 3,286,539	\$ 3,741,113	\$ (454,574)	
Payroll Taxes	201,113	240,656	(39,543)	
Benefits	489,334	533,629	(44,295)	
Retirement Costs	440,672	526,863	(86,191)	
Total Personnel Expenses	<u>\$ 4,417,658</u>	<u>\$ 5,042,261</u>	<u>\$ (624,603)</u>	<u>-12.4%</u>
Meeting Expenses				
Meetings	\$ 86,452	\$ 83,259	\$ 3,193	
Travel	144,350	232,363	(88,013)	
Conference Calls	14,301	19,347	(5,046)	
Total Meeting Expenses	<u>\$ 245,103</u>	<u>\$ 334,969</u>	<u>\$ (89,866)</u>	<u>-26.8%</u>
Operating Expenses				
Consultants & Contracts	\$ 336,548	\$ 176,977	\$ 159,571	
Office Rent	513,094	572,285	(59,191)	
Office Costs	113,063	199,513	(86,450)	
Professional Services	47,831	176,538	(128,707)	
Miscellaneous	-	-	-	
Depreciation	112,023	93,493	18,530	
Total Operating Expenses	<u>\$ 1,122,559</u>	<u>\$ 1,218,806</u>	<u>\$ (96,247)</u>	<u>-7.9%</u>
Total Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 5,785,320</u>	<u>\$ 6,596,036</u>	<u>\$ (810,716)</u>	<u>-12.3%</u>
Change in Assets	<u>\$ 599,185</u>	<u>\$ (221,565)</u>	<u>\$ 820,750</u>	<u>-370.4%</u>
Fixed Asset Expenditures				
Depreciation	\$ (112,023)	\$ (93,493)	\$ (18,530)	
Software CapEx	109,556	25,000	84,556	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	81,445	4,239	77,206	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ 78,978</u>	<u>\$ (64,254)</u>	<u>\$ 143,232</u>	<u>-222.9%</u>
Total Budget	<u>\$ 5,864,298</u>	<u>\$ 6,531,782</u>	<u>\$ (667,484)</u>	<u>-10.2%</u>
CHANGE IN WORKING CAPITAL	<u>\$ 520,207</u>	<u>\$ (157,311)</u>	<u>\$ 677,518</u>	<u>-430.7%</u>
FTEs	25.91	30.11	(4.20)	
Beginning Working Capital 1/1/2012	1,367,703	483,900	883,803	
Change in Working Capital	520,207	(157,311)	677,518	
Working Capital at 12/31/2012	1,887,910	326,589	1,561,321	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
RELIABILITY STANDARDS
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 381,624	\$ 381,622	\$ 2	
Penalty Sanctions	19,053	19,053	-	
Total ERO Funding	\$ 400,677	\$ 400,675	\$ 2	
Membership Dues		\$ -	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	\$ 400,677	\$ 400,675	\$ 2	0.0%
Expenses				
Personnel Expenses				
Salaries	120,361	\$ 204,940	(84,579)	
Payroll Taxes	7,613	13,183	(5,570)	
Benefits	17,108	34,059	(16,951)	
Retirement Costs	15,984	28,862	(12,878)	
Total Personnel Expenses	\$ 161,066	\$ 281,044	\$ (119,978)	-42.7%
Meeting Expenses				
Meetings	\$ 876	\$ 1,002	(126)	
Travel	17,823	35,721	(17,898)	
Conference Calls	720	767	(47)	
Total Meeting Expenses	\$ 19,419	\$ 37,490	\$ (18,071)	-48.2%
Operating Expenses				
Consultants & Contracts	\$ 1,226	\$ -	1,226	
Office Rent	12,837	18,690	(5,853)	
Office Costs	4,357	9,136	(4,779)	
Professional Services	1,785	12,134	(10,349)	
Miscellaneous			-	
Depreciation	890	1,342	(452)	
Total Operating Expenses	\$ 21,095	\$ 41,302	\$ (20,207)	-48.9%
Total Indirect Expenses	\$ 27,565	\$ 41,958	\$ (14,393)	-34.3%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 229,145	\$ 401,794	\$ (172,649)	-43.0%
Change in Assets	\$ 171,532	\$ (1,119)	\$ 172,651	100.0%
Fixed Asset Expenditures				
Depreciation	\$ (890)	\$ (1,342)	\$ 452	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	3,646	223	3,423	
Leasehold Improvements			-	
Increase/(Decrease) in Fixed Assets	\$ 2,756	\$ (1,119)	\$ 3,875	-346.3%
Total Budget	\$ 231,901	\$ 400,675	\$ (168,774)	-42.1%
CHANGE IN WORKING CAPITAL	\$ 168,776	\$ -	\$ 168,776	
Direct FTEs	1.01	1.65	(0.64)	-38.8%
Indirect FTE's	0.14	0.41	(0.27)	-65.9%
Total FTE's	1.15	2.06	(0.91)	-44.2%

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
COMPLIANCE
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 4,082,506	\$ 4,082,511	\$ (5)	
Penalty Sanctions	207,042	207,042	-	
Total ERO Funding	<u>\$ 4,289,548</u>	<u>\$ 4,289,553</u>	<u>\$ (5)</u>	
Membership Dues	-	\$ -	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 4,289,548</u>	<u>\$ 4,289,553</u>	<u>\$ (5)</u>	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 2,091,678	\$ 2,227,031	(135,353)	
Payroll Taxes	126,418	143,260	(16,842)	
Benefits	332,710	321,490	11,220	
Retirement Costs	282,634	313,634	(31,000)	
Total Personnel Expenses	<u>\$ 2,833,440</u>	<u>\$ 3,005,415</u>	<u>\$ (171,975)</u>	-5.7%
Meeting Expenses				
Meetings	\$ 12,154	\$ 6,501	5,653	
Travel	76,991	131,336	(54,345)	
Conference Calls	9,324	3,285	6,039	
Total Meeting Expenses	<u>\$ 98,469</u>	<u>\$ 141,122</u>	<u>\$ (42,653)</u>	-30.2%
Operating Expenses				
Consultants & Contracts	\$ 195,037	\$ 16,800	178,237	
Office Rent	385,183	434,212	(49,029)	
Office Costs	72,858	91,091	(18,233)	
Professional Services	34,604	117,809	(83,205)	
Miscellaneous			-	
Depreciation	102,321	80,918	21,403	
Total Operating Expenses	<u>\$ 790,003</u>	<u>\$ 740,830</u>	<u>\$ 49,173</u>	6.6%
Total Indirect Expenses	<u>\$ 448,796</u>	<u>\$ 455,943</u>	<u>\$ (7,147)</u>	-1.6%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 4,170,708</u>	<u>\$ 4,343,310</u>	<u>\$ (172,602)</u>	-4.0%
Change in Assets	<u>\$ 118,840</u>	<u>\$ (53,757)</u>	<u>\$ 172,597</u>	
Fixed Asset Expenditures				
Depreciation	\$ (102,321)	\$ (80,918)	\$ (21,403)	
Software CapEx	109,556	25,000	84,556	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	57,343	2,161	55,182	
Leasehold Improvements			-	
Increase/(Decrease) in Fixed Assets	<u>\$ 64,578</u>	<u>\$ (53,757)</u>	<u>\$ 118,335</u>	
Total Budget	<u>\$ 4,235,286</u>	<u>\$ 4,289,553</u>	<u>\$ (54,267)</u>	-1.3%
CHANGE IN WORKING CAPITAL	<u>\$ 54,262</u>	<u>\$ -</u>	<u>\$ 54,262</u>	
Direct FTEs	16.82	17.93	(1.11)	-6.2%
Indirect FTE's	2.26	2.17	0.09	4.1%
Total FTE's	19.08	20.10	(1.02)	-5.1%

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
RELIABILITY ASSESSMENT
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 1,314,299	\$ 1,314,299	\$ -	
Penalty Sanctions	62,701	62,701	-	
Total ERO Funding	<u>\$ 1,377,000</u>	<u>\$ 1,377,000</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	22,650	22,000	650	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 1,399,650</u>	<u>\$ 1,399,000</u>	<u>\$ 650</u>	<u>0.0%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 555,631	\$ 674,444	(118,813)	
Payroll Taxes	34,375	43,385	(9,010)	
Benefits	78,830	97,086	(18,256)	
Retirement Costs	73,102	94,982	(21,880)	
Total Personnel Expenses	<u>\$ 741,938</u>	<u>\$ 909,897</u>	<u>\$ (167,959)</u>	<u>-18.5%</u>
Meeting Expenses				
Meetings	\$ 3,021	\$ 4,810	(1,789)	
Travel	45,477	49,865	(4,388)	
Conference Calls	3,309	10,387	(7,078)	
Total Meeting Expenses	<u>\$ 51,807</u>	<u>\$ 65,062</u>	<u>\$ (13,255)</u>	<u>-20.4%</u>
Operating Expenses				
Consultants & Contracts	\$ 105,426	\$ 115,177	\$ (9,751)	
Office Rent	59,663	61,504	(1,841)	
Office Costs	17,254	71,379	(54,125)	
Professional Services	10,055	37,218	(27,163)	
Miscellaneous	-	-	-	
Depreciation	4,066	5,309	(1,243)	
Total Operating Expenses	<u>\$ 196,464</u>	<u>\$ 290,587</u>	<u>\$ (94,123)</u>	<u>-32.4%</u>
Total Indirect Expenses	<u>\$ 119,470</u>	<u>\$ 138,080</u>	<u>\$ (18,610)</u>	<u>-13.5%</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 1,109,679</u>	<u>\$ 1,403,626</u>	<u>\$ (293,947)</u>	<u>-20.9%</u>
Change in Assets	<u>\$ 289,971</u>	<u>\$ (4,626)</u>	<u>\$ 294,597</u>	
Fixed Asset Expenditures				
Depreciation	\$ (4,066)	\$ (5,309)	\$ 1,243	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	15,566	683	14,883	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ 11,500</u>	<u>\$ (4,626)</u>	<u>\$ 16,126</u>	<u>-348.6%</u>
Total Budget	<u>\$ 1,121,179</u>	<u>\$ 1,399,000</u>	<u>\$ (277,821)</u>	<u>-19.9%</u>
CHANGE IN WORKING CAPITAL	<u>\$ 278,471</u>	<u>\$ -</u>	<u>\$ 278,471</u>	
Direct FTEs	4.36	5.43	(1.07)	-19.7%
Indirect FTE's	0.59	0.92	(0.33)	-35.9%
Total FTE's	4.95	6.35	(1.40)	-22.0%

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TRAINING AND EDUCATION
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 276,132	\$ 276,136	\$ (4)	
Penalty Sanctions	12,817	12,817	-	
Total ERO Funding	<u>\$ 288,949</u>	<u>\$ 288,953</u>	<u>\$ (4)</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	99,385	90,000	9,385	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 388,334</u>	<u>\$ 378,953</u>	<u>\$ 9,381</u>	2.5%
Expenses				
Personnel Expenses				
Salaries	\$ 85,084	\$ 137,870	(52,786)	
Payroll Taxes	5,417	8,869	(3,452)	
Benefits	9,594	18,009	(8,415)	
Retirement Costs	11,743	19,416	(7,673)	
Total Personnel Expenses	<u>\$ 111,838</u>	<u>\$ 184,164</u>	<u>\$ (72,326)</u>	-39.3%
Meeting Expenses				
Meetings	\$ 70,380	\$ 70,908	(528)	
Travel	3,493	12,228	(8,735)	
Conference Calls	922	4,902	(3,980)	
Total Meeting Expenses	<u>\$ 74,795</u>	<u>\$ 88,038</u>	<u>\$ (13,243)</u>	-15.0%
Operating Expenses				
Consultants & Contracts	\$ 28,500	\$ 45,000	(16,500)	
Office Rent	9,346	12,573	(3,227)	
Office Costs	13,091	12,312	779	
Professional Services	1,266	7,502	(6,236)	
Miscellaneous	-	-	-	
Depreciation	757	823	(66)	
Total Operating Expenses	<u>\$ 52,960</u>	<u>\$ 78,210</u>	<u>\$ (25,250)</u>	-32.3%
Total Indirect Expenses	<u>\$ 19,551</u>	<u>\$ 28,226</u>	<u>\$ (8,675)</u>	-30.7%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 259,144</u>	<u>\$ 378,638</u>	<u>\$ (119,494)</u>	-31.6%
Change in Assets	<u>\$ 129,190</u>	<u>\$ 315</u>	<u>\$ 128,875</u>	
Fixed Asset Expenditures				
Depreciation	\$ (757)	\$ (823)	\$ 66	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	4,708	1,138	3,570	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ 3,951</u>	<u>\$ 315</u>	<u>\$ 3,636</u>	1154.3%
Total Budget	<u>\$ 263,095</u>	<u>\$ 378,953</u>	<u>\$ (115,858)</u>	-30.6%
CHANGE IN WORKING CAPITAL	<u>\$ 125,239</u>	<u>\$ -</u>	<u>\$ 125,239</u>	
Direct FTEs	0.60	1.11	(0.51)	-45.9%
Indirect FTE's	0.08	0.17	(0.09)	-52.9%
Total FTE's	0.68	1.28	(0.60)	-46.9%

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
SITUATIONAL AWARENESS
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 60,714	\$ 60,714	\$ -	
Penalty Sanctions	2,887	2,887	-	
Total ERO Funding	\$ 63,601	\$ 63,601	\$ -	
Membership Dues	-	-	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	\$ 63,601	\$ 63,601	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 6,217	\$ 31,052	(24,835)	
Payroll Taxes	379	1,997	(1,618)	
Benefits	805	4,070	(3,265)	
Retirement Costs	827	4,373	(3,546)	
Total Personnel Expenses	\$ 8,228	\$ 41,492	\$ (33,264)	-80.2%
Meeting Expenses				
Meetings	\$ 21	\$ 38	(17)	
Travel	516	3,213	(2,697)	
Conference Calls	26	6	20	
Total Meeting Expenses	\$ 563	\$ 3,257	\$ (2,694)	-82.7%
Operating Expenses				
Consultants & Contracts	\$ 1,726	-	1,726	
Office Rent	714	2,831	(2,117)	
Office Costs	1,550	7,755	(6,205)	
Professional Services	121	1,875	(1,754)	
Miscellaneous			-	
Depreciation	2,428	2,561	(133)	
Total Operating Expenses	\$ 6,539	\$ 15,022	\$ (8,483)	-56.5%
Total Indirect Expenses	\$ 1,313	\$ 6,357	\$ (5,044)	-79.3%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 16,643	\$ 66,128	\$ (49,485)	-74.8%
Change in Assets	\$ 46,958	\$ (2,527)	\$ 49,485	
Fixed Asset Expenditures				
Depreciation	\$ (2,428)	\$ (2,561)	\$ 133	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	182	34	148	
Leasehold Improvements			-	
Increase/(Decrease) in Fixed Assets	\$ (2,246)	\$ (2,527)	\$ 281	-11.1%
Total Budget	\$ 14,397	\$ 63,601	\$ (49,204)	-77.4%
CHANGE IN WORKING CAPITAL	\$ 49,204	\$ -	\$ 49,204	
Direct FTEs	0.05	0.25	(0.20)	-80.0%
Indirect FTE's	0.01	0.07	(0.06)	-85.7%
Total FTE's	0.06	0.32	(0.26)	-81.3%

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
GENERAL ADMINISTRATIVE
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ (157,305)	\$ (157,311)	\$ 6	
Penalty Sanctions		-	-	
Total ERO Funding	\$ (157,305)	\$ (157,311)	\$ 6	
Membership Dues	-	\$ -	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	\$ (157,305)	\$ (157,311)	\$ 6	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 427,568	\$ 465,776	\$ (38,208)	
Payroll Taxes	26,911	29,962	(3,051)	
Benefits	50,287	58,915	(8,628)	
Retirement Costs	56,382	65,596	(9,214)	
Total Personnel Expenses	\$ 561,148	\$ 620,249	\$ (59,101)	-9.5%
Meeting Expenses				
Meetings		\$ -	\$ -	
Travel	50		50	
Conference Calls		-	-	
Total Meeting Expenses	\$ 50	\$ -	\$ 50	#####
Operating Expenses				
Consultants & Contracts	\$ 4,633	\$ -	\$ 4,633	
Office Rent	45,351	42,475	2,876	
Office Costs	3,953	7,840	(3,887)	
Professional Services		-	-	
Miscellaneous			-	
Depreciation	1,561	2,540	(979)	
Total Operating Expenses	\$ 55,498	\$ 52,855	\$ 2,643	5.0%
Total Indirect Expenses	\$ (616,695)	\$ (670,564)	\$ 53,869	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 1	\$ 2,540	\$ (2,539)	-100.0%
Change in Assets	\$ (157,306)	\$ (159,851)	\$ 2,545	-1.6%
Fixed Asset Expenditures				
Depreciation	\$ (1,561)	\$ (2,540)	\$ 979	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx			-	
Leasehold Improvements			-	
Increase/(Decrease) in Fixed Assets	\$ (1,561)	\$ (2,540)	\$ 979	-38.5%
Total Budget	\$ (1,560)	\$ -	\$ (1,560)	
CHANGE IN WORKING CAPITAL	\$ (155,745)	\$ (157,311)	\$ 1,566	-1.0%
FTEs	3.07	3.74	(0.67)	-17.9%

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
TOTAL MEMBER SERVICES - NON STATUTORY
December 31, 2013

(In Whole Dollars)

	2013 Actual	2013 Budget	2013 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Membership Dues	6,250,976	6,250,975	1	
Testing Fees	-	-	-	
Services & Software	291,991	311,000	(19,009)	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	(45,824)	-	(45,824)	
Total Funding	<u>\$ 6,497,143</u>	<u>\$ 6,561,975</u>	<u>\$ (64,832)</u>	-1.0%
Expenses				
Personnel Expenses				
Salaries	\$ 1,887,470	\$ 1,828,681	58,789	
Payroll Taxes	113,681	117,635	(3,954)	
Benefits	294,401	237,308	57,093	
Retirement Costs	247,376	257,534	(10,158)	
Total Personnel Expenses	<u>\$ 2,542,928</u>	<u>\$ 2,441,158</u>	<u>\$ 101,770</u>	4.2%
Meeting Expenses				
Meetings	\$ 29,546	\$ 15,410	14,136	
Travel	38,294	78,424	(40,130)	
Conference Calls	17,000	23,196	(6,196)	
Total Meeting Expenses	<u>\$ 84,840</u>	<u>\$ 117,030</u>	<u>\$ (32,190)</u>	-27.5%
Operating Expenses				
Consultants & Contracts	\$ 2,702,822	\$ 3,015,722	(312,900)	
Office Rent	207,150	166,759	40,391	
Office Costs	460,575	496,879	(36,304)	
Professional Services	35,837	245,966	(210,129)	
Miscellaneous	75,000	-	75,000	
Depreciation	26,027	23,897	2,130	
Total Operating Expenses	<u>\$ 3,507,411</u>	<u>\$ 3,949,223</u>	<u>\$ (441,812)</u>	-11.2%
Total Indirect Expenses				
Other Non-Operating Expenses	<u>\$ 519,831</u>	<u>\$ -</u>	<u>\$ 519,831</u>	
Total Expenses	<u>\$ 6,655,010</u>	<u>\$ 6,507,411</u>	<u>\$ 147,599</u>	2.3%
Change in Assets	<u>\$ (157,867)</u>	<u>\$ 54,564</u>	<u>\$ (212,431)</u>	
Fixed Asset Expenditures				
Depreciation	\$ (26,027)	\$ (23,897)	\$ (2,130)	
Non Pension Post Retir. Oblig	(565,655)	-	(565,655)	
Software CapEx	27,000	-	27,000	
Furniture & Fixtures CapEx	4,882	-	4,882	
Equipment & Computers CapEx	55,137	78,461	(23,324)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (504,663)</u>	<u>\$ 54,564</u>	<u>\$ (559,227)</u>	-1024.9%
Total Budget	<u>\$ 6,150,347</u>	<u>\$ 6,561,975</u>	<u>\$ (411,628)</u>	-6.3%
CHANGE IN WORKING CAPITAL	<u>\$ 346,796</u>	<u>\$ -</u>	<u>\$ 346,796</u>	
FTEs	15.16	14.71	0.45	

See Independent Auditors' Report

ATTACHMENT 3

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 AUDITED FINANCIAL REPORT

FOR

MIDWEST RELIABILITY ORGANIZATION



Sue Clarke, VP of Finance and Administration

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April 29, 2014

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

RE: 2013 Budget Variance Explanation Based on Audited Financials

Dear Mr. Walker and Ms. Turpen:

MRO staff reports the audited final numbers to be 7.63% **under** budget (\$709k). 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 to be 4.91% **under** budget (\$457k).

While MRO was under budget, MRO staff believes the principal responsibilities under the delegation agreement were met in 2013. During 2013, MRO conducted 19 audits and spot checks including 10 on-site and 6 off-site combined CIP and operations and planning audits and 2 off-site operations and planning audits. Additionally, MRO participated in one on-site operations and planning audit and one on-site CIP audit lead by SERC. No spot checks were conducted in 2013. MRO identified 147 new potential violations and closed 140 instances of noncompliance (violations or remediated issues) in 2013. MRO completed all budgeted reliability assessments for the year. In addition, MRO provided oversight on the event analysis of eight events in the Region during 2013.

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

Meeting Expenses (Actual - \$223,169 under budget)

- Meeting expenses were under budget by \$40,863. This was due to the new MRO facility having provided more opportunities to host meetings, which enabled staff to reduce cost significantly more than originally expected by eliminating the cost of meeting room and audio visual rentals as well as lower catering costs. These cost savings are trended in the 2014 Budget.
- Travel expenses were under budget by \$155,747. Greater than budgeted use of the new MRO facility resulted in less travel by MRO staff. Resources were also shifted from auditing to risk assessment and mitigation, which in 2013 required minimum travel.
- Conference call expenses were under budget by \$26,559. Upgrades in mid-year 2013 for audio and web conferencing media eliminated costs for the remaining portion of 2013. These cost savings are trended in the 2014 Budget.



Consultants and Contracts (Actual - \$82,453 under budget)

MRO had expected to come in on budget by the end of the year. Two expected projects were outsourced; one was approximately 50% completed. Both are expected to be completed in 2014.

Professional Services (Actual - \$99,161 under budget)

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

Other non-Operating Expenses (Actual - \$194,304 under budget)

In addition to the review of financials, MRO's independent financial audit requests support for the annual actuarial calculation of post-retirement medical benefit obligation. The actuarial assumptions take into consideration the discount rate, expected rate of return on plan assets and health care cost trend rate. After review and discussion of provided assessments by the relevant third party advisors, a higher post-retirement discount rate of 5.04% (up from 4.12%) and a 6% expected rate of return applied. This rate remains unchanged from the previous year's assumptions and calculation. This resulted in a positive impact to net revenues of \$252k in 2013. \$58k was included in the net periodic cost and \$194k as a non-operating cost.

Fixed Assets (Actual - \$52,355 over budget)

MRO staff accelerated some planned projects from 2014.

Change in Assets and Year End

MRO was **under budget by \$709k** as explained above.

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

Thank you,

Sue Clarke

Sue Clarke

Cc: Daniel Skaar, MRO

Midwest Reliability Organization
2012 Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013
Per Audit

Consolidated	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	9,098,927	9,098,927	-
Penalty Sanctions	14,001	14,001	-
Total ERO Funding	\$ 9,112,928	\$ 9,112,928	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
Total Funding (A)	\$ 9,112,928	\$ 9,112,928	\$ -
Expenses			
Personnel Expenses			
Salaries	4,760,887	4,772,320	(11,433)
Payroll Taxes	310,790	312,394	(1,604)
Employee Benefits	380,894	394,086	(13,192)
Savings & Retirement	724,304	833,228	(108,924)
Total Personnel Expenses	6,176,875	6,312,027	(135,153)
Meeting Expenses			
Meetings	91,601	132,464	(40,863)
Travel	475,018	630,765	(155,747)
Conference Calls	15,141	41,700	(26,559)
Total Meeting Expenses	581,760	804,929	(223,169)
Operating Expenses			
Consultants & Contracts	490,647	573,100	(82,453)
Rent & Improvements	487,109	528,827	(41,718)
Office Costs	443,188	428,304	14,884
Professional Services	147,339	246,500	(99,161)
Miscellaneous	-	-	-
Depreciation	410,259	305,665	104,594
Total Operating Expenses	1,978,542	2,082,396	(103,854)
Indirect Expenses	-	1	(1)
Other Non-Operating Expenses	(194,304)	-	(194,304)
Total Expenses (B)	8,542,873	9,199,353	(656,481)
Change in Assets (A - B)	570,055	(86,425)	656,481
Fixed Assets			
Depreciation	(410,259)	(305,665)	(104,594)
Computer & Software CapEx	420,386	339,851	80,535
Furniture & Fixtures CapEx	37,162	-	37,162
Equipment CapEx	-	-	-
Leasehold Improvements	(15,342)	50,000	(65,342)
(Inc)Dec in Fixed Assets	\$ 31,947	\$ 84,186	\$ (52,239)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	31,947	84,184	(52,239)
TOTAL BUDGET (B + C)	8,574,820	9,283,537	(708,720)
Change in Working Capital (A-B-C)	538,108	(170,609)	708,720
FTEs	37.9	37.8	0.2

Midwest Reliability Organization
2012 Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013
Per Audit

RELIABILITY STANDARDS	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	542,840	542,840	-	0.00%	
Penalty Sanctions	762	762	-	0.00%	
Total ERO Funding	\$ 543,602	\$ 543,602	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	543,602	543,602	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	165,904	210,558	(44,654)	-21.21%	
Payroll Taxes	9,913	12,362	(2,449)	-19.81%	
Employee Benefits	11,425	15,154	(3,729)	-24.61%	
Savings & Retirement	27,194	32,835	(5,641)	-17.18%	
Total Personnel Expenses	214,436	270,909	(56,473)	-20.85%	Reduced staff involvement by increasing alignment with technical stakeholders to address reliability impacts.
Meeting Expenses					
Meetings	843	7,500	(6,657)	-88.76%	Fewer 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.
Travel	19,540	28,900	(9,360)	-32.39%	Working groups were encouraged to reduce face-to-face meetings so less travel than anticipated. Also, member reimbursements were reduced for our SME application guide developers because there were fewer application guides than anticipated in 2013.
Conference Calls	9,682	15,000	(5,318)	-35.45%	Upgrades in mid-year 2013 for audio and web conferencing media eliminated costs for the remaining portion of 2013.
Total Meeting Expenses	30,065	51,400	(21,335)	-41.51%	
Operating Expenses					
Consultants & Contracts	12,000	12,000	-	0.00%	
Rent & Improvements	-	-	-		
Office Costs	2,436	6,580	(4,144)	-62.98%	A certain amount of training is required over a two or three year span rather than each year. In 2013 staff did not take as much training as they will in 2014 and 2015.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	14,436	18,580	(4,144)	-22.30%	
Indirect Expenses	121,279	198,132	(76,853)	-38.79%	Total actual indirect costs were under budget, therefore there were less indirect costs than budgeted allocated to this program.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	380,216	539,021	(158,805)	-29.46%	
Change in Assets (A - B)	163,386	4,581	158,805	3466.61%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	1,154	4,581	(3,427)	-74.81%	Total actual fixed costs were under budget, therefore there were less asset costs than budgeted allocated to this program.
Total Inc(Dec) in Fixed Assets (C)	1,154	4,581	(3,427)	-74.81%	
TOTAL BUDGET (B + C)	381,370	543,602	(162,232)	-29.84%	
Change in Working Capital (A-B-C)	(162,232)	-	(162,232)		
FTEs	1.0	1.5	(0.5)	-31.79%	

Midwest Reliability Organization
2012 Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013
Per Audit

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	6,126,145	6,126,145	-	0.00%	
Penalty Sanctions	9,581	9,581	-	0.00%	
Total ERO Funding	\$ 6,135,726	\$ 6,135,726	\$ -	0.00%	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding (A)	6,135,726	6,135,726	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	2,373,856	2,372,105	1,751	0.07%	
Payroll Taxes	156,873	159,443	(2,570)	-1.61%	
Employee Benefits	199,853	203,097	(3,244)	-1.60%	
Savings & Retirement	318,341	393,579	(75,238)	-19.12%	Annual post-retirement adjustment reduced the cost for 2013 based on higher discount rate provided by third party advisors
Total Personnel Expenses	3,048,923	3,128,224	(79,301)	-2.54%	
Meeting Expenses					
Meetings	2,794	5,600	(2,806)	-50.11%	Fewer 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.
Travel	130,092	200,300	(70,208)	-35.05%	The overall travel expense was estimated high compared to actual travel costs. Travel for working group meetings was discouraged and MRO staff attended far fewer meetings than anticipated. The travel was replaced with conference calls.
Conference Calls	2,793	8,400	(5,607)	-66.75%	Upgrades in mid-year 2013 for audio and web conferencing media eliminated costs for the remaining portion of 2013.
Total Meeting Expenses	135,679	214,300	(78,621)	-36.69%	
Operating Expenses					
Consultants & Contracts	105,498	157,000	(51,502)	-32.80%	Two expected projects were outsourced; one was approximately 50% completed. Both are expected to be completed in 2014.
Rent & Improvements	-	-	-	-	
Office Costs	85,015	79,354	5,661	7.13%	
Professional Services	-	7,500	(7,500)	-100.00%	These were contingency dollars for Canadian filings that were not necessary in 2013.
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
Total Operating Expenses	190,513	243,854	(53,341)	-21.87%	
Indirect Expenses	2,298,406	2,491,737	(193,331)	-7.76%	Total actual indirect costs were under budget, therefore there were less indirect costs than budgeted allocated to this program
Other Non-Operating Expenses	-	-	-	-	
Total Expenses (B)	5,673,521	6,078,115	(404,594)	-6.66%	
Change in Assets (A - B)	462,205	57,611	404,594	702.29%	
Fixed Assets					
Depreciation	-	-	-	-	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	21,873	57,611	(35,738)	-62.03%	Total actual fixed costs were under budget, therefore there were less asset costs than budgeted allocated to this program
Total Inc(Dec) in Fixed Assets (C)	21,873	57,611	(35,738)	-62.03%	
TOTAL BUDGET (B + C)	5,695,394	6,135,726	(440,332)	-7.18%	
Change in Working Capital (A-B-C)	(440,332)	-	(440,332)		
FTEs	19.5	19.0	0.5	2.79%	

Midwest Reliability Organization
2012 Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013
Per Audit

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	2,274,076	2,274,076	-	0.00%	
Penalty Sanctions	3,370	3,370	-	0.00%	
Total ERO Funding	\$ 2,277,446	\$ 2,277,446	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	2,277,446	2,277,446	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	819,315	795,326	23,989	3.02%	
Payroll Taxes	52,710	54,654	(1,944)	-3.56%	
Employee Benefits	71,461	71,795	(334)	-0.47%	
Savings & Retirement	149,493	160,752	(11,259)	-7.00%	
Total Personnel Expenses	1,092,979	1,082,527	10,452	0.97%	
Meeting Expenses					
Meetings	7,316	20,000	(12,684)	-63.42%	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.
Travel	147,655	106,150	41,505	39.10%	Due to the increased number of activities in this area there was more travel than anticipated. Activities included but not limited to BES, RAPA, and Event Analysis meetings at the NERC level. MRO staff also knew that travel (most specifically airfare) was low in our original budget. MRO staff was confident that they would be able to manage to the RAPA budget as a whole.
Conference Calls	2,207	2,500	(293)	-11.72%	Upgrades in mid-year 2013 for audio and web conferencing media eliminated costs for the remaining portion of 2013.
Total Meeting Expenses	157,178	128,650	28,528	22.17%	
Operating Expenses					
Consultants & Contracts	60,555	141,100	(80,545)	-57.08%	RAPA has three contracts that are budgeted based on an estimated number of required hours; actual hours can fluctuate greatly. In the case of 2013 the actual dollars in our Model Building came in 50% lower. MRO also had Event Analysis contingency dollars in our 2013 Budget that were unnecessary and were removed in the 2014 budget.
Rent & Improvements	-	-	-		
Office Costs	24,140	28,400	(4,260)	-15.00%	2013 training dollars were budgeted for two different staffers who are no longer in the department. Actual staff required different training requirements; actual cost was lower than budgeted.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	84,695	169,500	(84,805)	-50.03%	
Indirect Expenses	878,387	876,504	1,883	0.21%	
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	2,213,239	2,257,181	(43,942)	-1.95%	
Change in Assets (A - B)	64,207	20,265	43,942	216.84%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	8,359	20,265	(11,906)	-58.75%	Total actual fixed costs were under budget, therefore there were less asset costs than budgeted allocated to this program.
Total Inc(Dec) in Fixed Assets (C)	8,359	20,265	(11,906)	-58.75%	
TOTAL BUDGET (B + C)	2,221,598	2,277,446	(55,848)	-2.45%	
Change in Working Capital (A-B-C)	(55,848)	-	(55,848)		
FTEs	7.5	6.7	0.8	11.68%	

Midwest Reliability Organization
2012 Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013
Per Audit

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	229,281	229,281	-	0.00%	
Penalty Sanctions	136	136	-	0.00%	
Total ERO Funding	\$ 229,417	\$ 229,417	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	229,417	229,417	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	77,308	65,436	11,872	18.14%	
Payroll Taxes	3,320	2,231	1,089	48.81%	
Employee Benefits	3,744	1,935	1,809	93.49%	
Savings & Retirement	12,525	11,469	1,056	9.21%	
Total Personnel Expenses	96,897	81,071	15,826	19.52%	More Sr Management involvement than anticipated with the number of issues that were addressed in 2013 agendas. Some of those issues included but not limited to: BES, New Modeling, and Protection System Standards.
Meetings	56,428	63,500	(7,072)	-11.14%	
Travel	12,313	28,600	(16,287)	-56.95%	Dollars were budgeted for the SME to travel and give forum presentations in 2013 which were not required.
Conference Calls	-	15,000	(15,000)	-100.00%	Upgrades in mid-year 2013 for audio and web conferencing media eliminated costs for the remaining portion of 2013.
Total Meeting Expenses	68,741	107,100	(38,359)	-35.82%	
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	349	5,000	(4,651)	-93.02%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	349	5,000	(4,651)	-93.02%	
Indirect Expenses	38,856	35,428	3,428	9.68%	
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	204,843	228,599	(23,756)	-10.39%	
Change in Assets (A - B)	24,574	818	23,756	2904.13%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	370	819	(449)	-54.85%	Total actual fixed costs were under budget, therefore there were less asset costs than budgeted allocated to this program.
Total Inc(Dec) in Fixed Assets (C)	370	819	(449)	-54.85%	
TOTAL BUDGET (B + C)	205,213	229,418	(24,205)	-10.55%	
Change in Working Capital (A-B-C)	(24,204)	1	(24,205)		
FTEs	0.33	0.27	0.1	22.22%	

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SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection)	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	97,197	97,197	-	0.00%	
Penalty Sanctions	151	151	-	0.00%	
Total ERO Funding	\$ 97,348	\$ 97,348	\$ -	0.00%	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding (A)	97,348	97,348	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	27,834	37,373	(9,539)	-25.52%	
Payroll Taxes	2,091	1,824	267	14.64%	
Employee Benefits	2,118	1,935	183	9.46%	
Savings & Retirement	4,134	7,642	(3,508)	-45.90%	
Total Personnel Expenses	36,177	48,774	(12,597)	-25.83%	Less of MRO's time was spent monitoring the system because MRO is able to rely on the BES operators to provide information in the event of a potential risk to reliability.
Meeting Expenses					
Meetings	24	-	24	-	
Travel	11,149	3,300	7,849	237.85%	
Conference Calls	-	-	-	-	
Total Meeting Expenses	11,173	3,300	7,873	238.58%	
Operating Expenses					
Consultants & Contracts	-	-	-	-	
Rent & Improvements	-	-	-	-	
Office Costs	3,688	5,000	(1,312)	-26.24%	
Professional Services	-	-	-	-	
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
Total Operating Expenses	3,688	5,000	(1,312)	-26.24%	
Indirect Expenses	20,017	39,364	(19,347)	-49.15%	Total actual indirect costs were under budget, therefore there were less indirect costs than budgeted allocated to this program.
Other Non-Operating Expenses	-	-	-	-	
Total Expenses (B)	71,055	96,438	(25,383)	-26.32%	
Change in Assets (A - B)	26,293	910	25,383	2789.36%	
Fixed Assets					
Depreciation	-	-	-	-	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	190	910	(720)	-79.07%	Total actual fixed costs were under budget, therefore there were less asset costs than budgeted allocated to this program.
Total Inc(Dec) in Fixed Assets (C)	190	910	(720)	-79.07%	
TOTAL BUDGET (B + C)	71,245	97,348	(26,103)	-26.81%	
Change in Working Capital (A-B-C)	(26,103)	-	(26,103)		
FTEs	0.17	0.31	(0.14)	-45.16%	

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MEMBER FORUMS	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					ELIMINATED 07/01/2013 TO CONFORM TO HOW THE OTHER REGIONS ARE RECORDING NERC PARTICIPATION
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		ALL OTHER REGIONS AND NERC RECORD COSTS IN THE PROGRAM OF THE PARTICIPANT WE WILL TRACK NERC TIME SEPARATELY
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	-	-	-		
Expenses					
Personnel Expenses					
Salaries	153,795	297,396	(143,601)	-48.29%	
Payroll Taxes	11,411	16,595	(5,184)	-31.24%	
Employee Benefits	6,777	18,916	(12,139)	-64.17%	
Savings & Retirement	29,487	57,407	(27,920)	-48.64%	
Total Personnel Expenses	201,470	390,314	(188,844)	-48.38%	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					
Meetings	-	-	-		
Travel	66,519	187,000	(120,481)	-64.43%	
Conference Calls	-	-	-		
Total Meeting Expenses	66,519	187,000	(120,481)	-64.43%	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					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	-	-	-		
Indirect Expenses	(267,989)	(577,314)	309,325	-53.58%	Actuals are substantially below budget because as of 7/1/2013 MRO stopped recording costs to Member Forums. Please see above comment for details.
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	-	1.4	(1.4)	-100.00%	Actuals are substantially below budget because as of 7/1/2013 MRO stopped recording costs to Member Forums. Please see above comment for details.

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GENERAL and ADMINISTRATIVE	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	(170,612)	(170,612)	-	0.00%	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ (170,612)	\$ (170,612)	\$ -	0.00%	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding (A)	(170,612)	(170,612)	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	290,642	192,366	98,276	51.09%	
Payroll Taxes	14,177	10,760	3,417	31.76%	
Employee Benefits	14,934	13,435	1,499	11.16%	
Savings & Retirement	44,544	34,693	9,851	28.39%	
Total Personnel Expenses	364,297	251,254	113,043	44.99%	In first quarter 2013 the executives charged their BOD preparation and actual time to G&A rather than to each of their own programs. In addition, costs for third and fourth quarter NERC and BOT meetings were recorded here rather than in Member Forums.
Meeting Expenses					
Meetings	23,221	35,864	(12,643)	-35.25%	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.
Travel	73,098	60,000	13,098	21.83%	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
Conference Calls	163	800	(637)	-79.63%	Upgrades in mid-year 2013 for audio and web conferencing media eliminated costs for the remaining portion of 2013.
Total Meeting Expenses	96,482	96,664	(182)	-0.19%	
Operating Expenses					
Consultants & Contracts	1,912	40,000	(38,088)	-95.22%	Contingent dollars were included for MRO's share of an all-regional project (similar to the Deloitte project in 2012) but were not needed in 2013
Rent & Improvements	-	-	-	-	
Office Costs	74,806	71,100	3,706	5.21%	
Professional Services	72,500	100,000	(27,500)	-27.50%	Actual compensation required for independent Board members was less than budgeted.
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
Total Operating Expenses	149,218	211,100	(61,882)	-29.31%	
Indirect Expenses	(609,997)	(559,018)	(50,979)	9.12%	
Other Non-Operating Expenses	-	-	-	-	
Total Expenses (B)	-	-	-	-	
Change in Assets (A - B)	(170,612)	(170,612)	-	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)	170,612	170,612	-	0.00%	
FTEs	1.6	1.3	0.3	21.97%	

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LEGAL and REGULATORY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments					
Penalty Sanctions					
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants					
Membership Fees					
Testing					
Services & Software					
Workshop Fees					
Interest					
Miscellaneous					
Total Funding (A)					
Expenses					
Personnel Expenses					
Salaries	195,380	219,355	(23,975)	-10.93%	
Payroll Taxes	12,707	11,538	1,169	10.13%	
Employee Benefits	2,110	2,150	(40)	-1.86%	
Savings & Retirement	28,067	37,375	(9,308)	-24.90%	
Total Personnel Expenses	238,264	270,418	(32,154)	-11.89%	Costs were below budget because in first quarter 2013 the executives charged their BOD preparation and actual time to G&A rather than to each of their own programs
Meeting Expenses					
Meetings					
Travel	9,418	9,515	(97)	-1.02%	
Conference Calls					
Total Meeting Expenses	9,418	9,515	(97)	-1.02%	
Operating Expenses					
Consultants & Contracts					
Rent & Improvements					
Office Costs	5,118	5,050	68	1.35%	
Professional Services	22,115	60,000	(37,885)	-63.14%	Contingency dollars for outside legal counsel to supplement internal resources as necessary. This included funds for MRO's share of the all-region 2014 5-year assessment. By sharing these costs among the regions, each region benefited from the economy of scale.
Miscellaneous					
Depreciation					
Total Operating Expenses	27,233	65,050	(37,817)	-58.14%	
Indirect Expenses	(274,915)	(344,983)	70,068	-20.31%	
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	1.1	1.2	(0.1)	-8.20%	

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INFORMATION TECHNOLOGY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments					
Penalty Sanctions					
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants					
Membership Fees					
Testing					
Services & Software					
Workshop Fees					
Interest					
Miscellaneous					
Total Funding (A)					
Expenses					
Personnel Expenses					
Salaries	343,851	291,579	52,272	17.93%	Sr management time in the IT area was significant since the IT Manager was new and MRO began several significant projects: SharePoint, Website and Lync
Payroll Taxes	24,681	22,502	2,179	9.68%	
Employee Benefits	35,665	33,318	2,347	7.04%	
Savings & Retirement	57,973	40,739	17,234	42.30%	
Total Personnel Expenses	462,170	388,138	74,032	19.07%	
Meeting Expenses					
Meetings	918	-	918		
Travel	1,501	4,000	(2,499)	-62.48%	
Conference Calls	-	-	-		
Total Meeting Expenses	2,419	4,000	(1,581)	-39.53%	
Operating Expenses					
Consultants & Contracts	265,966	177,500	88,466	49.84%	Costs were higher than budget due to SharePoint expansion.
Rent & Improvements	-	-	-		
Office Costs	167,837	143,900	23,937	16.63%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	410,259	305,665	104,594	34.22%	Impact of depreciating building improvements, equipment, and other capital investments related to our facility move in 2012
Total Operating Expenses	844,062	627,065	216,997	34.61%	
Indirect Expenses	(1,308,651)	(1,019,203)	(289,448)	28.40%	
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	(410,259.00)	(305,665.00)	(104,594)	34.22%	
Computer & Software CapEx	420,386	339,851	80,535	23.70%	
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
(Inc)Dec in Fixed Assets	\$ 10,127	\$ 34,186	\$ (24,059)		
Allocation of Fixed Assets	(10,127)	(34,186)	24,059	-70.38%	Total actual fixed costs were under budget, therefore there were less asset costs than budgeted allocated to this program
Total Inc(Dec) in Fixed Assets ©	-	-	-		
TOTAL BUDGET (B + C)	-	-	-		
Change in Working Capital (A-B-C)	-	-	-		
FTEs	3.6	3.1	0.5	15.16%	

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HUMAN RESOURCES	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Per Audit	Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		Human Resources costs are included under the Finance and Accounting program.
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	-	-	-		
Expenses					
Personnel Expenses					
Salaries	-	-	-		
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
Total Personnel Expenses	-	-	-		
Meeting Expenses					
Meetings	-	-	-		
Travel	-	-	-		
Conference Calls	-	-	-		
Total Meeting Expenses	-	-	-		
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	-	-	-		
Indirect Expenses	-	-	-		
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
(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	-	-	-		

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ACCOUNTING and FINANCE	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	-	-	-		
Expenses					
Personnel Expenses					
Salaries	313,002	290,826	22,176	7.63%	
Payroll Taxes	22,907	20,485	2,422	11.82%	
Employee Benefits	32,807	32,351	456	1.41%	
Savings & Retirement	52,546	56,737	(4,191)	-7.39%	
Total Personnel Expenses	421,262	400,399	20,863	5.21%	
Meeting Expenses					
Meetings	57	-	57		
Travel	3,733	3,000	733	24.43%	
Conference Calls	296	-	296		
Total Meeting Expenses	4,086	3,000	1,086	36.20%	
Operating Expenses					
Consultants & Contracts	44,716	45,500	(784)	-1.72%	
Rent & Improvements	487,109	528,827	(41,718)	-7.89%	
Office Costs	79,799	83,920	(4,121)	-4.91%	
Professional Services	52,724	79,000	(26,276)	-33.26%	An IT intrusion test was scheduled in 2013; however the test was not done due to the significant network changes that were planned and implemented in the course of the year. MRO currently has an intrusion test scheduled for the 2nd Qtr of 2014
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	664,348	737,247	(72,899)	-9.89%	
Indirect Expenses	(895,392)	(1,140,646)	245,254	-21.50%	
Other Non-Operating Expenses	(194,304)	-	(194,304)		
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	37,162	-	37,162		
Equipment CapEx	-	-	-		
Leasehold Improvements	(15,342)	50,000	(65,342)	-130.68%	The planned improvements for 2013 were completed in 2012
(Inc)Dec in Fixed Assets	\$ 21,820	\$ 50,000	\$ (28,180)		
Allocation of Fixed Assets	(21,820)	(50,000)	28,180	-56.36%	Total actual fixed costs were under budget, therefore there were less asset costs than budgeted allocated to this program
Total Inc(Dec) in Fixed Assets (C)	-	-	-		
TOTAL BUDGET (B + C)	-	-	-		
Change in Working Capital (A-B-C)	-	-	-		
FTEs	3.1	3.0	0.1	2.99%	

Statement of Activities and Capital Expenditures by Program 2013 Actual	Total	Statutory Total	Non-Statutory Total	Functions in Delegation Agreement										Non-Statutory Functions			
				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	Non-Statutory Total	
Funding																	
ERO Funding																	
NERC Assessments	9,098,927	9,098,927	-	9,098,927	542,840	6,126,145	2,274,076	229,281	97,197			(170,612)					
Penalty Sanctions	14,000	14,000	-	14,000	762	9,581	3,370	136	151								
Total NERC Funding	9,112,927	9,112,927	-	9,112,927	543,602	6,135,726	2,277,446	229,417	97,348	-	(170,612)	-	-	-	-	-	-
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding (A)	9,112,927	9,112,927	-	9,112,927	543,602	6,135,726	2,277,446	229,417	97,348	-	(170,612)	-	-	-	-	-	-
Expenses																	
Personnel Expenses																	
Salaries	4,760,887	4,760,887	-	4,760,887	165,904	2,373,856	819,315	77,308	27,834	153,795	290,642	195,380	343,851	-	313,002	-	-
Payroll Taxes	310,790	310,790	-	310,790	9,913	156,873	52,710	3,320	2,091	11,411	14,177	12,707	24,681	-	22,907	-	-
Benefits	380,894	380,894	-	380,894	11,425	199,853	71,461	3,744	2,118	6,777	14,934	2,110	35,665	-	32,807	-	-
Retirement Costs	724,304	724,304	-	724,304	27,194	318,341	149,493	12,525	4,134	29,487	44,544	28,067	57,973	-	52,546	-	-
Total Personnel Expenses	6,176,875	6,176,875	-	6,176,875	214,436	3,048,923	1,092,979	96,897	36,177	201,470	364,297	238,264	462,170	-	421,262	-	-
Meeting Expenses																	
Meetings	91,601	91,601	-	91,601	843	2,794	7,316	56,428	24	-	23,221	-	918	-	57	-	-
Travel	475,018	475,018	-	475,018	19,540	130,092	147,655	12,313	11,149	66,519	73,098	9,418	1,501	-	3,733	-	-
Conference Calls	15,141	15,141	-	15,141	9,682	2,793	2,207	-	-	-	163	-	-	-	296	-	-
Total Meeting Expenses	581,760	581,760	-	581,760	30,065	135,679	157,178	68,741	11,173	66,519	96,482	9,418	2,419	-	4,086	-	-
Operating Expenses																	
Consultants & Contracts	490,647	490,647	-	490,647	12,000	105,498	60,555	-	-	-	1,912	-	265,966	-	44,716	-	-
Office Rent	487,109	487,109	-	487,109	-	-	-	-	-	-	-	-	-	-	487,109	-	-
Office Costs	443,188	443,188	-	443,188	2,436	85,015	24,140	349	3,688	-	74,806	5,118	167,837	-	79,799	-	-
Professional Services	147,339	147,339	-	147,339	-	-	-	-	-	-	72,500	22,115	-	-	52,724	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	410,259	410,259	-	410,259	-	-	-	-	-	-	-	-	410,259	-	-	-	-
Total Operating Expenses	1,978,542	1,978,542	-	1,978,542	14,436	190,513	84,695	349	3,688	-	149,218	27,233	844,062	-	664,348	-	-
Total Direct Expenses	8,737,177	8,737,177	-	8,737,177	258,937	3,375,115	1,334,852	165,987	51,038	267,989	609,997	274,915	1,308,651	-	1,089,696	-	-
Indirect Expenses																	
	-	-	-	-	121,279	2,298,406	878,387	38,856	20,017	(267,989)	(609,997)	(274,915)	(1,308,651)	-	(895,392)	-	-
Other Non-Operating Expenses	(194,304)	(194,304)	-	(194,304)	-	-	-	-	-	-	-	-	-	-	(194,304)	-	-
Total Expenses (B)	8,542,873	8,542,873	-	8,542,873	380,216	5,673,521	2,213,239	204,843	71,055	-	-	-	-	-	-	-	-
Change in Assets	570,054	570,054	-	570,054	163,386	462,205	64,207	24,574	26,293	-	(170,612)	-	-	-	-	-	-
Fixed Assets																	
Depreciation	(410,259)	(410,259)	-	(410,259)	-	-	-	-	-	-	-	-	(410,259)	-	-	-	-
Computer & Software CapEx	420,386	420,386	-	420,386	-	-	-	-	-	-	-	-	420,386	-	-	-	-
Furniture & Fixtures CapEx	37,162	37,162	-	37,162	-	-	-	-	-	-	-	-	-	-	37,162	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	(15,342)	(15,342)	-	(15,342)	-	-	-	-	-	-	-	-	-	-	(15,342)	-	-
Allocation of Fixed Assets	-	-	-	-	1,154	21,873	8,359	370	190	-	-	-	(10,127)	-	(21,820)	-	-
Inc(Dec) in Fixed Assets (C)	31,947	31,947	-	31,947	1,154	21,873	8,359	370	190	-	-	-	-	-	-	-	-
TOTAL BUDGET (=B + C)	8,574,820	8,574,820	-	8,574,820	381,370	5,695,394	2,221,598	205,213	71,245	-	-	-	-	-	-	-	-
TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)	538,107	538,107	-	538,107	162,232	440,332	55,848	24,204	26,103	-	(170,612)	-	-	-	-	-	-
FTEs	37.91	37.91	-	37.91	1.03	19.52	7.46	0.33	0.17	-	1.61	1.12	3.57	-	3.10	-	-

MIDWEST RELIABILITY ORGANIZATION
Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2013 and 2012

MIDWEST RELIABILITY ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Midwest Reliability Organization (the "Organization"), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of operations and members' equity 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, 2013 and 2012, 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 3, 2014

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2013 and 2012

	ASSETS	
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,739,704	\$ 3,190,832
Restricted cash	136,516	14,002
Accounts receivable	34,726	191,366
Prepaid expenses	<u>263,633</u>	<u>200,276</u>
Total Current Assets	4,174,579	3,596,476
PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET	1,194,569	1,234,867
OTHER ASSETS		
Restricted cash - non-current	320,013	104,003
Security Deposit - non-current	39,858	39,858
Capitalized software costs, net of accumulated amortization of \$439,510 and \$384,099, respectively	<u>186,220</u>	<u>113,975</u>
TOTAL ASSETS	<u>\$ 5,915,239</u>	<u>\$ 5,089,179</u>
	LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES		
Accounts payable - trade	\$ 207,901	\$ 391,426
Accrued liabilities	638,307	580,367
Retirement plan contribution	407,436	357,800
Deferred assessments	<u>136,512</u>	<u>14,002</u>
Total Current Liabilities	1,390,156	1,343,595
OTHER LIABILITIES		
Postretirement medical benefit obligation	153,171	347,334
Deferred assessments - non-current	320,013	104,003
Deferred rent - non-current	<u>309,572</u>	<u>121,976</u>
Total Liabilities	<u>2,172,912</u>	<u>1,916,908</u>
MEMBERS' EQUITY	<u>3,742,327</u>	<u>3,172,271</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 5,915,239</u>	<u>\$ 5,089,179</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY
For the Years Ended December 31, 2013 and 2012

	2013	2012
REVENUE		
Assessments	\$ 9,098,927	\$ 8,349,029
Penalty sanctions	14,000	418,499
Total Revenue	9,112,927	8,767,528
EXPENSES		
Personnel expenses		
Salaries	4,760,887	4,358,348
Payroll taxes	310,791	254,397
Employee benefits	380,894	333,704
Retirement benefits	724,304	730,571
Total personnel expenses	6,176,876	5,677,020
Meeting expenses		
Conference calls	15,142	23,501
Meetings	91,601	55,278
Travel	475,020	424,881
Total meeting expenses	581,763	503,660
Operating expenses		
Building rent and facilities	487,109	351,209
Consulting	490,643	507,918
Office costs	853,446	969,798
Professional services	147,338	63,768
Total operating expenses	1,978,536	1,892,693
Total Expenses	8,737,175	8,073,373
CHANGE IN MEMBERS' EQUITY BEFORE POSTRETIREMENT RELATED CHANGES	375,752	694,155
POSTRETIREMENT-RELATED CHANGES		
Postretirement medical benefit obligation changes other than net periodic cost	(194,304)	51,965
CHANGE IN MEMBERS' EQUITY	570,056	642,190
MEMBERS' EQUITY - Beginning of Year	3,172,271	2,530,081
MEMBERS' EQUITY - END OF YEAR	\$ 3,742,327	\$ 3,172,271

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in members' equity	\$ 570,056	\$ 642,190
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and software amortization	410,259	497,618
Change in assets and liabilities:		
Accounts receivable	156,640	(191,366)
Prepaid expenses	(63,357)	(69,377)
Security deposit	-	-
Accounts payable - trade	(128,156)	(17,846)
Accrued liabilities	57,940	86,846
Retirement plan contribution	49,636	48,436
Deferred assessments	338,520	(310,539)
Deferred rent	187,596	74,232
Postretirement medical benefit obligation	(194,163)	159,270
Change from Operating Activities	1,384,971	919,464
 CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(338,524)	310,540
Purchases of property, improvements and equipment and software	(497,575)	(1,082,142)
Change from Investing Activities	(836,099)	(771,602)
 Net Change in Cash and Cash Equivalents	548,872	147,862
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,190,832	3,042,970
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,739,704	\$ 3,190,832
 Supplemental cash flow disclosure		
Equipment and software additions included in accounts payable	\$ 53,795	\$ 109,164

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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.

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 and \$2,000 are capitalized for the years ended December 31, 2013 and 2012, respectively, 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 \$439,510 and \$384,099 for the years ended December 31, 2013 and 2012, respectively. Amortization expense totaled \$55,411 and \$108,054 for the years ended December 31, 2013 and 2012, respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

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, 2013 and 2012. 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 2010 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 3, 2014, 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, 2013 and 2012

NOTE 2 - NERC TRANSACTIONS

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

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that equitably allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted revenues from NERC were \$9,098,927 and \$8,349,029 for the years ended December 31, 2013 and 2012, respectively, which agree with the amounts received.

NOTE 3 - LEASE COMMITMENTS

The Organization executed an operating lease for office space in St Paul, Minnesota on January 20, 2012. Rent expense was \$237,745 and \$330,188 for the years ended December 31, 2013 and 2012, respectively.

Future expected minimum lease payments under the lease as of December 31, 2013 are as follows:

Years Ending December 31	
2014	\$ 94,376
2015	266,514
2016	274,537
2017	282,812
2018	291,277
Thereafter	<u>1,200,135</u>
	<u>\$ 2,409,651</u>

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE 4 - PROPERTY, IMPROVEMENTS AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Equipment	\$ 1,731,631	\$ 1,403,378
Furniture	422,802	421,164
Leasehold improvements	<u>321,206</u>	<u>336,548</u>
	2,475,639	2,161,090
Less: Accumulated depreciation	<u>(1,281,070)</u>	<u>(926,223)</u>
Net Property, Improvements and Equipment	<u>\$ 1,194,569</u>	<u>\$ 1,234,867</u>

NOTE 5 - LINE OF CREDIT

The Organization obtained a revolving line of credit from National Cooperative Service Corporation (NCSC) in February 2008. The line of credit has a credit limit of \$2,000,000 and an interest rate equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the *Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization, and expires on February 26, 2017. There were no outstanding balances at December 31, 2013 or 2012, respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

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:

	2013	2012
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 880,141	\$ 662,945
Service cost	169,757	146,199
Interest cost	36,195	29,632
Plan changes	-	-
Actuarial (gain) loss	(200,476)	44,362
Benefits paid	(3,222)	(2,997)
Benefit obligation at end of year	882,395	880,141
 Change in plan assets		
Fair value of plan assets at beginning of year	532,807	474,881
Actual return on plan assets	59,097	57,926
Employer contribution	140,542	2,997
Benefits paid	(3,222)	(2,997)
Fair value of plan assets at end of year	729,224	532,807
 Unfunded status recognized as a noncurrent liability	\$ (153,171)	\$ (347,334)
 Weighted average assumptions used to calculate the benefit obligation-discount rate	5.04%	4.12%

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

	2013	2012
Components of net periodic benefit cost		
Service cost	\$ 169,757	\$ 146,199
Interest cost	36,195	29,632
Expected return on plan assets	(35,073)	(35,173)
Amortization of prior service credit	(38,601)	(38,601)
Amortization of actuarial loss	8,405	8,245
 Net periodic benefit cost	\$ 140,683	\$ 110,302
 Weighted-average assumptions used to calculate the net periodic benefit cost		
Discount rate	4.12%	4.48%
Expected return on plan assets	6.00%	7.00%
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, 2013 and 2012

NOTE 6 - RETIREMENT PLANS (Continued)

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

	2013	2012
Health care cost trend rate assumed for next year	10.1%	10.6%
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	\$ 52,259	\$ (39,675)
Effect on postretirement benefit obligation	194,953	(151,445)

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

	2013	2012
Actuarial (gain) loss arising during the year	\$ (232,905)	\$ 13,364
Amortization of prior year service cost	38,601	38,601
	\$ (194,304)	\$ 51,965

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

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

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:

	2013	2012
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
Asset category		
Cash equivalents	\$ 7,490	\$ 11,418
Mutual funds-bonds	383,724	322,492
Mutual funds-equities	265,854	159,657
Mutual funds-balanced	72,156	39,240
	\$ 729,224	\$ 532,807

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

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

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

Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2013 are as follows:

Years Ending December 31	
2014	\$ 5,259
2015	6,772
2016	7,947
2017	12,769
2018	22,279
2019 - 2023	281,585

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 \$105,536 to the plan in 2014.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 6 - RETIREMENT PLANS (Continued)

Defined Contribution Pension Plan

In 2009, the Organization established a thrift savings plan to replace the terminated multiple-employer plan for the benefit of its employees. The Organization's previous 401(k) plan was converted into the new plan as well as the establishment of a new, non-elective employer contribution plan. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50% matching contribution from the Organization. For employees to receive the non-elective or employer contribution, they must have worked 1,000 hours during the plan year. The Organization matched \$241,044 and \$202,250 of employee deferrals as of December 31, 2013 and 2012, respectively. In addition, the Organization elected to make an employer contribution in the amount of \$370,263 and \$352,412 for the years ended December 31, 2013 and 2012, respectively.

The Organization also established a 457B plan in 2010. Eligible employees may contribute an elective deferral, with a discretionary matching contribution from the Organization. Employee contributions were \$16,226 and \$14,200, for the years ended December 31, 2013 and 2012, respectively. The Organization matched \$6,675 and \$7,400, of employee deferrals for the years ended December 31, 2013 and 2012, respectively.

The Organization also established a 457F plan in 2011. Employer contribution amounts for employees in excess of IRS contribution limits are deposited to the 457F. The Organization contributed in the amounts of \$20,950 and \$11,579, for the years ended December 31, 2013 and 2012, respectively.

ATTACHMENT 4

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 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, 2014

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

Subject: NPCC 2013 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2013 Financial Statements

Dear Michael:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2013 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on March 27, 2014 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 94/6 split for 2013 based upon total corporate FTEs of 35.22 in the RE division and 2.14 in the CS division for the full year. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC does not budget for interest income and reports such income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses for NPCC's RE division for 2013 were \$13,533,519 (excluding non-operating expenses which represent change in pension liability based upon actuarial review) which is \$538,216 or 4% under the 2013 operating budget of \$14,071,735. Actual total expenses for NPCC's CS division for 2013 were \$863,318 (excluding non-operating expenses) which is \$173,344 or 17% under the 2013 operating budget of \$1,036,662. In the aggregate, actual total expenses for the NPCC RE and CS divisions were \$14,396,839 which is \$711,558 or nearly 5% under the 2013 total corporate budget of \$15,108,397. Indirect expenses are allocated to the direct statutory programs based on FTE ratio. NPCC did not use operating cash reserves to fund any activities or services in 2013.

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

Personnel Expenses

(Actual variance of \$346k or 4% under budget at year end)

In 2013 NPCC experienced several partial year vacancies but ended the year fully staffed. Despite not being at a full staff complement at times during the year, NPCC performed all of its 2013 delegated responsibilities as well as its goals and objectives, including:

- Conducted 22 off-site Operations & Planning (O&P) audits, four on-site O&P audits, 39 off-site CIP audits, 11 on-site CIP audits and 483 individual spot checks involving 79 entities;
- Processed 153 Technical Feasibility Exceptions (TFE) from 23 entities, completed TFE Part B review of 135;
- Closed 180 violations;
- Accepted mitigation plans for 152 violations;
- Examined 87 events of which eight were category two or higher;
- Processed 35 new entity registrations, 19 entity removals, 17 entity name changes and three certifications.

WECC CEA Revenue and Expenses

(Actual variance of \$75k or 218% over budget at year end)

WECC CEA related expenses and offsetting revenue were greater than budget in 2013 due to ongoing audit follow up and enforcement work resulting from the O&P and CIP audits conducted during 2012. The total actual expenses related to the WECC audits were trued up with WECC, as per the CEA Agreement.

Meeting Expenses

(Actual variance of \$157k or 12% under budget at year end)

Continued efforts to hold more meetings onsite and at member facilities or via webinars have kept meeting expenses under budget. Additionally, in 2013 NPCC contracted with a more cost effective teleconference/webinar provider.

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

Significant variances by program area are provided on a line-item basis using the template provided by NERC which presents actual and budgeted costs on program-by-program format. A single consolidated budget versus actual cost comparison is presented for Administrative Services in order to be consistent with the presentation in NPCC's 2013 Business Plan and Budget. 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.
2013 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	12,352,264	12,352,265	-
Penalty Sanctions	297,301	297,301	-
Total ERO Funding	12,649,565	12,649,566	-
Federal Grants	-	-	-
Non-Statutory Assessments	1,139,690	1,139,690	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	58,650	80,000	(21,350)
Interest	17,281	-	17,281
Miscellaneous	109,867	34,500	75,367
Total Funding (A)	13,975,053	13,903,756	71,298
Expenses			
Personnel Expenses			
Salaries	5,738,140	5,946,022	(207,882)
Payroll Taxes	378,195	397,303	(19,108)
Employee Benefits	1,309,704	1,377,863	(68,159)
Savings & Retirement	1,171,746	1,233,209	(61,463)
Total Personnel Expenses	8,597,785	8,954,397	(356,612)
Meeting Expenses			
Meetings	331,604	397,000	(65,396)
Travel	799,657	910,000	(110,343)
Conference Calls	71,988	87,000	(15,012)
Total Meeting Expenses	1,203,249	1,394,000	(190,751)
Operating Expenses			
Consultants & Contracts	2,060,648	2,178,000	(117,352)
Rent & Improvements	740,699	706,500	34,199
Office Costs	540,884	468,500	72,384
Professional Services	910,220	1,120,000	(209,780)
Miscellaneous	43,094	80,000	(36,906)
Depreciation	300,260	207,000	93,260
Total Operating Expenses	4,595,805	4,760,000	(164,195)
Indirect Expenses	-	-	-
Other Non-Operating Expenses	(2,541,035)	-	(2,541,034)
Total Expenses (B)	11,855,804	15,108,397	(3,252,592)
Change in Assets (A - B)	2,119,249	(1,204,641)	3,323,890
Fixed Assets			
Depreciation	(300,260)	(207,000)	(93,260)
Computer & Software CapEx	167,230	-	167,230
Furniture & Fixtures CapEx	1,388	-	1,388
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
Incr(Dec) in Fixed Assets	(131,642)	(207,000)	75,358
Allocation of Fixed Assets	(0)	-	(0)
Total Inc(Dec) in Fixed Assets (C)	(131,642)	(206,997)	75,355
TOTAL BUDGET (B + C)	11,724,162	14,901,400	(3,177,237)
Change in Working Capital (A-B-C)	2,250,891	(997,645)	3,248,535
FTE's	37.36	38.00	(0.64)

**Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary**

NON-STATUTORY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	1,139,690	1,139,690	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	547	-	547	
Miscellaneous	-	-	-	
Total Funding (A)	1,140,237	1,139,690	547	0.05%
Expenses				
Personnel Expenses				
Salaries	247,414	268,881	(21,467)	-7.98%
Payroll Taxes	15,240	19,614	(4,374)	-22.30%
Employee Benefits	67,957	46,561	21,396	45.95%
Savings & Retirement	134,183	140,645	(6,462)	-4.59%
Total Personnel Expenses	464,794	475,701	(10,907)	-2.29%
Meeting Expenses				
Meetings	3,602	20,000	(16,398)	-81.99%
Travel	37,492	55,000	(17,508)	-31.83%
Conference Calls	-	-	-	
Total Meeting Expenses	41,094	75,000	(33,906)	-45.21%
Operating Expenses				
Consultants & Contracts	1,425	65,000	(63,575)	-97.81%
Rent & Improvements	(933)	-	(933)	
Office Costs	967	-	967	
Professional Services	918	-	918	
Miscellaneous	583	-	583	
Depreciation	18,655	14,490	4,165	28.74%
Total Operating Expenses	21,615	79,490	(57,875)	-72.81%
Indirect Expenses	335,815	406,471	(70,656)	-17.38%
Other Non-Operating Expenses	(395,997)	-	(395,997)	
Total Expenses (B)	467,321	1,036,662	(569,341)	-54.92%
Change in Assets (A - B)	672,916	103,028	569,888	553.14%
Fixed Assets				
Depreciation	(18,655)	(14,490)	(4,165)	28.74%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	(18,655)	(14,490)	(4,165)	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	(18,655)	(14,490)	(4,165)	28.74%
TOTAL BUDGET (B + C)	448,666	1,022,172	(573,506)	-56.11%
Change in Working Capital (A-B-C)	691,571	117,518	574,053	488.48%
FTE's	2.14	2.14	-	0.00%

**Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary**

TOTAL STATUTORY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	12,352,264	12,352,265	-	0.00%
Penalty Sanctions	297,301	297,301	-	0.00%
Total ERO Funding	<u>12,649,565</u>	<u>12,649,566</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	58,650	80,000	(21,350)	-26.69% Actual fees charged per person for attending NPCC's standards and compliance workshops were less than originally budgeted.
Interest	16,734	-	16,734	Interest income, while not budgeted, was allocated by FTE ratio between statutory and non-statutory.
Miscellaneous	109,867	34,500	75,367	218.46% WECC CEA actual expenses and offsetting revenue were greater than budget due to ongoing audit follow up and enforcement work resulting from the O&P and CIP audits conducted during 2012.
Total Funding (A)	<u>12,834,816</u>	<u>12,764,066</u>	<u>70,751</u>	<u>0.55%</u>
Expenses				
Personnel Expenses				
Salaries	5,490,726	5,677,141	(186,415)	-3.28% Under budget due to staff vacancies throughout the year and due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	362,955	377,689	(14,734)	-3.90% Under budget due to staff vacancies throughout the year.
Employee Benefits	1,241,747	1,331,302	(89,555)	-6.73% Under budget due to several employees opting out of health insurance coverage for superior coverage through a prior employer, as well as staff vacancies throughout the year.
Savings & Retirement	1,037,563	1,092,564	(55,001)	-5.03% Under budget due to staff vacancies throughout the year.
Total Personnel Expenses	<u>8,132,991</u>	<u>8,478,696</u>	<u>(345,705)</u>	<u>-4.08%</u>
Meeting Expenses				
Meetings	328,002	377,000	(48,998)	-13.00% Continued efforts to hold more meetings onsite and at member facilities or via webinars have kept meeting expenses under budget.
Travel	762,165	855,000	(92,835)	-10.86% Travel expenses were controlled by holding more meetings onsite or via webinars.
Conference Calls	71,988	87,000	(15,012)	-17.26% Contracted with a more cost effective teleconference/webinar provider.
Total Meeting Expenses	<u>1,162,155</u>	<u>1,319,000</u>	<u>(156,845)</u>	<u>-11.89%</u>
Operating Expenses				
Consultants & Contracts	2,059,223	2,113,000	(53,777)	-2.55%
Rent & Improvements	741,632	706,500	35,132	4.97%
Office Costs	539,917	468,500	71,417	15.24% Over budget primarily related to computer supplies and maintenance due to additional software programs including Diligent Board Books, to support Directors' hardware.
Professional Services	909,302	1,120,000	(210,698)	-18.81% Legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	42,511	80,000	(37,489)	-46.86% Under budget due to ongoing cost cutting efforts in all areas.
Depreciation	281,605	192,510	89,095	46.28% Over budget due to additional assets placed in service in 2013 related to CMPEP Data Administration Application (CDAA) software development to enhance the efficiencies of compliance activities for both registered entities and Regional Entity staffs.
Total Operating Expenses	<u>4,574,190</u>	<u>4,680,510</u>	<u>(106,320)</u>	<u>-2.27%</u>
Indirect Expenses	<u>(335,817)</u>	<u>(406,471)</u>	<u>70,654</u>	<u>-17.38%</u>
Other Non-Operating Expenses	<u>(2,145,038)</u>	<u>-</u>	<u>(2,145,037)</u>	Decrease in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	<u>11,388,481</u>	<u>14,071,735</u>	<u>(2,683,253)</u>	<u>-19.07%</u>
Change in Assets (A - B)	<u>1,446,335</u>	<u>(1,307,669)</u>	<u>2,754,004</u>	<u>-210.60%</u>
Fixed Assets				
Depreciation	(281,605)	(192,510)	(89,095)	46.28% Over budget due to additional assets placed in service in 2013 related to CMPEP Data Administration Application (CDAA) software development to enhance the efficiencies of compliance activities for both registered entities and Regional Entity staffs.
Computer & Software CapEx	167,230	-	167,230	Over budget due to capitalization of costs related to CMPEP Data Administration Application (CDAA) software development not included in budget.
Furniture & Fixtures CapEx	1,388	-	1,388	Over budget due to office furniture purchase not included in budget.
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>(112,987)</u>	<u>(192,510)</u>	<u>79,523</u>	
Allocation of Fixed Assets	(0)	-	(0)	
Total Inc(Dec) in Fixed Assets (C)	<u>(112,987)</u>	<u>(192,507)</u>	<u>79,520</u>	<u>-41.31%</u>
TOTAL BUDGET (B + C)	<u>11,275,494</u>	<u>13,879,228</u>	<u>(2,603,733)</u>	<u>-18.76%</u>
Change in Working Capital (A-B-C)	<u>1,559,322</u>	<u>(1,115,163)</u>	<u>2,674,484</u>	<u>-239.83%</u>
FTE's	<u>35.22</u>	<u>35.86</u>	<u>(0.64)</u>	<u>-1.79%</u> Fully staffed at year end; variance is due to temporary vacancies during the year.

Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary

RELIABILITY STANDARDS	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	1,358,549	1,358,549	-	0.00%
Penalty Sanctions	32,431	32,431	-	0.00%
Total ERO Funding	<u>1,390,980</u>	<u>1,390,980</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>1,390,980</u>	<u>1,390,980</u>	<u>-</u>	<u>0.00%</u>
Expenses				
Personnel Expenses				
Salaries	475,495	478,983	(3,488)	-0.73%
Payroll Taxes	29,163	31,972	(2,809)	-8.79%
Employee Benefits	96,128	101,361	(5,233)	-5.16%
Savings & Retirement	70,714	78,141	(7,427)	-9.50%
Total Personnel Expenses	<u>671,500</u>	<u>690,457</u>	<u>(18,957)</u>	<u>-2.75%</u>
Meeting Expenses				
Meetings	1,665	30,000	(28,335)	-94.45% Meeting expenses were under budget due to more meetings held at NPCC offices, member facilities or via webinar. Additionally, meetings that were previously allocated across all programs are now recorded to Admin and allocated through indirect expenses.
Travel	116,046	105,000	11,046	10.52% Increased volume of meetings attended by staff but not hosted by NPCC.
Conference Calls	-	-	-	
Total Meeting Expenses	<u>117,711</u>	<u>135,000</u>	<u>(17,289)</u>	<u>-12.81%</u>
Operating Expenses				
Consultants & Contracts	8,561	30,000	(21,439)	-71.46% Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	398	-	398	
Depreciation	-	-	-	
Total Operating Expenses	<u>8,959</u>	<u>30,000</u>	<u>(21,041)</u>	<u>-70.14%</u>
Indirect Expenses	<u>596,682</u>	<u>556,523</u>	<u>40,159</u>	<u>7.22%</u>
Other Non-Operating Expenses	<u>(165,783)</u>	<u>-</u>	<u>(165,783)</u>	<u>Decrease in NPCC's pension liability based on actuarial review at year end.</u>
Total Expenses (B)	<u>1,229,069</u>	<u>1,411,980</u>	<u>(182,911)</u>	<u>-12.95%</u>
Change in Assets (A - B)	<u>161,911</u>	<u>(21,000)</u>	<u>182,911</u>	<u>-871.00%</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	(11,883)	(21,000)	9,117	-43.42%
Total Inc(Dec) in Fixed Assets (C)	<u>(11,883)</u>	<u>(21,000)</u>	<u>9,117</u>	<u>-43.42%</u>
TOTAL BUDGET (B + C)	<u>1,217,186</u>	<u>1,390,980</u>	<u>(173,794)</u>	<u>-12.49%</u>
Change in Working Capital (A-B-C)	<u>173,794</u>	<u>-</u>	<u>173,794</u>	
FTE's	<u>2.93</u>	<u>2.93</u>	<u>-</u>	<u>0.00%</u>

Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary

WECC CEA Responsibilities	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	109,867	-	109,867	WECC CEA funds budgeted under Compliance are shown here. WECC CEA actual expenses and offsetting revenue were greater than budget due to ongoing audit follow up and enforcement work resulting from the O&P and CIP audits conducted during 2012.
Total Funding (A)	109,867	-	109,867	
Expenses				
Personnel Expenses				
Salaries	46,313	-	46,313	WECC CEA related expenses allocated from Compliance.
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	46,313	-	46,313	
Meeting Expenses				
Meetings	-	-	-	
Travel	1,971	-	1,971	WECC CEA related expenses allocated from Compliance.
Conference Calls	-	-	-	
Total Meeting Expenses	1,971	-	1,971	
Operating Expenses				
Consultants & Contracts	61,583	-	61,583	WECC CEA related expenses allocated from Compliance.
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	61,583	-	61,583	
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	109,867	-	109,867	
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)	109,867	-	109,867	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	-	-	-	

**Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary**

**COMPLIANCE OPERATIONS, ENFORCEMENT and
ORGANIZATION REGISTRATION**

	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	7,576,805	7,576,805	-	0.00%
Penalty Sanctions	166,028	166,028	-	0.00%
Total ERO Funding	7,742,833	7,742,833	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	34,500	(34,500)	-100.00% WECC CEA funds budgeted under Compliance are shown separately under "WECC CEA." WECC CEA actual expenses and offsetting revenue were greater than budget due to ongoing audit follow up and enforcement work resulting from the O&P and CIP audits conducted during 2012.
Total Funding (A)	7,742,833	7,777,333	(34,500)	-0.44%
Expenses				
Personnel Expenses				
Salaries	1,996,523	2,117,561	(121,038)	-5.72% Under budget due allocation to WECC, temporary vacancies during the year and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	137,249	152,612	(15,363)	-10.07% Under budget due to temporary vacancies during the year and at risk compensation component based on corporate goal attainment and individual performance.
Employee Benefits	471,916	465,444	6,472	1.39%
Savings & Retirement	240,820	302,129	(61,309)	-20.29% Under budget due to temporary vacancies during the year.
Total Personnel Expenses	2,846,508	3,037,746	(191,238)	-6.30%
Meeting Expenses				
Meetings	34,230	45,000	(10,770)	-23.93% Meeting expenses were under budget due to more meetings held at NPCC offices, member facilities or via webinar. Additionally, meetings that were previously allocated across all programs are now recorded to Admin and allocated through indirect expenses.
Travel	309,852	375,000	(65,148)	-17.37% Continued efforts to hold more meetings onsite or via webinars have kept travel expenses under budget.
Conference Calls	-	-	-	
Total Meeting Expenses	344,082	420,000	(75,918)	-18.08%
Operating Expenses				
Consultants & Contracts	1,424,600	1,578,000	(153,400)	-9.72% Under budget due to allocation to WECC and two on-site audits previously included in the 2013 schedule and budget being moved to 2014 so that NPCC led Certification Reviews of organizational and/or EMS changes by NPCC registered entities could be performed.
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	2,391	-	2,391	
Depreciation	-	-	-	
Total Operating Expenses	1,426,991	1,578,000	(151,009)	-9.57%
Indirect Expenses	3,009,853	2,849,094	160,759	5.64%
Other Non-Operating Expenses	(193,685)	-	(193,685)	Decrease in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	7,433,749	7,884,840	(451,091)	-5.72%
Change in Assets (A - B)	309,084	(107,507)	416,591	-387.50%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	(64,888)	(107,507)	42,619	-39.64%
Total Inc(Dec) in Fixed Assets (C)	(64,888)	(107,507)	42,619	-39.64%
TOTAL BUDGET (B + C)	7,368,861	7,777,333	(408,472)	-5.25%
Change in Working Capital (A-B-C)	373,972	-	373,972	
FTE's	14.69	15.00	(0.31)	-2.09% Fully staffed at year end; variance is due to temporary vacancies during the year.

**Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary**

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and >\$10,000)
Funding					
ERO Funding					
Assessments	2,892,110	2,892,110	-	0.00%	
Penalty Sanctions	64,529	64,529	-	0.00%	
Total ERO Funding	2,956,639	2,956,639	-	0.00%	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	2,956,639	2,956,639	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	807,219	938,733	(131,514)	-14.01%	Under budget due to turnover and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	56,613	63,449	(6,836)	-10.77%	Under budget due to turnover resulting in temporary vacancies.
Employee Benefits	209,508	215,362	(5,854)	-2.72%	Under budget due to several employees opting out of health insurance coverage for superior coverage through a prior employer, as well as staff vacancies throughout the year.
Savings & Retirement	169,223	183,530	(14,307)	-7.80%	
Total Personnel Expenses	1,242,563	1,401,074	(158,511)	-11.31%	
Meeting Expenses					
Meetings	34,968	45,000	(10,032)	-22.29%	Meeting expenses were under budget due to more meetings held at NPCC offices or via webinar. Additionally, meetings that were previously allocated across all programs are now recorded to Admin and allocated through indirect expenses.
Travel	183,027	160,000	23,027	14.39%	Travel expenses exceeded budget due to travel associated with Bulk Electric System definition related meetings.
Conference Calls	-	-	-		
Total Meeting Expenses	217,995	205,000	12,995	6.34%	
Operating Expenses					
Consultants & Contracts	335,011	285,000	50,011	17.55%	Over budget due primarily due to consulting associated with revision of the Bulk Electric System definition.
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	1,409	-	1,409		
Depreciation	-	-	-		
Total Operating Expenses	336,420	285,000	51,420	18.04%	
Indirect Expenses					
	1,131,642	1,107,348	24,294	2.19%	
Other Non-Operating Expenses					
	(443,660)	-	(443,660)		Decrease in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	2,484,960	2,998,422	(513,462)	-17.12%	
Change in Assets (A - B)	471,679	(41,783)	513,462	-1228.88%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(23,644)	(41,783)	18,139	-43.41%	
Total Inc(Dec) in Fixed Assets (C)	(23,644)	(41,783)	18,139	-43.41%	
TOTAL BUDGET (B + C)	2,461,316	2,956,639	(495,323)	-16.75%	
Change in Working Capital (A-B-C)	495,323	-	495,323		
FTE's	5.50	5.83	(0.33)	-5.66%	Fully staffed at year end; variance is due to temporary vacancies during the year.

**Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary**

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	136,510	136,510	-	0.00%
Penalty Sanctions	1,107	1,107	-	0.00%
Total ERO Funding	<u>137,617</u>	<u>137,617</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	58,650	80,000	(21,350)	-26.69% Actual fees charged per person for attending NPCC's standards and compliance workshops were less than originally budgeted.
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>196,267</u>	<u>217,617</u>	<u>(21,350)</u>	<u>-9.81%</u>
Expenses				
Personnel Expenses				
Salaries	19,084	17,338	1,746	10.07%
Payroll Taxes	1,138	1,088	50	4.60%
Employee Benefits	4,539	4,129	410	9.93%
Savings & Retirement	4,712	4,785	(73)	-1.53%
Total Personnel Expenses	<u>29,473</u>	<u>27,340</u>	<u>2,133</u>	<u>7.80%</u>
Meeting Expenses				
Meetings	125,541	152,000	(26,459)	-17.41% Workshop expenses were less than budgeted as a result of lower negotiated rates and more meetings held at NPCC offices, member facilities or via webinar.
Travel	2,507	20,000	(17,493)	-87.47% Under budget due to more meetings held at NPCC offices or via webinar.
Conference Calls	-	-	-	
Total Meeting Expenses	<u>128,048</u>	<u>172,000</u>	<u>(43,952)</u>	<u>-25.55%</u>
Operating Expenses				
Consultants & Contracts	3,088	-	3,088	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	1,666	-	1,666	
Depreciation	-	-	-	
Total Operating Expenses	<u>4,754</u>	<u>-</u>	<u>4,754</u>	
Indirect Expenses	<u>20,209</u>	<u>18,994</u>	<u>1,215</u>	<u>6.40%</u>
Other Non-Operating Expenses	<u>(15,087)</u>	<u>-</u>	<u>(15,087)</u>	Decrease in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	<u>167,397</u>	<u>218,334</u>	<u>(50,937)</u>	<u>-23.33%</u>
Change in Assets (A - B)	<u>28,870</u>	<u>(717)</u>	<u>29,587</u>	<u>-4126.61%</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	(406)	(717)	311	-43.44%
Total Inc(Dec) in Fixed Assets (C)	<u>(406)</u>	<u>(717)</u>	<u>311</u>	<u>-43.44%</u>
TOTAL BUDGET (B + C)	<u>166,991</u>	<u>217,617</u>	<u>(50,626)</u>	<u>-23.26%</u>
Change in Working Capital (A-B-C)	<u>29,276</u>	<u>-</u>	<u>29,276</u>	
FTE's	<u>0.10</u>	<u>0.10</u>	<u>-</u>	<u>0.00%</u>

**Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary**

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	2013 Variance	Comments (Explain variances > +/- 10% and >\$10,000)
Funding					
ERO Funding					
Assessments	1,503,453	1,503,453	-	0.00%	
Penalty Sanctions	33,206	33,206	-	0.00%	
Total ERO Funding	<u>1,536,659</u>	<u>1,536,659</u>	<u>-</u>	<u>0.00%</u>	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	<u>1,536,659</u>	<u>1,536,659</u>	<u>-</u>	<u>0.00%</u>	
Expenses					
Personnel Expenses					
Salaries	508,716	519,676	(10,960)	-2.11%	Salaries were under budget due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	33,867	33,338	529	1.59%	
Employee Benefits	60,012	82,596	(22,584)	-27.34%	Under budget due to several employees opting out of health insurance coverage for superior coverage through a prior employer.
Savings & Retirement	110,897	117,730	(6,833)	-5.80%	
Total Personnel Expenses	<u>713,492</u>	<u>753,340</u>	<u>(39,848)</u>	<u>-5.29%</u>	
Meeting Expenses					
Meetings	8,014	45,000	(36,986)	-82.19%	Under budget due to continued efforts to hold more meetings onsite, at member facilities or via webinars. Additionally, meetings that were previously allocated across all programs are now recorded to Admin and allocated through indirect expenses.
Travel	43,486	90,000	(46,514)	-51.68%	Continued efforts to hold more meetings onsite or via webinars have kept travel expenses under budget.
Conference Calls	-	-	-		
Total Meeting Expenses	<u>51,500</u>	<u>135,000</u>	<u>(83,500)</u>	<u>-61.85%</u>	
Operating Expenses					
Consultants & Contracts	113,038	100,000	13,038	13.04%	Over budget due to added 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).
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	603	-	603		
Depreciation	-	-	-		
Total Operating Expenses	<u>113,641</u>	<u>100,000</u>	<u>13,641</u>	<u>13.64%</u>	
Indirect Expenses	610,749	569,819	40,930	7.18%	
Other Non-Operating Expenses	(304,468)	-	(304,468)		Decrease in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	<u>1,184,914</u>	<u>1,558,159</u>	<u>(373,245)</u>	<u>-23.95%</u>	
Change in Assets (A - B)	<u>351,745</u>	<u>(21,500)</u>	<u>373,245</u>	<u>-1736.02%</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	(12,167)	(21,500)	9,333	-43.41%	
Total Inc(Dec) in Fixed Assets (C)	<u>(12,167)</u>	<u>(21,500)</u>	<u>9,333</u>	<u>-43.41%</u>	
TOTAL BUDGET (B + C)	<u>1,172,747</u>	<u>1,536,659</u>	<u>(363,912)</u>	<u>-23.68%</u>	
Change in Working Capital (A-B-C)	<u>363,912</u>	<u>-</u>	<u>363,912</u>		
FTE's	<u>3.00</u>	<u>3.00</u>	<u>-</u>	<u>0.00%</u>	

Northeast Power Coordinating Council, Inc.
2013 Statement of Activities Summary

ADMINISTRATIVE SERVICES	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	(1,115,163)	(1,115,163)	-	0.00%
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>(1,115,163)</u>	<u>(1,115,163)</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	16,734	-	16,734	Interest income, while not budgeted, was allocated by FTE ratio between statutory and non-statutory.
Miscellaneous	-	-	-	
Total Funding (A)	<u>(1,098,429)</u>	<u>(1,115,163)</u>	<u>16,734</u>	<u>-1.50%</u>
Expenses				
Personnel Expenses				
Salaries	1,637,376	1,604,850	32,526	2.03%
Payroll Taxes	104,925	95,230	9,695	10.18%
Employee Benefits	399,644	462,410	(62,766)	-13.57%
				Under budget due to several employees opting out of health insurance coverage for superior coverage through a prior employer.
Savings & Retirement	441,197	406,249	34,948	8.60%
Total Personnel Expenses	<u>2,583,142</u>	<u>2,568,739</u>	<u>14,403</u>	<u>0.56%</u>
Meeting Expenses				
Meetings	123,584	60,000	63,584	105.97%
				Company wide meetings that were previously allocated across all programs are now recorded to G&A and allocated across all programs through indirect expenses. Total Statutory meetings are under budget.
Travel	105,276	105,000	276	0.26%
Conference Calls	71,988	87,000	(15,012)	-17.26%
				Contracted with a more cost effective teleconference/webinar provider.
Total Meeting Expenses	<u>300,848</u>	<u>252,000</u>	<u>48,848</u>	<u>19.38%</u>
Operating Expenses				
Consultants & Contracts	113,342	120,000	(6,658)	-5.55%
Rent & Improvements	741,632	706,500	35,132	4.97%
Office Costs	539,917	468,500	71,417	15.24%
				Over budget primarily related to computer supplies and maintenance due to additional software programs including Diligent Board Books, to support Directors' hardware.
Professional Services	909,302	1,120,000	(210,698)	-18.81%
				Legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	36,044	80,000	(43,956)	-54.95%
				Under budget due to ongoing cost cutting efforts in all areas.
Depreciation	281,605	192,510	89,095	46.28%
				Over budget due to additional assets placed in service in 2013. The assets are related to CDAA software development to enhance the efficiencies of compliance activities for both registered entities and Regional Entity staffs.
Total Operating Expenses	<u>2,621,842</u>	<u>2,687,510</u>	<u>(65,668)</u>	<u>-2.44%</u>
Indirect Expenses	<u>(5,704,951)</u>	<u>(5,508,249)</u>	<u>(196,702)</u>	<u>3.57%</u>
Other Non-Operating Expenses	<u>(1,022,355)</u>	<u>-</u>	<u>(1,022,355)</u>	<u>-</u>
				Decrease in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	<u>(1,221,474)</u>	<u>-</u>	<u>(1,221,474)</u>	
Change in Assets (A - B)	<u>123,045</u>	<u>(1,115,163)</u>	<u>1,238,208</u>	<u>-111.03%</u>
Fixed Assets				
Depreciation	(281,605)	(192,510)	(89,095)	46.28%
				Over budget due to additional assets placed in service in 2013. The assets are related to CDAA software development to enhance the efficiencies of compliance activities for both registered entities and Regional Entity staffs.
Computer & Software CapEx	167,230	-	167,230	
				Over budget due to capitalization of costs related to CMEP Data Administration Application (CDAA) software development not included in budget.
Furniture & Fixtures CapEx	1,388	-	1,388	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>(112,987)</u>	<u>(192,510)</u>	<u>79,523</u>	
Allocation of Fixed Assets	112,987	192,510	(79,523)	-41.31%
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B + C)	<u>(1,221,474)</u>	<u>-</u>	<u>(1,221,474)</u>	
Change in Working Capital (A-B-C)	<u>123,045</u>	<u>(1,115,163)</u>	<u>1,238,208</u>	<u>-111.03%</u>
FTE's	<u>9.00</u>	<u>9.00</u>	<u>-</u>	<u>0.00%</u>

Northeast Power Coordinating Council, Inc.

Financial Statements

December 31, 2013 and 2012

Northeast Power Coordinating Council, Inc.
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December 31, 2013 and 2012

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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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, 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, 2014

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Cash	\$ 7,412,184	\$ 6,724,986
Restricted cash	611,021	649,950
Investments	2,210,944	2,210,894
Prepaid expenses	236,551	271,074
Other assets	137,191	335,714
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$1,100,649 and \$800,389, respectively	<u>1,142,418</u>	<u>1,274,059</u>
Total assets	<u>\$ 11,750,309</u>	<u>\$ 11,466,677</u>
Liabilities and Net Assets		
Accrued expenses and other liabilities	\$ 1,572,583	\$ 1,287,040
Accrued liability for pension	1,135,117	3,676,153
Deferred revenue	734,117	235,313
Deferred rent	<u>774,268</u>	<u>767,901</u>
Total liabilities	<u>4,216,085</u>	<u>5,966,407</u>
Net assets		
Unrestricted net assets	<u>7,534,224</u>	<u>5,500,270</u>
Total net assets	<u>7,534,224</u>	<u>5,500,270</u>
Total liabilities and net assets	<u>\$ 11,750,309</u>	<u>\$ 11,466,677</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2013 and 2012

	2013	2012
Revenue		
Assessments	\$ 1,139,688	\$ 956,900
Regional entity ERO funding	12,352,264	12,551,567
Penalty sanctions	212,000	203,300
Workshops	58,650	56,616
Interest income	17,281	22,255
Miscellaneous Income	109,867	314,507
Total revenue	<u>13,889,750</u>	<u>14,105,145</u>
Operating expenses		
Salaries and employee benefits	8,365,952	7,722,983
Administrative and consultant fees	2,398,006	1,944,962
Professional fees	572,229	527,170
Meetings and travel	1,131,260	963,372
Telephone and telecommunications	262,232	227,042
Office supplies and expense	316,019	257,696
Equipment leases	131,353	107,307
Rent expense	643,967	654,281
Insurance expense	39,019	34,768
Miscellaneous	43,092	118,107
Depreciation and amortization	300,260	236,647
Total operating expenses	<u>14,203,389</u>	<u>12,794,335</u>
Change in net assets before nonoperating expenses	(313,639)	1,310,810
Nonoperating expenses		
Pension change other than net periodic pension cost	<u>(2,347,593)</u>	<u>1,080,685</u>
Increase in net assets	2,033,954	230,125
Net assets		
Beginning of year	<u>5,500,270</u>	<u>5,270,145</u>
End of year	<u>\$ 7,534,224</u>	<u>\$ 5,500,270</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, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 2,033,954	\$ 230,125
Depreciation and amortization	300,260	236,647
Decrease (increase) in prepaid expenses	34,523	(65,349)
Decrease (increase) in other assets	198,523	(267,638)
Increase in accrued expenses and other liabilities	285,543	90,135
(Decrease) increase in accrued liability for pension	(2,541,036)	1,019,403
Increase (decrease) in deferred revenue	498,804	(230,210)
Increase in deferred rent	6,367	6,424
Net cash provided by operating activities	<u>816,938</u>	<u>1,019,537</u>
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(168,619)	(246,623)
Purchases of investments	(50)	(30)
Restricted cash	<u>38,929</u>	<u>687,845</u>
Net cash (used for) provided by investing activities	<u>(129,740)</u>	<u>441,192</u>
Net increase in cash	687,198	1,460,729
Cash		
Beginning of year	<u>6,724,986</u>	<u>5,264,257</u>
End of year	<u>\$ 7,412,184</u>	<u>\$ 6,724,986</u>

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

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

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 authorities acting as the Load Serving Entities' designees with regard to funding and the criteria services division 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, 2013 and 2012, 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, 2013 and 2012

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 Authorities. 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 Provincial 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, 2013 is approximately \$372,000.

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 Authorities – ISO/BAs) 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
December 31, 2013 and 2012

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, 2013 and 2012, the Company owned 2,210,944 and 2,210,894 units of \$1 par value per unit, respectively. In 2013 and 2012, the funds earned average yields of less than 1%. 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, 2013 and 2012 consists of the following:

	Depreciable Life	2013	2012
Furniture	10 years	\$ 202,906	\$ 201,518
Computer equipment	3 years	435,769	435,769
Website	3 years	232,000	232,000
Software	3 years	397,701	230,470
Leasehold improvements	15 years (See note 2)	<u>974,691</u>	<u>974,691</u>
		2,243,067	2,074,448
Less: Accumulated depreciation and amortization		<u>(1,100,649)</u>	<u>(800,389)</u>
		<u>\$ 1,142,418</u>	<u>\$ 1,274,059</u>

In 2013 and 2012, depreciation and amortization expense totaled \$300,260 and \$236,647, respectively.

5. Pension Plan

The Company has a trustee, noncontributory defined benefit pension plan (the “Plan”) covering employees hired prior to February 6, 2007. The Company’s plan contributions were \$700,000 and \$600,000 for the years 2013 and 2012, respectively.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

The following tables provide information with respect to the defined benefit plan as of and for the years ended December 31, 2013 and 2012:

	2013	2012
Components of net periodic benefit cost		
Service cost	\$ 298,867	\$ 276,757
Interest cost	477,051	461,524
Expected return on plan assets	(599,893)	(492,785)
Amortization of prior service cost	20,532	20,532
Recognized actuarial loss	310,000	272,690
Net periodic benefit cost	<u>\$ 506,557</u>	<u>\$ 538,718</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 11,279,973	\$ 8,957,466
Service cost	298,867	276,757
Interest cost	477,051	461,524
Actuarial (gain) loss	(1,660,662)	1,686,218
Benefits paid	<u>(101,992)</u>	<u>(101,992)</u>
Benefit obligation at end of year	<u>10,293,237</u>	<u>11,279,973</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	7,603,820	6,300,716
Actual return on plan assets	956,292	805,096
Company contribution	700,000	600,000
Benefits paid	<u>(101,992)</u>	<u>(101,992)</u>
Fair value of plan assets at end of year	<u>9,158,120</u>	<u>7,603,820</u>
Funded status at end of year	<u>\$ (1,135,117)</u>	<u>\$ (3,676,153)</u>
Amounts recognized in unrestricted net assets consist of		
Loss	\$ (1,745,933)	\$ (4,072,994)
Prior service cost	<u>(160,151)</u>	<u>(180,683)</u>
	<u>\$ (1,906,084)</u>	<u>\$ (4,253,677)</u>
Changes in unrestricted assets recognized in nonoperating expenses		
Net (gain) loss	\$ (2,017,061)	\$ 1,373,907
Amortization of prior service cost	(20,532)	(20,532)
Amortization of net gain (loss)	<u>(310,000)</u>	<u>(272,690)</u>
	<u>\$ (2,347,593)</u>	<u>\$ 1,080,685</u>
Amounts of unrestricted net assets expected to be recognized in net periodic benefit cost in 2014		
Amortization of loss	\$ 200,000	

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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

Discount rate	5.00 %	4.25 %
Expected return on plan assets	7.50 %	7.50 %
Rate of compensation increase	3.00 %	3.00 %

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

Discount rate	5.00 %	4.25 %
Expected return on plan assets	7.50 %	7.50 %
Rate of compensation increase	3.00 %	3.00 %

The accumulated benefit obligation at December 31, 2013 and 2012 was \$9,371,706 and \$8,487,636, respectively.

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

The Company's defined benefit plan weighted average asset allocation at December 31, 2013 and 2012 by asset category is as follows:

	Allocation Percentage	
	2013	2012
Equity securities	70.6%	71.1%
Debt securities	28.0%	28.2%
Cash	1.4%	0.7%
	<u>100.0%</u>	<u>100.0%</u>

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

Investments in actively traded equity and debt securities are valued using market prices in active markets. Their valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. There were no securities for which the fair value was based on other observable or unobservable inputs. At December 31, 2013, the plan assets consisted of \$127,177 of cash and cash equivalents, \$3,310,439 of domestic equities, \$1,346,311 of international equities, \$2,563,932 of corporate bonds, \$1,126,052 of specific strategy funds, \$263,378 of commodity funds and \$420,831 of public real estate investment trust investments.

At December 31, 2013, the Company's target allocation percentages for plan assets were approximately 46% equity securities, 29% debt securities and 25% other securities. The targets may be adjusted periodically to reflect current market conditions and trends as well as inflation levels, interest rates and trends thereof.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Expected employer contribution for the year ended December 31, 2014 is \$650,000.

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

2014	\$ 110,150
2015	386,154
2016	377,739
2017	369,074
2018	360,326
2019–2023	3,274,211

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 2013 and 2012 was 8% of base compensation and totaled \$189,215 for 2013 and \$189,956 for 2012. Company contributions to the 401(k) plan were \$185,546 and \$174,392 for 2013 and 2012, 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 \$26,500 and \$23,000 to this supplemental plan for 2013 and 2012, 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 in 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 March, 2016. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$775,320 and \$761,588 for 2013 and 2012, respectively.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2013 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31			
2014	\$ 652,380	\$ 129,064	\$ 781,444
2015	672,392	88,637	761,029
2016	672,392	20,142	692,534
2017	672,392		672,392
2018	672,392		672,392
Thereafter	3,826,091		3,826,091
	<u>\$ 7,168,039</u>	<u>\$ 237,843</u>	<u>\$ 7,405,882</u>

8. Functional Expenses

During 2013 and 2012 salaries and employee benefits consist of the following:

	2013	2012
President, COO and technical staff	\$ 5,510,411	\$ 5,128,701
Administrative support	175,493	169,254
Payroll taxes, insurance, pension and educational assistance	<u>2,680,048</u>	<u>2,425,028</u>
Total salaries and employee benefits	<u>\$ 8,365,952</u>	<u>\$ 7,722,983</u>

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$2,970,235 and \$2,472,132 in 2013 and 2012, respectively, and consist of the following:

	2013	2012
Consultants	\$ 1,734,733	\$ 1,485,916
Accounting, legal and other services	1,197,113	964,903
Pension administration	<u>38,389</u>	<u>21,313</u>
Total administrative, consultant and professional fees	<u>\$ 2,970,235</u>	<u>\$ 2,472,132</u>

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

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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 Provincial regulatory and/or governmental authorities.

NPCC's criteria services division was fully funded by regional independent system operator or balancing authorities acting as the Load Serving Entities' designees and operated on assessments to and funded from these six entities. Dues were based upon a "Net Energy for Load" funding formula. During 2013 and 2012, total assessments billed amounted to \$1,139,688 and \$956,900, respectively.

Description	2013		2012	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	28.56 %	\$ 325,481	28.27 %	\$ 270,543
Independent Electricity System Operator	21.94 %	250,013	22.11 %	211,520
ISO-New England, Inc.	20.65 %	235,313	20.52 %	196,362
New Brunswick System Operator	2.12 %	24,185	2.12 %	20,242
New York Independent System Operator	24.91 %	283,927	25.08 %	240,034
Nova Scotia Power Inc.	1.82 %	20,769	1.90 %	18,199
Total assessments	100.00 %	\$ 1,139,688	100.00 %	\$ 956,900

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. There were no borrowings against the line of credit as of December 31, 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, 2014, the date the financial statements were available to be issued.

ATTACHMENT 5

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 AUDITED FINANCIAL REPORT

FOR

RELIABILITYFIRST CORPORATION



RELIABILITY FIRST

3 Summit Park Drive, Suite 600
Cleveland, OH 44131

May 5, 2014

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

Subject: ReliabilityFirst's 2013 True-up Filing

Mr. Michael Walker:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year audited 2013 True-up Filing. Significant variances are explained below, while more detailed variances are provided in the attached Statement of Activities, Fixed Assets and Change in Working Capital document presented by program area.

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

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

Summary

For the year ending December 31, 2013, ReliabilityFirst was \$119K (.68%) over budget. This year end variance included \$551K of Leasehold Improvement capital expenditures that related to the 2014 office and data center relocation, which were not included in the 2013 budget. If these capital expenditures were not recorded in 2013, the year-end variance would have been \$432K (2.48%) under budget. In addition to completing all statutory objectives, ReliabilityFirst completed these major accomplishments:

- Developed the audit section of the MKInsight Audit Management Software to organize, manage, and improve efficiency of our monitoring processes.
- ReliabilityFirst Staff presented entity training on our Risk-Harm determination tool during the Spring Reliability Workshop. The series included detail on how risk and harm is quantified, the concepts of estimating the likelihood and magnitude of harm occurring, and how to mitigate the risk to reduce the likelihood of the harm occurring.
- Delivered one full day of training to more than 200 representatives from Registered Entities on Reliability Assurance Initiative (RAI) which included the identification of key critical process areas that contribute to reliability and how a systems thinking approach can lead to building a robust set of management practices that can reduce the risk to reliability.
- Supported RAI by conducting a pilot appraisal of key management practice areas with a registered entity.
- To improve ReliabilityFirst's resource assessments, reviewed demand forecast method(s) and data, the weather normalization calculations, and the NERC demand bandwidth analysis used in our footprint. After reviewing this information, researched a method of including load forecast uncertainty (i.e., bandwidth) in future resource assessments.

- Reviewed the September 8, 2011 *Arizona-Southern California Outage* report findings and recommendations and performed a gap analysis to determine what could be missing in existing standards, guidelines, processes, or audit procedures and assessment studies. A report was produced that included suggestions for improvement.
- Examined existing methods to determine reliability of systems and proposed a definition and a method to measure grid reliability for the bulk power system. Existing methods and data considered included misoperations analysis, TADs, GADs, CIP Influence, outages/100 miles/year, etc. A sample report was produced on an entity basis to show the effect of that entity's performance on the overall ReliabilityFirst footprint.
- Quantitatively assessed the effectiveness of two Reliability Standards in achieving the desired reliability outcome including whether, if appropriate to the standard, less than zero-tolerance compliance would achieve essentially the same reliability result as full compliance. The two Standards assessed were PRC-005 and VAR-002. Reports were produced that discussed the benefits and any detriments of the standards and any recommendations for any changes to the standard or other proposals for improvement.
- Provided guidance and education to registered entities to meet compliance obligations through a better understanding of the NERC Reliability Standards by conducting 12 assist visits. Entity issues ranging from compliance concerns associated with their reading of the FERC approved standards, to preparing for new standards, and providing additional guidance and education.
- ReliabilityFirst conducted several successful outreach efforts, including two workshops that were attended by 200 plus registered entities and a Monthly Open Compliance Call that was attended by, on average, 75 registered entities.

Funding

- **Investment Income:** \$127K (211%) under budget
The variance in Investment Income is due to the unrealized change in value of the company's investment portfolio offset by the dividends that were received.

Expenses

- **Personnel Expenses**
 - **Salaries, Payroll Taxes, Employee Benefits and Savings & Retirement Costs:** \$651K (5%) under budget
These personnel expenses were under budget due to the difficulties in hiring qualified personnel.
- **Operating Expenses**
 - **Rent & Utilities:** \$98K (21%) over budget
Rent was over budget due to the early termination penalty for the prior office lease, offset by the board decision not to pursue an offsite disaster recovery site in 2013.
 - **Office Costs:** \$213K (31%) over budget
Office Costs were over budget as a result of variances in Telephone and Internet. Telephone expenses were over budget due to the large capacity phone line that was procured in preparation to support an in house conferencing system. Internet expenses were over budget due to the continued use of the contracted high bandwidth data line.

Fixed Assets

- **Computer Hardware & Software:** \$37K (47%) under budget
Computer Hardware & Software was under budget due to planned hardware purchases being delayed or reassessed in consideration of the planned 2014 office move.
- **Furniture & Fixtures:** \$8K over budget
The variance in Furniture & Fixtures was a result of the purchases of office furniture to accommodate new hires and appliances for the new office.

- **Leasehold Improvements:** \$551K over budget
The variance in Leasehold Improvements was a result of the planned 2014 office and data center relocation. All of these expenditures have been reimbursed from our Tenant Improvement Allowance in 2014.

Cash Reserves

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

Statutory Programs

ReliabilityFirst performed only statutory activities in 2013.

Cost Allocation

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

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

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

Sincerely,

Jill S. Lewton

Jill S. Lewton
Controller



Statement of Activities, Fixed Assets and Change in Working Capital

Summary

01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	
Funding				
ERO Funding				
ERO Assessments	\$ 14,165,848	\$ 14,165,848	\$ -	0.00%
Penalty Sanctions	2,979,800	2,979,800	-	0.00%
Total ERO Funding	\$ 17,145,648	\$ 17,145,648	\$ -	0.00%
Other Funding				
Membership Fees	\$ -	\$ -	\$ -	
Investment Income	(66,853)	60,000	(126,853)	-211.42%
Miscellaneous	-	-	-	
Total Other Funding	\$ (66,853)	\$ 60,000	\$ (126,853)	-211.42%
Total Funding	\$ 17,078,795	\$ 17,205,648	\$ (126,853)	-0.74%
Expenses				
Direct Expenses				
Personnel Expenses				
Salaries	\$ 10,007,431	\$ 10,610,389	\$ (602,958)	-5.68%
Payroll Taxes	611,830	624,720	(12,890)	-2.06%
Employee Benefits	1,306,001	1,318,673	(12,672)	-0.96%
Savings & Retirement	1,491,994	1,514,025	(22,031)	-1.46%
Total Personnel Expenses	\$ 13,417,256	\$ 14,067,807	\$ (650,551)	-4.62%
Meeting Expenses				
Meetings	\$ 173,392	\$ 157,810	\$ 15,582	9.87%
Travel	765,885	773,300	(7,415)	-0.96%
Conference Calls	38,097	43,092	(4,995)	-11.59%
Total Meeting Expenses	\$ 977,374	\$ 974,202	\$ 3,172	0.33%
Operating Expenses				
Consultants & Contracts	\$ 609,487	\$ 650,140	\$ (40,653)	-6.25%
Office Rent	560,012	461,645	98,367	21.31%
Office Costs	899,538	686,864	212,674	30.96%
Professional Services	451,665	483,160	(31,495)	-6.52%
Miscellaneous	30,702	25,021	5,681	22.70%
(Gain)/Loss on Disposal of Assets	(255)	-	(255)	
Depreciation	428,935	433,772	(4,837)	-1.12%
Total Operating Expenses	\$ 2,980,084	\$ 2,740,602	\$ 239,482	8.74%
Total Direct Expenses	\$ 17,374,714	\$ 17,782,611	\$ (407,897)	-2.29%
Indirect Expenses	\$ -	\$ -	\$ (0)	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 17,374,714	\$ 17,782,611	\$ (407,897)	-2.29%
Net Change in Assets	\$ (295,919)	\$ (576,963)	\$ 281,044	-48.71%
Fixed Assets				
Depreciation	\$ (428,935)	\$ (433,772)	\$ 4,837	-1.12%
Computer & Software CapEx	40,989	78,000	(37,011)	-47.45%
Furniture & Fixtures CapEx	8,082	-	8,082	
Equipment CapEx	-	-	-	
Leasehold Improvements	550,734	-	550,734	
Increase/(Decrease) Fixed Assets	\$ 170,870	\$ (355,772)	\$ 526,642	-148.03%
Allocation of Fixed Assets	\$ -	\$ -	\$ -	
Increase/(Decrease) Total Fixed Assets	\$ 170,870	\$ (355,772)	\$ 526,642	-148.03%
Total Budget	\$ 17,545,584	\$ 17,426,839	\$ 118,745	0.68%
Change in Working Capital	\$ (466,789)	\$ (221,191)	\$ (245,598)	111.03%
FTEs	69.80	73.00	-3.20	
- All amounts are based on audited financials				
- All amounts are in whole dollars				
- All functions are Statutory				



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

01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ 148,183	\$ 148,183	\$ -	0%	
Penalty Sanctions	26,047	26,047	-	0%	
Total ERO Funding	\$ 174,230	\$ 174,230	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	(1,284)	524	(1,808)	-345%	The variance in Investment Income was due to the unrealized change in value of the company's investment portfolio offset by the dividends that were received.
Miscellaneous	-	-	-		
Total Other Funding	\$ (1,284)	\$ 524	\$ (1,808)	-345%	
Total Funding	\$ 172,946	\$ 174,754	\$ (1,808)		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 85,293	\$ 87,336	\$ (2,043)	-2%	
Payroll Taxes	7,190	4,744	2,446	52%	
Employee Benefits	10,677	10,970	(293)	-3%	
Savings & Retirement	16,969	13,974	2,995	21%	
Total Personnel Expenses	\$ 120,129	\$ 117,024	\$ 3,105	3%	
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -		
Travel	11,216	11,500	(284)	-2%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 11,216	\$ 11,500	\$ (284)	-2%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	2,037	2,668	(631)	-24%	
Professional Services	-	-	-		
Miscellaneous	121	-	121		
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 2,158	\$ 2,668	\$ (510)	-19%	
Total Direct Expenses	\$ 133,503	\$ 131,192	\$ 2,311	2%	
Indirect Expenses	\$ 108,605	\$ 44,949	\$ 63,656	142%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 242,108	\$ 176,141	\$ 65,967	37%	
Net Change in Assets	\$ (69,162)	\$ (1,387)	\$ (67,775)	4886%	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ 7,620	\$ (1,387)	\$ 9,007	-649%	Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher fixed asset expenditures being allocated.
Increase/(Decrease) Total Fixed Assets	\$ 7,620	\$ (1,387)	\$ 9,007	-649%	
Total Budget	\$ 249,728	\$ 174,754	\$ 74,974	43%	
Change in Working Capital	\$ (76,782)	\$ -	\$ (76,782)		
FTEs	0.50	0.50	0.00	0%	

Statement of Activities, Fixed Assets and Change in Working Capital
 Compliance
 01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ 10,736,863	\$ 10,736,863	\$ -	0%	
Penalty Sanctions	2,240,059	2,240,059	-	0%	
Total ERO Funding	\$ 12,976,922	\$ 12,976,922	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	(49,800)	45,105	(94,905)	-210%	The variance in Investment Income was due to the unrealized change in value of the company's investment portfolio offset by the dividends that were received.
Miscellaneous	-	-	-		
Total Other Funding	\$ (49,800)	\$ 45,105	\$ (94,905)	-210%	
Total Funding	\$ 12,927,122	\$ 13,022,027	\$ (94,905)		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 5,456,087	\$ 5,870,101	\$ (414,014)	-7%	
Payroll Taxes	355,198	370,369	(15,171)	-4%	
Employee Benefits	751,015	838,359	(87,344)	-10%	
Savings & Retirement	801,891	867,559	(65,668)	-8%	
Total Personnel Expenses	\$ 7,364,191	\$ 7,946,388	\$ (582,197)	-7%	Personnel expenses were under budget due to the difficulties in hiring qualified personnel
Meeting Expenses					
Meetings	\$ 12,964	\$ 8,210	\$ 4,754	58%	
Travel	490,598	508,000	(17,402)	-3%	
Conference Calls	0	0	-		
Total Meeting Expenses	\$ 503,562	\$ 516,210	\$ (12,648)	-2%	
Operating Expenses					
Consultants & Contracts	\$ 409,642	\$ 475,000	\$ (65,358)	-14%	Contracts & Consultants expense was under budget as a result of the process improvements and efficiency gains that were achieved during the year.
Office Rent	-	-	-		
Office Costs	273,567	311,989	(38,422)	-12%	Office costs were under budget primarily due to a variance in Telephone. Telephone expense was under budget due to the number of employees receiving wireless devices (i.e. cell phone and air cards) being less than budgeted.
Professional Services	15,000	15,000	-	0%	
Miscellaneous	1,260	1,405	(145)	-10%	
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	225,518	206,421	19,097	9%	Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the prior year fixed asset purchases being over budget, there was more depreciation expense recorded this year.
Total Operating Expenses	\$ 924,987	\$ 1,009,815	\$ (84,828)	-8%	
Total Direct Expenses	\$ 8,792,740	\$ 9,472,413	\$ (679,673)	-7%	
Indirect Expenses	\$ 4,212,979	\$ 3,865,608	\$ 347,371	9%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 13,005,719	\$ 13,338,021	\$ (332,302)	-2%	
Net Change in Assets	\$ (78,597)	\$ (315,994)	\$ 237,397	-75%	
Fixed Assets					
Depreciation	\$ (225,518)	\$ (206,421)	\$ (19,097)	9%	Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the prior year fixed asset purchases being over budget, there was more depreciation expense recorded this year.
Computer & Software CapEx	-	9,600	(9,600)	-100%	Computer & Software CapEx was under budget due to the need for further evaluation regarding the analytical software needs for the Reliability Assurance Initiatives.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ (225,518)	\$ (196,821)	\$ (28,697)	15%	
Allocation of Fixed Assets	\$ 295,594	\$ 183,045	\$ 112,549	61%	Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher fixed asset expenditures being allocated.
Increase/(Decrease) Total Fixed Assets	\$ 70,076	\$ (13,776)	\$ 83,852	-609%	
Total Budget	\$ 13,075,795	\$ 13,324,245	\$ (248,450)	-2%	
Change in Working Capital	\$ (148,673)	\$ (302,218)	\$ 153,545	-51%	
FTEs	40.42	43.00	-2.58	-6%	The 2013 actual FTE count includes 1.63 FTEs for the graduate program

Statement of Activities, Fixed Assets and Change in Working Capital
Reliability Assessment
01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ 2,538,757	\$ 2,538,757	\$ -	0%	
Penalty Sanctions	520,944	520,944	-	0%	
Total ERO Funding	\$ 3,059,701	\$ 3,059,701	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	(11,019)	10,490	(21,509)	-205%	The variance in Investment Income was due to the unrealized change in value of the company's investment portfolio offset by the dividends that were received.
Miscellaneous	-	-	-		
Total Other Funding	\$ (11,019)	\$ 10,490	\$ (21,509)	-205%	
Total Funding	\$ 3,048,682	\$ 3,070,191	\$ (21,509)		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 1,308,756	\$ 1,479,629	\$ (170,873)	-12%	
Payroll Taxes	79,803	86,964	(7,161)	-8%	
Employee Benefits	119,349	154,494	(35,145)	-23%	
Savings & Retirement	201,906	218,462	(16,556)	-8%	
Total Personnel Expenses	\$ 1,709,814	\$ 1,939,549	\$ (229,735)	-12%	Personnel expenses were under budget due to the difficulties in hiring qualified personnel.
Meeting Expenses					
Meetings	\$ 19,252	\$ 15,000	\$ 4,252	28%	
Travel	94,243	106,500	(12,257)	-12%	Travel expenses were under budget due to attending less meetings than originally budgeted.
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 113,495	\$ 121,500	\$ (8,005)	-7%	
Operating Expenses					
Consultants & Contracts	\$ 79,557	\$ 77,140	\$ 2,417	3%	
Office Rent	-	-	-		
Office Costs	51,227	60,687	(9,460)	-16%	
Professional Services	-	-	-		
Miscellaneous	59	50	9	18%	
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 130,843	\$ 137,877	\$ (7,034)	-5%	
Total Direct Expenses	\$ 1,954,152	\$ 2,198,926	\$ (244,774)	-11%	
Indirect Expenses	\$ 932,195	\$ 898,979	\$ 33,216	4%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 2,886,347	\$ 3,097,905	\$ (211,558)	-7%	
Net Change in Assets	\$ 162,335	\$ (27,714)	\$ 190,049	-686%	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ 65,405	\$ (27,714)	\$ 93,119	-336%	Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher fixed asset expenditures being allocated.
Increase/(Decrease) Total Fixed Assets	\$ 65,405	\$ (27,714)	\$ 93,119	-336%	
Total Budget	\$ 2,951,752	\$ 3,070,191	\$ (118,439)	-4%	
Change in Working Capital	\$ 96,929	\$ -	\$ 96,929		
FTEs	9.08	10.00	-0.92	-9%	

Statement of Activities, Fixed Assets and Change in Working Capital
 Training & Education
 01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ 754,962	\$ 754,962	\$ -	0%	
Penalty Sanctions	161,493	161,493	-	0%	
Total ERO Funding	\$ 916,455	\$ 916,455	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	(3,980)	3,252	(7,232)	-222%	The variance in Investment Income was due to the unrealized change in value of the company's investment portfolio offset by the dividends that were received.
Miscellaneous	-	-	-		
Total Other Funding	\$ (3,980)	\$ 3,252	\$ (7,232)	-222%	
Total Funding	\$ 912,475	\$ 919,707	\$ (7,232)		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 419,851	\$ 411,250	\$ 8,601	2%	
Payroll Taxes	28,288	27,473	815	3%	
Employee Benefits	54,888	51,900	2,988	6%	
Savings & Retirement	63,056	64,991	(1,935)	-3%	
Total Personnel Expenses	\$ 566,083	\$ 555,614	\$ 10,469	2%	
Meeting Expenses					
Meetings	\$ 74,751	\$ 90,000	\$ (15,249)	-17%	Meetings were under budget due to the decision to host two less workshops than originally budgeted.
Travel	5,367	4,000	1,367	34%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 80,118	\$ 94,000	\$ (13,882)	-15%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ -	\$ -	\$ -		
Total Direct Expenses	\$ 646,201	\$ 649,614	\$ (3,413)	-1%	
Indirect Expenses	\$ 336,676	\$ 278,683	\$ 57,993	21%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 982,877	\$ 928,297	\$ 54,580	6%	
Net Change in Assets	\$ (70,402)	\$ (8,590)	\$ (61,812)	720%	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ 23,622	\$ (8,590)	\$ 32,212	-375%	Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher fixed asset expenditures being allocated.
Increase/(Decrease) Total Fixed Assets	\$ 23,622	\$ (8,590)	\$ 32,212	-375%	
Total Budget	\$ 1,006,499	\$ 919,707	\$ 86,792	9%	
Change in Working Capital	\$ (94,024)	\$ -	\$ (94,024)		
FTEs	3.10	3.10	0.00	0%	

Statement of Activities, Fixed Assets and Change in Working Capital
 Situation Awareness
 01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ 208,273	\$ 208,273	\$ -	0%	
Penalty Sanctions	31,257	31,257	-	0%	
Total ERO Funding	\$ 239,530	\$ 239,530	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	(770)	629	(1,399)	-222%	The variance in Investment Income was due to the unrealized change in value of the company's investment portfolio offset by the dividends that were received.
Miscellaneous	-	-	-		
Total Other Funding	\$ (770)	\$ 629	\$ (1,399)	-222%	
Total Funding	\$ 238,760	\$ 240,159	\$ (1,399)		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 122,270	\$ 120,045	\$ 2,225	2%	
Payroll Taxes	6,222	5,984	238	4%	
Employee Benefits	5,141	7,251	(2,110)	-29%	
Savings & Retirement	18,418	19,207	(789)	-4%	
Total Personnel Expenses	\$ 152,051	\$ 152,487	\$ (436)	0%	
Meeting Expenses					
Meetings	\$ 9,638	\$ 2,000	\$ 7,638	382%	
Travel	25,013	30,000	(4,987)	-17%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 34,651	\$ 32,000	\$ 2,651	8%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	4,491	2,496	1,995	80%	
Professional Services	-	-	-		
Miscellaneous	881	900	(19)	-2%	
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	425	425	-	0%	
Total Operating Expenses	\$ 5,797	\$ 3,821	\$ 1,976	52%	
Total Direct Expenses	\$ 192,499	\$ 188,308	\$ 4,191	2%	
Indirect Expenses	\$ 65,163	\$ 53,939	\$ 11,224	21%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 257,662	\$ 242,247	\$ 15,415	6%	
Net Change in Assets	\$ (18,902)	\$ (2,088)	\$ (16,814)	805%	
Fixed Assets					
Depreciation	\$ (425)	\$ (425)	\$ -	0%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ (425)	\$ (425)	\$ -	0%	
Allocation of Fixed Assets	\$ 4,572	\$ (1,663)	\$ 6,235	-375%	Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher fixed asset expenditures being allocated.
Increase/(Decrease) Total Fixed Assets	\$ 4,147	\$ (2,088)	\$ 6,235	-299%	
Total Budget	\$ 261,809	\$ 240,159	\$ 21,650	9%	
Change in Working Capital	\$ (23,049)	\$ -	\$ (23,049)		
FTEs	0.60	0.60	0.00	0%	



Statement of Activities, Fixed Assets and Change in Working Capital
General & Administrative
01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ (221,190)	\$ (221,190)	\$ -	0%	
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ (221,190)	\$ (221,190)	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ (221,190)	\$ (221,190)	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 1,209,523	\$ 1,245,216	\$ (35,693)	-3%	
Payroll Taxes	41,727	40,166	1,561	4%	
Employee Benefits	67,553	68,109	(556)	-1%	
Savings & Retirement	157,352	110,326	47,026	43%	Savings & Retirement costs were over budget due to the reallocation of compensation resulting from the implementation of a deferred compensation plan.
Total Personnel Expenses	\$ 1,476,155	\$ 1,463,817	\$ 12,338	1%	
Meeting Expenses					
Meetings	\$ 35,702	\$ 25,800	\$ 9,902	38%	
Travel	71,650	59,800	11,850	20%	Travel was over budget as a result of the travel required by the office move project coordinator.
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 107,352	\$ 85,600	\$ 21,752	25%	
Operating Expenses					
Consultants & Contracts	\$ 32,750	\$ 21,000	\$ 11,750	56%	Contracts & Consultants were over budget as a result of the leadership training being higher than budgeted, along with the five year regional assessment project that was not budgeted.
Office Rent	560,012	401,645	158,367	39%	Office Rent was over budget due to the early termination penalty for the prior office lease.
Office Costs	72,851	39,623	33,228	84%	Office costs were over budget as a result of variances in Computer Service & Maintenance. Computer Service & Maintenance was over budget as a result of the annual fees associated with the online solutions used to manage board materials and company surveys.
Professional Services	306,661	315,650	(8,989)	-3%	
Miscellaneous	10,236	11,976	(1,740)	-15%	
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	45,631	45,326	305	1%	
Total Operating Expenses	\$ 1,028,141	\$ 835,220	\$ 192,921	23%	
Total Direct Expenses	\$ 2,611,648	\$ 2,384,637	\$ 227,011	10%	
Indirect Expenses	\$ (2,611,648)	\$ (2,384,637)	\$ (227,011)	10%	Indirect Expenses are expenses related to the Administrative Services Programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher General & Administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ -	\$ -	\$ -		
Net Change in Assets	\$ (221,190)	\$ (221,190)	\$ -	0%	
Fixed Assets					
Depreciation	\$ (45,631)	\$ (45,326)	\$ (305)	1%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	8,082	-	8,082		The variance in Furniture & Fixtures was a result of the purchases of office furniture to accommodate new hires and appliances for the new office.
Equipment CapEx	-	-	-		
Leasehold Improvements	550,734	-	550,734		The variance in Leasehold Improvements was a result of the planned 2014 office and data center relocation. All of these expenditures were reimbursed from our Tenant Improvement allowance.
Increase/(Decrease) Fixed Assets	\$ 513,185	\$ (45,326)	\$ 558,511	-1232%	
Allocation of Fixed Assets	\$ (513,185)	\$ 45,326	\$ (558,511)	-1232%	Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher General & Administrative fixed asset expenditures being allocated.
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ -	\$ -	\$ -		
Change in Working Capital	\$ (221,190)	\$ (221,190)	\$ -	0%	
FTEs	4.30	4.30	0.00	0%	



Statement of Activities, Fixed Assets and Change in Working Capital
 Legal & Regulatory Affairs
 01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 374,928	\$ 373,908	\$ 1,020	0%	
Payroll Taxes	20,144	19,523	621	3%	
Employee Benefits	29,042	18,245	10,797	59%	Employee Benefits were over budget as a result of a variance in Medical Benefits. Medical Benefits were over budget due to an existing employee electing medical coverage that was not budgeted, along with an employee selecting a medical plan that was different than what was originally budgeted.
Savings & Retirement	60,471	58,576	1,895	3%	
Total Personnel Expenses	\$ 484,585	\$ 470,252	\$ 14,333	3%	
Meeting Expenses					
Meetings	\$ 718	\$ -	\$ 718		
Travel	43,800	28,000	15,800	56%	Travel expense was over budget due to more travel required of our general counsel than anticipated.
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 44,518	\$ 28,000	\$ 16,518	59%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	13,643	8,308	5,335	64%	
Professional Services	50,095	65,000	(14,905)	-23%	Professional Services expense was under budget as a result of a variance in Legal Fees. Legal Fees were under budget due to negotiating flat fees for certain services and performing more legal work in house.
Miscellaneous	8	-	8		
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 63,746	\$ 73,308	\$ (9,562)	-13%	
Total Direct Expenses	\$ 592,849	\$ 571,560	\$ 21,289	4%	
Indirect Expenses	\$ (592,849)	\$ (571,560)	\$ (21,289)	4%	Indirect Expenses are expenses related to the Administrative Services Programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher Legal & Regulatory expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ -	\$ -	\$ -		
Net Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ -	\$ -	\$ -		
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ -	\$ -	\$ -		
Change in Working Capital	\$ -	\$ -	\$ -		
FTEs	2.00	2.00	0.00	0%	

Statement of Activities, Fixed Assets and Change in Working Capital
Information Technology
01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	-	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -	-	
Investment Income	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Other Funding	\$ -	\$ -	\$ -	-	
Total Funding	\$ -	\$ -	\$ -	-	
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 592,533	\$ 618,029	\$ (25,496)	-4%	
Payroll Taxes	41,223	41,356	(133)	0%	
Employee Benefits	101,658	85,791	15,867	18%	Employee Benefits were over budget as a result of a variance in Individual Training. Individual Training was over budget due to vulnerability remediation training that was not budgeted for.
Savings & Retirement	87,574	97,312	(9,738)	-10%	
Total Personnel Expenses	\$ 822,988	\$ 842,488	\$ (19,500)	-2%	
Meeting Expenses					
Meetings	\$ 1,223	\$ 600	\$ 623	104%	
Travel	11,866	11,000	866	8%	
Conference Calls	38,097	43,092	(4,995)	-12%	
Total Meeting Expenses	\$ 51,186	\$ 54,692	\$ (3,506)	-6%	
Operating Expenses					
Consultants & Contracts	\$ 9,031	\$ 36,000	\$ (26,969)	-75%	Consultants & Contracts were under budget due to the postponement of several projects
Office Rent	-	60,000	(60,000)	-100%	Rent was under budget as a result of the delay in securing an offsite disaster recovery site.
Office Costs	468,239	253,085	215,154	85%	Office Costs were over budget as a result of variances in Telephone and Internet. Telephone expenses were over budget due to the large capacity phone line that was procured in preparation to support an in house conferencing system. Internet expenses were over budget due to the continued use of the contracted high bandwidth data line.
Professional Services	-	-	-	-	
Miscellaneous	1,639	-	1,639		
(Gain)/Loss on Disposal of Assets	(255)	-	(255)		The variance in Proceeds/Loss on Disposal of Assets was due to the gain on disposal of computer equipment that was returned.
Depreciation	153,419	177,658	(24,239)	-14%	Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the current year fixed asset purchases being under budget, there was less depreciation expense recorded this year.
Total Operating Expenses	\$ 632,073	\$ 526,743	\$ 105,330	20%	
Total Direct Expenses	\$ 1,506,247	\$ 1,423,923	\$ 82,324	6%	
Indirect Expenses	\$ (1,506,247)	\$ (1,423,923)	\$ (82,324)	6%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-	
Total Expenses	\$ -	\$ -	\$ -	-	
Net Change in Assets	\$ -	\$ -	\$ -	-	
Fixed Assets					
Depreciation	\$ (153,419)	\$ (177,658)	\$ 24,239	-14%	Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the current year fixed asset purchases being under budget, there was less depreciation expense recorded this year.
Computer & Software CapEx	40,989	68,400	(27,411)	-40%	Computer & Software CapEx is under budget due to the planned hardware purchases being delayed or reassessed in consideration of the planned 2014 office move.
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
Increase/(Decrease) Fixed Assets	\$ (112,430)	\$ (109,258)	\$ (3,172)	3%	
Allocation of Fixed Assets	\$ 112,430	\$ 109,258	\$ 3,172	3%	
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -	-	
Total Budget	\$ -	\$ -	\$ -	-	
Change in Working Capital	\$ -	\$ -	\$ -	-	
FTEs	5.15	5.50	-0.35	-6%	

Statement of Activities, Fixed Assets and Change in Working Capital

Human Resources

01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	-	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -	-	
Investment Income	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Other Funding	\$ -	\$ -	\$ -	-	
Total Funding	\$ -	\$ -	\$ -	-	
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 250,700	\$ 202,709	\$ 47,991	24%	Salaries were over budget due to the reallocation of the Event Planner/Receptionist position from the General & Administrative Program to the Human Resources Program.
Payroll Taxes	18,791	15,076	3,715	25%	
Employee Benefits	134,902	49,487	85,415	173%	Employee Benefits were over budget as a result of a variance in Company Training. Company Training was over budget due to the additional expenses incurred for the week of company training.
Savings & Retirement	60,524	31,626	28,898	91%	Savings & Retirements expenses were over budget due to the reallocation of the Event Planner/Receptionist position from the General & Administrative Program to the Human Resources Program, along with the administrative costs relating to the management of the company's retirement plan that were not budgeted.
Total Personnel Expenses	\$ 464,917	\$ 298,898	\$ 166,019	56%	
Meeting Expenses					
Meetings	\$ 19,144	\$ 16,200	\$ 2,944	18%	
Travel	7,778	8,500	(722)	-8%	
Conference Calls	-	-	-	-	
Total Meeting Expenses	\$ 26,922	\$ 24,700	\$ 2,222	9%	
Operating Expenses					
Consultants & Contracts	\$ 78,507	\$ 31,000	\$ 47,507	153%	Consultants & Contracts were over budget due to recruitment search fees paid to assist with filling the vacant technical positions.
Office Rent	-	-	-	-	
Office Costs	8,316	4,404	3,912	89%	
Professional Services	37,250	44,410	(7,160)	-16%	
Miscellaneous	16,498	10,690	5,808	54%	
(Gain)/Loss on Disposal of Assets	-	-	-	-	
Depreciation	799	799	-	0%	
Total Operating Expenses	\$ 141,370	\$ 91,303	\$ 50,067	55%	
Total Direct Expenses	\$ 633,209	\$ 414,901	\$ 218,308	53%	
Indirect Expenses	\$ (633,209)	\$ (414,901)	\$ (218,308)	53%	Indirect Expenses are expenses related to the Administrative Services Programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher Human Resource expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-	
Total Expenses	\$ -	\$ -	\$ -	-	
Net Change in Assets	\$ -	\$ -	\$ -	-	
Fixed Assets					
Depreciation	\$ (799)	\$ (799)	\$ -	0%	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
Increase/(Decrease) Fixed Assets	\$ (799)	\$ (799)	\$ -	0%	
Allocation of Fixed Assets	\$ 799	\$ 799	\$ -	0%	
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -	-	
Total Budget	\$ -	\$ -	\$ -	-	
Change in Working Capital	\$ -	\$ -	\$ -	-	
FTEs	3.00	2.00	1.00	50%	

Statement of Activities, Fixed Assets and Change in Working Capital
 Finance & Accounting
 01/01/2013 - 12/31/2013

	2013 Actual	2013 Budget	2013 Variance	%	Explanation of Variances
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 187,490	\$ 202,166	\$ (14,676)	-7%	
Payroll Taxes	13,244	13,065	179	1%	
Employee Benefits	31,776	34,067	(2,291)	-7%	
Savings & Retirement	23,833	31,992	(8,159)	-26%	
Total Personnel Expenses	\$ 256,343	\$ 281,290	\$ (24,947)	-9%	
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -		
Travel	4,354	6,000	(1,646)	-27%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 4,354	\$ 6,000	\$ (1,646)	-27%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ 10,000	\$ (10,000)	-100%	Contracts & Consultants were under budget as a result of the postponement of the implementation of an automated expense management system.
Office Rent	-	-	-		
Office Costs	5,167	3,604	1,563	43%	
Professional Services	42,659	43,100	(441)	-1%	
Miscellaneous	-	-	-		
(Gain)/Loss on Disposal of Assets	-	-	-		
Depreciation	3,143	3,143	-	0%	
Total Operating Expenses	\$ 50,969	\$ 59,847	\$ (8,878)	-15%	
Total Direct Expenses	\$ 311,666	\$ 347,137	\$ (35,471)	-10%	
Indirect Expenses	\$ (311,666)	\$ (347,137)	\$ 35,471	-10%	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 decrease is due to lower Finance & Accounting expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ -	\$ -	\$ -		
Net Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
Depreciation	\$ (3,143)	\$ (3,143)	\$ -	0%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ (3,143)	\$ (3,143)	\$ -	0%	
Allocation of Fixed Assets	\$ 3,143	\$ 3,143	\$ -	0%	
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ -	\$ -	\$ -		
Change in Working Capital	\$ -	\$ -	\$ -		
FTEs	1.65	2.00	-0.35	-18%	

Reliability*First* Corporation

Financial Report
December 31, 2013

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Independent Auditor's Report

To the Board of Directors
ReliabilityFirst Corporation
Akron, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of ReliabilityFirst Corporation which comprise the statements of financial position as of December 31, 2013 and 2012, 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, 2013 and 2012, 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
March 27, 2014

ReliabilityFirst Corporation

**Statements of Financial Position
December 31, 2013 and 2012**

	2013	2012
Assets		
Current Assets		
Cash	\$ 3,455,309	\$ 3,334,556
Investments	3,604,721	5,171,574
Receivables:		
Accounts	164,055	891,634
Lease incentives	855,301	-
Prepaid expenses	424,736	203,305
Total current assets	8,504,122	9,601,069
Fixed Assets		
Furniture and equipment	132,793	124,711
Leasehold improvements	859,549	308,814
Computer software and hardware	2,272,671	2,305,326
	3,265,013	2,738,851
Less accumulated depreciation and amortization	1,956,014	1,600,979
	1,308,999	1,137,872
Total assets	\$ 9,813,121	\$ 10,738,941
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 591,485	\$ 87,637
Accrued expenses (current portion)	3,673,974	3,455,302
Total current liabilities	4,265,459	3,542,939
Long-Term Liabilities		
Accrued expenses (net of current portion)	228,348	316,269
Deferred rent	855,301	-
	1,083,649	316,269
Net Assets		
Unrestricted:		
Undesignated	1,620,880	1,916,800
Designated for reserve fund	1,000,000	1,000,000
Temporarily restricted	1,843,133	3,962,933
Total net assets	4,464,013	6,879,733
Total liabilities and net assets	\$ 9,813,121	\$ 10,738,941

See Notes to Financial Statements.

ReliabilityFirst Corporation

Statements of Activities

Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Revenues:		
Quarterly assessments	\$ 14,165,848	\$ 13,534,272
Investment (loss) income	(66,853)	51,880
Penalty sanctions released from restriction	2,979,800	792,100
Miscellaneous	-	250
	<u>17,078,795</u>	<u>14,378,502</u>
Expenses:		
Program:		
Standards	133,503	283,762
Compliance	8,567,222	7,735,947
Assessment	1,954,152	1,813,756
Training and education	646,201	591,483
Situational awareness	192,074	175,572
General and administrative	2,566,017	2,430,473
Legal and regulatory	592,849	532,264
Information technology	1,353,083	1,452,954
Human resources	632,410	360,093
Finance	308,523	324,235
	<u>16,946,034</u>	<u>15,700,539</u>
General:		
Depreciation and amortization	428,936	440,645
(Gain) loss on disposal of fixed assets	(255)	21,171
	<u>428,681</u>	<u>461,816</u>
	<u>17,374,715</u>	<u>16,162,355</u>
(Decrease) in unrestricted net assets	<u>(295,920)</u>	<u>(1,783,853)</u>
Temporarily Restricted Net Assets		
Penalty sanctions	860,000	1,583,433
Penalty sanctions released from restriction	(2,979,800)	(792,100)
(Decrease) increase in temporarily restricted net assets	<u>(2,119,800)</u>	<u>791,333</u>
Decrease in total net assets	<u>(2,415,720)</u>	<u>(992,520)</u>
Net assets at beginning of year	<u>6,879,733</u>	<u>7,872,253</u>
Net assets at end of year	<u>\$ 4,464,013</u>	<u>\$ 6,879,733</u>

See Notes to Financial Statements.

ReliabilityFirst Corporation

**Statements of Cash Flows
Years Ended December 31, 2013 and 2012**

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ (2,415,720)	\$ (992,520)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	428,936	440,645
(Gain) loss on disposal of fixed assets	(255)	21,171
Unrealized loss on investments	141,889	39,996
Realized loss on investments	6,309	11,061
Changes in assets and liabilities:		
Accounts receivable	727,579	(435,249)
Lease incentives receivable	(855,301)	-
Prepaid expenses	(221,431)	43,247
Accounts payable	503,848	(13,214)
Accrued expenses	130,751	579,799
Deferred rent	855,301	-
Net cash used in operating activities	(698,094)	(305,064)
Cash Flows from Investing Activities		
Purchase of investments	(81,345)	(2,021,437)
Sale of investments	1,500,000	1,500,000
Additions to fixed assets	(599,808)	(292,993)
Proceeds from sale of fixed assets	-	5,740
Net cash provided by (used) in investing activities	818,847	(808,690)
Net increase (decrease) in cash	120,753	(1,113,754)
Cash at beginning of year	3,334,556	4,448,310
Cash at end of year	\$ 3,455,309	\$ 3,334,556

See Notes to Financial Statements.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

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

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

The following is a summary of the Corporation's significant accounting policies which conform to accounting principles generally accepted in the United States of America (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 are non-appealable. Penalty sanctions received on or prior to June 30 of each year shall be applied as a general offset to budget requirements for the subsequent fiscal year. Penalty sanctions received after June 30 of each year shall be applied as a general offset to budget requirements for the next subsequent fiscal year.

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

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 2013 or 2012. 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.

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

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.

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

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

The Corporation files forms 990 in the U.S. federal jurisdiction and the State of Ohio. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

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, 2013 and 2012.

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. Temporary restricted net assets at December 31, 2013 and 2012, were \$1,843,133 and \$3,962,933, 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.

Note 2. Investments

The Corporation maintains an investment portfolio which consists of fixed income securities. The fair values of the investments at December 31, 2013 and 2012, were \$3,604,721 and \$5,171,574, respectively. The composition of investment income (loss) is as follows at December 31:

	2013	2012
Interest/dividends	\$ 81,345	\$ 102,937
Realized loss	(6,309)	(11,061)
Unrealized loss	(141,889)	(39,996)
	<u>\$ (66,853)</u>	<u>\$ 51,880</u>

Note 3. Fair Value

As described in Note 1, the Corporation records its investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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, 2013 and 2012, there were no such transfers.

As of December 31, 2013 and 2012, the Corporation's investments are fixed income class A mutual funds, which are classified as Level 1.

Note 4. Line of Credit

The Corporation has a \$1,000,000 line of credit due on September 24, 2014. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 2.75 percent. The Corporation did not make any drawdowns on the line during the year and had no outstanding balance as of December 31, 2013 or 2012. The Corporation intends to renew the line when it becomes due on September 24, 2014.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 5. Operating Leases

The Corporation leases its office and additional storage space from unrelated third parties. On July 16, 2013, the Corporation provided written notice exercising its early termination right for its existing lease with Bath Springside, Ltd. As a result, the Corporation's lease with Bath Springside, Ltd. will terminate on December 31, 2014 and the Corporation will incur a lease termination penalty of \$200,000, which will be reimbursed by its new landlord, Investors Warranty of America, Inc. The penalty was recorded in accounts payable at December 31, 2013.

On June 14, 2013, the Corporation signed a 13 year lease with Investors Warranty of America, Inc. (Landlord), with an estimated commencement date of March 1, 2014. According to the lease, the Landlord will provide the Corporation with a \$1,854,956 tenant improvement allowance for leasehold improvements and other soft costs. In 2013, the Corporation capitalized \$550,734 in leasehold improvements and \$104,567 in soft costs.

The above reimbursement of the lease termination penalty and the leasehold improvements were recorded in lease incentives receivable and deferred rent at December 31, 2013. This liability will be amortized over the life of the lease against rent expense, starting on the commencement date of the new lease.

Rental expense for operating leases amounted to \$508,704 and \$346,873 for the years ended December 31, 2013 and 2012, respectively. The 2013 rent expense includes \$32,114 in accelerated straight-line amortization of the previous deferred rent liability due to the early termination of the lease. The remaining deferred rent liability of \$72,537 will be recognized against the 2014 straight-line rent expense of \$346,873.

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

2014	\$ 496,336
2015	595,603
2016	595,603
2017	595,603
2018	595,603
Thereafter	4,864,089
	<u>\$ 7,742,837</u>

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 2013 and 2012). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16 percent of employees' eligible compensation in 2013 and 2012. The Corporation's contributions to the plan for 2013 and 2012 were approximately \$1,469,000 and \$1,213,000, respectively.

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	-	-	-	306,561	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 \$ 17,374,715

ReliabilityFirst Corporation

Schedule of Program Expenses
Year Ended December 31, 2012

	Standards	Compliance	Assessment	Training and Education	Situational Awareness	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Finance	Total
Personnel Expenses											
Salaries	\$ 202,280	\$ 4,864,355	\$ 1,220,240	\$ 401,640	\$ 119,921	\$ 1,253,618	\$ 371,782	\$ 599,465	\$ 196,143	\$ 196,068	\$ 9,455,512
Payroll taxes	12,109	349,122	83,346	29,842	9,031	52,293	22,263	41,266	16,193	15,657	631,122
Employee benefits	20,887	665,552	111,461	53,703	4,719	61,454	15,038	96,411	49,682	31,877	1,110,784
Savings and retirement	26,683	662,668	171,091	57,556	14,105	79,279	53,096	87,895	29,755	31,195	1,213,323
Total personnel expenses	261,959	6,541,697	1,586,138	542,741	147,776	1,476,644	462,179	825,037	291,773	274,797	12,410,741
Meeting Expenses											
Meetings	-	4,722	21,947	46,004	4,477	56,397	227	1,109	3,792	214	138,889
Travel	19,214	469,686	90,214	2,738	19,449	62,559	31,947	6,577	6,228	6,879	715,491
Conference calls	75	4,551	1,830	-	77	384	-	28,976	-	-	35,893
Total meeting expenses	19,289	478,959	113,991	48,742	24,003	119,340	32,174	36,662	10,020	7,093	890,273
Operating Expenses											
Rent and improvements	-	-	-	-	-	396,974	-	-	-	-	396,974
Contracts	-	465,337	59,124	-	-	59,285	-	9,515	5,195	-	598,456
Office costs	2,514	103,402	13,183	-	2,945	43,987	10,145	310,398	4,024	725	491,323
Professional services	-	22,439	-	-	-	321,308	27,766	-	37,854	37,642	447,009
Computer purchase and maintenance	-	122,892	40,945	-	-	2,727	-	271,342	932	3,978	442,816
Furniture and equipment	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	1,221	375	-	848	10,208	-	-	10,295	-	22,947
Total operating expenses	2,514	715,291	113,627	-	3,793	834,489	37,911	591,255	58,300	42,345	2,399,525
Subtotal	\$ 283,762	\$ 7,735,947	\$ 1,813,756	\$ 591,483	\$ 175,572	\$ 2,430,473	\$ 532,264	\$ 1,452,954	\$ 360,093	\$ 324,235	\$ 15,700,539

Depreciation and amortization	440,645
Loss on disposal of assets	21,171
Total expenses	<u>\$ 16,162,355</u>

ATTACHMENT 6

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 AUDITED FINANCIAL REPORT

FOR

SERC RELIABILITY CORPORATION



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

May 1, 2014

Mike Walker
Chief Financial Officer
North American Electric Reliability Corporation

SERC 2013 Budget vs. Actual Variance Analysis

Enclosed is SERC's response to your request for information on variances between the 2013 SERC budget and year-end financials.

Overall, SERC over ran 2013 budgeted revenues by \$93,264 and under spent its 2013 budgeted expenses of \$16,094,659 by \$551,358. The net impact was a \$644,622 positive variance on SERC's cash position for the year.

During 2013, SERC conducted 55 audits and spot checks including 16 on-site and 9 off-site operations and planning audits, 4 operations and planning audits of multi-regional Registered Entities, and 9 on-site and 21 off-site CIP audits. SERC adjusted the planned audits and spot checks pursuant to supplemental guidance provided by NERC and FERC. SERC identified 363 new potential violations and closed 323 enforcement actions addressing possible violations identified during the period from 2008 through 2012. In addition, SERC completed all budgeted reliability assessments for the year.

There are several mitigating circumstances, as explained below:

- During 2013, total personnel costs were lower than budget due to several factors. SERC was not fully staffed during 2013 by 7.56 FTEs. Additionally, when preparing the budget, SERC budgeted retirement costs based on historical data. The actual employee contribution for 2013 was lower than budgeted, causing the corresponding company match to be lower than budgeted.
- Due to the strains on the economy, SERC has emphasized the use of conference calls and Webex capabilities to reduce the number of face to face meetings, which reduced travel and meeting costs. Additionally, SERC continues to work with the same hotels, which provides cost savings on larger meetings, and SERC is now hosting more meetings in the Charlotte office at a significantly reduced cost.
- SERC used contractors to support audit and enforcement activities; engaged a management consulting firm to support SERC's corporate initiative for management training; and a project manager and architecture firm to assist with the design, construction, and coordination of the relocation of SERC's offices in 2014, causing an unplanned overrun in Consultants and Contractors.



- In a coordinated effort with the other regional entities on the preparation of the Five Year Assessment, SERC managed the contract with the consultant, subject to reimbursement from the other regional entities. The offsetting revenue is recorded in Miscellaneous income.
- 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,

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

Jennifer Kelly

cc: R. Scott Henry

SERC Reliability Corporation
Statement of Activities
From 1/1/2013 through 12/31/2013

Total Statutory	2013	2013	2013 Variance
	Actual	Budget	from Budget
			Over(Under)
Funding			
ERO Funding			
Assessments	13,829,878	13,829,878	-
Penalty Sanctions	51,000	51,000	-
Total ERO Funding	\$ 13,880,878	\$ 13,880,878	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	173,997	246,000	(72,003)
Interest	1,271	10,000	(8,729)
Miscellaneous	238,996	65,000	173,996
Total Funding (A)	\$ 14,295,142	\$ 14,201,878	\$ 93,264
Expenses			
Personnel Expenses			
Salaries	9,176,085	9,925,148	(749,063)
Payroll Taxes	632,913	595,509	37,404
Employee Benefits	896,790	916,101	(19,311)
Savings & Retirement	1,169,319	1,353,523	(184,204)
Total Personnel Expenses	11,875,107	12,790,281	(915,174)
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	972,997	964,183	8,814
Operating Expenses			
Consultants & Contracts	1,410,698	1,166,947	243,751
Rent & Improvements	403,731	405,407	(1,676)
Office Costs	633,768	361,552	272,216
Professional Services	107,705	105,900	1,805
Miscellaneous	2,148	-	2,148
Depreciation	137,147	300,389	(163,242)
Total Operating Expenses	2,695,197	2,340,195	355,002
Indirect Expenses	-	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	15,543,301	16,094,659	(551,358)
Change in Assets (A - B)	(1,248,159)	(1,892,781)	644,622
Fixed Assets			
Depreciation	(137,147)	(300,389)	163,242
Computer & Software CapEx	474,813	113,333	361,480
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
Incr(Dec) in Fixed Assets	(337,666)	187,056	(524,722)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(337,666)	187,056	(524,722)
TOTAL BUDGET (B - C)	15,880,967	15,907,603	(26,636)
Change in Working Capital (A-B+C)	(1,585,825)	(1,705,725)	119,900
FTE's	69.89	77.45	(7.56)

SERC Reliability Corporation
Statement of Activities
From 1/1/2013 through 12/31/2013
Per Audit

RELIABILITY STANDARDS	2013 Variance				Comments (Explain variances > +/- 10% and \$10,000)
	2013 Actual	2013 Budget	from Budget Over(Under)		
Funding					
ERO Funding					
Assessments	698,880	698,880	-	0.00%	
Penalty Sanctions	2,358	2,358	-	0.00%	
Total ERO Funding	\$ 701,238	\$ 701,238	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	87	-	87		
Total Funding (A)	701,325	701,238	87	0.01%	
Expenses					
Personnel Expenses					
Salaries	226,234	337,825	(111,591)	-33.03%	SERC budgeted 2.66 FTE's in the Standards program during 2013. SERC finished 2013 with 1.72 FTEs, a difference of 0.94 FTEs, causing SERC to be under budget.
Payroll Taxes	17,470	20,270	(2,800)	-13.81%	
Employee Benefits	26,540	34,294	(7,754)	-22.61%	
Savings & Retirement	13,925	46,701	(32,776)	-70.18%	SERC budgeted based on historical employee contributions. The actual employee contribution for 2013 was lower than budgeted, causing the corresponding company match to be lower than budgeted. Additionally, as noted above in Salaries Expense, SERC was not fully staffed. Due to this, SERC incurred less expense.
Total Personnel Expenses	284,169	439,090	(154,921)	-35.28%	
Meeting Expenses					
Meetings	302	-	302		
Travel	5,804	9,101	(3,297)	-36.23%	SERC continues to emphasize the use of technology by hosting meetings using WebEx. By doing this, travel costs have decreased.
Conference Calls	-	-	-		
Total Meeting Expenses	6,106	9,101	(2,995)	-32.91%	
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	799	355	444	125.07%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	799	355	444	125.07%	
Indirect Expenses	300,056	261,342	38,714	14.81%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	591,130	709,888	(118,758)	-16.73%	
Change in Assets (A - B)	110,195	(8,650)	118,845	-1373.93%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(17,273)	8,650	(25,923)	-299.69%	
Total Inc(Dec) in Fixed Assets (C)	(17,273)	8,650	(25,923)	-299.69%	
TOTAL BUDGET (B - C)	608,403	701,238	(92,835)	-13.24%	
Change in Working Capital (A-B+C)	92,922	-	92,922		
FTE's	1.72	2.66	(0.94)	-35.34%	

SERC Reliability Corporation
Statement of Activities
From 1/1/2013 through 12/31/2013
Per Audit

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION

	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	11,150,647	11,150,647	-	0.00%	
Penalty Sanctions	36,796	36,796	-	0.00%	
Total ERO Funding	\$ 11,187,443	\$ 11,187,443	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	1,467	-	1,467		
Total Funding (A)	11,188,910	11,187,443	1,467	0.01%	
Expenses					
Personnel Expenses					
Salaries	4,422,701	5,080,600	(657,899)	-12.95%	SERC budgeted 41.5 FTE's in the Compliance program during 2013. SERC finished 2013 with 37.14 FTEs, a difference of 4.36 FTEs, causing SERC to be under budget. SERC used contractors to assist in completing the work.
Payroll Taxes	331,116	307,536	23,580	7.67%	
Employee Benefits	470,656	483,979	(13,323)	-2.75%	
Savings & Retirement	636,236	705,345	(69,109)	-9.80%	SERC budgeted based on historical employee contributions. The actual employee contribution for 2013 was lower than budgeted, causing the corresponding company match to be lower than budgeted.
Total Personnel Expenses	5,860,709	6,577,460	(716,751)	-10.90%	
Meeting Expenses					
Meetings	26,743	17,910	8,833	49.32%	
Travel	380,406	377,966	2,440	0.65%	
Conference Calls	-	-	-		
Total Meeting Expenses	407,149	395,876	11,273	2.85%	
Operating Expenses					
Consultants & Contracts	474,637	249,167	225,470	90.49%	SERC is over budget in Consultants & Contracts due to the use of contractors to support audit and enforcement activities. Additionally, SERC developed tools to allow for handling of protected entity information and an audit checklist tool, causing an unplanned overrun.
Rent & Improvements	-	-	-		
Office Costs	16,050	12,578	3,472	27.60%	
Professional Services	8,513	15,000	(6,487)	-43.25%	
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	499,200	276,745	222,455	80.38%	
Indirect Expenses	4,174,852	4,072,321	102,531	2.52%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	10,941,910	11,322,402	(380,492)	-3.36%	
Change in Assets (A - B)	247,000	(134,959)	381,959	-283.02%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(241,171)	134,959	(376,130)	-278.70%	
Total Inc(Dec) in Fixed Assets (C)	(241,171)	134,959	(376,130)	-278.70%	
TOTAL BUDGET (B - C)	11,183,081	11,187,443	(4,362)	-0.04%	
Change in Working Capital (A-B+C)	5,829	-	5,829		
FTE's	37.14	41.50	(4.36)	-10.51%	

SERC Reliability Corporation
Statement of Activities
From 1/1/2013 through 12/31/2013
Per Audit

COMPLIANCE ENFORCEMENT ACTIVITY	2013 Variance				Comments (Explain variances > +/- 10% and \$10,000)
Funding	2013 Actual	2013 Budget	from Budget Over(Under)	170.54%	
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	175,852	65,000	110,852	170.54%	The income recorded in Miscellaneous relates to the cross regional monitoring activities for FRCC and SPP. The regional entity audited reimburses SERC for actual costs incurred. The 2013 Budget includes \$15,000 related to enforcement activities for FRCC and \$50,000 related to auditing and enforcement activities for SPP. During 2013, SERC continued to execute its contracted duties and participated on an unbudgeted audit, in accordance with a coordination agreement with FRCC RE.
Total Funding (A)	175,852	65,000	110,852	170.54%	
Expenses					
Personnel Expenses					
Salaries	134,025	45,000	89,025	197.83%	Amount represents the total personnel expenses related to the cross regional monitoring activities for FRCC and SPP. During 2013, SERC continued to execute its contracted duties and participated on an unbudgeted audit, in accordance with a coordination agreement with FRCC RE.
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
Total Personnel Expenses	134,025	45,000	89,025	197.83%	
Meeting Expenses					
Meetings	-	-	-		
Travel	27,173	15,000	12,173	81.15%	Amount represents the travel expenses related to the cross regional monitoring activities for FRCC. During 2013, SERC continued to execute its contracted duties and participated on an unbudgeted audit, in accordance with a coordination agreement with FRCC RE, causing an over run.
Conference Calls	-	-	-		
Total Meeting Expenses	27,173	15,000	12,173	81.15%	
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	-	-	-		
Indirect Expenses	14,654	5,000	9,654	193.08%	
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	175,852	65,000	110,852	170.54%	
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)	175,852	65,000	110,852	170.54%	
Change in Working Capital (A-B+C)	-	-	-		
FTE's	-	-	-		

SERC Reliability Corporation
Statement of Activities
From 1/1/2013 through 12/31/2013
Per Audit

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	1,937,756	1,937,756	-	0.00%	
Penalty Sanctions	6,384	6,384	-	0.00%	
Total ERO Funding	\$ 1,944,140	\$ 1,944,140	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	1,944,140	1,944,140	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	723,751	743,697	(19,946)	-2.68%	SERC budgeted 7.20 FTE's in the RAPA program during 2013. SERC finished 2013 with 6.69 FTEs, a difference of 0.51 FTEs, causing SERC to be under budget. This was offset by the positions within RAPA were filled at a higher than budgeted salary.
Payroll Taxes	56,925	44,622	12,303	27.57%	Payroll Tax expense was higher than budgeted due to filling positions in RAPA at higher than budgeted salaries.
Employee Benefits	93,610	99,594	(5,984)	-6.01%	
Savings & Retirement	93,427	103,868	(10,441)	-10.05%	SERC budgeted based on historical employee contributions. The actual employee contribution for 2013 was lower than budgeted, causing the corresponding company match to be lower than budgeted.
Total Personnel Expenses	967,713	991,781	(24,068)	-2.43%	
Meeting Expenses					
Meetings	28,428	32,285	(3,857)	-11.95%	A greater emphasis on the use of technology by hosting WebEx meetings, as well as utilizing member facilities, has lowered meeting costs.
Travel	69,856	30,667	39,189	127.79%	In an effort to train and develop new staff, SERC sent additional employees to meetings, causing an overrun.
Conference Calls	-	-	-		
Total Meeting Expenses	98,284	62,952	35,332	56.13%	
Operating Expenses					
Consultants & Contracts	194,865	203,000	(8,135)	-4.01%	
Rent & Improvements	-	-	-		
Office Costs	4,648	2,431	2,217	91.20%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	199,513	205,431	(5,918)	-2.88%	
Indirect Expenses	754,653	707,391	47,262	6.68%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	2,020,163	1,967,555	52,608	2.67%	
Change in Assets (A - B)	(76,023)	(23,415)	(52,608)	224.68%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	(43,442)	23,415	(66,857)	-285.53%	
Allocation of Fixed Assets	(43,442)	23,415	(66,857)	-285.53%	
Total Inc(Dec) in Fixed Assets (C)	(43,442)	23,415	(66,857)	-285.53%	
TOTAL BUDGET (B - C)	2,063,605	1,944,140	119,465	6.14%	
Change in Working Capital (A-B+C)	(119,465)	-	(119,465)		
FTE's	6.69	7.20	(0.51)	-7.08%	

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**TRAINING, EDUCATION and OPERATOR
CERTIFICATION**

	2013		2013 Variance from Budget		Comments (Explain variances > +/- 10% and \$10,000)
	Actual	Budget	Over(Under)		
Funding					
ERO Funding					
Assessments	701,400	701,400	-	0.00%	
Penalty Sanctions	2,137	2,137	-	0.00%	
Total ERO Funding	\$ 703,537	\$ 703,537	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	173,997	246,000	(72,003)	-29.27%	In 2013, SERC began holding most meetings in house, 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
Interest	-	-	-		
Miscellaneous	87	-	87		
Total Funding (A)	877,621	949,537	(71,916)	-7.57%	
Expenses					
Personnel Expenses					
Salaries	300,729	334,005	(33,276)	-9.96%	SERC budgeted 7.20 FTE's in the Standards program during 2013. SERC finished 2013 with 6.69 FTEs, a difference of 0.51 FTEs, causing SERC to be under budget.
Payroll Taxes	20,837	20,040	797	3.98%	
Employee Benefits	27,231	26,612	619	2.33%	
Savings & Retirement	35,589	41,864	(6,275)	-14.99%	SERC budgeted based on historical employee contributions. The actual employee contribution for 2013 was lower than budgeted, causing the corresponding company match to be lower than budgeted.
Total Personnel Expenses	384,386	422,521	(38,135)	-9.03%	
Meeting Expenses					
Meetings	142,043	192,975	(50,932)	-26.39%	SERC continues to work with the same hotels, which provides cost savings on larger meetings. Additionally, as noted in the workshop fee revenue, SERC is now hosting more meetings in the Charlotte office at a significantly reduced cost. Finally, a greater emphasis on the use of technology by hosting WebEx meetings has lowered meeting costs.
Travel	13,986	22,781	(8,795)	-38.61%	SERC continues to emphasize the use of technology by hosting meetings using WebEx. Additionally, SERC is now hosting more meetings in the Charlotte office, which does not require staff to travel. By doing this, travel costs have decreased.
Conference Calls	-	-	-		
Total Meeting Expenses	156,029	215,756	(59,727)	-27.68%	
Operating Expenses					
Consultants & Contracts	90,077	82,000	8,077	9.85%	
Rent & Improvements	-	-	-		
Office Costs	4,971	318	4,653	1463.21%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	95,048	82,318	12,730	15.46%	
Indirect Expenses	269,599	236,779	32,820	13.86%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	905,062	957,374	(52,312)	-5.46%	
Change in Assets (A - B)	(27,441)	(7,837)	(19,604)	250.15%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(15,520)	7,837	(23,357)	-298.03%	
Total Inc(Dec) in Fixed Assets (C)	(15,520)	7,837	(23,357)	-298.03%	
TOTAL BUDGET (B - C)	920,582	949,537	(28,955)	-3.05%	
Change in Working Capital (A-B+C)	(42,961)	-	(42,961)		
FTE's	2.39	2.41	(0.02)	-0.83%	

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SITUATION AWARENESS and INFRASTRUCTURE
SECURITY (Includes Critical Infrastructure
Protection)
Funding

	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding					
Assessments	1,046,920	1,046,920	-	0.00%	
Penalty Sanctions	3,325	3,325	-	0.00%	
Total ERO Funding	\$ 1,050,245	\$ 1,050,245	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	87	-	87		
Total Funding (A)	1,050,332	1,050,245	87	0.01%	
Expenses					
Personnel Expenses					
Salaries	380,862	500,945	(120,083)	-23.97%	SERC budgeted 3.75 FTE's in the Situation Awareness program during 2013. SERC finished 2013 with 3.12 FTEs, a difference of 0.63 FTEs, causing SERC to be under budget.
Payroll Taxes	20,980	30,057	(9,077)	-30.20%	As noted above in Salaries Expense, decrease in payroll taxes is due to not being fully staffed.
Employee Benefits	32,467	45,882	(13,415)	-29.24%	As noted above in Salaries Expense, there was less participation in benefits due to not being fully staffed.
Savings & Retirement	61,989	57,116	4,873	8.53%	
Total Personnel Expenses	496,298	634,000	(137,702)	-21.72%	
Meeting Expenses					
Meetings	3,225	16,575	(13,350)	-80.54%	A greater emphasis on the use of technology by hosting WebEx meetings has lowered meeting costs. Additionally, SERC is now hosting more meetings in the Charlotte office at a significantly reduced cost, further reducing expenses, causing the under run.
Travel	55,399	43,172	12,227	28.32%	In an effort to train and develop new staff, SERC sent additional employees to meetings, causing an overrun.
Conference Calls	-	-	-		
Total Meeting Expenses	58,624	59,747	(1,123)	-1.88%	
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	2,316	260	2,056	790.77%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	2,316	260	2,056	790.77%	
Indirect Expenses	351,946	368,433	(16,487)	-4.47%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	909,184	1,062,440	(153,256)	-14.42%	
Change in Assets (A - B)	141,148	(12,195)	153,343	-1257.43%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(20,260)	12,195	(32,455)	-266.13%	
Total Inc(Dec) in Fixed Assets (C)	(20,260)	12,195	(32,455)	-266.13%	
TOTAL BUDGET (B - C)	929,444	1,050,245	(120,801)	-11.50%	
Change in Working Capital (A-B+C)	120,888	-	120,888		
FTE's	3.12	3.75	(0.63)	-16.80%	

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MEMBER FORUMS	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	87	-	87		
Total Funding (A)	87	-	87		
Expenses					
Personnel Expenses					
Salaries	639,983	751,690	(111,707)	-14.86%	SERC budgeted 7.20 FTE's in the Committees and Members Forum program during 2013. SERC finished 2013 with 6.69 FTEs, a difference of 0.51 FTEs, causing SERC to be under budget.
Payroll Taxes	46,782	45,101	1,681	3.73%	
Employee Benefits	57,156	61,616	(4,460)	-7.24%	
Savings & Retirement	65,562	99,754	(34,192)	-34.28%	SERC budgeted based on historical employee contributions. The actual employee contribution for 2013 was lower than budgeted, causing the corresponding company match to be lower than budgeted.
Total Personnel Expenses	809,483	958,161	(148,678)	-15.52%	
Meeting Expenses					
Meetings	11,598	26,125	(14,527)	-55.61%	A greater emphasis on the use of technology by hosting WebEx meetings has lowered meeting costs.
Travel	28,345	34,849	(6,504)	-18.66%	SERC continues to emphasize the use of technology by hosting meetings using WebEx. Additionally, SERC is now hosting more meetings in the Charlotte office, which does not require staff to travel. By doing this, travel costs have decreased.
Conference Calls	-	-	-		
Total Meeting Expenses	39,943	60,974	(21,031)	-34.49%	
Operating Expenses					
Consultants & Contracts	2,756	-	2,756		
Rent & Improvements	-	-	-		
Office Costs	1,477	1,505	(28)	-1.86%	
Professional Services	-	-	-		
Miscellaneous	110	-	110		
Depreciation	-	-	-		
Total Operating Expenses	4,343	1,505	2,838	188.57%	
Indirect Expenses	(853,769)	(1,020,640)	166,871	-16.35%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses					
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	87	-	87		
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)	87	-	87		
FTE's	4.39	4.93	(0.54)	-10.95%	

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GENERAL and ADMINISTRATIVE	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
Funding				
ERO Funding				
Assessments	(1,705,725)	(1,705,725)	-	0.00%
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ (1,705,725)</u>	<u>\$ (1,705,725)</u>	<u>\$ -</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	61,329	-	61,329	SERC is working in a coordinated effort with the other regional entities on the preparation of the Regional Five Year Assessment. SERC is managing the contract with the consultant, subject to reimbursement from the other regional entities. This reimbursement is included in Miscellaneous Income, as an offset to the expense recorded in Contracts and Consultants.
Total Funding (A)	<u>(1,644,396)</u>	<u>(1,705,725)</u>	<u>61,329</u>	<u>-3.60%</u>
Expenses				
Personnel Expenses				
Salaries	2,347,800	2,131,386	216,414	10.15% While SERC is under budget by .56 FTEs in General & Administrative, the positions within G&A were filled at a higher than budgeted salary, causing an over run.
Payroll Taxes	138,803	127,883	10,920	8.54%
Employee Benefits	189,130	164,124	25,006	15.24% There was higher usage of SERC's medical benefits in 2013, causing an over run.
Savings & Retirement	262,591	298,875	(36,284)	-12.14% SERC budgeted based on historical employee contributions. The actual employee contribution for 2013 was lower than budgeted, causing the corresponding company match to be lower than budgeted.
Total Personnel Expenses	<u>2,938,324</u>	<u>2,722,268</u>	<u>216,056</u>	<u>7.94%</u>
Meeting Expenses				
Meetings	64,500	23,290	41,210	176.94% The over run in meetings expenses is due to actual meeting spaces charged more than anticipated in the budget, as well as additional in-house meetings.
Travel	65,429	61,487	3,942	6.41%
Conference Calls	49,760	60,000	(10,240)	-17.07% SERC renegotiated lower rates for the telecommunications component of SERC's web based conferencing platform, causing the under run.
Total Meeting Expenses	<u>179,689</u>	<u>144,777</u>	<u>34,912</u>	<u>24.11%</u>
Operating Expenses				
Consultants & Contracts	211,984	-	211,984	SERC engaged a management consulting firm to support SERC's corporate initiative for management training; a project manager and architecture firm to assist with the design, construction, and coordination of the relocation of SERC's offices in 2014. Both were unbudgeted, but deemed necessary. Additionally, in a coordinated effort with the other regional entities on the preparation of the Five Year Assessment, SERC managed the contract with the consultant, subject to reimbursement from the other regional entities. This was an unbudgeted project, causing an overrun. The offsetting revenue is recorded in Miscellaneous income, as noted above.
Rent & Improvements	403,731	405,407	(1,676)	-0.41%
Office Costs	481,725	189,061	292,664	154.80% The over run in office costs includes one time costs for the purchase of office furniture and equipment to furnish the new office space. Individually, all items were below SERC's capitalization policy and were therefore expensed.
Professional Services	37,366	20,000	17,366	86.83% The variance is comprised of various unbudgeted items, including a property tax bill, and an increase in our general liability insurances.
Miscellaneous	1,038	-	1,038	
Depreciation	137,147	300,389	(163,242)	-54.34% Due to the actual cost of the assets and the timing of when the assets were placed into service, depreciation expense and capital expenditures were lower than the budget, causing the under run.
Total Operating Expenses	<u>1,272,991</u>	<u>914,857</u>	<u>358,134</u>	<u>39.15%</u>
Indirect Expenses	(4,391,004)	(3,781,902)	(609,102)	16.11% Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>(1,644,396)</u>	<u>(1,705,725)</u>	<u>61,329</u>	<u>-3.60%</u>
Fixed Assets				
Depreciation	(137,147)	(300,389)	163,242	-54.34% Due to the actual cost of the assets and the timing of when the assets were placed into service, depreciation expense was lower than the budget, causing the under run.
Computer & Software CapEx	474,813	113,333	361,480	318.95% Due to delays in 2012, several 2012 software projects were completed and capitalized throughout 2013, causing an over run.
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>(337,666)</u>	<u>187,056</u>	<u>(524,722)</u>	
Allocation of Fixed Assets	337,666	(187,056)	524,722	-280.52%
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>(1,644,396)</u>	<u>(1,705,725)</u>	<u>61,329</u>	<u>-3.60%</u>
FTE's	<u>14.44</u>	<u>15.00</u>	<u>(0.56)</u>	<u>-3.73%</u>

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LEGAL and REGULATORY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	1,215	1,768	(553)	-31.28%
Professional Services	26,147	30,000	(3,853)	-12.84%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>27,362</u>	<u>31,768</u>	<u>(4,406)</u>	<u>-13.87%</u>
Indirect Expenses	(27,362)	(31,768)	4,406	-13.87% Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</u>	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	-	-	-	

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INFORMATION TECHNOLOGY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	2013 Variance %	Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>		
Expenses					
Personnel Expenses					
Salaries	-	-	-		
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Meeting Expenses					
Meetings	-	-	-		
Travel	-	-	-		
Conference Calls	-	-	-		
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Operating Expenses					
Consultants & Contracts	424,779	632,780	(208,001)	-32.87%	Participation in the OATI schedule checkout tool was lower than planned in 2013, resulting in an under run from the budgeted cost. However, a change was made to the tool to accommodate the users' need for intra-hour scheduling. The net effect caused an overrun. Additionally, actual costs for hosting and maintaining SERC's servers are lower than budgeted. Finally, SERC did not incur significant costs related to various IT projects, causing an under run.
Rent & Improvements	-	-	-		
Office Costs	107,609	144,916	(37,307)	-25.74%	The budget included funds the purchase of computers and equipment for existing staff replacements and for the budgeted new positions. The majority of these items were purchased in 2012, causing an under run in 2013. Additionally, SERC negotiated better rates on the telephone and internet service, causing an under run.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	<u>532,388</u>	<u>777,696</u>	<u>(245,308)</u>	<u>-31.54%</u>	
Indirect Expenses	(532,388)	(777,696)	245,308	-31.54%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>		
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</u>		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>		
Allocation of Fixed Assets	-	-	-		
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>		
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>		
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>		
FTE's	<u>-</u>	<u>-</u>	<u>-</u>		

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HUMAN RESOURCES	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	10,000	-	10,000	SERC engaged a consultant to offer a climate survey to employees. This was an unbudgeted expense, but deemed necessary.
Rent & Improvements	-	-	-	
Office Costs	699	360	339	94.17%
Professional Services	6,975	10,000	(3,025)	-30.25%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>17,674</u>	<u>10,360</u>	<u>7,314</u>	<u>70.60%</u>
Indirect Expenses	(17,674)	(10,360)	(7,314)	70.60%
				Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</u>	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	-	-	-	

SERC Reliability Corporation
Statement of Activities
From 1/1/2013 through 12/31/2013
Per Audit

ACCOUNTING and FINANCE	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	1,271	10,000	(8,729)	-87.29%	
Miscellaneous	-	-	-		
Total Funding (A)	<u>1,271</u>	<u>10,000</u>	<u>(8,729)</u>	<u>-87.29%</u>	
Expenses					
Personnel Expenses					
Salaries	-	-	-		
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Meeting Expenses					
Meetings	-	-	-		
Travel	-	-	-		
Conference Calls	-	-	-		
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Operating Expenses					
Consultants & Contracts	1,600	-	1,600		
Rent & Improvements	-	-	-		
Office Costs	12,259	8,000	4,259	53.24%	
Professional Services	28,704	30,900	(2,196)	-7.11%	
Miscellaneous	1,000	-	1,000		
Depreciation	-	-	-		
Total Operating Expenses	<u>43,563</u>	<u>38,900</u>	<u>4,663</u>	<u>11.99%</u>	
Indirect Expenses	<u>(43,563)</u>	<u>(28,900)</u>	<u>(14,663)</u>	<u>50.74%</u>	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Total Expenses (B)	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>-100.00%</u>	
Change in Assets (A - B)	<u>1,271</u>	<u>-</u>	<u>1,271</u>		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>		
Allocation of Fixed Assets	-	-	-		
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>		
TOTAL BUDGET (B - C)	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>-100.00%</u>	
Change in Working Capital (A-B+C)	<u>1,271</u>	<u>-</u>	<u>1,271</u>		
FTE's	<u>-</u>	<u>-</u>	<u>-</u>		

SERC RELIABILITY CORPORATION

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

*As of and for the Year Ended December 31, 2013 and
2012*

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, 2013 and 2012, 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, 2013 and 2012, 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 11, 2014

SERC RELIABILITY CORPORATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,685,935	\$ 7,192,908
Accounts receivable	68,691	18,487
Prepaid expenses and other current assets	172,213	127,403
Total current assets	<u>7,926,839</u>	<u>7,338,798</u>
Property and equipment, net	<u>662,478</u>	<u>324,812</u>
Total Assets	<u><u>\$ 8,589,317</u></u>	<u><u>\$ 7,663,610</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 452,530	\$ 465,519
Accrued salaries and related benefits	2,407,098	1,981,820
Deferred revenue	2,318,183	556,606
Total current liabilities	<u>5,177,811</u>	<u>3,003,945</u>
Net assets		
Unrestricted and undesignated	2,215,987	3,473,073
Unrestricted and designated operating reserve	1,195,519	1,186,592
Total Net Assets	<u><u>3,411,506</u></u>	<u><u>4,659,665</u></u>
Total Liabilities and Net Assets	<u><u>\$ 8,589,317</u></u>	<u><u>\$ 7,663,610</u></u>

SERC RELIABILITY CORPORATION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Funding		
Member assessments	\$ 13,829,878	\$ 14,845,275
Penalty sanctions	51,000	434,500
Workshops	173,997	226,574
Interest	1,271	7,665
Miscellaneous	238,996	113,822
Total funding	<u>14,295,142</u>	<u>15,627,836</u>
Expenses		
Personnel expenses:		
Salaries	9,176,085	8,003,504
Payroll taxes	632,913	561,010
Employee benefits	896,790	665,615
Savings and retirement	1,169,319	1,060,293
Total personnel expenses	<u>11,875,107</u>	<u>10,290,422</u>
Meeting expenses:		
Meetings	276,839	341,082
Travel	646,398	581,263
Conference calls	49,760	42,622
Total meeting expenses	<u>972,997</u>	<u>964,967</u>
Operating expenses:		
Contracts and consultants	1,410,698	899,931
Rent and improvements	403,731	404,835
Office costs	633,768	402,242
Professional services	107,705	143,214
Depreciation	137,147	129,449
Miscellaneous	2,148	8,170
Total operating expenses	<u>2,695,197</u>	<u>1,987,841</u>
Total expenses	<u>15,543,301</u>	<u>13,243,230</u>
Change in net assets	(1,248,159)	2,384,606
Net assets		
Beginning of year	<u>4,659,665</u>	<u>2,275,059</u>
End of year	<u>\$ 3,411,506</u>	<u>\$ 4,659,665</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ (1,248,159)	\$ 2,384,606
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	137,147	129,449
Changes in operating assets and liabilities:		
Accounts receivable	(50,204)	29,475
Prepaid expenses and other current assets	(44,810)	(4,102)
Accounts payable	(12,989)	253,723
Accrued salaries and related benefits	425,278	618,500
Deferred revenue	1,761,577	80,279
Net cash provided by operating activities	<u>967,840</u>	<u>3,491,930</u>
Cash flows from investing activities		
Additions to property and equipment	<u>(474,813)</u>	<u>(146,827)</u>
Net increase in cash and cash equivalents	493,027	3,345,103
Cash and cash equivalents		
Beginning of year	<u>7,192,908</u>	<u>3,847,805</u>
End of year	<u>\$ 7,685,935</u>	<u>\$ 7,192,908</u>

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, 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, 2013 and 2012, management has determined that an allowance for doubtful accounts is not necessary.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated economic useful lives of the assets ranging from 5-7 years for leasehold improvements and 3 years for computer equipment and software. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the 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, 2013 AND 2012

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, 2013 or 2012 and, accordingly, no liability has been accrued. The Corporation is no longer subject to tax examinations for years prior to 2010.

Note 3—Property and equipment

Property and equipment includes the following at December 31:

	2013	2012
Leasehold improvements	\$ 53,099	\$ 53,099
Computer equipment	202,048	177,411
Software	918,535	468,360
	<u>1,173,682</u>	<u>698,870</u>
Less: Accumulated depreciation	(511,204)	(374,058)
Property and equipment, net	<u>\$ 662,478</u>	<u>\$ 324,812</u>

Depreciation expense was \$137,147 and \$129,449 for the years ended December 2013 and 2012, respectively.

Note 4—Leases

The Corporation leases office facilities under three operating leases which continue through January 2015. The leases call for monthly payments ranging from \$32,000 to \$35,000.

Subsequent to year end, the Corporation entered into a new operating lease for office space which commences on April 1, 2014 and continues through March 31, 2025. The lease will provide 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 future 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 \$814,710.

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Note 4—Leases (continued)

Total rent expense for the years ended December 31, 2013 and 2012, was \$403,731 and \$404,835, respectively.

Future minimum payments on all operating leases are as follows:

<u>Year ending December 31,</u>		
2014		\$ 410,667
2015		495,442
2016		512,767
2017		524,304
2018		536,101
Thereafter		<u>3,530,777</u>
	Total	<u>\$ 6,010,058</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, 2013) for which all outstanding borrowings shall be payable in full at maturity on August 30, 2014. The line is secured by the assets of the Corporation. The line of credit had no outstanding balance at December 31, 2013 and 2012.

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, 2013 and 2012, contribution expense related to the plan totaled \$1,131,588 and \$1,029,192, respectively.

Deferred compensation plan - The Corporation established a deferred compensation plan in accordance with Internal Revenue Code Section 457 for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. During the years ended December 31, 2013 and 2012, contribution expense related to the plan totaled \$21,036 and \$21,876, respectively. The asset and liability for deferred compensation of \$82,204 and \$61,063 at December 31, 2013 and 2012, respectively, is included in prepaid expenses and other current assets and accrued salaries and related benefits in the accompanying statements of financial position.

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 limited of \$7,343,667 and \$6,960,203 at December 31, 2013 and 2012, respectively.

SERC RELIABILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Note 8—Functional expenses

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

	<u>2013</u>	<u>2012</u>
Program expenses:		
Reliability standards	\$ 291,074	\$ 356,196
Compliance enforcement	6,928,256	5,643,977
Reliability assessment	1,265,510	957,662
Training and education	635,463	643,381
Situation awareness	557,238	999,826
	<u>9,677,541</u>	<u>8,601,042</u>
Committee and member forums	<u>853,769</u>	<u>544,597</u>
General and administrative expenses:		
General and administrative	4,391,004	3,480,171
Legal and regulatory	27,362	49,805
Information technology	532,388	526,603
Human resources	17,674	50
Accounting and finance	43,563	40,962
	<u>5,011,991</u>	<u>4,097,591</u>
Total	<u>\$ 15,543,301</u>	<u>\$ 13,243,230</u>

Note 9—Subsequent events

Management has evaluated subsequent events through April 11, 2014, the date the financial statements were issued.

ACCOMPANYING INFORMATION

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	<u>2013 YTD Actual</u>	<u>2013 YTD Budget</u>	<u>2013 YTD 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

YEAR ENDED DECEMBER 31, 2012

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

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS BY FUNCTION

YEAR ENDED DECEMBER 31, 2013

	300	400	800	900	1000	1100	2000	2200	2300	2400	2500	2013 YTD	2013 YTD	2013 YTD
	RELIAB	COMP ENFORCE/	RELIAB	TRAINING	SIT	COMMITTEE &	GENERAL	LEGAL &		HUMAN	ACCOUNTING	Actual	Budget	Variance
	STD DEV	ORG REG & CERT	ASSES	& EDUC	AWARE	MBR FORUMS	ADMIN	REGULATORY	IT	RESOURCES	& FINANCE			
Funding														
Member assessments	\$ 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

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS BY FUNCTION

YEAR ENDED DECEMBER 31, 2012

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

ATTACHMENT 7

2013 ACTUAL COST-TO-BUDGET COMPARISON

FOR

SOUTHWEST POWER POOL REGIONAL ENTITY

AND

2013 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

May 1, 2014

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 2013 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) 2013 Actual Cost-to-Budget Comparison (2013 True Up Filing). For 2013, the SPP RE received approximately \$9.5 million in statutory funds and incurred approximately \$9.7 million in statutory expense (compared to \$11.5 million budget).

The \$2.8 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 \$153 thousand negative variance (compared to the budgeted \$1.9 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 - \$4,087K or 16% 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, 2013. There was also less than expected activity required by shared staff in the Reliability Standards program area due to the completion of the SPP UFLS regional standard.¹
- **Travel and Meeting Expenses** (Actual - \$447K or 24% under budget) –Travel expenses were less than expected primarily due to the unfilled budgeted staff positions.

¹ NERC filed a petition to FERC for approval of SPP's UFLS Regional Standard (PRC-006-01) on April 23, 2013. SPP RE's Board of Trustee's approved the recall of PRC-006-01 on August 8, 2013 and NERC filed a petition with FERC to withdraw the standard on December 11, 2013. By operation of law, the standard was withdrawn as of December 27, 2013.

- **Other Operating Expenses** (Actual - \$961K or 44% under budget) – Other operating expenses trailed budget primarily due to the delayed implementation of the BES exception process.
- **SPP, Inc. Indirect Expense** (Actual - \$4,187K or 4% under budget) – SPP, Inc. Indirect Expenses were less than budget due to actual FTEs being lower than budgeted and a slight decrease in the actual 2013 Indirect Expenses. Indirect Expenses are discussed in greater detail in the discussion that follows.
- **Total Expenses** (Actual \$9.7 million or 16% under budget) – Although SPP RE ended the year under budget, SPP RE completed its intended activities for 2013. Although SPP RE is under budget, SPP RE has completed its required activities principally as a result of the increased experience of the RE direct staff, a higher level of Registered Entity compliance, particularly in the Operations and Planning area, resulting in a declining number of incoming violations, and enhanced efficiencies in internal SPP RE processes.

Specifically, SPP RE performed 42 audits, performed 3 spot checks, processed 271 technical feasibility exceptions, identified 189 possible violations, processed 175 violations, reviewed 180 mitigation plans, and examined 22 reportable events. In addition, SPP RE conducted various outreach activities, participated in the facility ratings alert program, and published winter, summer, and long-term reliability assessments.

SPP, Inc. Shared Staff and Indirect Support Staff

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

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

Budget. For 2013, shared staff charged 4,739 hours, or 2.52 FTEs based on SPP's standard assumption that total number of hours in a year is 1,880, to the SPP RE. 2013 budgeted shared staff FTEs were 4.0.

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 2013 budget was the actual Indirect Overhead Rate for 2011, which was \$67.35/hour. The actual 2013 Indirect Overhead Rate was \$74.26/hour. The development of the \$67.35/hour rate that was used in the development of the 2013 budget and the \$74.26/hour rate embedded in the actual 2013 costs are shown in Attachments 2 and 3, respectively.

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

Southwest Power Pool
Regional Entity
Statement of Activities
From 1/1/2013 through 12/31/2013

	2013	2013	2013 Variance
	Actual	Budget	from Budget Over(Under)
Total Statutory			
Funding			
ERO Funding			
Assessments	8,530,054	8,530,054	-
Penalty Sanctions	995,020	995,020	-
Total ERO Funding	\$ 9,525,074	\$ 9,525,074	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	2,818	-	2,818
Miscellaneous	-	-	-
Total Funding (A)	\$ 9,527,892	\$ 9,525,074	\$ 2,818
Expenses			
Personnel Expenses			
Salaries	3,425,528	4,072,621	(647,093)
Payroll Taxes	229,225	311,555	(82,330)
Employee Benefits	293,743	312,164	(18,421)
Savings & Retirement	138,143	162,905	(24,762)
Total Personnel Expenses	\$ 4,086,639	\$ 4,859,245	\$ (772,606)
Meeting Expenses			
Meetings	81,602	86,500	(4,898)
Travel	365,676	499,000	(133,324)
Conference Calls	-	-	-
Total Meeting Expenses	\$ 447,278	\$ 585,500	\$ (138,222)
Operating Expenses			
Consultants & Contracts	651,204	1,383,150	(731,946)
Rent & Improvements	-	-	-
Office Costs	12,310	2,500	9,810
Professional Services	297,197	316,100	(18,903)
Miscellaneous	-	-	-
Depreciation	-	-	-
Total Operating Expenses	\$ 960,711	\$ 1,701,750	\$ (741,039)
Total Direct Expenses	\$ 5,494,628	\$ 7,146,495	\$ (1,651,867)
SPP Inc. Indirect Expenses	\$ 4,186,854	\$ 4,368,323	\$ (181,469)
SPP RE Indirect Expenses ⁽¹⁾	\$ 0	\$ -	\$ 0
Total Indirect Expenses	\$ 4,186,854	\$ 4,368,323	\$ (181,469)
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses (B)	\$ 9,681,482	\$ 11,514,818	\$ (1,833,336)
Change in Assets (A - B)	(153,590)	(1,989,744)	1,836,154
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)	\$ 9,681,482	\$ 11,514,818	\$ (1,833,336)
Change in Working Capital (A-B-C)	\$ (153,590)	\$ (1,989,744)	\$ 1,836,154
FTEs (2)	30.00	34.50	(4.50)

(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 2013 divided by 365) plus Shared Staff FTEs (2013 billed hours divided by 1880)

Southwest Power Pool
Regional Entity
Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013

RELIABILITY STANDARDS	2013 Variance			Comments (Explain variances > +/- 10% and >\$10,000)
	2013 Actual	2013 Budget	from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	351,841	351,841	-	0.00%
Penalty Sanctions	39,801	39,801	-	0.00%
Total ERO Funding	\$ 391,642	\$ 391,641	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 391,642	\$ 391,641	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	44,611	154,835	(110,224)	-71.19%
Payroll Taxes	2,976	11,845	(8,869)	-74.88%
Employee Benefits	3,625	9,390	(5,765)	-61.40%
Savings & Retirement	1,813	6,193	(4,380)	-70.73%
Total Personnel Expenses	\$ 53,025	\$ 182,263	\$ (129,238)	-70.91%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	5,000	(5,000)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ 5,000	\$ (5,000)	-100.00%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ 53,025	\$ 187,263	\$ (134,238)	-71.68%
SPP Inc. Indirect Expenses	94,934	158,273	(63,339)	-40.02%
SPP RE Indirect Expenses	17,548	46,105	(28,557)	-61.94%
Total Indirect Expenses	\$ 112,482	\$ 204,378	\$ (91,896)	-44.96%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 165,507	\$ 391,641	\$ (226,134)	-57.74%
Change in Assets (A - B)	\$ 226,135	\$ -	\$ 226,134	
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)	\$ 165,507	\$ 391,641	\$ (226,134)	-57.74%
Change in Working Capital (A-B-C)	\$ 226,135	\$ -	\$ 226,134	
FTE's	0.68	1.25	(0.57)	-45.60%

Personnel Expenses, including taxes and benefits, trailed budget primarily due to the completion of SPP's Regional UFLS Standard. NERC filed a petition with FERC for approval of the standard on April 23, 2013.

Meeting expenses trailed budget due to the completion of the Regional UFLS standard and subsequent filing in April 2013.

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 were lower than budgeted FTEs due to less than expected activity by Shared Staff and RE Direct Staff because of the completion of the UFLS standard in April 2013.

**Southwest Power Pool
Regional Entity
Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013**

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION (Includes Critical Infrastructure Protection)	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding					
ERO Funding					
Assessments	7,455,643	7,455,643	-	0.00%	
Penalty Sanctions	708,454	708,454	-	0.00%	
Total ERO Funding	\$ 8,164,097	\$ 8,164,097	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	\$ 8,164,097	\$ 8,164,097	\$ -	0.00%	
Expenses					
Personnel Expenses					
Salaries	2,309,533	2,594,600	(285,067)	-10.99%	Personnel Expenses, including taxes and benefits, trailed budget primarily due to unfilled budgeted positions. As of December 31, 2013, four positions (Direct 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.
Payroll Taxes	151,857	198,487	(46,630)	-23.49%	
Employee Benefits	204,278	207,142	(2,864)	-1.38%	
Savings & Retirement	92,642	103,784	(11,142)	-10.74%	
Total Personnel Expenses	\$ 2,758,310	\$ 3,104,013	\$ (345,703)	-11.14%	
Meeting Expenses					
Meetings	48,798	6,500	42,298	651%	Meeting Expenses exceeded budget due to the number of compliance and enforcement meetings held relative to those budgeted.
Travel	283,814	310,000	(26,186)	-8.45%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 332,612	\$ 316,500	\$ 16,112	5.09%	
Operating Expenses					
Consultants & Contracts	651,205	870,000	(218,795)	-25.15%	Consultant and Contractor Expenses trailed budget due to a reduction in the use of these services because of the increased experience of Direct Staff and the delay in the implementation date of the BES definition.
Rent & Improvements	-	-	-		
Office Costs	7,275	-	7,275		
Professional Services	66	-	66		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 658,546	\$ 870,000	\$ (211,454)	-24.31%	
Total Direct Expenses	\$ 3,749,468	\$ 4,290,513	\$ (541,045)	-12.61%	
SPP Inc. Indirect Expenses	2,807,434	2,817,251	(9,817)	-0.35%	SPP RE Indirect Expenses allocated to this program area exceeded budget due to a larger percentage being allocated to this program area based on the relative share of functional program direct expenses.
SPP RE Indirect Expenses	1,240,817	1,056,333	184,484	17.46%	
Total Indirect Expenses	\$ 4,048,251	\$ 3,873,584	\$ 174,667	4.51%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses (B)	\$ 7,797,719	\$ 8,164,097	\$ (366,378)	-4.49%	
Change in Assets (A - B)	\$ 366,378	\$ -	\$ 366,378		
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)	\$ 7,797,719	\$ 8,164,097	\$ (366,378)	-4.49%	
Change in Working Capital (A-B-C)	\$ 366,378	\$ -	\$ 366,378		
FTE's	20.12	22.25	(2.13)	-9.57%	FTEs were lower than budget due to the unfilled budgeted positions.

Southwest Power Pool
Regional Entity
Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	2,399,251	2,399,251	-	0.00%
Penalty Sanctions	206,964	206,964	-	0.00%
Total ERO Funding	<u>\$ 2,606,215</u>	<u>\$ 2,606,215</u>	<u>\$ -</u>	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>\$ 2,606,215</u>	<u>\$ 2,606,215</u>	<u>\$ -</u>	0.00%
Expenses				
Personnel Expenses				Personnel Expenses, including taxes and benefits, trailed budget primarily due to the unfilled budgeted positions.
Salaries	488,568	692,278	(203,710)	-29.43%
Payroll Taxes	37,026	52,959	(15,933)	-30.09%
Employee Benefits	32,925	51,828	(18,903)	-36.47%
Savings & Retirement	19,723	27,691	(7,968)	-28.77%
Total Personnel Expenses	<u>\$ 578,242</u>	<u>\$ 824,756</u>	<u>\$ (246,514)</u>	-29.89%
Meeting Expenses				Travel Expenses trailed budget primarily due to the unfilled budgeted positions and the promotion of the Manager of Regulatory Interface and Process Improvement from Direct Staff in the RAPA program area.
Meetings	-	-	-	
Travel	23,765	108,000	(84,235)	-78.00%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>\$ 23,765</u>	<u>\$ 108,000</u>	<u>\$ (84,235)</u>	-78.00%
Operating Expenses				Consultant and Contract Expenses trailed budget primarily due to the delay in the implementation of the BES definition.
Consultants & Contracts	-	498,150	(498,150)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	80	-	80	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>\$ 80</u>	<u>\$ 498,150</u>	<u>\$ (498,070)</u>	-99.98%
Total Direct Expenses	<u>\$ 602,087</u>	<u>\$ 1,430,906</u>	<u>\$ (828,819)</u>	-57.92%
SPP Inc. Indirect Expenses	558,520	823,017	(264,497)	-32.14%
SPP RE Indirect Expenses	199,250	352,292	(153,042)	-43.44%
Total Indirect Expenses	<u>\$ 757,770</u>	<u>\$ 1,175,309</u>	<u>\$ (417,539)</u>	-35.53%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-
Total Expenses (B)	<u>\$ 1,359,857</u>	<u>\$ 2,606,215</u>	<u>\$ (1,246,358)</u>	-47.82%
Change in Assets (A - B)	<u>\$ 1,246,358</u>	<u>\$ -</u>	<u>\$ 1,246,358</u>	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
TOTAL BUDGET (B + C)	<u>\$ 1,359,857</u>	<u>\$ 2,606,215</u>	<u>\$ (1,246,358)</u>	-47.82%
Change in Working Capital (A-B-C)	<u>\$ 1,246,358</u>	<u>\$ -</u>	<u>\$ 1,246,358</u>	
FTE's	4.00	6.50	(2.50)	-38.45%

FTEs were lower than budget due to the unfilled budgeted positions.

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01/01/2013 - 12/31/2013

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	185,750	185,750	-	0.00%
Penalty Sanctions	31,841	31,841	-	0.00%
Total ERO Funding	<u>\$ 217,591</u>	<u>\$ 217,591</u>	<u>\$ -</u>	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>\$ 217,591</u>	<u>\$ 217,591</u>	<u>\$ -</u>	0.00%
Expenses				
Personnel Expenses				
Salaries	80,603	-	80,603	To maintain salary confidentiality, Personnel Expenses for the Outreach and Standards Coordinator are budgeted in the Compliance Program.
Payroll Taxes	6,166	-	6,166	
Employee Benefits	4,851	-	4,851	
Savings & Retirement	3,224	-	3,224	
Total Personnel Expenses	<u>\$ 94,844</u>	<u>\$ -</u>	<u>\$ 94,844</u>	
Meeting Expenses				
Meetings	22,419	55,000	(32,581)	-59.24% 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 Gen & Admin program area.
Travel	-	13,000	(13,000)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>\$ 22,419</u>	<u>\$ 68,000</u>	<u>\$ (45,581)</u>	-67.03%
Operating Expenses				
Consultants & Contracts	-	-	-	Professional Services Expenses trailed budget because SPP RE's video series expenses were lower than projected.
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	3,315	5,000	(1,685)	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>\$ 3,315</u>	<u>\$ 5,000</u>	<u>\$ (1,685)</u>	-33.70%
Total Direct Expenses	<u>\$ 120,578</u>	<u>\$ 73,000</u>	<u>\$ 47,578</u>	65.18%
SPP Inc. Indirect Expenses	104,707	126,618	(21,911)	-17.31%
SPP RE Indirect Expenses	39,903	17,973	21,930	122.02%
Total Indirect Expenses	<u>\$ 144,610</u>	<u>\$ 144,591</u>	<u>\$ 19</u>	0.01%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses (B)	<u>\$ 265,188</u>	<u>\$ 217,591</u>	<u>\$ 47,597</u>	21.87%
Change in Assets (A - B)	<u>\$ (47,597)</u>	<u>\$ -</u>	<u>\$ (47,597)</u>	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
TOTAL BUDGET (B + C)	<u>\$ 265,188</u>	<u>\$ 217,591</u>	<u>\$ 47,597</u>	21.87%
Change in Working Capital (A-B-C)	<u>\$ (47,597)</u>	<u>\$ -</u>	<u>\$ (47,597)</u>	
FTE's	0.75	1.00	(0.25)	-25.00% FTEs were lower than budget due to a reassignment of personnel to other program areas.

Southwest Power Pool
Regional Entity
Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013

SITUATION AWARENESS and INFRASTRUCTURE SECURITY Funding	2013 Actual	2013 Budget	2013 Variance from Budget	Comments (Explain variances > +/- 10% and >\$10,000)
ERO Funding				
Assessments	127,313	127,313	-	0.00%
Penalty Sanctions	7,960	7,960	-	0.00%
Total ERO Funding	<u>\$ 135,273</u>	<u>\$ 135,273</u>	<u>\$ -</u>	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>\$ 135,273</u>	<u>\$ 135,273</u>	<u>\$ -</u>	0.00%
Expenses				
Personnel Expenses				
Salaries	37,792	72,790	(34,998)	-48.08%
Payroll Taxes	2,891	5,568	(2,677)	-48.08%
Employee Benefits	1,617	1,878	(261)	-13.90%
Savings & Retirement	1,512	2,912	(1,400)	-48.08%
Total Personnel Expenses	<u>\$ 43,812</u>	<u>\$ 83,148</u>	<u>\$ (39,336)</u>	-47.31%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Direct Expenses	<u>\$ 43,812</u>	<u>\$ 83,148</u>	<u>\$ (39,336)</u>	-47.31%
SPP Inc. Indirect Expenses	34,902	31,655	3,247	10.26%
SPP RE Indirect Expenses	14,499	20,471	(5,972)	-29.17%
Total Indirect Expenses	<u>\$ 49,401</u>	<u>\$ 52,126</u>	<u>\$ (2,725)</u>	-5.23%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses (B)	<u>\$ 93,213</u>	<u>\$ 135,274</u>	<u>\$ (42,061)</u>	-31.09%
Change in Assets (A - B)	<u>\$ 42,060</u>	<u>\$ -</u>	<u>\$ 42,061</u>	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
TOTAL BUDGET (B + C)	<u>\$ 93,213</u>	<u>\$ 135,274</u>	<u>\$ (42,061)</u>	-31.09%
Change in Working Capital (A-B-C)	<u>\$ 42,060</u>	<u>\$ -</u>	<u>\$ 42,061</u>	
FTE's	0.25	0.25	-	0.00%

Southwest Power Pool
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Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013

Variance

from

Budget

Comments (Explain variances > +/- 10%
and >\$10,000)

MEMBER FORUMS

	2013 Actual	2013 Budget	Budget Over(Under)	
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Funding

ERO Funding			-	
Assessments			-	
Penalty Sanctions			-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	

Expenses

Personnel Expenses			-	
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	-	-	-	
Meeting Expenses			-	
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	-	-	-	
Operating Expenses			-	
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	-	-	-	
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	

Fixed Assets

Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	

TOTAL BUDGET (B + C)

	-	-	-	
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FTE's

	-	-	-	
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Southwest Power Pool
Regional Entity
Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013
2013 Variance

GENERAL and ADMINISTRATIVE	2013 Actual	2013 Budget	2013 from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	(1,989,744)	(1,989,744)	-	0.00%
Penalty Sanctions				
Total ERO Funding	<u>\$ (1,989,744)</u>	<u>\$ (1,989,744)</u>	<u>\$ -</u>	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>\$ (1,989,744)</u>	<u>\$ (1,989,744)</u>	<u>\$ -</u>	0.00%
Expenses				
Personnel Expenses				
Salaries	464,421	558,118	(93,697)	-16.79%
Payroll Taxes	28,309	42,696	(14,387)	-33.70%
Employee Benefits	46,447	41,926	4,521	10.78%
Savings & Retirement	19,229	22,325	(3,096)	-13.87%
Total Personnel Expenses	<u>\$ 558,406</u>	<u>\$ 665,065</u>	<u>\$ (106,659)</u>	-16.04%
Meeting Expenses				
Meetings	10,385	25,000	(14,615)	-58.46%
Travel	58,097	63,000	(4,903)	-7.78%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>\$ 68,482</u>	<u>\$ 88,000</u>	<u>\$ (19,518)</u>	-22.18%
Operating Expenses				
Consultants & Contracts	-	15,000	(15,000)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	4,955	2,500	2,455	98.20%
Professional Services	139,366	161,100	(21,734)	-13.49%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>\$ 144,321</u>	<u>\$ 178,600</u>	<u>\$ (34,279)</u>	-19.19%
Total Direct Expenses	<u>\$ 771,209</u>	<u>\$ 931,665</u>	<u>\$ (160,456)</u>	-17.22%
SPP Inc. Indirect Expenses	586,357	411,509	174,848	42.49%
SPP RE Indirect Expenses	(1,357,566)	(1,343,173)	(14,392)	1.07%
Total Indirect Expenses	<u>\$ (771,209)</u>	<u>\$ (931,665)</u>	<u>\$ 160,456</u>	-17.22%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses (B)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Change in Assets (A - B)	<u>\$ (1,989,744)</u>	<u>\$ (1,989,744)</u>	<u>\$ -</u>	0.00%
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
TOTAL BUDGET (B + C)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Change in Working Capital (A-B-C)	<u>\$ (1,989,744)</u>	<u>\$ (1,989,744)</u>	<u>\$ -</u>	0.00%
FTE's	4.20	3.25	0.95	0.00% FTEs were higher than budget due to the reassignment of personnel to this program area.

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LEGAL and REGULATORY	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	154,450	150,000	4,450	2.97%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>154,450</u>	<u>150,000</u>	<u>4,450</u>	<u>2.97%</u>
Total Direct Expenses	<u>154,450</u>	<u>150,000</u>	<u>4,450</u>	
SPP Inc. Indirect Expenses	-	-	-	
SPP RE Indirect Expenses	(154,450)	(150,000)	(4,450)	
Total Indirect Expenses	<u>\$ (154,450)</u>	<u>\$ (150,000)</u>	<u>\$ (4,450)</u>	<u>2.97%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</u>	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B + C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B-C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	<u>-</u>	<u>-</u>	<u>-</u>	

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INFORMATION TECHNOLOGY	2013	2013	2013 Variance	
Funding	Actual	Budget	from Budget	Comments (Explain variances > +/- 10% and >\$10,000)
			Over(Under)	
ERO Funding				
Assessments			-	The costs for IT services to support all RE programs are accounted for within the SPP , Inc. indirect expenses.
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-		-	
Membership Fees	-		-	
Testing	-		-	
Services & Software	-		-	
Workshop Fees	-		-	
Interest	-		-	
Miscellaneous	-		-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	-		-	
Payroll Taxes	-		-	
Employee Benefits	-		-	
Savings & Retirement	-		-	
Total Personnel Expenses	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings	-		-	
Travel	-		-	
Conference Calls	-		-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contracts	-		-	
Rent & Improvements	-		-	
Office Costs	-		-	
Professional Services	-		-	
Miscellaneous	-		-	
Depreciation	-		-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ -	\$ -	\$ -	
SPP Inc. Indirect Expenses	-		-	
SPP RE Indirect Expenses	-		-	
Total Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets (A - B)	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-		-	
Furniture & Fixtures CapEx	-		-	
Equipment CapEx	-		-	
Leasehold Improvements	-		-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-		-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ -	\$ -	\$ -	
Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	
FTE's	-		-	

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HUMAN RESOURCES	2013	2013	Variance	
	Actual	Budget	from Budget	
			Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				
ERO Funding				The costs for HR services to support all RE programs are accounted for within the SPP , Inc. Indirect expenses.
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 Expense:	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contra	-	-	-	
Rent & Improvement:	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expense:	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Ex	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets (A - B)	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software	-	-	-	
Furniture & Fixtures C	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improve	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Ass	-	-	-	
Total Inc(Dec) in Fixed Ass	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ -	\$ -	\$ -	
Change in Working Capita	\$ -	\$ -	\$ -	
FTE's	-	-	-	

Southwest Power Pool
Regional Entity
Statement of Activities and Capital Expenditures
01/01/2013 - 12/31/2013

ACCOUNTING and FINANCE	2013 Actual	2013 Budget	2013 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
Funding				The costs for Financial services to support all RE programs are accounted for within the SPP , Inc. Indirect expenses.
ERO Funding				
Assessments			-	
Penalty Sanctions			-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants			-	
Membership Fees			-	
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest			-	
Miscellaneous			-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries			-	
Payroll Taxes			-	
Employee Benefits			-	
Savings & Retirement			-	
Total Personnel Expenses	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings			-	
Travel			-	
Conference Calls			-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contracts			-	
Rent & Improvements			-	
Office Costs			-	
Professional Services			-	
Miscellaneous			-	
Depreciation			-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses			-	
Total Expenses (B)			-	
Change in Assets (A - B)			-	
Fixed Assets				
Depreciation	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)	\$ -	\$ -	\$ -	

CALCULATION OF THE SPP INC. INDIRECT EXPENSE RATE¹

<u>Support Groups²</u>	Overhead Costs to <u>Allocate</u>	
Administration	\$	13,512,703 *
Officers		5,186,792 **
Accounting		1,126,218
SPP Compliance- Physical Security		191,153
Human Resources		2,161,869
Customer Services		560,123
Legal		1,254,391
Communications		320,881
Information Technology		13,795,479
Total Costs	\$	38,109,609 A

<u>Non-Support Resource Groups</u>	
Ending 2011 Headcounts	301
Average Work Hours/FTE in 2011	1,880
# of Work Hours in 2011	565,880 B

2011 Indirect Overhead Expense Rate (A/B) \$ 67.35

Times Budgeted SPP RE FTEs	34.50
Times Average Work Hours/FTE	1,880
Budgeted SPP Inc. Indirect Costs	\$ 4,368,321

¹Due to the timing of the budget process/schedule, the estimated overhead rate for 2013 is based on actual 2011 costs. Any variance between the estimated overhead rate and the actual 2013 overhead rate will be included in the annual 2013 Business Plan and

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.

Increase in SPP, Inc. OH Costs due to Change in FTEs

CALCULATION OF THE SPP INC. ACTUAL INDIRECT EXPENSE RATE

<u>Support Groups</u> ¹	<u>Overhead Costs to Allocate</u>	
Administration	\$	18,800,747 *
Officers		5,121,360 **
Accounting		1,245,053
Corporate Services		5,101,970
SPP Compliance - Physical Security		-
Human resources		-
Customer Services		-
Legal		1,470,717
Communications		378,593
Information Technology		15,066,273
Total Costs	\$	47,184,713 A
<u>Non-Support Resource Groups</u>		
Ending 2011 Headcounts		338
Average Work Hours/FTE in 2011		1880
# of Work Hours in 2011		635,440 B
2013 Indirect Overhead Expense Rate (A/B)	\$	74.26
Times ACTUAL SPP RE FTEs		30.00
Times Average Work Hours/FTE		1,880
Budgeted SPP Inc. Indirect Costs	\$	4,186,854

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, 2013 and 2012



Southwest Power Pool, Inc.
December 31, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Little Rock, Arkansas
April 7, 2014

Southwest Power Pool, Inc.
Balance Sheets
(In Thousands)
December 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 34,874	\$ 95,693
Restricted cash deposits	76,713	43,743
Accounts receivable	24,134	17,923
Prepaid expenses and other	6,967	5,412
Total current assets	142,688	162,771
 Property and Equipment, at Cost		
Land	4,812	4,812
Building	66,225	67,378
Furniture and fixtures	10,026	9,891
Equipment and machinery	29,364	35,343
Leasehold improvements	-	588
Software	106,003	81,344
Software in development	106,895	76,539
	323,325	275,895
Less accumulated depreciation and amortization	119,065	102,143
	204,260	173,752
 Other Assets, Net	 4,463	 2,997
	\$ 351,411	\$ 339,520

See Notes to Financial Statements

Liabilities and Members' Deficit

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Accounts payable	\$ 15,953	\$ 9,831
Customer deposits	76,713	43,913
Current maturities of long-term debt (<i>Note 3</i>)	22,998	12,700
Accrued expenses	29,039	28,741
Deferred revenue	<u>5,919</u>	<u>6,286</u>
Total current liabilities	150,622	101,471
Long-term Debt (<i>Note 3</i>)	235,260	258,258
Other Long-term Liabilities	6,425	10,519
Members' Deficit	<u>(40,896)</u>	<u>(30,728)</u>
	<u>\$ 351,411</u>	<u>\$ 339,520</u>

Southwest Power Pool, Inc.
Statements of Operations
(In Thousands)
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Income		
Tariff fees and member assessments	\$ 137,811	\$ 118,808
Other member services	<u>4,926</u>	<u>29,111</u>
	<u>142,737</u>	<u>147,919</u>
Operating Expenses		
Salaries and benefits	79,661	72,262
Employee travel	1,868	2,245
Administrative	3,967	3,720
Regulatory assessment	14,699	14,977
Meetings	930	983
Communications system	3,666	4,020
Leases	432	1,690
Maintenance	11,300	8,288
Consulting services	16,077	15,160
Depreciation and amortization	<u>19,398</u>	<u>16,590</u>
	<u>151,998</u>	<u>139,935</u>
Operating (Loss) Income	<u>(9,261)</u>	<u>7,984</u>
Other Income (Expense)		
Interest income	223	149
Interest expense	(7,763)	(6,398)
Change in fair market value of interest rate swaps	923	674
Other expense	<u>258</u>	<u>(214)</u>
	<u>(6,359)</u>	<u>(5,789)</u>
(Loss) Income Before Change in Funded Status of Employee Benefit Plans	(15,620)	2,195
Change in Funded Status of Employee Benefit Plans	<u>5,452</u>	<u>(3,501)</u>
Net Loss	<u>\$ (10,168)</u>	<u>\$ (1,306)</u>

Southwest Power Pool, Inc.
Statements of Members' Deficit
(In Thousands)
Years Ended December 31, 2013 and 2012

	2013	2012
Balance, Beginning of Year	\$ (30,728)	\$ (29,422)
Net loss	(10,168)	(1,306)
Balance, End of Year	\$ (40,896)	\$ (30,728)

Southwest Power Pool, Inc.
Statements of Cash Flows
(In Thousands)
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Net loss	\$ (10,168)	\$ (1,306)
Items not requiring cash		
Depreciation and amortization	19,398	16,590
Change in funded status of employee benefit plans	(5,452)	3,501
Loss on disposal of fixed assets	2	264
Change in fair market value of interest rate swaps	(923)	(674)
Changes in assets and liabilities		
Accounts receivable	(6,211)	(2,023)
Prepaid expenses and other	(1,555)	1,224
Other assets	(674)	(180)
Accounts payable	6,122	(7,985)
Accrued expenses	(70)	1,836
Other long-term liabilities	<u>1,230</u>	<u>229</u>
Net cash provided by operating activities	<u>1,699</u>	<u>11,476</u>
Investing Activities		
Acquisition of property and equipment	<u>(49,818)</u>	<u>(78,340)</u>
Net cash used in investing activities	<u>(49,818)</u>	<u>(78,340)</u>
Financing Activities		
Repayments of long-term debt	(12,700)	(11,206)
Issuance of long-term debt	<u>-</u>	<u>100,000</u>
Net cash (used in) provided by financing activities	<u>(12,700)</u>	<u>88,794</u>
(Decrease) Increase in Cash and Cash Equivalents	<u>(60,819)</u>	<u>21,930</u>
Cash and Cash Equivalents, Beginning of Year	<u>95,693</u>	<u>73,763</u>
Cash and Cash Equivalents, End of Year	<u>\$ 34,874</u>	<u>\$ 95,693</u>
Supplemental Cash Flow Information		
Interest paid (net of interest capitalized of \$2,777 and \$2,723 in 2013 and 2012, respectively)	\$ 7,932	\$ 6,261

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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

Nature of Operations

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

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

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

Use of Estimates

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

Cash and Cash Equivalents and Deposits (in Thousands)

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. At December 31, 2013 and 2012, 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
December 31, 2013 and 2012

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 2010.

Accounts Receivable

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

Property and Equipment (in Thousands)

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

Building	20 years
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
Leasehold improvements	Shorter of useful life or lease term

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$2,777 and \$2,723 in 2013 and 2012, 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
December 31, 2013 and 2012

Long-lived Asset Impairment (in Thousands)

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

No asset impairment was recognized during the years ended December 31, 2013 and 2012.

Revenue Recognition

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

Customer Deposits

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

Tariff Fees and Member Assessments (in Thousands)

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

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

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the board of directors of the Company. For 2013 and 2012, all members paid a \$6 membership fee.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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

Deferred Revenue

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

Other Member Services

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

Concentration of Credit Risk

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2013 and 2012, 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's transaction accounts exceeded federal insurance 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.

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Line of Credit (In Thousands)

The Company has a \$30,000 revolving line of credit expiring in 2016. At December 31, 2013 and 2012, 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, 2013.

Note 3: Long-term Debt and Interest Rate Swaps (in Thousands)

Long-term Debt

	2013	2012
Variable Rate Term Note due 2027 (A)	\$ 3,752	\$ 3,958
Variable Rate Term Note due 2014 (B)	5,500	11,000
5.45% Senior Notes due 2016 (C)	15,000	21,000
4.82% Series 2010-A Senior Notes due 2042 (D)	29,541	30,000
4.82% Series 2010-B Senior Notes due 2042 (E)	34,465	35,000
3.55% Series 2010-C Senior Notes due 2024 (F)	70,000	70,000
3.00% Series 2012-D-1 Senior Notes due 2024 (G)	50,000	50,000
3.25% Series 2012-D-2 Senior Notes due 2024 (H)	50,000	50,000
	258,258	270,958
Less current maturities	22,998	12,700
	\$ 235,260	\$ 258,258

- (A) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization. Payments commenced on May 1, 2007. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.85%. The note is secured by a first mortgage on the Company's operation facility.
- (B) Due December 25, 2014; interest is payable monthly and principal is payable quarterly based on a seven-year amortization. Payments commenced on March 25, 2008. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.30%. The note is unsecured.
- (C) Due July 23, 2016; principal and interest are payable quarterly based on a seven-year amortization. Payments commenced on September 30, 2011. The interest rate is fixed at 5.45%. The note is unsecured.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

- (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 commence on June 30, 2014. The interest rate is fixed at 3.55%. The note is unsecured.
- (G) Due March 30, 2024; principal and interest are payable quarterly based on 10-year amortization. Principal payments commence on June 30, 2014. The interest rate is fixed at 3.00%. The note is unsecured.
- (H) Due September 30, 2024; principal and interest are payable quarterly based on 10-year amortization. Principal payments commence on December 30, 2014. The interest rate is fixed at 3.25%. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2013, are:

2014		\$	22,998
2015			24,299
2016			21,353
2017			18,410
2018			18,469
Thereafter			<u>152,729</u>
		\$	<u>258,258</u>

Certain of the Company's term notes require compliance with financial and non-financial covenants, as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2013.

Variable-to-Fixed Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement on September 15, 2006, with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of \$3,723 and \$3,927 at December 31, 2013 and 2012, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan A).

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

The Company entered into another interest rate swap agreement on August 23, 2007, with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.31% on notional amounts of \$5,500 and \$11,000 at December 31, 2013 and 2012, respectively. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan B).

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

	2013	2012
Fair value of interest rate swap agreements	\$ 934	\$ 1,857
Balance sheet location of fair value amounts	Other Long-term Liabilities	Other Long-term Liabilities
Gain recognized in statement of operations	\$ 923	\$ 674
Location of gain recognized in statement of operations	Change in Fair Market Value of Interest Rate Swaps	Change in Fair Market Value of Interest Rate Swaps

Note 4: Operating Leases (In Thousands)

The Company has noncancellable operating leases for certain office equipment which expire at various times through 2015. The lease for office space expired in early 2013. The Company incurred lease expense related to these operating leases of \$432 and \$1,690 in 2013 and 2012, respectively.

Future minimum lease payments at December 31, 2013, were:

2014	\$ 139	
2015	69	
	\$ 208	

Note 5: Employee Benefit Plans (in Thousands)

Pension and Other Postretirement Benefit Plans

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$3,660 to the plan in 2014.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees, including those retiring between the ages of 55–65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the defined postretirement health care plan. The Company’s funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$410 to the plan in 2014.

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	
	2013	2012	2013	2012
Benefit obligation	\$ 44,090	\$ 38,014	\$ 7,995	\$ 7,353
Fair value of plan assets	<u>41,157</u>	<u>31,295</u>	<u>9,657</u>	<u>7,963</u>
Funded status	\$ <u>(2,933)</u>	\$ <u>(6,719)</u>	\$ <u>1,662</u>	\$ <u>610</u>

Amounts recognized in the balance sheets:

	Pension Benefits		Postretirement Health Care Benefits	
	2013	2012	2013	2012
Noncurrent assets	\$ -	\$ -	\$ 1,662	\$ 610
Noncurrent liabilities	<u>(2,933)</u>	<u>(6,719)</u>	<u>-</u>	<u>-</u>
	\$ <u>(2,933)</u>	\$ <u>(6,719)</u>	\$ <u>1,662</u>	\$ <u>610</u>

Amounts recognized in members’ equity not yet recognized as components of net periodic benefit cost as of December 31, 2013, consist of:

	Pension Benefits	Postretirement Health Care Benefits
	Net (gain)/loss	\$ 5,401
Prior service credit	(21)	-
Transition obligation	<u>115</u>	<u>31</u>
	\$ <u>5,495</u>	\$ <u>(1,633)</u>

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

The accumulated benefit obligation for the defined benefit pension plan was \$34,673 and \$29,577 at December 31, 2013 and 2012, respectively.

Other significant balances and costs are:

	Pension Benefits		Postretirement Health Care Benefits	
	2013	2012	2013	2012
Employer contributions	\$ 4,010	\$ 3,892	\$ 540	\$ 469
Benefits paid	256	177	35	26
Benefit costs	4,625	3,643	542	469

The following amounts have been recognized in the statements of operations for the year ended December 31, 2013:

	Pension Benefits		Postretirement Health Care Benefits	
Amounts arising during the period				
Net gain	\$ 4,031		\$ 1,049	
Amounts recognized as components of net periodic benefit cost of the period				
Net loss		352		-
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 \$58, \$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 \$37, \$0, and \$4, respectively.

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

	Pension Benefits		Postretirement Health Care Benefits	
	2013	2012	2013	2012
Discount rate benefit obligation	5.5%	5.5%	5.5%	5.5%
Expected return on plan assets	7.0%	7.0%	7.0%	7.0%
Rate of compensation increase	4.0%	4.0%	-	-

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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 2013 and 2012. The rate was assumed to decrease gradually to 5% by the year 2019 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>
2014	\$ 452	\$ 78
2015	612	128
2016	712	159
2017	841	197
2018	1,045	249
2019–2023	8,380	1,801

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long-term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plans must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement limits investments in foreign securities to 20% of the total fair value of plan assets. The Investment Policy Statement is reviewed annually. At December 31, 2013 and 2012, plan assets by category are as follows:

	Pension Plan Assets		Postretirement Health Care Plan Assets	
	2013	2012	2013	2012
Fixed income securities	17%	14%	24%	29%
Equity securities	76	72	72	65
Cash and equivalents	<u>7</u>	<u>14</u>	<u>4</u>	<u>6</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Pension and Other Postretirement Plan Assets

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, mutual funds and common stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include foreign company stock, corporate debt obligations, foreign corporate debt obligations, government securities and foreign government securities. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2013 and 2012, the Company does not hold any plan assets valued using Level 3 inputs.

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

The fair values of the Company's pension plan assets at December 31, 2013, by asset category are as follows:

Asset Category	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 5	\$ 5	\$ -	\$ -
Money market mutual funds	874	874	-	-
Mutual funds				
Foreign large blend	996	996	-	-
Mid cap value	1,741	1,741	-	-
Mid cap growth	6,699	6,699	-	-
Small cap growth	1,780	1,780	-	-
Large growth	6,172	6,172	-	-
Common stock				
Industrial materials	1,602	1,602	-	-
Consumer goods	1,217	1,217	-	-
Financial Services	474	474	-	-
Energy	2,707	2,707	-	-
Healthcare services	2,297	2,297	-	-
Hardware	728	728	-	-
Business services	211	211	-	-
Foreign company stock				
Industrial materials	878	-	878	-
Hardware	628	-	628	-
Business services	124	-	124	-
Energy	2,822	-	2,822	-
Financial services	327	-	327	-
Corporate debt obligations	5,298	-	5,298	-
Foreign corporate debt obligations	930	-	930	-
Government securities	2,000	-	2,000	-
Foreign government securities	647	-	647	-
Total	\$ 41,157	\$ 27,503	\$ 13,654	\$ -

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

The fair values of the Company's pension plan assets at December 31, 2012, by asset category are as follows:

Asset Category	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 5	\$ 5	\$ -	\$ -
Money market mutual funds	657	657	-	-
Mutual funds				
Foreign large blend	734	734	-	-
Mid cap value	1,189	1,189	-	-
Mid cap growth	4,734	4,734	-	-
Small cap growth	1,215	1,215	-	-
Large growth	4,099	4,099	-	-
Common stock				
Industrial materials	1,300	1,300	-	-
Consumer goods	978	978	-	-
Financial Services	550	550	-	-
Energy	1,941	1,941	-	-
Healthcare services	1,566	1,566	-	-
Hardware	21	21	-	-
Business services	293	293	-	-
Foreign company stock				
Industrial materials	666	-	666	-
Hardware	834	-	834	-
Business services	133	-	133	-
Energy	1,956	-	1,956	-
Financial services	289	-	289	-
Corporate debt obligations	2,729	-	2,729	-
Foreign corporate debt obligations	1,134	-	1,134	-
Government securities	3,826	-	3,826	-
Foreign government securities	446	-	446	-
Total	<u>\$ 31,295</u>	<u>\$ 19,282</u>	<u>\$ 12,013</u>	<u>\$ -</u>

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

The fair value of the Company's other postretirement benefit plan assets at December 31, 2013, by asset category are as follows:

Asset Category	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 6	\$ 6	\$ -	\$ -
Money market mutual funds	382	382	-	-
Mutual funds				
Equities				
Foreign large blend	472	472	-	-
Foreign large growth	436	436	-	-
Large cap blend	658	658	-	-
Mid cap value	373	373	-	-
Mid cap growth	433	433	-	-
Small cap value	412	412	-	-
Real estate	498	498	-	-
Emerging markets	368	368	-	-
Commodities	333	333	-	-
Fixed income				
Bond funds	1,961	1,961	-	-
Inflation protected	323	323	-	-
Common stock				
Industrial materials	351	351	-	-
Consumer goods and services	781	781	-	-
Financial services	467	467	-	-
Energy	261	261	-	-
Healthcare services	384	384	-	-
Hardware	52	52	-	-
Business services	277	277	-	-
Software	80	80	-	-
Telecommunications	108	108	-	-
Media	109	109	-	-
Utilities	94	94	-	-
Foreign company stock				
Business services	38	-	38	-
Total	\$ 9,657	\$ 9,619	\$ 38	\$ -

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

The fair value of the Company's other postretirement benefit plan assets at December 31, 2012, by asset category are as follows:

Asset Category	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 3	\$ 3	\$ -	\$ -
Money market mutual funds	455	455	-	-
Mutual funds				
Equities				
Foreign large blend	392	392	-	-
Foreign large growth	390	390	-	-
Mid cap growth	615	615	-	-
Small cap value	312	312	-	-
Real estate	367	367	-	-
Emerging markets	214	214	-	-
Commodities	292	292	-	-
Fixed income				
Bond funds	2,028	2,028	-	-
Inflation protected	292	292	-	-
Common stock				
Industrial materials	301	301	-	-
Consumer goods and services	631	631	-	-
Financial services	314	314	-	-
Energy	223	223	-	-
Healthcare services	316	316	-	-
Hardware	41	41	-	-
Business services	194	194	-	-
Software	77	77	-	-
Telecommunications	92	92	-	-
Media	71	71	-	-
Utilities	93	93	-	-
Foreign company stock				
Business services	135	-	135	-
Financial services	64	-	64	-
Energy	51	-	51	-
Total	<u>\$ 7,963</u>	<u>\$ 7,713</u>	<u>\$ 250</u>	<u>\$ -</u>

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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 \$2,334 and \$2,157 for 2013 and 2012, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA. Accumulated contributions and earnings of \$1,305 and \$968 are recorded in other long-term liabilities at December 31, 2013 and 2012, respectively. The Company also offers a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. Accrued benefits of \$1,253 and \$975 are recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2013 and 2012, respectively.

Note 6: Related Party Transactions (in Thousands)

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled \$17,571 and \$9,587 as of December 31, 2013 and 2012, respectively. The Company recognized revenues of \$128,486 and \$110,707, including assessments and tariff administrative fees, from members for the years ended December 31, 2013 and 2012, 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 2013 and 2012, the Company incurred \$226 and \$455, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2014 to be approximately \$328.

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 7: Open Access Transmission and EIS Market Operations (In Thousands)

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 15 providers in nine states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owner on a monthly basis. Billings for these transmission services are not included in the statements of operations. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's statements of operations. For the years ended December 31, 2013 and 2012, the Company billed transmission customers \$1,290,757 and \$1,118,542, respectively. For the years ended December 31, 2013 and 2012, the Company remitted to transmission owners \$1,171,133 and \$1,016,886, respectively. At December 31, 2013 and 2012, the Company was due to collect from customers and remit to owners transmission service charges of \$101,106 and \$85,613, respectively.

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

Note 8: Commitments and Contingencies (in Thousands)

Litigation and Regulatory Matters

In 2011, a suit was filed against the Company claiming a violation of the Arkansas Minimum Wage Act for overtime hours. While the Company believes it has meritorious defenses against the suit, the ultimate resolution of the matter could result in a loss to the Company. An estimate of loss cannot be made at this time.

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

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Note 9: Disclosures About Fair Value of Financial Instruments (in Thousands)

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

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

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. At December 31, 2013 and 2012, the fair value measurement of the interest rate swaps as recognized in the accompanying balance sheets was a liability of \$934 and \$1,857, respectively.

Cash Equivalents

The fair value of money market mutual funds included in cash equivalents are estimated using quoted prices in active markets for identical assets or liabilities. At December 31, 2013 and 2012, the fair value measurement of the cash equivalents as recognized in the accompanying balance sheets was \$13,856 and \$13,413, respectively.

The Company has no assets or liabilities measured and recognized in the accompanying balance sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Restricted Cash Deposits

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Customer Deposits

The carrying amount is a reasonable estimate of fair value.

Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2013 and 2012.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 34,874	\$ 34,874	\$ 95,693	\$ 95,693
Restricted cash deposits	\$ 76,713	\$ 76,713	\$ 43,743	\$ 43,743
Financial liabilities				
Customer deposits	\$ 76,713	\$ 76,713	\$ 43,913	\$ 43,913
Long-term debt	\$ 258,258	\$ 264,200	\$ 270,958	\$ 274,518
Swap agreements	\$ 934	\$ 934	\$ 1,857	\$ 1,857

Note 10: Subsequent Events (in Thousands)

On March 10, 2014, the Company obtained a \$33,000 senior unsecured term note facility. This facility will initially be undrawn but will allow 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 2023. Interest will be payable monthly at a floating rate.

Additionally, on March 21, 2014, the Company issued \$37,000 in funding related to the 2014 Series E Senior Note due December 30, 2025. This note bears a 3.80% fixed rate interest with quarterly interest payments commencing on June 30, 2014 and principal payments commencing on March 30, 2024. This note is unsecured.

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

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 AUDITED FINANCIAL REPORT

FOR

TEXAS RELIABILITY ENTITY, INC.



April 29, 2014

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) 2013 Actual Cost-to-Budget Comparison

Dear Mr. Walker and Ms. Turpen,

Texas Reliability Entity (Texas RE) has completed the 2013 True Up Analysis. The budget comparisons are compared to the 2013 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 spreadsheet.

INCOME

Total Statutory Income was under budget by \$40k or 0.4%.

Membership Fees decreased \$2,000 or 9%. Fewer registered entities paid membership dues than budgeted.

No Workshop Fees were collected in 2013 causing a 100% budget variance. Registered Entities hosted the workshops; therefore, no fees were charged to attend.

EXPENSES

Personnel Expenses (\$553,797 or 7% below budget)

Salary expense was \$145k or 2% less than budget due to FTE vacancies. The vacancies were the result of employee turnover and the timing of hiring replacement employees. Employee benefits is 23% less than budget due to fewer employees participating in offered benefits than anticipated.

Travel and Meeting Expenses (\$46k or 11.4% less than budget)

Meeting expenses were 16% less than budget due to the workshops being hosted by registered entities with no costs to Texas RE.



Travel expenses were \$44k or 12.5% less than budget. Standards attended fewer meetings than budgeted that required travel while the RAPA program required more travel. Less travel was required in the Compliance audit area.

Conference expenses increased \$3,784 or 20% offsetting the reduction in the travel expense.

Other Operating Expenses (\$818k or 26.5% less than budget)

Consultants and Contract costs were 16.8% less than budget because the IT staff performed some of the task originally planned for consultants in the Sharepoint project implementation.

The Rent budget did not consider the deferred rent adjustment to make the rent expense straight line over the life of the lease causing the favorable 19.5% budget variance.

Reconfiguring the cubicle space and adding front office signage caused the cost to be 18.4% greater than budget for office cost.

Professional Services are \$354,177 less than budget because professional insurance policies were less than anticipated since Texas RE has reached an excellent experience rating. The Enforcement department did not utilize the legal fees budgeted for a potential contested case.

Laptops and computer equipment fully depreciated in 2013 and replacements were not purchased causing the 40% favorable variance in depreciation.

Indirect Expenses (\$59K or 26.5% less than budget)

Indirect expense are allocated to functional departments based on FTE count.

Texas RE indirect expenses were less than budget because Non-Statutory costs were charged directly to the Non-Statutory department rather than being charged indirectly.

FIXED ASSETS

Budgeted assets were not acquired in 2013 causing budget to be 19.5% less than anticipated.

Total Budgeted Statutory expenses are under budget \$1.4 million or 12.8%.

Although Texas RE ended the year \$1.4 million under budget, Texas RE completed its intended activities for 2013.

Texas RE completed 33 Non-CIP audits, 10 CIP audits with CCA's, 21 CIP audits without CCA's, and 12 spot checks.

Texas RE indentified 170 non-compliance matters and completely resolved 322 violations to reduce violation caseload from 255 to 103.

86 category zero events, 7 category one, 2 category 2 and 3 category 1 events were examined. 123 technical feasibility exceptions were processed in 2013.

Texas RE verified mitigation plans or mitigation activities for 62 possible violations.

In 2013, Texas RE processed 18 new entity registrations, 23 entity removals and 9 entity name changes. Also, 2 TOP certifications and 2 reviews associated with a control center relocation was conducted.



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

Thank you.

Judy Foppiano

Judy A. Foppiano, CPA

CFO & Director of Corporate Services

Texas Reliability Entity, Inc.

805 Los Cimas Parkway, Suite 200

Austin, Texas 78746

Judy.foppiano@texasre.org

512.583.4959



Texas Reliability Entity, Inc.
2013 Statutory & Non-Statutory Statement of Activities
Audited

Total Statutory & State (Non-Statutory) Combined

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)
ERO Funding			
Assessments	\$ 8,152,520	\$ 8,152,520	\$ -
Penalty Sanctions	849,000	849,000	-
Total ERO Funding	\$ 9,001,520	\$ 9,001,520	\$ -
Membership Fees	\$ 19,250	\$ 21,250	\$ (2,000)
Testing Fees	1,029,100	1,029,100	-
Workshop Fees	-	32,100	(32,100)
Interest	9,076	13,910	(4,834)
Total Funding	\$ 10,058,946	\$ 10,097,880	\$ (38,934)
Expenses			
Personnel Expenses			
Salaries	\$ 6,244,320	\$ 6,400,409	\$ (156,089)
Payroll Taxes	425,797	569,631	(143,834)
Employee Benefits	732,467	943,487	(211,020)
Savings & Retirement	813,224	898,812	(85,588)
Total Personnel Expenses	\$ 8,215,808	\$ 8,812,339	\$ (596,531)
Meeting & Travel Expenses			
Meetings	\$ 32,157	\$ 38,316	\$ (6,159)
Travel	305,399	359,999	(54,600)
Conference Expenses	22,324	18,540	3,784
Total Meeting & Travel Expenses	\$ 359,880	\$ 416,855	\$ (56,975)
Operating Expenses			
Consultants & Contracts	\$ 349,113	\$ 433,131	\$ (84,018)
Rent & Improvements	465,778	533,930	(68,152)
Office Costs	450,428	374,638	75,790
Professional Services	544,911	905,000	(360,089)
Depreciation	672,285	888,000	(215,715)
Total Operating Expenses	\$ 2,482,514	\$ 3,134,699	\$ (652,185)
Indirect Expenses			
Total Expenses	\$ 11,058,202	12,363,893.00	(1,305,691.00)
Change in Assets	(999,256)	(2,266,013)	1,266,757
Fixed Assets			
Depreciation	\$ (672,285)	\$ (888,000)	215,715
Computer & Software CapEx	208,176	410,750	(202,574)
Equipment CapEx	2,523	78,238	(75,715)
Incr(Dec) in Fixed Assets	\$ (461,586)	\$ (399,012)	\$ (62,574)
Allocation of Fixed Assets	\$ -	\$ -	\$ -
Total Inc(Dec) in Fixed Assets	\$ (461,586)	\$ (399,012)	\$ (62,574)
TOTAL BUDGET	\$ 10,596,616	\$ 11,964,881	\$ (1,368,265)
Change in Working Capital	\$ (537,670)	\$ (1,867,001)	\$ 1,329,331
FTE's	61	65	-4



Texas Reliability Entity, Inc.
2013 Statutory Statement of Activities
Audited

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding					
Assessments	\$ 8,152,520	\$ 8,152,520	\$ -	0%	
Penalty Sanctions	849,000	849,000	-	0%	
Total ERO Funding	\$ 9,001,520	\$ 9,001,521	\$ -	0%	
Membership Fees	\$ 19,250	\$ 21,250	\$ (2,000)	-9.4%	
Workshop Fees	-	32,100	(32,100)	-100.0%	No fees were charged for the workshops held in 2013. Registered Entities hosted the workshops; therefore, no need to charge fees to attend
Interest	7,929	13,910	(5,981)	-43.0%	
Total Funding	\$ 9,028,699	\$ 9,068,781	\$ (40,081)	-0.4%	
Expenses					
Personnel Expenses					
Salaries	\$ 5,713,409	\$ 5,858,856	\$ (145,447)	-2.5%	Vacancies and timing of new hires
Payroll Taxes	388,927	523,255	(134,328)	-25.7%	Directly related to staff vacancies
Employee Benefits	669,926	868,322	(198,396)	-22.8%	Directly related to staff vacancies
Savings & Retirement	742,894	818,519	(75,625)	-9.2%	Directly related to staff vacancies
Total Personnel Expenses	\$ 7,515,155	\$ 8,068,952	\$ (553,797)	-6.9%	
Meeting & Travel Expenses					
Meetings	\$ 32,157	\$ 38,316	\$ (6,159)	-16.1%	Workshops hosted by Registered Entities
Travel	304,384	348,000	(43,616)	-12.5%	Standards and Compliance did not require as much travel as budgeted
Conference Expenses	22,324	18,540	3,784	20.4%	
Total Meeting & Travel Expenses	\$ 358,865	\$ 404,856	\$ (45,991)	-11.4%	
Operating Expenses					
Consultants & Contracts	\$ 345,280	\$ 415,000	\$ (69,720)	-16.8%	Contract costs related to implementing the Sharepoint project were not used; the IT staff performed some of the tasks originally planned for the consultant
Rent & Improvements	429,751	533,930	(104,179)	-19.5%	Adjustment for deferred rent not considered in the budget
Office Costs	425,991	359,684	66,307	18.4%	
Professional Services	534,108	888,225	(354,117)	-39.9%	Professional insurance policies were less than anticipated since Texas RE has shown an excellent experience rating over the past three years. The budgeted legal services budgeted in the Enforcement Department for a potential contested case were not utilized in 2013. Costs related to replacement laptops, software and server equipment have not been incurred, resulting in a 40.1% variance for depreciation.
Depreciation	532,066	888,000	(355,934)	-40.1%	
Total Operating Expenses	\$ 2,267,196	\$ 3,084,839	\$ (817,643)	-26.5%	
Indirect Expenses	189,349	(223,856)	413,205	-184.6%	Allocated to functional departments based on FTE count
Total Expenses	\$ 10,330,564	11,334,791	(1,004,227)	-8.9%	
Change in Assets	(1,301,865)	(2,266,010)	964,145	-42.5%	
Fixed Assets					
Depreciation	\$ (532,066)	\$ (888,000)	\$ 355,934	-40.1%	
Computer & Software CapEx	208,176	410,750	(202,574)	-49.3%	
Equipment CapEx	2,523	78,238	(75,715)	-96.8%	
Incr(Dec) in Fixed Assets	\$ (321,367)	\$ (399,012)	\$ 77,645	-19.5%	
Allocation of Fixed Assets	\$ -	\$ -	\$ -	0.0%	
Total Inc(Dec) in Fixed Assets	\$ (321,367)	\$ (399,012)	\$ 77,645	-19.5%	
TOTAL BUDGET	\$ 10,009,197	\$ 10,935,779	\$ (926,583)	-8.5%	
Change in Working Capital	\$ (980,498)	\$ (1,866,998)	\$ 886,500	-47.5%	
FTE's	56.2	60.0	-3.8		



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RELIABILITY STANDARDS

Funding	2013 Actual	2013 Budget	Variance from Budget		Comments (Explain variances > +/- 10% and \$10,000)
			Over(Under)		
ERO Funding					
Assessments	\$ 406,288	\$ 406,288	\$ -	0%	
Penalty Sanctions	34,477	34,477	-	0%	
Total ERO Funding	\$ 440,765	\$ 440,765	\$ -	0%	
Membership Fees	\$ -	\$ 863	\$ (863)	-100%	Did not allocate membership fees to programs
Total Funding	\$ 440,765	\$ 441,628	\$ (863.00)	0%	
Expenses					
Personnel Expenses					
Salaries	\$ 125,229	\$ 217,122	\$ (91,893)	-42%	Vacancies, employee turnover & timing of New hires
Payroll Taxes	7,340	19,923	(12,583)	-63%	Directly related to staff vacancies.
Employee Benefits	12,246	26,197	(13,951)	-53%	Directly related to staff vacancies.
Savings & Retirement	16,181	32,191	(16,010)	-50%	Directly related to staff vacancies.
Total Personnel Expenses	\$ 160,996	\$ 295,433	\$ (134,437)	-46%	
Meeting & Travel Expenses					
Meetings	\$ 583	\$ -	\$ 583	100%	
Travel	4,555	10,835	(6,280)	-58%	Less Travel required to attend meetings than budgeted
Total Meeting & Travel Expenses	\$ 5,138	\$ 10,835	\$ (5,697)	-53%	
Operating Expenses					
Consultants & Contracts	\$ 7,957	\$ 12,276	\$ (4,319)	-35%	webVote Service Solution canceled
Office Costs	860	485	375	77%	
Total Operating Expenses	\$ 8,817	\$ 12,761	\$ (3,944)	-31%	
Indirect Expenses	135,517	131,461	4,056	3%	Allocated to functional departments based on FTE count
Total Expenses	\$ 310,467	450,490	(140,023)	-31%	
Change in Assets	130,298	(8,862)	139,160	-1570%	
Fixed Assets					
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ -	\$ (8,862)	\$ 8,862	-100%	
Total Inc(Dec) in Fixed Assets	\$ -	\$ (8,862)	\$ 8,862	-100%	
TOTAL BUDGET	\$ 310,467	\$ 441,628	\$ (131,161)	-30%	
Change in Working Capital	\$ 130,298	\$ -	\$ 130,298		
FTE's	1.5	2.0	(0.50)		



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COMPLIANCE OPERATIONS,
ENFORCEMENT and ORGANIZATION
REGISTRATION

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding					
Assessments	\$ 8,079,155	\$ 8,079,155	\$ -	0%	
Penalty Sanctions	689,543	689,543	-	0%	
Total ERO Funding	<u>\$ 8,768,698</u>	<u>\$ 8,768,698</u>	<u>\$ -</u>	<u>0%</u>	
Membership Fees	\$ -	\$ 17,259	\$ (17,259)	-100%	Did not allocate membership fees to programs
Total Funding	<u>\$ 8,768,698</u>	<u>\$ 8,785,957</u>	<u>\$ (17,259)</u>	<u>0%</u>	
Expenses					
Personnel Expenses					
Salaries	\$ 3,494,378	\$ 3,854,415	\$ (360,037)	-9%	Vacancies, employee turnover & timing of New hires
Payroll Taxes	246,514	343,884	(97,370)	-28%	Directly related to staff vacancies.
Employee Benefits	404,569	589,125	(184,556)	-31%	Directly related to staff vacancies.
Savings & Retirement	463,227	571,470	(108,243)	-19%	Directly related to staff vacancies.
Total Personnel Expenses	<u>\$ 4,608,688</u>	<u>\$ 5,358,894</u>	<u>\$ (750,206)</u>	<u>-14%</u>	
Meeting & Travel Expenses					
Meetings	\$ 383	\$ -	\$ 383	100%	
Travel	166,100	222,964	(56,864)	-26%	Less Travel for audits and meetings
Total Meeting & Travel Expenses	<u>\$ 166,483</u>	<u>\$ 222,964</u>	<u>\$ (56,481)</u>	<u>-25%</u>	
Operating Expenses					
Consultants & Contracts	\$ 201,688	\$ 274,815	\$ (73,128)	-27%	CIP consultant not utilized
Office Costs	10,867	15,562	(4,695)	-30%	Telephone charges lower than budgeted
Professional Services	64,174	311,224	(247,050)	-79%	Outside legal for contested case not utilized
Depreciation	-	331,292	(331,292)	-100%	Depreciation actual charged to G&A
Total Operating Expenses	<u>\$ 276,728</u>	<u>\$ 932,893</u>	<u>\$ (656,165)</u>	<u>-70%</u>	
Indirect Expenses	<u>3,162,052</u>	<u>2,629,226</u>	<u>532,826</u>	<u>20%</u>	Allocated to functional departments based on FTE count
Total Expenses	<u>\$ 8,213,951</u>	<u>\$ 9,143,977</u>	<u>\$ (930,026)</u>	<u>-10%</u>	
Change in Assets	<u>554,747</u>	<u>(358,020)</u>	<u>912,767</u>	<u>-255%</u>	
Fixed Assets					
Depreciation	\$ -	\$ (331,292)	\$ 331,292	-100%	Depreciation actually charged to IT and G&A
Computer & Software CapEx	-	150,537	(150,537)	-100%	Assets budgeted not purchased
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ (180,755)</u>	<u>\$ 180,755</u>	<u>-100%</u>	
Allocation of Fixed Assets	\$ -	\$ (177,265)	\$ 177,265	-100%	
Total Inc(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ (358,020)</u>	<u>\$ 358,020</u>	<u>-100%</u>	
TOTAL BUDGET	<u>\$ 8,213,951</u>	<u>\$ 8,785,957</u>	<u>\$ (572,006)</u>	<u>-7%</u>	
Change in Working Capital	<u>\$ 554,747</u>	<u>\$ -</u>	<u>\$ 554,747</u>		
FTE's	35.0	40.0	-5.0		



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RELIABILITY ASSESSMENTS and
PERFORMANCE ANALYSIS

Funding	2013 Actual	2013 Budget	Variance from Budget		Comments (Explain variances > +/- 10% and \$10,000)
			Over(Under)		
ERO Funding					
Assessments	\$ 1,047,067	\$ 1,047,067	\$ -	0%	
Penalty Sanctions	81,883	81,883	-	0%	
Total ERO Funding	\$ 1,128,950	\$ 1,128,950	\$ -	0%	
Membership Fees	\$ -	\$ 2,049	\$ (2,049)	-100%	Did not allocate membership fees to programs
Total Funding	\$ 1,128,950	\$ 1,131,000	\$ (2,049.00)	0%	
Expenses					
Personnel Expenses					
Salaries	\$ 628,266	\$ 590,909	\$ 37,357	6%	
Payroll Taxes	41,725	50,393	(8,668)	-17%	Error in budget allocation to payroll taxes
Employee Benefits	77,687	77,259	428	1%	
Savings & Retirement	84,941	87,610	(2,669)	-3%	
Total Personnel Expenses	\$ 832,619	\$ 806,171	\$ 26,448	3%	
Meeting & Travel Expenses					
Meetings	\$ 1,913	\$ -	\$ 1,913	100%	
Travel	39,616	33,658	5,958	18%	
Total Meeting & Travel Expenses	\$ 41,529	\$ 33,658	\$ 7,871	23%	
Operating Expenses					
Consultants & Contracts	\$ 1,050	\$ -	\$ 1,050	100%	
Office Costs	36,367	-	36,367	100%	PI software maintenance was not budgeted in 2013
Professional Services	300	-	300	100%	
Total Operating Expenses	\$ 37,717	\$ -	\$ 37,717		
Indirect Expenses	406,550	312,221	94,329	30%	Allocated to functional departments based on FTE count
Total Expenses	\$ 1,318,415	\$ 1,152,050	\$ 166,365	14%	
Change in Assets	(189,465)	(21,050)	(168,415)	800%	
Fixed Assets					
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ -	\$ (21,050)	\$ 21,050	-100%	
Total Inc(Dec) in Fixed Assets	\$ -	\$ (21,050)	\$ 21,050	-100%	
TOTAL BUDGET	\$ 1,318,415	\$ 1,131,000	\$ 187,415	17%	
Change in Working Capital	\$ (189,465)	\$ -	\$ (189,465)		
FTE's	4.5	4.75	(0.25)		



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TRAINING, EDUCATION and OPERATOR
CERTIFICATION

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding					
Assessments	\$ 315,477	\$ 315,477	\$ -	0%	
Penalty Sanctions	30,168	30,168	-	0%	
Total ERO Funding	\$ 345,645	\$ 345,645	\$ -	0%	
Membership Fees	\$ -	\$ 755	\$ (755)	-100%	Did not allocate membership fees to programs No fees were charged for the workshops. Registered Entities hosted the workshops; therefore, no need to charge fees to attend.
Workshop Fees	-	32,100	(32,100)	-100%	
Total Funding	\$ 345,645	\$ 378,500	\$ (32,855)	-9%	
Expenses					
Personnel Expenses					
Salaries	\$ 114,833	\$ 172,183	\$ (57,351)	-33%	Less than anticipated staff involvement in the workshops
Payroll Taxes	10,128	15,167	(5,039)	-33%	
Employee Benefits	17,728	27,147	(9,418)	-35%	
Savings & Retirement	17,980	25,529	(7,550)	-30%	
Total Personnel Expenses	\$ 160,668	\$ 240,026	\$ (79,357)	-33%	
Meeting & Travel Expenses					
Meetings	\$ 14,697	\$ 30,900	\$ (16,203)	-52%	Registered Entities hosted meetings requiring less cost to Texas RE.
Travel	2,116	300	1,816	605%	
Conference Expenses	11,008	-	11,008	100%	Utilizing online meetings that was not included in the budget
Total Meeting & Travel Expenses	\$ 27,821	\$ 31,200	\$ (3,379)	-11%	
Operating Expenses					
Consultants & Contracts	\$ 350	\$ -	\$ 350	100%	
Office Costs	1,933	-	1,933	100%	
Total Operating Expenses	\$ 2,283	\$ -	\$ 2,283	100%	
Indirect Expenses	158,103	115,029	43,074	37%	Allocated to functional departments based on FTE count
Total Expenses	\$ 348,875	\$ 386,255	\$ (37,379)	-10%	
Change in Assets	(3,230)	(7,755)	4,524	-58%	
Fixed Assets					
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ -	\$ (7,755)	\$ 7,755	-100%	
Total Inc(Dec) in Fixed Assets	\$ -	\$ (7,755)	\$ 7,755	-100%	
TOTAL BUDGET	\$ 348,875	\$ 378,500	\$ (29,624)	-8%	
Change in Working Capital	\$ (3,230)	\$ 0	\$ (3,231)		
FTE's	1.75	1.75	\$ -		



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**SITUATION AWARENESS and
INFRASTRUCTURE SECURITY**

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding					
Assessments	\$ 185,443	\$ 185,443	\$ -	0%	
Penalty Sanctions	12,929	12,929	-	0%	
Total ERO Funding	<u>\$ 198,372</u>	<u>\$ 198,372</u>	<u>\$ -</u>	<u>0%</u>	
Membership Fees	\$ -	\$ 324	\$ (324)	-100%	
Total Funding	<u>\$ 198,372</u>	<u>\$ 198,696</u>	<u>\$ (324.00)</u>	<u>0%</u>	
Expenses					
Personnel Expenses					
Salaries	\$ 51,624	\$ 111,829	\$ (60,205)	-54%	Less time charged to SAIS than anticipated in the budget
Payroll Taxes	3,739	9,921	(6,182)	-62%	Directly related to salary variance
Employee Benefits	5,878	13,128	(7,250)	-55%	Directly related to salary variance
Savings & Retirement	7,594	16,580	(8,986)	-54%	Directly related to salary variance
Total Personnel Expenses	<u>\$ 68,834</u>	<u>\$ 151,458</u>	<u>\$ (82,624)</u>	<u>-55%</u>	
Meeting & Travel Expenses					
Travel	2,314	1,263	1,051	83%	
Total Meeting & Travel Expenses	<u>\$ 2,314</u>	<u>\$ 1,263</u>	<u>\$ 1,051</u>	<u>83%</u>	
Operating Expenses					
Office Costs	-	-	-		
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Indirect Expenses	67,758	49,298	18,460	37%	
Total Expenses	<u>\$ 138,907</u>	<u>\$ 202,019</u>	<u>\$ (63,112)</u>	<u>-31%</u>	
Change in Assets	<u>59,465</u>	<u>(3,323)</u>	<u>62,788</u>	<u>-1890%</u>	
Fixed Assets					
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Allocation of Fixed Assets		\$ (3,324)	\$ 3,324	-100%	
Total Inc(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ (3,324)</u>	<u>\$ 3,324</u>	<u>-100%</u>	
TOTAL BUDGET	<u>\$ 138,907</u>	<u>\$ 198,695</u>	<u>\$ (59,788)</u>	<u>-30%</u>	
Change in Working Capital	<u>\$ 59,465</u>	<u>\$ 1</u>	<u>\$ 59,464</u>		
FTE's	0.75	0.75	-		



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GENERAL and ADMINISTRATIVE

Funding	Variance from Budget			Comments (Explain variances > +/- 10% and \$10,000)
	2013 Actual	2013 Budget	Over(Under)	
ERO Funding				
Assessments	\$ (1,880,909)	\$ (1,880,909)	\$ -	0%
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ (1,880,909)	\$ (1,880,909)	\$ -	0%
Membership Fees	\$ 19,250	\$ -	\$ 19,250	100% Budgeted to programs, actual charged to G&A
Interest	7,929	13,910	(5,981)	-43%
Total Funding	\$ (1,853,730)	\$ (1,866,999)	\$ 13,269	-1%
Expenses				
Personnel Expenses				
Salaries	\$ 257,293	\$ 189,676	\$ 67,617	36% Salary expense was recorded to G & A by the Legal team for time spent filling an open position in G & A.
Payroll Taxes	11,887	17,678	(5,791)	-33% Error in budget allocation to payroll taxes
Employee Benefits	25,273	26,158	(884)	-3%
Savings & Retirement	23,659	17,890	5,769	32% More employees participated in the retirement plan than in prior years
Total Personnel Expenses	\$ 318,113	\$ 251,402	\$ 66,712	27%
Meeting & Travel Expenses				
Meetings	\$ 2,798	\$ 6,180	\$ (3,382)	-55%
Travel	57,124	54,851	2,273	4%
Conference Expenses	(776)	-	(776)	-100%
Total Meeting & Travel Expenses	\$ 59,145	\$ 61,031	\$ (1,886)	-3%
Operating Expenses				
Consultants & Contracts	\$ 23,811	\$ 2,981	\$ 20,830	699% Regional Assessments Project not budgeted
Rent & Improvements	423,265	533,930	(110,665)	-21% Deferred rent not considered in budget for straight line cost.
Office Costs	54,681	31,369	23,312	74% Office space adjusted and new signage
Professional Services	264,016	325,000	(60,984)	-19% BOD fees less than anticipated
Depreciation	532,066	193,376	338,690	175% Depreciation expenses charged to G&A. The overage was offset by under-spending in Compliance
Total Operating Expenses	\$ 1,297,839	\$ 1,086,656	\$ 211,183	19%
Indirect Expenses	(1,675,097)	(1,399,089)	(276,008)	20% Allocated to functional departments based on FTE count
Total Expenses	\$ -	\$ 0	\$ (0)	-100%
Change in Assets	(1,853,730)	(1,866,999)	13,269	-1%
Fixed Assets				
Depreciation	\$ (532,066)	\$ (193,376)	(338,690)	175%
Equipment CapEx	2,523	78,238	(75,715)	-97%
Incr(Dec) in Fixed Assets	\$ (529,543)	\$ (115,138)	\$ (414,405)	360%
Allocation of Fixed Assets		\$ 115,138	\$ (115,138)	-100% Allocated to functional departments based on FTE count
Total Inc(Dec) in Fixed Assets	\$ (529,543)	\$ -	\$ (529,543)	100%
TOTAL BUDGET	\$ (529,543)	0	\$ (529,543)	100%
Change in Working Capital	\$ (1,324,187)	\$ (1,866,999)	\$ 542,812	-29%
FTE's	1.75	1.75	-	



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LEGAL and REGULATORY

Funding	Variance from Budget			Comments (Explain variances > +/- 10% and \$10,000)
	2013 Actual	2013 Budget	Over(Under)	
Funding				
ERO Funding				
Total ERO Funding	\$ -	\$ -	\$ -	
Total Funding	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ 463,471	\$ 307,265	\$ 156,206	51% Due to workload, FTE's charged more hours to Legal than budgeted
Payroll Taxes	28,977	28,524	453	2%
Employee Benefits	55,623	47,924	7,700	16% Additional training for legal staff
Savings & Retirement	53,108	25,093	28,015	112% Employees participation in retirement plan more than anticipated
Total Personnel Expenses	\$ 601,179	\$ 408,806	\$ 192,373	47%
Meeting & Travel Expenses				
Travel	10,791	11,172	(381)	-3%
Total Meeting & Travel Expenses	\$ 10,791	\$ 11,172	\$ (381)	-3%
Operating Expenses				
Consultants & Contracts	\$ 3,475	\$ 2,211	\$ 1,264	57%
Office Costs	3,635	2,415	1,220	51%
Professional Services	-	17,577	(17,577)	-100% Outside legal services not utilized
Total Operating Expenses	\$ 7,110	\$ 22,203	\$ (15,093)	-68%
Indirect Expenses	(619,080)	(442,181)	(176,900)	40%
Total Expenses	\$ -	\$ -	\$ -	
Change in Assets	-	-	-	
TOTAL BUDGET	\$ -	\$ -	\$ -	0%
Change in Working Capital	\$ -	\$ -	\$ -	0%
FTE's	3.57	3.00	0.57	



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INFORMATION TECHNOLOGY

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding					
Total ERO Funding	\$ -	\$ -	\$ -		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Personnel Expenses					
Salaries	\$ 316,631	\$ 215,903	\$ 100,728	47%	Additional FTE due to workload
Payroll Taxes	23,456	19,525	3,931	20%	Directly related to Salary variance
Employee Benefits	44,497	34,005	10,492	31%	Directly related to additional FTE and salary expenses
Savings & Retirement	45,178	21,779	23,399	107%	Directly related to additional FTE and salary expenses, employees participation greater than anticipated for retirement plan
Total Personnel Expenses	\$ 429,761	\$ 291,211	\$ 138,550	48%	
Meeting & Travel Expenses					
Meetings	\$ 1,511	\$ 1,236	\$ 275	22%	
Travel	10,832	10,000	832	8%	
Conference Expenses	12,092	18,540	(6,448)	-35%	
Total Meeting & Travel Expenses	\$ 24,436	\$ 29,776	\$ (5,340)	-18%	
Operating Expenses					
Consultants & Contracts	\$ 79,407	\$ 84,562	\$ (5,155)	-6%	
Rent & Improvements	6,486	-	6,486	100%	
Office Costs	287,394	267,721	19,673	7%	
Professional Services	54,777	54,424	353	1%	
Depreciation	-	363,332	(363,332)	-100%	Depreciation charged to G & A, allocated to functional departments
Total Operating Expenses	\$ 428,064	\$ 770,039	\$ (341,975)	-44%	
Indirect Expenses	(882,261)	(1,091,026)	208,765	-19%	
Total Expenses	\$ -	\$ -	\$ -		
Change in Assets	-	-	-		
Fixed Assets					
Depreciation	\$ -	\$ (363,332)	\$ 363,332	-100%	Depreciation charged to G & A, allocated to functional departments
Computer & Software CapEx	208,176	260,213	(52,037)	-20%	
Furniture & Fixture CapEx	-	-	0	0%	
Equipment CapEx	-	-	0	0%	
Leasehold Improvement CapEx	-	-	0	0%	
Incr(Dec) in Fixed Assets	\$ 208,176	\$ (103,119)	\$ 311,295	-302%	
Allocation of Fixed Assets	\$ -	\$ 103,119	\$ (103,119)	-100%	
Total Inc(Dec) in Fixed Assets	\$ 208,176	\$ -	\$ 208,176	0%	
TOTAL BUDGET	\$ 208,176	\$ -	\$ 208,176	0%	
Change in Working Capital	\$ (208,176)	\$ -	\$ (208,176)	0%	
FTE's	3.81	2.50	1.31		



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HUMAN RESOURCES

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding				
Total ERO Funding	\$ -	\$ -	\$ -	
Total Funding	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries				
Payroll Taxes				
Employee Benefits				
Savings & Retirement				
Total Personnel Expenses	\$ -	\$ -	\$ -	0%
Meeting & Travel Expenses				
Meetings	\$ 9,136	\$ -	\$ 9,136	100% Staff meetings and team building events not budgeted
Travel	8,788	1,358	7,430	547% Travel for job applicants & consultants
Total Meeting & Travel Expenses	\$ 17,925	\$ 1,358	\$ 16,567	1220%
Operating Expenses				
Consultants & Contracts	\$ 24,692	\$ 28,617	\$ (3,925)	-14%
Office Costs	3,234	280	2,954	1055%
Professional Services	55,843	20,000	35,843	179% Unbudgeted VP recruiting service
Total Operating Expenses	\$ 83,769	\$ 48,897	\$ 34,872	71%
Indirect Expenses	(101,693)	(50,255)	(51,438)	102%
Total Expenses	\$ -	\$ -	\$ -	
Change in Assets	-	-	-	
TOTAL BUDGET	\$ -	\$ -	\$ -	0%
Change in Working Capital	\$ -	\$ -	\$ -	100%
FTE's	1.0	1.0	0.0	



Texas Reliability Entity, Inc.
2013 Statement of Activities
Audited

ACCOUNTING and FINANCE

Funding	Variance from				Comments (Explain variances > +/- 10% and \$10,000)
	2013 Actual	2013 Budget	Budget Over(Under)		
Funding					
ERO Funding					
Total ERO Funding	\$ -	\$ -	\$ -		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Personnel Expenses					
Salaries	\$ 254,958	\$ 199,554	\$ 55,404	28%	Additional FTE
Payroll Taxes	16,675	18,240	(1,565)	-9%	
Employee Benefits	28,980	27,380	1,600	6%	
Savings & Retirement	33,684	20,378	13,306	65%	Employee contributions increased resulting in the matching retirement being greater than budgeted.
Total Personnel Expenses	\$ 334,296	\$ 265,552	\$ 68,744	26%	
Meeting & Travel Expenses					
Meetings	\$ 1,135	\$ -	\$ 1,135		
Travel	2,200	1,598	602	38%	
Total Meeting & Travel Expenses	\$ 3,335	\$ 1,598	\$ 1,737	109%	
Operating Expenses					
Consultants & Contracts	\$ 2,850	\$ 9,539	\$ (6,689)	-70%	Did not use consultant as budgeted, offset by additional FTE
Office Costs	27,019	41,852	(14,833)	-35%	Property taxes less than budgeted
Professional Services	94,998	160,000	(65,002)	-41%	Insurance policies were less than anticipated since TRE has shown an excellent experience rating over the past three years
Total Operating Expenses	\$ 124,867	\$ 211,391	\$ (86,524)	-41%	
Indirect Expenses	(462,498)	(478,541)	16,043	-3%	
Total Expenses	\$ -	\$ (0)	\$ 0	-100%	
Change in Assets	-	0	(0)	-100%	
TOTAL BUDGET	\$ -	\$ (0)	\$ 0	-100%	
Change in Working Capital	\$ -	\$ 0	\$ (0)	-100%	
FTE's	2.52	2.00	0.52		



Texas Reliability Entity, Inc.
2013 Statement of Activities
Audited

STATE (NON-STATUTORY)

Funding	2013 Actual	2013 Budget	Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
ERO Funding				
Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
PUCT	\$ 1,029,100	\$ 1,029,100	\$ -	0%
Interest	1,147	-	1,147	100%
Total Funding	\$ 1,030,247	\$ 1,029,100	\$ 1,147	0%
Expenses				
Personnel Expenses				
Salaries	\$ 530,912	\$ 541,553	\$ (10,641)	-2%
Payroll Taxes	36,870	46,376	(9,506)	-20%
Employee Benefits	62,541	75,164	(12,623)	-17% Employee participation in benefits less than anticipated
Savings & Retirement	70,331	80,292	(9,961)	-12% Employee participation in retirement plan less than anticipated
Total Personnel Expenses	\$ 700,653	\$ 743,385	\$ (42,732)	-6%
Meeting & Travel Expenses				
Meetings	\$ -	\$ -	\$ -	
Travel	1,015	12,000	(10,985)	-92% Travel less than anticipated for Protocol group
Conference Expenses	-	-	-	
Total Meeting & Travel Expenses	\$ 1,015	\$ 12,000	\$ (10,985)	-92%
Operating Expenses				
Consultants & Contracts	\$ 3,833	\$ 18,130	\$ (14,297)	-79%
Rent & Improvements	36,026	-	36,026	Rent charged directly, no indirect costs
Office Costs	24,438	14,954	9,484	63% Costs charged directly, no indirect costs
Professional Services	10,804	16,775	(9,054)	-54% Costs charged directly, no indirect costs
Depreciation	140,219	-	140,219	Costs charged directly, no indirect costs
Total Operating Expenses	\$ 215,319	\$ 49,859	\$ 165,460	326%
Indirect Expenses	-	223,856	(223,856)	-100%
Total Expenses	\$ 916,988	1,029,100	(112,112)	-11%
Change in Assets	113,260	-	113,260	
Fixed Assets				
Depreciation	\$ (140,219)	\$ -	\$ (140,219)	0%
Incr(Dec) in Fixed Assets	\$ (140,219)	\$ -	\$ (140,219)	
Allocation of Fixed Assets	\$ -	\$ -	\$ -	0%
Total Inc(Dec) in Fixed Assets	\$ (140,219)	\$ -	\$ (140,219)	0%
TOTAL BUDGET	\$ 776,769	\$ 1,029,100	\$ (252,331)	-25%
Change in Working Capital	\$ 253,479	\$ -	\$ 253,479	0%
FTE's	5.0	5.0	0.0	



Texas Reliability Entity, Inc.
 Penalty Sanctions
 For year ended December 31, 2013

Date Rec'd	Amount	Year to Recognize for BP&B				
		2011	2012	2013	2014	2015
	\$ 20,000.00	\$ 20,000.00				
	198,600.00		\$ 198,600.00			
	150,000.00		150,000.00			
	28,000.00		28,000.00			
	18,000.00		18,000.00			
	3,000.00		3,000.00			
	35,000.00		35,000.00			
	900.00		900.00			
	900.00		900.00			
	900.00		900.00			
	900.00		900.00			
	900.00		900.00			
	2,500.00		2,500.00			
	50,000.00		50,000.00			
	3,000.00		3,000.00			
	12,000.00		12,000.00			
	4,000.00		4,000.00			
	16,000.00		16,000.00			
	9,000.00		9,000.00			
	11,000.00		11,000.00			
	6,000.00		6,000.00			
	1,230.00		1,230.00			
	8,000.00		8,000.00			
	5,000.00		5,000.00			
	3,000.00		3,000.00			
	5,000.00		5,000.00			
	22,000.00			22,000.00		
	2,000.00			2,000.00		
	3,000.00			3,000.00		
	7,000.00			7,000.00		
	107,000.00			107,000.00		
	8,000.00			8,000.00		
	45,000.00			45,000.00		
	13,000.00			13,000.00		
	7,000.00			7,000.00		
	7,000.00			7,000.00		
	5,000.00			5,000.00		
	11,000.00			11,000.00		
	12,000.00			12,000.00		
	384,000.00			384,000.00		
Subtotal 2011	\$ 1,225,830.00					
	8,500.00			8,500.00		
	10,000.00			10,000.00		
	18,000.00			18,000.00		
	13,000.00			13,000.00		
	21,000.00			21,000.00		
	9,000.00			9,000.00		
	40,000.00			40,000.00		
	30,000.00			30,000.00		
	32,500.00			32,500.00		
	2,000.00			2,000.00		
	15,000.00			15,000.00		
7/19/2012	1,000.00				1,000.00	
7/31/2012	9,000.00				9,000.00	
8/8/2012	14,333.00				14,333.00	
8/20/2012	8,000.00				8,000.00	
8/20/2012	25,000.00				25,000.00	
8/20/2012	50,000.00				50,000.00	
8/20/2012	50,000.00				50,000.00	
9/17/2012	14,000.00				14,000.00	
10/16/2012	7,000.00				7,000.00	
11/30/2012	7,000.00				7,000.00	
11/30/2012	13,500.00				13,500.00	
12/21/2012	17,000.00				17,000.00	
12/21/2012	13,250.00				13,250.00	
12/21/2012	13,250.00				13,250.00	
12/21/2012	6,500.00				6,500.00	
Subtotal 2012	\$ 447,833.00					
1/30/2013	6,000.00				6,000.00	
2/28/2013	51,000.00				51,000.00	
2/28/2013	10,000.00				10,000.00	
3/8/2013	32,000.00				32,000.00	
4/29/2013	30,000.00				30,000.00	
5/10/2013	25,000.00				25,000.00	
6/4/2013	10,000.00				10,000.00	
6/4/2013	7,000.00				7,000.00	
7/10/2013	137,000.00					137,000.00
7/10/2013	200,000.00					200,000.00
9/3/2013	9,000.00					9,000.00
9/6/2013	38,000.00					38,000.00
10/1/2013	12,000.00					12,000.00
10/1/2013	4,800.00					4,800.00
10/1/2013	15,000.00					15,000.00
10/1/2013	17,200.00					17,200.00
10/1/2013	12,000.00					12,000.00
12/19/2013	19,000.00					19,000.00
Subtotal 2013	\$ 635,000.00					
	\$ 2,308,663.00	\$ 20,000.00	\$ 572,830.00	\$ 832,000.00	\$ 419,833.00	\$ 464,000.00

Texas RE 2013 Penalties Reconciliation	12/31/2013	12/31/2012	Change in 2013
Total Cumulative Penalties - GAAP/BKD Audit	\$ 2,308,663.00	\$ 1,673,663.00	\$ 635,000.00
Total Cumulative Penalties - True Up Report	1,424,830.00	592,830.00	832,000.00
	\$ 883,833.00	\$ 1,080,833.00	\$ (197,000.00)

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, 2013 and 2012

Texas Reliability Entity, Inc.
December 31, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 8* to the financial statements in 2013, the entity has elected to change its method of accounting of fines and penalties in 2013. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Statutory and Nonstatutory Operating Activities is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
April 23, 2014

Texas Reliability Entity, Inc.
Statements of Financial Position
December 31, 2013 and 2012

Assets

	2013	2012 <i>(Restated - Note 7)</i>
Current Assets		
Cash	\$ 4,697,098	\$ 5,400,125
Assets limited to use – cash	<u>887,078</u>	<u>1,083,012</u>
	5,584,176	6,483,137
Accounts receivable	-	3,766
Other current assets	<u>239,140</u>	<u>298,910</u>
Total current assets	5,823,316	6,785,813
Property and Equipment, Net	<u>602,903</u>	<u>1,191,777</u>
Total assets	<u><u>\$ 6,426,219</u></u>	<u><u>\$ 7,977,590</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 154,575	\$ 250,812
Accrued liabilities	349,460	568,789
Deferred rent	<u>181,440</u>	<u>203,988</u>
Total current liabilities	<u>685,475</u>	<u>1,023,589</u>
Unrestricted Net Assets		
Undesignated	4,853,666	5,870,989
Regulator designated	<u>887,078</u>	<u>1,083,012</u>
Total unrestricted net assets	<u>5,740,744</u>	<u>6,954,001</u>
Total liabilities and net assets	<u><u>\$ 6,426,219</u></u>	<u><u>\$ 7,977,590</u></u>

Texas Reliability Entity, Inc.
Statements of Activities
Years Ended December 31, 2013 and 2012

	2013	2012 <i>(Restated - Note 7)</i>
Revenues, Gains and Other Support		
Statutory revenue	\$ 8,806,770	\$ 9,972,718
Protocol revenue	1,029,100	999,100
Interest income	9,076	15,945
	<u>9,844,946</u>	<u>10,987,763</u>
Expenses		
Salaries and related benefits	8,215,809	7,040,648
Facility and equipment costs	685,911	711,200
Outside services	854,729	1,421,830
Travel and meetings	359,880	323,211
Administrative and other	269,589	251,049
Depreciation	672,285	769,124
	<u>11,058,203</u>	<u>10,517,062</u>
Change in Unrestricted Net Assets	(1,213,257)	470,701
Unrestricted Net Assets, Beginning of Year	<u>6,954,001</u>	<u>6,483,300</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 5,740,744</u></u>	<u><u>\$ 6,954,001</u></u>

Texas Reliability Entity, Inc.
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012 <i>(Restated - Note 7)</i>
Operating Activities		
Change in net assets	\$ (1,213,257)	\$ 470,701
Item not requiring cash		
Depreciation	672,285	769,124
Changes in		
Accounts receivable	3,766	(794)
Other current assets	59,770	5,922
Accounts payable	(96,237)	198,679
Deferred rent	(22,548)	(14,787)
Accrued liabilities	<u>(219,329)</u>	<u>43,949</u>
Net cash (used in) provided by operating activities	<u>(815,550)</u>	<u>1,472,794</u>
Investing Activities		
Capital expenditures for property and equipment and systems under development	<u>(83,411)</u>	<u>(226,682)</u>
Net cash used in investing activities	<u>(83,411)</u>	<u>(226,682)</u>
Net (Decrease) Increase in Cash	(898,961)	1,246,112
Cash, Beginning of Year	<u>6,483,137</u>	<u>5,237,025</u>
Cash, End of Year	<u><u>\$ 5,584,176</u></u>	<u><u>\$ 6,483,137</u></u>

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 1: Organization and Operations

Texas Reliability Entity, Inc. (Texas RE) is a Texas nonprofit corporation that is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Texas RE was formed January 1, 2010, to be the Regional Entity for the Electric Reliability Council of Texas, Inc. (ERCOT) region and to preserve and enhance reliability across the ERCOT region by encouraging a culture of compliance among all users, owners and operators of the bulk-power system (BPS). Texas RE, took assignment of all rights, contracts, obligations, assets and liabilities of Texas Regional Entity (which was an independent division of ERCOT, the predecessor Regional Entity), effective midnight on June 30, 2010. Texas RE became the Regional Entity for the ERCOT region on July 1, 2010, pursuant to its Amended and Restated Delegation Agreement with North American Electric Reliability Corporation (NERC), which was approved by the Federal Energy Regulatory Commission (FERC) on May 6, 2010. The Delegation Agreement with NERC was further amended effective January 1, 2011 and October 7, 2011. Texas Regional Entity was the authorized Regional Entity for the ERCOT region from May 2007 through June 30, 2010.

As Regional Entity, Texas RE proposes and facilitates development of new and modified NERC Reliability Standards and Regional Standards (Standards); monitors, assesses, investigates and enforces compliance by registered entities with Standards in the ERCOT region, and oversees the mitigation of any violations. Texas RE is authorized to impose penalties and sanctions for violations, but NERC and FERC must approve determination of all violations and the imposition of all penalties and sanctions. These Regional Entity activities are referred to herein as “statutory” activities.

The ERCOT region is the geographic area located within the state of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In addition to Texas RE’s statutory activities as Regional Entity, Texas RE has a contract with the 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, 2013 and 2012

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 RE is governed by a hybrid board of directors (the Board), comprised of the following nine directors:

- Texas RE President and Chief Executive Officer
- Four Independent Directors

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the Bylaws and Delegation Agreement, and to elect a Chief Executive Officer to manage and be responsible for the day-to-day ongoing activities of Texas RE. The Board has one subcommittee, the Audit and Governance Committee, which is comprised of the Independent Directors.

Texas RE has two stakeholder committees, the Member Representatives Committee (MRC) and the Reliability Standards Committee (RSC). The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters, except for standards development issues, through its elected Chair and Vice-Chair, who serve as directors. The RSC includes representatives from the six industry sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS. The RSC facilitates the Regional Standards development process, coordinates the development of Regional Standards and variances with the development of national NERC Standards, and monitors, reviews, and comments on Standards under development and Standards interpretation requests.

Note 2: Summary of Significant Accounting Policies

Use of Estimates

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

Cash

At December 31, 2013, Texas RE's cash accounts exceeded federally insured limits by approximately \$5,400,000. Texas RE places its cash with a high quality financial institution, and management believes no significant risks exist with respect to uninsured balances.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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) was \$887,078 and \$1,083,012 at December 31, 2013 and 2012, 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. Four quarterly payments were received by Texas RE, which totaled \$8,152,520 and \$9,503,866 from NERC during 2013 and 2012, respectively. NERC pays Texas RE at or near the beginning of each quarter. Additionally, Texas RE recognized \$19,250 and \$21,020 for membership dues and other miscellaneous revenue, and \$635,000 and \$447,832 from fines and penalties, during 2013 and 2012, respectively. Texas RE did not recognize any revenue from providing workshops in 2013; however, Texas RE recognized \$3,330 from providing workshops in 2012. All statutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE funds its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. Texas RE received revenue of \$1,029,100 and \$999,100 from the Reliability Monitor Agreement in 2013 and 2012, respectively, to cover operating expenses incurred by Texas RE. All nonstatutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE recognized 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 Directors is specified in the Bylaws, which were approved by the Texas RE membership. Texas RE Independent Director compensation (totaling approximately \$225,000 during 2013 and \$190,000 during 2012) is paid monthly. In addition to their compensation, Texas RE independent board members are reimbursed for their actual expenses incurred related to their duties as a Texas RE board member.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Repairs and maintenance costs are expensed when incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Equipment	5 years
Computer hardware	3 years
Computer software	5 years
Furniture and fixtures	7 years
Leasehold improvements	7.5 years

Long-lived Asset Impairment

Texas RE evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2013 and 2012.

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 2010.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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>2013</u>	<u>2012</u>
Program	\$ 6,942,188	\$ 6,602,467
General and administrative	<u>4,116,015</u>	<u>3,914,595</u>
Total	<u>\$ 11,058,203</u>	<u>\$ 10,517,062</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>2013</u>	<u>2012</u>
Equipment	\$ 410,886	\$ 408,364
Computer hardware	701,980	701,980
Computer software	1,376,992	1,168,815
Furniture	309,512	309,512
Leasehold improvement	206,521	206,521
Work in process	<u>15,000</u>	<u>142,288</u>
Total property and equipment	3,020,891	2,937,480
Less accumulated depreciation	<u>2,417,988</u>	<u>1,745,703</u>
Total property and equipment, net	<u>\$ 602,903</u>	<u>\$ 1,191,777</u>

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Note 5: Line of Credit

On January 29, 2013, Texas RE obtained a \$500,000 bank line of credit that expires in 2014. The line is not collateralized by any of Texas RE's assets and is unsecured. Interest rate varies with LIBOR plus 4.265%. At December 31, 2013, there was \$0 borrowed against the line.

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, 2013, were \$395,698. The future rental payments due under operating leases are as follows through December 31, 2013:

2014	\$ 547,627
2015	424,652
2016	424,652
2017	424,652
2018	<u>270,000</u>
	<u>\$ 2,091,583</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) plans were \$813,224 and \$705,777, respectively, in 2013 and 2012.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Note 8: Change in Accounting Principle

During 2013, Texas RE changed its method of recognizing fines and penalties revenue from the period they were available to be used in operations to the period in which they were earned (all appeals have been exhausted). This recognition methodology is the preferred method of NERC. As a result of this retrospective change, the 2012 financial statements have been restated as follows:

Statement of Financial Position

	2013			2012		
	As Computed Previously	As Adjusted	Effect of Change	As Originally Reported	As Adjusted	Effect of Change
Cash	\$ 5,584,176	\$ 4,697,098	\$ (887,078)	\$ 6,483,137	\$ 5,400,125	\$ (1,083,012)
Assets limited to use – cash	-	887,078	887,078	-	1,083,012	1,083,012
Deferred revenue	955,837	-	(955,837)	1,080,833	-	(1,080,833)
Total current liabilities	1,641,312	685,475	(955,837)	2,104,422	1,023,589	(1,080,833)
Unrestricted net assets	4,784,907	5,740,744	955,837	5,873,168	6,954,001	1,080,833

Statement of Activities

	2013			2012		
	As Computed Previously	As Adjusted	Effect of Change	As Originally Reported	As Adjusted	Effect of Change
Statutory revenue	\$ 8,931,766	\$ 8,806,770	\$ 124,996	\$10,097,716	\$ 9,972,718	\$ (124,998)
Change in unrestricted net assets	(1,088,261)	(1,213,257)	(124,996)	595,699	470,701	(124,998)
Unrestricted net assets, beginning of year	5,873,168	6,954,001	1,080,833	5,277,469	6,483,300	1,205,831
Unrestricted net assets, end of year	4,784,907	5,740,744	955,837	5,873,168	6,954,001	1,080,833

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Statement of Cash Flows

	2013			2012		
	As Computed Previously	As Adjusted	Effect of Change	As Originally Reported	As Adjusted	Effect of Change
Change in net assets	\$ (1,088,261)	\$ (1,213,257)	\$ (124,996)	\$ 595,699	\$ 470,701	\$ (124,998)
Decrease in deferred revenue	(124,996)	-	124,996	(124,998)	-	124,998
Net cash (used in) provided by operating activities	(815,550)	(815,550)	-	1,472,794	1,472,794	-

Note 9: 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, 2013

	<u>Statutory</u>	<u>Nonstatutory</u>	<u>Total</u>
Revenues, Gains and Other Support			
Statutory revenue	\$ 8,806,770	\$ -	\$ 8,806,770
Protocol revenue	-	1,029,100	1,029,100
Interest income	7,929	1,147	9,076
	<u>8,814,699</u>	<u>1,030,247</u>	<u>9,844,946</u>
Total revenues, gains and other support			
Expenses			
Salaries and related benefits	7,515,156	700,653	8,215,809
Facility and equipment costs	649,885	36,026	685,911
Outside services	840,092	14,637	854,729
Travel and meetings	358,865	1,015	359,880
Administrative and other	245,151	24,438	269,589
Depreciation	532,066	140,219	672,285
	<u>10,141,215</u>	<u>916,988</u>	<u>11,058,203</u>
Total expenses			
Change in Unrestricted Net Assets	(1,326,516)	113,259	(1,213,257)
Unrestricted Net Assets, Beginning of Year, As Restated	<u>6,284,829</u>	<u>669,172</u>	<u>6,954,001</u>
Unrestricted Net Assets, End of Year	<u>\$ 4,958,313</u>	<u>\$ 782,431</u>	<u>\$ 5,740,744</u>

ATTACHMENT 9

2013 ACTUAL COST-TO-BUDGET COMPARISON

AND

2013 AUDITED FINANCIAL REPORT

FOR

WESTERN ELECTRICITY COORDINATING COUNCIL



Jillian Lessner
Director of Finance and Accounting

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May 9, 2014

Mr. Michael Walker
Senior Vice President, Chief Financial and Administrative Officer
North American Electric Reliability Corporation
3353 Peachtree Road, N.E.
Suite 600, North Tower
Atlanta, Georgia 30326

RE: 2013 Statement of Activities and Variance Explanations Based on Audited Financials

Summary

The Western Electricity Coordinating Council's (WECC) audited Statutory total change in working capital for the year ended December 31, 2013 is over budget by \$8.46 million with grant activity and \$4.50 million over budget without grant activity. The major drivers of WECC's 2013 overrun are related to the bifurcation of the organization, the recommendations of the Reliability Coordination Task Force (RCTF), and timing variances related to the Department of Energy (DOE) grants.

A summary of significant overall variances (greater than \$10,000 and 10 percent) is described in this document. For significant program area line-item variances, see the detailed statements of activities.

WECC substantially completed all of its goals and key deliverables as contained in the 2013 Business Plan and Budget.

Allocation of Indirect Costs

Administrative Services costs are allocated to program activities based on a full-time equivalent (FTE) ratio that is consistent with NERC's accounting methodology for allocation of overhead.

Federal Grants

In WECC's 2010 Amended Business Plan and Budget, WECC included revenue and associated costs related to three U.S. Department of Energy grants. FERC determined that the activities performed under the three grants received by WECC qualify as Section 215 activities.

The Western Interconnection Synchrophasor Program (WISP) (budgeted in the Situation Awareness program area) increases reliability by, among other things, enhancing the situation awareness of WECC's Reliability Coordinator Offices.

This Interconnection-wide Synchrophasor system also enables smart grid functionality such as:

- Improved integrated system operations.

- Enhanced, knowledge-based, real-time, advanced-warning systems.
- Reduced energy losses.
- Increased efficiency of asset use.
- Improved market efficiency.
- Increased reliability and efficient integration of intermittent renewable resources.

The Regional Transmission Expansion Planning (RTEP) project, which encompasses all activities funded under this U.S. DOE grant, produces Interconnection-level transmission plans for the Western Interconnection. The RTEP project is a natural expansion of the depth, breadth, and coordination of existing regional and sub-regional planning processes. The plan accomplishes the following:

- Evaluates the long-term regional transmission capacity needs under a comprehensive set of load, resource, and policy scenarios.
- Incorporates the results of a comprehensive examination of reliability impacts, technology costs, and emissions conducted during the project.
- Provides guidance for decision-makers at all levels (project developers, siting authorities, utility regulators, and others).
- Facilitates and accelerates the development of needed transmission infrastructure.

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 2013, WECC allocated indirect costs to its non-statutory activity based on FTEs. Indirect costs include the Board of Directors and its Standing Committees, General and Administrative, Legal, Information Technology, Human Resources, and Finance programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. This allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.

Reserves

WECC used working capital reserves to fund its budget overrun.

Variance Explanations (Statutory Activities)

FUNDING

- **Penalty Sanctions** (\$1.40 million over budget)
 - Some penalty sanction payments received from Registered Entities between July 1, 2013 and December 31, 2013 were recorded as 2013 penalty revenues rather than being held to offset 2015 assessments to offset accrued estimates for potential penalty expenses.
- **Grant Funding** (\$6.07 million over budget)
 - Grant expenditures were delayed from 2012, the year in which they were budgeted, to 2013.
 - The variances are timing differences only; total project cost has not changed.
- **Interest Income** (\$88,000 under budget)
 - Lower-than-anticipated rates of return on WECC's cash balances.
- **Miscellaneous Income** (\$279,000 under budget)
 - Unrealized losses arising from fair market valuation of WECC's investment portfolio.

EXPENSES

- **Salaries** (\$2.98 million over budget)
 - Additional Reliability Coordinator personnel were hired as recommended by the RCTF.
 - Additional administrative personnel were hired in preparation for the bifurcation of the Reliability Coordinator function into a separate company.
- **Savings and Retirement** (\$210,000 over budget)
 - Savings and Retirement fluctuates with Salaries.
- **Meetings** (\$311,000 under budget)
 - Lower-than-anticipated attendance at workshops and training classes.
 - Company-wide cost-saving effort to reduce expenses.
 - Increased use of WebEx services.
- **Travel** (\$178,000 under budget)
 - WECC staff attended fewer off-site meetings.
 - More efficient audits requiring fewer days on site.
 - Increased use of webinars.
- **Conference Calls** (\$74,000 under budget)
 - Conference call usage was less than expected.
- **Consultants & Contracts** (\$8.16 million over budget)
 - Contracts associated with the grants were delayed from 2012, the year in which they were budgeted, to 2013.
 - Unbudgeted search fees for independent directors.
 - The development of reliability enhancement measures.
 - The creation of a Reliability Coordinator trainee program.

- **Office Costs** (\$885,000 over budget)
 - WISP software licensing and maintenance expenditures were delayed from 2012, the year in which they were budgeted, to 2013.
- **Professional Services** (\$820,000 over budget)
 - Unbudgeted legal fees and independent director compensation related to the bifurcation of the Reliability Coordinator function into a separate company.
- **Miscellaneous** (\$1.40 million over budget)
 - Accrued estimates for penalty expenses.
- **Indirect Expenses** (\$148,000 under budget)
 - Administrative Services program area expenses were less than budgeted due to efficiency gains.

FIXED ASSETS

- **Computer & Software CapEx** (\$824,000 over budget)
 - WISP asset expenditures were delayed from 2012, the year in which they were budgeted.
- **Furniture & Fixtures CapEx** (\$28,000 under budget)
 - Furniture & Fixtures expenditures were eliminated.
- **Equipment CapEx** (\$87,000 under budget)
 - Equipment CapEx expenditures were eliminated in Administrative Services
- **Leasehold Improvements** (\$406,000 over budget)
 - Control Room modifications related to WISP.

Please feel free to contact me if you have any questions.

Thank you,



Jillian Lessner

Director of Finance and Accounting

cc:

Jim Robb, CEO
David Godfrey, VP and Chief Administrative Officer
WECC Finance and Audit Committee
Susan Turpen, NERC Controller

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Total Company Summary

	2013 Actual	2013 Budget	2013 Variance
Funding			
WECC Funding			
WECC Assessments	\$ 40,962,547	\$ 40,962,547	\$ -
Penalty Sanctions	4,366,850	2,966,850	1,400,000
Total ERO Funding	\$ 45,329,397	\$ 43,929,397	\$ 1,400,000
Membership Fees	1,913,930	1,850,000	63,930
Grant Funding	11,989,630	5,915,606	6,074,024
Services & Software	-	-	-
Workshops	809,510	895,300	(85,790)
Interest	252,968	300,000	(47,032)
Miscellaneous	(290,847)	4,000	(294,847)
Total Funding	\$ 60,004,588	\$ 52,894,303	\$ 7,110,285
Expenses			
Personnel Expenses			
Salaries	27,739,739	24,794,700	2,945,039
Payroll Taxes	1,855,388	1,783,654	71,734
Employee Benefits	3,557,309	3,528,492	28,817
Savings & Retirement	1,824,550	1,617,965	206,585
Total Personnel Expenses	\$ 34,976,987	\$ 31,724,812	\$ 3,252,175
Meeting Expenses			
Meetings	686,797	1,014,555	(327,758)
Travel	1,774,188	1,992,001	(217,813)
Conference Calls	98,532	172,992	(74,460)
Total Meeting Expenses	\$ 2,559,517	\$ 3,179,548	\$ (620,030)
Operating Expenses			
Consultants & Contracts	13,991,057	5,850,646	8,140,411
Office Rent	2,156,031	1,975,322	180,709
Office Costs	7,539,488	6,684,085	855,403
Professional Services	1,520,333	742,829	777,504
Miscellaneous	1,400,000	-	1,400,000
Depreciation	4,541,466	4,178,235	363,231
Total Operating Expenses	\$ 31,148,375	\$ 19,431,117	\$ 11,717,258
Total Direct Expenses	\$ 68,684,879	\$ 54,335,476	\$ 14,349,403
Indirect Expenses	(0)	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses	68,684,879	54,335,476	14,349,403
Change in Assets	\$ (8,680,291)	\$ (1,441,174)	\$ (7,239,118)
Fixed Assets			
Depreciation	(4,541,466)	(4,178,235)	(363,231)
Computer & Software CapEx	2,077,532	1,253,000	824,532
Furniture & Fixtures CapEx	5,858	34,000	(28,142)
Equipment CapEx	-	87,000	(87,000)
Leasehold Improvements	1,405,555	1,000,000	405,555
Change in Fixed Assets	\$ (1,052,521)	\$ (1,804,235)	\$ 751,714
Allocation of Fixed Assets	-	-	-
Incr(Dec) in Fixed Assets	\$ (1,052,521)	\$ (1,804,235)	\$ 751,714
Total Budget	67,632,358	52,531,241	15,101,117
Change in Working Capital	\$ (7,627,770)	\$ 363,062	\$ (7,990,832)
FTEs	232.97	221.3	11.6

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Statutory Summary

	2013 Actual	2013 Budget	2013 Variance	
Funding				
WECC Funding				
WECC Assessments	\$ 40,962,547	40,962,547	\$ -	
Penalty Sanctions	4,366,850	2,966,850	1,400,000	32.1%
Total ERO Funding	\$ 45,329,397	\$ 43,929,397	\$ 1,400,000	
Membership Fees	-	-	-	
Grant Funding	11,989,630	5,915,606	6,074,024	50.7%
Services & Software	-	-	-	
Workshops	806,065	885,300	(79,235)	-9.8%
Interest	202,060	290,911	(88,851)	-44.0%
Miscellaneous	(275,136)	3,879	(279,015)	101.4%
Total Funding	\$ 58,052,016	\$ 51,025,092	\$ 7,026,923	
Expenses				
Personnel Expenses				
Salaries	27,427,011	24,445,265	2,981,746	10.9%
Payroll Taxes	1,830,268	1,757,635	72,633	4.0%
Employee Benefits	3,518,494	3,443,468	75,026	2.1%
Savings & Retirement	1,803,814	1,593,505	210,309	11.7%
Total Personnel Expenses	\$ 34,579,587	\$ 31,239,874	\$ 3,339,713	
Meeting Expenses				
Meetings	684,817	996,255	(311,438)	-45.5%
Travel	1,763,454	1,942,001	(178,547)	-10.1%
Conference Calls	98,137	172,492	(74,355)	-75.8%
Total Meeting Expenses	\$ 2,546,407	\$ 3,110,748	\$ (564,340)	
Operating Expenses				
Consultants & Contracts	13,988,622	5,830,998	8,157,624	58.3%
Office Rent	2,156,031	1,975,322	180,709	8.4%
Office Costs	7,099,447	6,214,635	884,811	12.5%
Professional Services	1,547,605	722,829	824,776	53.3%
Miscellaneous	1,400,000	-	1,400,000	
Depreciation	4,541,466	4,176,235	365,231	8.0%
Total Operating Expenses	\$ 30,733,171	\$ 18,920,019	\$ 11,813,152	
Total Direct Expenses	\$ 67,859,165	\$ 53,270,639	\$ 14,588,525	
Indirect Expenses	(295,248)	(443,310)	148,062	-50.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	67,563,917	52,827,329	14,736,587	
Change in Assets	\$ (9,511,901)	\$ (1,802,237)	\$ (7,709,664)	
Fixed Assets				
Depreciation	(4,541,466)	(4,176,235)	(365,231)	8.0%
Computer & Software CapEx	2,077,532	1,253,000	824,532	39.7%
Furniture & Fixtures CapEx	5,858	34,000	(28,142)	-480.4%
Equipment CapEx	-	87,000	(87,000)	
Leasehold Improvements	1,405,555	1,000,000	405,555	28.9%
Change in Fixed Assets	\$ (1,052,521)	\$ (1,802,235)	\$ 749,714	-71.2%
Allocation of Fixed Assets	-	-	-	
Incr(Dec) in Fixed Assets	\$ (1,052,521)	\$ (1,802,235)	\$ 749,714	
Total Budget	66,511,396	51,025,092	15,486,302	
Change in Working Capital	\$ (8,459,378)	\$ -	\$ (8,459,379)	
FTEs	227.8	216.3	11.4	

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Reliability Standards

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ 903,967	\$ 903,967	\$ -	0.0%	
Penalty Sanctions	64,888	64,888	-	0.0%	
Total ERO Funding	<u>\$ 968,855</u>	<u>\$ 968,855</u>	<u>\$ -</u>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	<u>\$ 968,855</u>	<u>\$ 968,855</u>	<u>\$ -</u>		
Expenses					
Personnel Expenses					
Salaries	420,510	464,771	(44,261)	-9.5%	One position was not filled.
Payroll Taxes	28,638	34,916	(6,278)	-18.0%	
Employee Benefits	28,015	60,155	(32,140)	-53.4%	Underutilization of training and medical benefits.
Savings & Retirement	28,483	40,139	(11,656)	-29.0%	Savings & Retirement fluctuates with Salaries.
Total Personnel Expenses	<u>\$ 505,646</u>	<u>\$ 599,981</u>	<u>\$ (94,335)</u>		
Meeting Expenses					
Meetings	112	14,754	(14,642)	-99.2%	No Drafting Team meetings held.
Travel	28,690	43,000	(14,310)	-33.3%	Lower-than-anticipated attendance at external meetings.
Conference Calls	2,263	11,400	(9,137)	-80.1%	
Total Meeting Expenses	<u>\$ 31,065</u>	<u>\$ 69,154</u>	<u>\$ (38,089)</u>		
Operating Expenses					
Consultants & Contracts	-	-	-		
Office Rent	-	-	-		
Office Costs	6,348	8,641	(2,293)	-26.5%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	<u>\$ 6,348</u>	<u>\$ 8,641</u>	<u>\$ (2,293)</u>		
Total Direct Expenses	<u>\$ 543,059</u>	<u>\$ 677,776</u>	<u>\$ (134,717)</u>		
Indirect Expenses	266,793	303,869	(37,076)	-12.2%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Other Non-Operating Expenses					
Total Expenses	<u>809,852</u>	<u>981,645</u>	<u>(171,792)</u>		
Change in Assets	<u>\$ 159,003</u>	<u>\$ (12,790)</u>	<u>\$ 171,792</u>		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Allocation of Fixed Assets	(3,906)	(12,790)	8,884	-69.5%	
Incr(Dec) in Fixed Assets	<u>\$ (3,906)</u>	<u>\$ (12,790)</u>	<u>\$ 8,884</u>		
Total Budget	<u>805,946</u>	<u>968,855</u>	<u>(162,908)</u>		
Change in Working Capital	<u>\$ 162,909</u>	<u>\$ 0</u>	<u>\$ 162,908</u>		
FTEs	2.99	3.5	(0.5)		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Compliance Monitoring and Enforcement and Organization Registration and Certification

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ 11,696,264	\$ 11,696,264	\$ -	0.00%	
Penalty Sanctions	936,241	936,241	-	0.00%	
Total ERO Funding	\$ 12,632,505	\$ 12,632,505	\$ -		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	375,335	433,750	(58,415)	-13.47%	CUG/CIPUG workshop attendance was less than predicted.
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 13,007,840	\$ 13,066,255	\$ (58,415)		
Expenses					
Personnel Expenses					
Salaries	5,188,489	5,019,223	169,266	3.37%	
Payroll Taxes	375,870	370,015	5,855	1.58%	
Employee Benefits	602,842	757,768	(154,926)	-20.45%	Underutilization of training due to reduced staff levels and increased workload. Underutilization of medical benefits due to lower-than-anticipated staffing levels.
Savings & Retirement	338,088	314,433	23,655	7.52%	
Total Personnel Expenses	\$ 6,505,289	\$ 6,461,439	\$ 43,850		
Meeting Expenses					
Meetings	271,718	452,985	(181,267)	-40.02%	Lower-than-anticipated costs per person at CUG/CIPUG meetings.
Travel	619,113	872,000	(252,887)	-29.00%	More efficient audits requiring fewer days onsite.
Conference Calls	22,349	64,550	(42,201)	-65.38%	Increased use of WebEx; lower-than-anticipated number of conference calls.
Total Meeting Expenses	\$ 913,180	\$ 1,389,535	\$ (476,355)		
Operating Expenses					
Consultants & Contracts	617,189	470,000	147,189	31.32%	Staff augmentation for audits and registrations.
Office Rent	3,889	-	3,889		
Office Costs	372,950	494,423	(121,473)	-24.57%	Lower-than-anticipated WEBCDMS maintenance & Licensing fees.
Professional Services	-	1,000	(1,000)	-100.00%	
Miscellaneous	-	-	-		
Depreciation	68,001	115,500	(47,499)	-41.13%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
Total Operating Expenses	\$ 1,062,029	\$ 1,080,923	\$ (18,894)		
Total Direct Expenses	\$ 8,480,497	\$ 8,931,897	\$ (451,400)		
Indirect Expenses	4,735,094	4,477,429	257,665	5.75%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Other Non-Operating Expenses					
Total Expenses	13,215,591	13,409,326	(193,735)		
Change in Assets	\$ (207,751)	\$ (343,071)	\$ 135,320		
Fixed Assets					
Depreciation	(68,001)	(115,500)	47,499	-41.13%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
Computer & Software CapEx	-	50,000	(50,000)	-100.00%	No actual software purchases in 2013.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ (68,001)	\$ (65,500)	\$ (2,501)		
Allocation of Fixed Assets	(69,321)	(184,545)	115,224	-62.44%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Incr(Dec) in Fixed Assets	\$ (137,322)	\$ (250,045)	\$ 112,723		
Total Budget	13,078,269	13,159,281	(81,012)		
Change in Working Capital	\$ (70,429)	\$ (93,025)	\$ 22,597		
FTEs	53.10	50.5	2.6		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Training and Education

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ 51,135	\$ 51,135	\$ -	0.00%	
Penalty Sanctions	27,809	27,809	-	0.00%	
Total ERO Funding	\$ 78,944	\$ 78,944	\$ -		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	430,730	451,550	(20,820)	-4.61%	
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 509,674	\$ 530,494	\$ (20,820)		
Expenses					
Personnel Expenses					
Salaries	83,415	103,772	(20,357)	-19.62%	One position was not filled.
Payroll Taxes	6,433	7,690	(1,257)	-16.34%	
Employee Benefits	(22,262)	21,305	(43,567)	-204.49%	Underutilization of external training and lower-than-budgeted enrollment in insurance plans. Credits for internal participation at operator training classes are posted here and the corresponding expense is posted in the employee's department. These amounts net to zero and internal training participation is unbudgeted.
Savings & Retirement	7,873	7,264	609	8.38%	
Total Personnel Expenses	\$ 75,460	\$ 140,031	\$ (64,571)		
Meeting Expenses					
Meetings	80,122	99,950	(19,828)	-19.84%	Lower-than-budgeted attendance at training sessions and workshops.
Travel	10,023	6,350	3,673	57.85%	
Conference Calls	517	600	(83)	-13.79%	
Total Meeting Expenses	\$ 90,663	\$ 106,900	\$ (16,237)		
Operating Expenses					
Consultants & Contracts	62,779	92,500	(29,721)	-32.13%	Consultant did not teach as many sessions as anticipated.
Office Rent	44,800	47,478	(2,678)	-5.64%	
Office Costs	75,904	40,980	34,924	85.22%	Unbudgeted training software maintenance fee.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 183,484	\$ 180,958	\$ 2,526		
Total Direct Expenses	\$ 349,606	\$ 427,889	\$ (78,283)		
Indirect Expenses	88,931	110,851	(21,920)	-19.77%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Other Non-Operating Expenses					
Total Expenses	438,537	538,740	(100,203)		
Change in Assets	\$ 71,137	\$ (8,246)	\$ 79,383		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	(1,302)	(5,482)	4,180	-76.25%	
Incr(Dec) in Fixed Assets	\$ (1,302)	\$ (5,482)	\$ 4,180		
Total Budget (Expenses plus Inc(Dec) in Fix	437,235	533,258	(96,023)		
Change in Working Capital (Total Funding less Total Budget)	\$ 72,439	\$ (2,764)	\$ 75,203		
FTEs	1.00	1.5	(0.5)		

Western Electricity Coordinating Council
201s Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Reliability Assessment and Performance Analysis

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ 3,834,675	\$ 3,834,675	\$ -	0.00%	
Penalty Sanctions	362,755	362,755	-	0.00%	
Total ERO Funding	\$ 4,197,430	\$ 4,197,430	\$ -		
Membership Fees	-	-	-		
Grant Funding	2,804,035	3,129,529	(325,494)	-10.40%	Based on costs incurred related to grant activities.
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	1,040	-	1,040		
Total Funding	\$ 7,002,505	\$ 7,326,959	\$ (324,454)		
Expenses					
Personnel Expenses					
Salaries	1,996,940	1,928,608	68,332	3.54%	
Payroll Taxes	151,668	142,733	8,935	6.26%	
Employee Benefits	269,611	237,122	32,489	13.70%	Higher-than-anticipated enrollment in insurance programs.
Savings & Retirement	166,735	133,059	33,676	25.31%	Savings & Retirement fluctuates with Salaries.
Total Personnel Expenses	\$ 2,584,954	\$ 2,441,522	\$ 143,432		
Meeting Expenses					
Meetings	55,950	111,423	(55,473)	-49.79%	Lower-than-budgeted hosting of external meetings.
Travel	112,776	134,900	(22,124)	-16.40%	Reduced travel to external meetings.
Conference Calls	18,111	33,000	(14,889)	-45.12%	Lower-than-anticipated usage of conference calls.
Total Meeting Expenses	\$ 186,838	\$ 279,323	\$ (92,485)		
Operating Expenses					
Consultants & Contracts	1,811,641	2,527,541	(715,900)	-28.32%	Timing of RTEP grant spending and also a modeling project in the planning function was deferred to 2014.
Office Rent	20	-	20		
Office Costs	166,452	61,300	105,152	171.54%	A portion of software maintenance fees were budgeted in Fixed Assets. See offset in Fixed Assets below.
Professional Services	9,809	30,000	(20,191)	-67.30%	No actual Non-Affiliated Director compensation related to RTEP grant meetings.
Miscellaneous	-	-	-		
Depreciation	247,554	68,400	179,154	261.92%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
Total Operating Expenses	\$ 2,235,476	\$ 2,687,241	\$ (451,765)		
Total Direct Expenses	\$ 5,007,268	\$ 5,408,086	\$ (400,819)		
Indirect Expenses	1,924,235	1,698,777	225,458	13.27%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Other Non-Operating Expenses					
Total Expenses	6,931,503	7,106,863	(175,361)		
Change in Assets	\$ 71,003	\$ 220,096	\$ (149,093)		
Fixed Assets					
Depreciation	(247,554)	(68,400)	(179,154)	261.92%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
Computer & Software CapEx	265,836	360,000	(94,164)	-26.16%	A portion of software maintenance fees were budgeted in Fixed Assets. See offset in Office Costs.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ 18,282	\$ 291,600	\$ (273,318)		
Allocation of Fixed Assets	(28,170)	(71,504)	43,334	-60.60%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Incr(Dec) in Fixed Assets	\$ (9,888)	\$ 220,096	\$ (229,984)		
Total Budget	6,921,614	7,326,959	(405,345)		
Change in Working Capital	\$ 80,891	\$ (0)	\$ 80,891		
FTEs	21.58	19.6	2.0		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Situation Awareness and Infrastructure Security

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ 24,476,506	\$ 24,476,506	\$ -	0.00%	
Penalty Sanctions	2,975,157	1,575,157	1,400,000	88.88%	Early recognition of revenue to offset estimated penalty expense.
Total ERO Funding	\$ 27,451,663	\$ 26,051,663	\$ 1,400,000		
Membership Fees	-	-	-		
Grant Funding	9,186,952	2,786,076	6,400,876	229.75%	WISP grant funding fluctuates with WISP expenditures. Delayed 2012 spending by subrecipient and cost-share partners resulted in higher-than-budgeted 2013 grant funding.
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	(179,266)	-	(179,266)		WISP routers were written off and ownership was transferred to cost-share partners.
Total Funding	\$ 36,459,349	\$ 28,837,739	\$ 7,621,610		
Expenses					
Personnel Expenses					
Salaries	12,982,046	10,500,212	2,481,834	23.64%	Unbudgeted hiring of additional personnel as recommended by the RC Task Force.
Payroll Taxes	866,562	745,846	120,716	16.19%	Payroll Taxes fluctuate with salaries.
Employee Benefits	1,240,400	1,093,420	146,980	13.44%	Employee Benefits fluctuate with headcount.
Savings & Retirement	819,446	647,167	172,279	26.62%	Savings and Retirement fluctuates with salaries.
Total Personnel Expenses	\$ 15,908,454	\$ 12,986,645	\$ 2,921,809		
Meeting Expenses					
Meetings	15,704	-	15,704		Unbudgeted expenditures for the NPCC audit of the RC.
Travel	470,796	437,726	33,070	7.55%	
Conference Calls	23,072	15,920	7,152	44.92%	
Total Meeting Expenses	\$ 509,572	\$ 453,646	\$ 55,926		
Operating Expenses					
Consultants & Contracts	10,264,627	2,422,290	7,842,337	323.76%	2012 budgeted spending by WISP sub-recipient was delayed to 2013.
Office Rent	1,057,733	768,081	289,652	37.71%	Unbudgeted office space to accommodate additional personnel recommended by the RC Task Force.
Office Costs	5,403,291	4,518,304	884,987	19.59%	Primarily due to timing of WISP licensing fees, WISP unbudgeted expensed equipment, and higher-than-budgeted license and maintenance fees for WIT, and higher than budgeted license and maintenance fees for the RC.
Professional Services	171,804	5,000	166,804	3336.08%	Unbudgeted fees for the NPCC audit of WECC's RC and IA functions.
Miscellaneous	1,400,000	-	1,400,000		Unbudgeted estimated penalties expenses.
Depreciation	3,849,584	3,315,530	534,054	16.11%	Higher depreciation due to greater-than-budgeted CapEx purchases.
Total Operating Expenses	\$ 22,147,039	\$ 11,029,205	\$ 11,117,834		
Total Direct Expenses	\$ 38,565,065	\$ 24,469,496	\$ 14,095,569		
Indirect Expenses	7,499,576	6,122,257	1,377,319	22.50%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Other Non-Operating Expenses	\$ -	-	-		
Total Expenses	46,064,641	30,591,753	15,472,888		
Change in Assets	\$ (9,605,292)	\$ (1,754,014)	\$ (7,851,278)		
Fixed Assets					
Depreciation	(3,849,584)	(3,315,530)	(534,054)	16.11%	Higher depreciation due to greater-than-budgeted CapEx purchases.
Computer & Software CapEx	1,667,176	843,000	824,176	97.77%	Timing related to WISP grant. 2013 software purchases were budgeted in 2012.
Furniture & Fixtures CapEx	5,858	29,000	(23,142)	-79.80%	Less than budgeted Furniture and Fixture purchases in 2013.
Equipment CapEx	-	-	-		
Leasehold Improvements	1,405,555	1,000,000	405,555	40.56%	WISP expenditures for control rooms delayed from 2012 to 2013.
Change in Fixed Assets	\$ (770,995)	\$ (1,443,530)	\$ 672,535		
Allocation of Fixed Assets	(129,109)	(310,484)	181,375	-58.42%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
Incr(Dec) in Fixed Assets	\$ (900,104)	\$ (1,754,014)	\$ 853,910		
Total Budget	45,164,537	28,837,739	16,326,798		
Change in Working Capital	\$ (8,705,188)	\$ -	\$ (8,705,188)		
FTEs	98.9	85.0	13.9		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Technical Committees and Member Forums

	2013 Actual	2013 Budget	2013 Variance	%	Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	-	
Membership Fees	-	-	-	-	
Grant Funding	(1,357)	-	(1,357)	-	
Services & Software	-	-	-	-	
Workshops	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding	\$ (1,357)	\$ -	\$ (1,357)	-	
Expenses					
Personnel Expenses					
Salaries	849,692	902,239	(52,547)	-5.82%	
Payroll Taxes	64,586	67,808	(3,221)	-4.75%	
Employee Benefits	106,789	86,657	20,132	23.23%	Higher-than-budgeted enrollment in insurance programs.
Savings & Retirement	66,555	63,156	3,399	5.38%	
Total Personnel Expenses	\$ 1,087,622	\$ 1,119,859	\$ (32,238)	-2.88%	
Meeting Expenses					
Meetings	265,889	297,448	(31,559)	-10.61%	Lower-than budgeted costs of off-site hotel meeting sites.
Travel	217,400	149,825	67,575	45.10%	Higher-than-anticipated Board Director travel expense incurred related to the bifurcation of WECC.
Conference Calls	13,743	27,400	(13,657)	-49.84%	Lower-than-anticipated usage.
Total Meeting Expenses	\$ 497,032	\$ 474,673	\$ 22,359	4.71%	
Operating Expenses					
Consultants & Contracts	-	166,667	(166,667)	-100.00%	Data Validation project was deferred to 2014.
Office Rent	-	-	-	-	
Office Costs	67,955	40,068	27,887	69.60%	Unbudgeted OATI software maintenance and enhancement expenses.
Professional Services	654,424	401,000	253,424	63.20%	Higher-than-budgeted Non-Affiliated Director Compensation due to increased meeting schedules and additional directors in preparation for the bifurcation of WECC.
Miscellaneous	-	-	-	-	
Depreciation	-	16,000	(16,000)	-100.00%	
Total Operating Expenses	\$ 722,379	\$ 623,734	\$ 98,645	15.82%	
Total Direct Expenses	\$ 2,307,033	\$ 2,218,266	\$ 88,767	4.00%	
Indirect Expenses	(2,308,390)	(2,218,266)	(90,124)	4.06%	
Other Non-Operating Expenses					
Total Expenses	(1,357)	0	(1,357)	-	
Change in Assets	\$ -	\$ (0)	\$ 0	0%	
Fixed Assets					
Depreciation	-	(16,000)	16,000	-100.00%	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
Change in Fixed Assets	\$ -	\$ (16,000)	\$ 16,000	100.00%	
Allocation of Fixed Assets	-	16,000	(16,000)	-100.00%	Allocated to Statutory Program Areas based on their FTE ratio to total.
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-	
Total Budget	(1,357)	0	(1,357)	-	
Change in Working Capital	\$ 0	\$ (0)	\$ 0	0%	
FTEs	6.6	7.6	(1.0)	-13.16%	

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
General and Administrative

	2013 Actual	2013 Budget	2011 Variance		Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	196,280	290,911	(94,631)	-32.53%	Lower-than-anticipated rates of return.
Miscellaneous	(97,074)	3,879	(100,953)	-2602.55%	Mark-to-market valuation of WECC's investment portfolio.
Total Funding	\$ 99,206	\$ 294,790	\$ (195,584)		
Expenses					
Personnel Expenses					
Salaries	2,655,532	2,194,293	461,239	21.02%	Unbudgeted expenditures related to the hiring of two new CEOs.
Payroll Taxes	136,847	141,861	(5,014)	-3.53%	
Employee Benefits	277,921	214,991	62,930	29.27%	Higher-than-anticipated participation in the company's insurance programs.
Savings & Retirement	166,874	153,600	13,274	8.64%	
Total Personnel Expenses	\$ 3,237,174	\$ 2,704,744	\$ 532,430		
Meeting Expenses					
Meetings	(11,864)	13,665	(25,529)	-186.82%	Meeting Expense allocation formula resulted in a department level variance and a credit in G&A.
Travel	169,263	168,700	563	0.33%	
Conference Calls	7,866	6,200	1,666	26.87%	
Total Meeting Expenses	\$ 165,265	\$ 188,565	\$ (23,300)		
Operating Expenses					
Consultants & Contracts	265,834	110,000	155,834	141.67%	Unanticipated marketing expenses in Communications and unbudgeted consultants expense in the Procurement department.
Office Rent	1,048,402	1,159,764	(111,362)	-9.60%	
Office Costs	265,668	276,500	(10,832)	-3.92%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	245,504	502,179	(256,675)	-51.11%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
Total Operating Expenses	\$ 1,825,408	\$ 2,048,443	\$ (223,035)		
Total Direct Expenses	\$ 5,227,846	\$ 4,941,752	\$ 286,094		
Indirect Expenses	(5,128,641)	(4,646,962)	(481,679)	10.37%	
Other Non-Operating Expenses					
Total Expenses	99,206	294,790	(195,584)		
Change in Assets	\$ 0	\$ (0)	\$ 0		
Fixed Assets					
Depreciation	(245,504)	(502,179)	256,675	-51.11%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	5,000	(5,000)	-100.00%	
Equipment CapEx	-	6,000	(6,000)	-100.00%	
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ (245,504)	\$ (491,179)	\$ 245,675		
Allocation of Fixed Assets	245,504	491,179	(245,675)	-50.02%	Allocated to Statutory Program Areas based on their FTE ratio to total.
Incr(Dec) in Fixed Assets	\$ -	\$ 0	\$ (0)		
Total Budget	99,206	294,790	(195,584)		
Change in Working Capital	\$ 0	\$ (0)	\$ 0		
FTEs	15.6	18.8	(3.2)		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Legal

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
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	1,378,016	1,730,245	(352,229)	-20.36%	Two positions were not filled and turnover was high.
Payroll Taxes	88,292	126,811	(38,520)	-30.38%	Payroll Taxes fluctuate with Salaries
Employee Benefits	121,355	154,547	(33,192)	-21.48%	Underutilization of training and lower-than-anticipated enrollment in medical benefits.
Savings & Retirement	93,837	120,661	(26,824)	-22.23%	Savings & Retirement fluctuates with Salaries
Total Personnel Expenses	\$ 1,681,500	\$ 2,132,264	\$ (450,765)		
Meeting Expenses					
Meetings	2,425	-	2,425		
Travel	61,386	80,000	(18,614)	-23.27%	Lower-than-anticipated travel to external meetings and open positions.
Conference Calls	2,007	2,500	(493)	-19.72%	
Total Meeting Expenses	\$ 65,819	\$ 82,500	\$ (16,681)		
Operating Expenses					
Consultants & Contracts	82,764	-	82,764		Unbudgeted consultants expenses to support Corporate Compliance activities.
Office Rent	-	-	-		
Office Costs	77,139	50,000	27,139	54.28%	Unanticipated FERC filing fee.
Professional Services	641,781	182,829	458,952	251.03%	Higher-than-budgeted legal fees related to the bifurcation of WECC.
Miscellaneous	-	-	-		
Depreciation	8,489	-	8,489		
Total Operating Expenses	\$ 810,173	\$ 232,829	\$ 577,344		
Total Direct Expenses	\$ 2,557,491	\$ 2,447,593	\$ 109,898		
Indirect Expenses	(2,557,491)	(2,447,593)	(109,898)	4.49%	Allocated to Statutory Program Areas based on their FTE ratio to total.
Other Non-Operating Expenses					
Total Expenses	-	0	(0)		
Change in Assets	\$ -	\$ (0)	\$ 0		
Fixed Assets					
Depreciation	(8,489)	-	(8,489)		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ (8,489)	\$ -	\$ (8,489)		
Allocation of Fixed Assets	8,489	-	8,489		
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	-	0	(0)		
Change in Working Capital	\$ -	\$ (0)	\$ 0		
FTEs	9.76	12.1	(2.3)		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Information Technology

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
Funding					
WECC Funding					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	164	-	164		
Total Funding	\$ 164	\$ -	\$ 164		
Expenses					
Personnel Expenses					
Salaries	714,676	829,213	(114,537)	-13.81%	Two positions were not filled.
Payroll Taxes	54,231	62,286	(8,055)	-12.93%	
Employee Benefits	112,078	114,786	(2,708)	-2.36%	
Savings & Retirement	45,061	58,045	(12,984)	-22.37%	Savings & Retirement fluctuates with Salaries.
Total Personnel Expenses	\$ 926,046	\$ 1,064,330	\$ (138,284)		
Meeting Expenses					
Meetings	-	900	(900)	-100.00%	
Travel	9,721	13,000	(3,279)	-25.22%	
Conference Calls	5,956	6,572	(616)	-9.37%	
Total Meeting Expenses	\$ 15,678	\$ 20,472	\$ (4,794)		
Operating Expenses					
Consultants & Contracts	36,106	12,000	24,106	200.88%	Unbudgeted website design costs.
Office Rent	701	-	701		
Office Costs	473,668	587,500	(113,832)	-19.38%	Purchases budgeted here were capitalized. See offset in Fixed Assets.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	111,313	141,927	(30,614)	-21.57%	Depreciation expense was budgeted based on prior year budget, not on prior year actual depreciation.
Total Operating Expenses	\$ 621,788	\$ 741,427	\$ (119,639)		
Total Direct Expenses	\$ 1,563,512	\$ 1,826,229	\$ (262,717)		
Indirect Expenses	(1,563,348)	(1,826,228)	262,880	-14.39%	Allocated to Statutory Program Areas based on their FTE ratio to total.
Other Non-Operating Expenses					
Total Expenses	164	1	163		
Change in Assets	\$ -	\$ (1)	\$ 1		
Fixed Assets					
Depreciation	(111,313)	(141,927)	30,614	-21.57%	Depreciation expense was budgeted based on prior year budget, not on prior year actual depreciation.
Computer & Software CapEx	121,902	-	121,902		Purchases budgeted in Office Costs were capitalizable. See offset in Office Costs.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	81,000	(81,000)		Planned equipment purchases were cancelled due to the bifurcation of WECC.
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ 10,589	\$ (60,927)	\$ 71,516		
Allocation of Fixed Assets	(10,589)	60,927	(71,516)	-117.38%	Allocated to Statutory Program Areas based on their FTE ratio to total.
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	164	0	163		
Change in Working Capital	\$ -	\$ (0)	\$ 1		
FTEs	8.0	9.0	(1.0)		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Human Resources

	2013 Actual	2013 Budget	2013 Variance		Explanations of Variances - 10% and \$10,000
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	782,538	283,445	499,093	176.08%	Unbudgeted recruiting fees for two new CEOs, temporary help due to bifurcation and incremental HR staff for the new entity.
Payroll Taxes	26,330	21,290	5,040	23.67%	
Employee Benefits	721,141	625,824	95,317	15.23%	Higher-than-anticipated utilization of the health reimbursement account insurance program.
Savings & Retirement	45,170	21,841	23,329	106.81%	Savings & Retirement fluctuates with Salaries.
Total Personnel Expenses	\$ 1,575,179	\$ 952,400	\$ 622,779		
Meeting Expenses					
Meetings	4,760	5,130	(370)	-7.21%	
Travel	45,919	26,000	19,919	76.61%	Higher-than-budgeted travel related to bifurcation and union negotiations.
Conference Calls	1,863	3,500	(1,637)	-46.77%	
Total Meeting Expenses	\$ 52,542	\$ 34,630	\$ 17,912		
Operating Expenses					
Consultants & Contracts	840,538	30,000	810,538	2701.79%	Unbudgeted search fees for new Board members for WECC and Peak.
Office Rent	486	-	486		
Office Costs	-	-	-		
Professional Services	128,639	88,070	40,569	46.06%	Unbudgeted drug testing and background check costs related to bifurcation of WECC.
Miscellaneous	13,395	23,000	(9,605)	-41.76%	
Depreciation	692	6,700	(6,008)	-89.68%	
Total Operating Expenses	\$ 983,750	\$ 147,770	\$ 835,980		
Total Direct Expenses	\$ 2,611,471	\$ 1,134,800	\$ 1,476,671		
Indirect Expenses	(2,611,471)	(1,134,800)	(1,476,671)	130.13%	Allocated to Statutory Program Areas based on their FTE ratio to total.
Other Non-Operating Expenses					
Total Expenses	-	(0)	0		
Change in Assets	\$ -	\$ 0	\$ (0)		
Fixed Assets					
Depreciation	(692)	(6,700)	6,008	-89.68%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ (692)	\$ (6,700)	\$ 6,008		
Allocation of Fixed Assets	692	6,700	(6,008)		
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	-	(0)	0		
Change in Working Capital	\$ -	\$ 0	\$ (0)		
FTEs	4.23	3.1	1.1		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Finance and Accounting

	<u>2013 Actual</u>	<u>2013 Budget</u>	<u>2013 Variance</u>		<u>Explanations of Variances - 10% and \$10,000</u>
Funding					
WECC Funding					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	5,780	-	5,780		
Miscellaneous	-	-	-		
Total Funding	<u>\$ 5,780</u>	<u>\$ -</u>	<u>\$ 5,780</u>		
Expenses					
Personnel Expenses					
Salaries	375,158	489,243	(114,085)	-23.32%	Turnover and the conversion of a higher level position to a staff level.
Payroll Taxes	30,811	36,377	(5,566)	-15.30%	
Employee Benefits	60,604	76,890	(16,286)	-21.18%	Underutilization of training and lower-than-anticipated enrollment in medical benefits.
Savings & Retirement	25,691	34,142	(8,451)	-24.75%	
Total Personnel Expenses	<u>\$ 492,264</u>	<u>\$ 636,652</u>	<u>\$ (144,388)</u>		
Meeting Expenses					
Meetings	-	-	-		
Travel	18,365	10,500	7,865	74.90%	
Conference Calls	389	850	(461)	-54.24%	
Total Meeting Expenses	<u>\$ 18,754</u>	<u>\$ 11,350</u>	<u>\$ 7,404</u>		
Operating Expenses					
Consultants & Contracts	7,143	-	7,143		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	61,432	48,850	12,582	25.76%	Higher-than-anticipated software license fees for the accounting, fixed asset and new budget systems for Peak Reliability.
Miscellaneous	56,393	80,000	(23,607)	-29.51%	Lower-than-budgeted fees for audit and tax work.
Depreciation	10,330	10,000	330	3.30%	
Total Operating Expenses	<u>\$ 135,298</u>	<u>\$ 138,850</u>	<u>\$ (3,552)</u>		
Total Direct Expenses	<u>\$ 646,316</u>	<u>\$ 786,852</u>	<u>\$ (140,537)</u>		
Indirect Expenses	(640,536)	(786,852)	146,316	-18.60%	Allocated to Statutory Program Areas based on their FTE ratio to total.
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Total Expenses	<u>5,780</u>	<u>0</u>	<u>5,780</u>		
Change in Assets	<u>\$ -</u>	<u>\$ (0)</u>	<u>\$ 0</u>		
Fixed Assets					
Depreciation	(10,330)	(10,000)	(330)	3.30%	
Computer & Software CapEx	22,618	-	22,618		Unbudgeted accounting and budgeting software for Peak.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	<u>\$ 12,288</u>	<u>\$ (10,000)</u>	<u>\$ 22,288</u>		
Allocation of Fixed Assets	(12,288)	10,000	(22,288)		Allocated to Statutory Program Areas based on their FTE ratio to total.
Incr(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Total Budget	<u>5,780</u>	<u>0</u>	<u>5,780</u>		
Change in Working Capital	<u>\$ -</u>	<u>\$ (0)</u>	<u>\$ 0</u>		
FTEs	6.05	5.7	0.3		

Western Electricity Coordinating Council
2013 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Non-Statutory Summary

	2013 Actual	2013 Budget	2013 Variance	
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Membership Fees	1,913,930	1,850,000	63,930	3.46%
Grant Funding	-	-	-	
Services & Software	-	-	-	
Workshops	3,445	10,000	(6,555)	-65.55%
Interest	50,908	9,089	41,819	460%
Miscellaneous	(15,711)	121	(15,832)	-13084%
Total Funding	\$ 1,952,572	\$ 1,869,210	\$ 83,362	
				WREGIS held larger-than-anticipated levels of cash and cash equivalents which earned greater-than-budgeted interest income.
				Mark-to-market fluctuations in WREGIS's investment portfolio.
Expenses				
Personnel Expenses				
Salaries	312,728	349,435	(36,707)	-10.50%
Payroll Taxes	25,120	26,019	(899)	-3.46%
Employee Benefits	38,815	85,024	(46,209)	-54.35%
Savings & Retirement	20,737	24,460	(3,723)	-15.22%
Total Personnel Expenses	\$ 397,400	\$ 484,938	\$ (87,538)	
				Turnover and one unfilled position during the year.
				Under-utilization of training and lower-than-anticipated enrollment in medical benefits.
Meeting Expenses				
Meetings	1,980	18,300	(16,320)	-89.18%
Travel	10,735	50,000	(39,265)	-78.53%
Conference Calls	395	500	(105)	-20.98%
Total Meeting Expenses	\$ 13,110	\$ 68,800	\$ (55,690)	
				Lower-than-anticipated number of committee meetings.
				WREGIS staff conducted fewer than-anticipated off-site audits.
Operating Expenses				
Consultants & Contracts	2,435	19,648	(17,213)	-87.61%
Office Rent	-	-	-	
Office Costs	440,041	469,450	(29,409)	-6.26%
Professional Services	(27,273)	20,000	(47,273)	-236.36%
Miscellaneous	-	-	-	
Depreciation	-	2,000	(2,000)	-100.00%
Total Operating Expenses	\$ 415,204	\$ 511,098	\$ (95,894)	
				Lower-than-budgeted use of consultants for Quickbooks software customization.
				Unanticipated arbitration credit for prior year legal fees.
Total Direct Expenses	\$ 825,714	\$ 1,064,836	\$ (239,122)	
Indirect Expenses	295,248	443,310	(148,062)	-33.40%
				Allocated to Statutory Program Areas based on their FTE ratio to total.
Other Non-Operating Expenses		\$ -		
Total Expenses	1,120,962	1,508,146	(387,184)	
Change in Assets	\$ 831,610	\$ 361,064	\$ 470,546	
Fixed Assets				
Depreciation	-	(2,000)	2,000	-100.00%
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Change in Fixed Assets	\$ -	\$ (2,000)	\$ 2,000	-100.00%
Allocation of Fixed Assets	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ (2,000)	\$ 2,000	-100.00%
Total Budget	1,120,962	1,506,146	(385,184)	-25.57%
Change in Working Capital	\$ 831,610	\$ 363,064	\$ 468,546	129.05%
FTEs	5.20	5.0	0.2	

**Financial Statements and Report of Independent
Certified Public Accountants**

Western Electricity Coordinating Council

**As of and for the years ended
December 31, 2013 and 2012**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Western Electricity Coordinating Council

We have audited the accompanying financial statements of Western Electricity Coordinating Council, which comprise the statements of financial position as of December 31, 2013 and 2012, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Electricity Coordinating Council as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Salt Lake City, Utah
May 27, 2014

FINANCIAL STATEMENTS

Western Electricity Coordinating Council
STATEMENTS OF FINANCIAL POSITION
December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 20,737,074	\$ 35,219,275
Contractually restricted cash	4,004,026	4,720,916
Certificates of deposit	2,044,097	1,436,598
Investments	2,942,933	5,930,113
Accounts receivable, net of allowance of \$33,283 and \$42,458 at December 31, 2013 and 2012, respectively	4,099,826	12,908,228
Prepaid expenses and other assets	1,451,697	835,773
Property, equipment, and software, net	<u>11,042,682</u>	<u>11,964,467</u>
Total assets	<u>\$ 46,322,335</u>	<u>\$ 73,015,370</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 5,380,399	\$ 7,557,387
Accrued expenses	4,145,493	1,892,947
Deferred revenue	11,679,055	24,381,993
Other liabilities	<u>1,665,866</u>	<u>7,051,156</u>
Total liabilities	22,870,813	40,883,483
UNRESTRICTED NET ASSETS	<u>23,451,522</u>	<u>32,131,887</u>
Total liabilities and net assets	<u>\$ 46,322,335</u>	<u>\$ 73,015,370</u>

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

Western Electricity Coordinating Council

STATEMENTS OF ACTIVITIES

Years ended December 31,

	<u>2013</u>	<u>2012</u>
Operating Revenue		
Electric Reliability Organization Funding	\$ 45,329,397	\$ 39,233,515
Meetings and workshops	809,510	676,865
Western Renewable Energy Generation Information System (WREGIS)	1,913,930	1,489,043
Federal Grants	11,989,630	27,928,644
Other	<u>1,040</u>	<u>32,805</u>
Total operating revenue	<u>60,043,507</u>	<u>69,360,872</u>
 Operating Expenses		
Labor	34,976,986	28,150,057
Office and equipment	9,680,774	8,256,436
Depreciation and amortization	4,541,466	3,766,592
Contract labor and consultants	13,991,057	17,538,997
Meetings	2,559,592	2,472,988
Professional services	1,520,333	1,151,537
Excise taxes	14,745	12,764
Other	<u>1,400,000</u>	<u>16,431</u>
Total operating expenses	<u>68,684,953</u>	<u>61,365,802</u>
 (Decrease) increase in unrestricted net assets from operations	<u>(8,641,446)</u>	<u>7,995,070</u>
 Nonoperating activity		
Interest and dividend income	255,273	305,601
Net unrealized loss on investments	(88,991)	(56,671)
Net realized loss on investments	<u>(205,201)</u>	<u>(52,102)</u>
Net nonoperating activity	<u>(38,919)</u>	<u>196,828</u>
 (Decrease) increase in unrestricted net assets	<u>(8,680,365)</u>	<u>8,191,898</u>
 Net assets, beginning of year	<u>32,131,887</u>	<u>23,939,989</u>
Net assets, end of year	<u>\$ 23,451,522</u>	<u>\$ 32,131,887</u>

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

Western Electricity Coordinating Council

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (8,680,365)	\$ 8,191,898
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation and amortization	4,541,466	3,766,592
Unrealized loss on investments	88,991	56,671
Realized loss on investments	205,201	52,102
Loss on the disposal of fixed assets	182,070	-
Decrease (increase) in assets:		
Accounts receivable	8,808,402	(6,185,664)
Prepaid expenses and other assets	(615,924)	(333,287)
(Decrease) increase in liabilities:		
Accounts payable	(1,861,397)	(748,544)
Accrued expenses	2,252,546	92,063
Deferred revenue	(12,702,938)	3,260,323
Other liabilities	(5,385,290)	159,788
Net cash (used in) provided by operating activities	<u>(13,167,237)</u>	<u>8,311,942</u>
Cash flows from investing activities		
Purchase of property, equipment, and software	(4,117,343)	(5,167,758)
Sales (purchases) of investments - net	<u>2,085,489</u>	<u>328,642</u>
Net cash used in investing activities	<u>(2,031,854)</u>	<u>(4,839,116)</u>
Net increase (decrease) in cash and cash equivalents	(15,199,091)	3,472,826
Cash and cash equivalents, beginning of year	<u>39,940,191</u>	<u>36,467,365</u>
Cash and cash equivalents, end of year	<u>\$ 24,741,100</u>	<u>\$ 39,940,191</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment financed with accounts payable	\$ 315,591	\$ 529,354

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

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of activities

Western Electricity Coordinating Council (WECC) is a not-for-profit organization whose primary mission is to assure a reliable bulk electric power system in the Western Interconnection. WECC's revenues are generated through performance of statutory and non-statutory activities.

WECC performs statutory activities pursuant to the Delegation Agreement effective October 2007 and Amended and Restated Delegation Agreement effective January 2011 with North American Electric Reliability Corporation (NERC). NERC is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC) to establish and enforce reliability standards for the bulk electric system. Statutory activities authorize WECC to develop, monitor, assess, and enforce compliance with NERC reliability standards and regional standards within the United States portion of the geographic boundaries of the Western Interconnection. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to load-servicing entities (LSEs) within the Western Interconnection.

Non-statutory activities include oversight of the operations of a component of WECC "doing business as" Western Renewable Energy Generation Information System (WREGIS). WREGIS is an independent, renewable energy tracking system within WECC's region. WECC funds its non-statutory activities through annual and other activity fees.

2. Financial statement presentation

WECC's financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The information regarding its financial position and activities is reported based on the existence or absence of donor-imposed restrictions in three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2013 and 2012, WECC had only unrestricted net assets.

3. Use of estimates

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

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Revenue recognition

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period, and records it as assessment payable or as deferred revenue after it has been remitted to NERC and returned to WECC. Assessments are recognized as revenue in the year they are intended to fund. Federal grant revenue is generated through WECC's and WECC sub-recipient's performance of services in accordance with federal award agreements on a cost reimbursement basis.

Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

WECC can incur penalties assessed by its regulators. When the amounts of such penalties become known or reasonably estimable, WECC recognizes penalty revenue (collected from U.S. LSEs) earmarked for a future year to offset the penalty expense. This results in WECC recording an expense and offsetting revenue. Depending on when the amount of the penalty becomes known (whether it is before or after NERC has approved the budget for the subsequent year), WECC's assessments revenue for the subsequent budget year or the year following will be offset by the amount of the penalty. Such penalties are recorded in the income statement as Electric Reliability Organization Funding and Other operating expenses.

5. Cash and cash equivalents

WECC considers all highly liquid financial instruments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of bank demand accounts, money market investment accounts, and other investments. WECC'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.

Pursuant to the Delegation Agreement with NERC, cash equivalents contractually restricted as of December 31, 2013 and 2012 were \$4,004,026 and \$4,720,916, respectively.

6. Certificates of deposit

Certificates of deposits held by WECC that are not classified as debt securities have original maturities greater than three months.

7. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on investments are included in the change in net assets.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Accounts receivable

Accounts receivable consists of statutory funding, grants and other fees receivables that have not been collected. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on an annual basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

9. 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.

10. Impairment of long-lived assets

WECC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. If it is determined that the estimated undiscounted future cash flows are not sufficient to recover the carrying value of an asset, an impairment loss is recognized in the statement of activities for the difference between the carrying value and the fair value of the asset.

11. Income taxes

WECC has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(6) of the Internal Revenue Code and, as such, is not subject to federal or state income taxes on exempt purpose income. WECC recognized no unrelated business income tax benefit in the years ended December 31, 2013 and 2012.

WECC has identified and evaluated its significant tax positions for which the statute of limitations remain open. The open tax years are the years ended December 31, 2009 through December 31, 2013 for federal tax purposes and Utah tax purposes. WECC 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, 2013, and it is not expected that there will be a material change in the 12 months following December 31, 2013. WECC did not incur any tax penalties or tax-related interest expenses during the years ended December 31, 2013 and 2012.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Functional allocation of expenses

The costs of programs and supporting services have been summarized on a functional basis. WECC's expenses are classified as *Statutory Expenses* or *Non-statutory Expenses* as the majority of expenses incurred fulfill the purposes or mission for which WECC exists. Furthermore, the statutory expenses are classified according to the statutory functions WECC performs pursuant to the Delegation Agreement with NERC. All direct costs are charged to the functional area to which they pertain. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area.

NOTE B – FAIR VALUE MEASUREMENTS

WECC's financial instruments, including cash equivalents, accounts receivable, accounts payable, and accrued liabilities, are carried at cost which approximates their fair value due to the short-term nature of these instruments.

Fair value is defined as the amount that would be received for the sale of an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, WECC uses various valuation approaches within a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of WECC. Unobservable inputs are inputs that reflect WECC's estimates about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The following hierarchy prioritizes the inputs according to valuation methodologies used to measure fair value:

Level 1: Inputs are quoted prices (unadjusted) in active markets that are accessible for identical assets or liabilities as of the measurement date. Valuation of these products does not entail a significant degree of judgment since it is based on quote prices readily available in an active market. The types of instruments generally included in this category include listed equity securities.

Level 2: Inputs are observable for the asset or liability (either directly or indirectly) as of the measurement date, but are other than quoted prices in active markets as in Level 1. The types of instruments generally included in this category include unlisted derivative financial instruments and fixed income investments.

Level 3: Inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by the reporting entity. The types of instruments generally included in this category include privately held investments, partnership interests and similar interests, and beneficial interests in trusts held by others.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE B – FAIR VALUE MEASUREMENTS – CONTINUED

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, WECC's own assumptions are set to reflect those that WECC believes a market participant would use in pricing the asset or liability at the measurement date.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

Description	Fair Value Measurements as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 12,690,456	\$ -	\$ -	\$ 12,690,456
Investments:				
Corporate bonds	-	502,754	-	502,754
Government agency bonds	-	2,440,179	-	2,440,179
	-	2,942,933	-	2,942,933
	\$ 12,690,456	\$ 2,942,933	\$ -	\$ 15,633,389

Description	Fair Value Measurements as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 35,340,465	\$ -	\$ -	\$ 35,340,465
Commercial paper	-	89,941	-	89,941
	35,340,465	89,941	-	35,430,406
Investments:				
Commercial paper	-	2,138,625	-	2,138,625
Corporate bonds	-	1,128,748	-	1,128,748
Government agency bonds	-	2,501,506	-	2,501,506
Foreign bonds	-	161,234	-	161,234
	-	5,930,113	-	5,930,113
	\$ 35,340,465	\$ 6,020,054	\$ -	\$ 41,360,519

Money market funds are valued using observable prices in the active market. Commercial paper, corporate bonds, government agency bonds, and foreign bonds are valued using observable quoted prices of similar securities.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE C – INVESTMENTS

Investments stated at fair value consisted of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Government agency bonds	\$ 2,440,179	\$ 2,501,506
Corporate bonds	502,754	1,128,748
Commercial paper	-	2,138,625
Foreign bonds	-	161,234
	<u>\$ 2,942,933</u>	<u>\$ 5,930,113</u>

NOTE D – PROPERTY, EQUIPMENT, AND SOFTWARE

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

	<u>2013</u>	<u>2012</u>
Equipment	\$ 12,284,835	\$ 10,787,879
Software	9,542,253	6,774,760
Leasehold improvements	6,145,304	5,632,787
Furniture and fixtures	695,513	689,655
	<u>28,667,905</u>	<u>23,885,081</u>
Less accumulated depreciation and amortization	(18,972,742)	(14,562,013)
Construction in progress	1,347,519	2,641,399
Property, equipment and software - net	<u>\$ 11,042,682</u>	<u>\$ 11,964,467</u>

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was \$4,541,466 and \$3,766,592, respectively.

Assets purchased with grant funds are secured by a lien on the assets. For the years ended December 31, 2013 and 2012 such assets totaled \$7,196,746 and \$7,215,063, respectively, net of accumulated depreciation.

NOTE E – ACCOUNTS PAYABLE

Accounts payable consisted of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Assessment payables	\$ 4,296,396	\$ 4,469,827
Trade payables	1,082,204	2,986,287
Other payables	1,799	101,273
	<u>\$ 5,380,399</u>	<u>\$ 7,557,387</u>

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE F – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses consisted of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Accrued wages and paid time off	\$ 2,279,629	\$ 1,672,000
Other accrued expenses	1,654,242	220,947
Accrued employee benefits expense	211,622	140,352
	<u>\$ 4,145,493</u>	<u>\$ 1,892,947</u>

Other liabilities consisted of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Deferred rents	\$ 1,665,866	\$ 1,793,598
Subrecipient payable	-	5,257,558
	<u>\$ 1,665,866</u>	<u>\$ 7,051,156</u>

NOTE G – UNRESTRICTED NET ASSETS

WECC reports information regarding statutory and non-statutory related earnings to the Federal Energy Regulatory Commission in accordance with its Delegation Agreement with NERC dated October 16, 2007 as amended and restated January 1, 2011. As of December 31, the breakdown of such earnings included in unrestricted net assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Non-statutory earnings	\$ 8,642,963	\$ 7,811,415
Statutory earnings	14,808,559	24,320,472
	<u>\$ 23,451,522</u>	<u>\$ 32,131,887</u>

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE H – COMMITMENTS AND CONTINGENCIES

1. Operating lease commitments

WECC has entered into non-cancelable operating leases for office space and office equipment. Future minimum lease payments under non-cancelable operating leases with terms of one year or more are as follows:

Year Ending December 31:	Amount
2014	\$ 2,092,821
2015	2,116,135
2016	2,156,515
2017	2,213,848
2018	2,185,758
Thereafter	2,277,703
	\$ 13,042,781

Total rent expense under non-cancelable operating leases was \$2,034,309 and \$1,828,431 for the years ended December 31, 2013 and 2012, respectively.

2. Sub-recipient grant

WECC committed up to a total of \$22 million in federal grant awards to a sub-recipient. WECC records a payable in sub-recipient payable for payments due for the sub-recipient's performance of services in accordance with federal award agreements on a cost reimbursement basis. As of December 31, 2013 there was no remaining commitment related to this grant.

3. Other matters

WECC may incur a future loss from a monetary penalty assessed by its regulators. The amount of the potential monetary penalty associated with this action is uncertain. During 2013, WECC accrued its reasonable estimate of the expected penalty. Ultimate resolution of this matter could result in a loss that is less than or in excess of the amount accrued.

NOTE I – RETIREMENT PLAN

Employee benefit plan

WECC has a 401(k) Retirement Savings Plan (Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. Plan expense reflected in the accompanying statements of activities was \$1,802,545 and \$1,427,114 for the years ended December 31, 2013 and 2012, respectively.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE J – FUNCTIONAL EXPENSES

The detail of functional expenses for the years ended December 31, are as follows:

Program services	2013	2012
Statutory services	\$ 56,316,225	\$ 51,997,258
Non-statutory services	927,738	936,470
	<u>57,243,963</u>	<u>52,933,728</u>
Support Services		
Management and general	11,440,990	8,432,074
	<u>\$ 68,684,953</u>	<u>\$ 61,365,802</u>

NOTE K – SUBSEQUENT EVENTS

WECC has evaluated events occurring between the end of its most recent fiscal year and May 27, 2014, the date the financial statements were available to be issued.

On October 10, 2013, WECC incorporated Peak Reliability (Peak), a not-for-profit organization headquartered in Vancouver, Washington, in preparation for the legal separation of its regional entity function from its reliability coordinator function. On January 1, 2014, Peak began operating as a wholly-owned subsidiary of WECC and assumed WECC's reliability coordinator function. On February 12, 2014, WECC received formal FERC approval of the sub-delegation of WECC's reliability coordinator function to Peak. Subsequent to this date, Peak began to operate independently of WECC (as an unconsolidated entity). Additionally, WECC subsequently transferred to Peak WECC's right, title and interest in all assets directly related to the reliability coordinator function, as well as related liabilities. The assets transferred consisted primarily of fixed assets with a total net book value of approximately \$9.4 million and cash and other assets totaling approximately \$6.7 million. The liabilities transferred consisted primarily of deferred rent and accrued employee compensation costs and totaled approximately \$1.1 million.

ATTACHMENT 10

**METRICS CONCERNING ADMINISTRATIVE COSTS IN
2013 NERC AND REGIONAL ENTITY
BUDGETS AND ACTUAL COSTS**

Analysis of Administrative (Indirect) Costs
2013 Actual and Budget

2013 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	\$ 54,714,887	\$ 30,571,766	\$ 24,143,121	44.13%	\$ 1.27
FRCC	5,864,298	5,249,163	615,135	10.49%	8.53
MRO	8,574,820	5,185,929	3,388,891	39.52%	1.53
NPCC	11,275,494	7,240,821	4,034,673	35.78%	1.79
RFC	17,545,584	11,493,152	6,052,432	34.50%	1.90
SERC	15,880,967	9,677,541	6,203,426	39.06%	1.56
SPP RE	9,681,482	4,568,970	5,112,512	52.81%	0.89
Texas RE	9,536,748	6,400,635	3,136,113	32.88%	2.04
WECC	66,511,396	52,124,780	14,386,616	21.63%	3.62
TOTAL/Average	\$ 199,585,676	\$ 132,512,757	\$ 67,072,919	33.61%	\$ 1.98

2013 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	\$ 54,286,255	\$ 30,909,400	\$ 23,376,855	43.06%	\$ 1.32
FRCC	\$ 6,531,782	\$ 5,861,218	\$ 670,564	10.27%	8.74
MRO	\$ 9,283,539	\$ 5,558,189	\$ 3,725,350	40.13%	1.49
NPCC	\$ 13,879,226	\$ 8,969,958	\$ 4,909,268	35.37%	1.83
RFC	\$ 17,426,838	\$ 12,443,206	\$ 4,983,632	28.60%	2.50
SERC	\$ 15,907,603	\$ 10,433,393	\$ 5,474,210	34.41%	1.91
SPP RE	\$ 11,514,817	\$ 6,064,830	\$ 5,449,987	47.33%	1.11
Texas RE	\$ 10,935,780	\$ 7,916,802	\$ 3,018,978	27.61%	2.62
WECC	\$ 51,025,093	\$ 38,697,715	\$ 12,327,378	24.16%	3.14
TOTAL/Average	\$ 190,790,933	\$ 126,854,711	\$ 63,936,222	33.51%	\$ 1.98

2013 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	174.75	120.86	53.89	30.84%	2.24
FRCC	28.99	25.92	3.07	10.59%	8.44
MRO	37.91	28.51	9.40	24.80%	3.03
NPCC	35.22	26.22	9.00	25.55%	2.91
RFC	69.80	53.70	16.10	23.07%	3.34
SERC	69.89	51.06	18.83	26.94%	2.71
SPP RE	30.00	25.80	4.20	14.00%	6.14
Texas RE	56.15	43.50	12.65	22.53%	3.44
WECC	227.81	177.57	50.24	22.05%	3.53
TOTAL/Average	730.52	553.14	177.38	24.28%	3.12

2013 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	186.25	133.50	52.75	28.32%	2.53
FRCC	30.12	26.37	3.75	12.45%	7.03
MRO	37.75	27.75	10.00	26.49%	2.78
NPCC	35.86	26.86	9.00	25.10%	2.98
RFC	73.00	57.20	15.80	21.64%	3.62
SERC	77.45	57.52	19.93	25.73%	2.89
SPP RE	34.50	31.25	3.25	9.42%	9.62
Texas RE	60.00	49.25	10.75	17.92%	4.58
WECC	216.30	160.10	56.20	25.98%	2.85
TOTAL/Average	751.23	569.80	181.43	24.15%	3.14

2013 ACTUAL SPEND per FTE				
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 313,104	\$ 252,952	\$ 448,007	\$ 138,158
FRCC	202,287	202,514	200,370	21,219
MRO	226,189	181,899	360,520	89,393
NPCC	320,145	276,156	448,297	114,556
RFC	251,369	214,025	375,927	86,711
SERC	227,228	189,533	329,444	88,760
SPP RE	322,716	177,092	1,217,265	170,417
Texas RE	169,844	147,141	247,914	55,852
WECC	291,960	293,545	286,358	63,152
TOTAL/Average	\$ 273,210	\$ 239,565	\$ 378,131	\$ 91,815

2013 BUDGETED SPEND per FTE				
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 291,470	\$ 231,531	\$ 443,163	\$ 125,513
FRCC	216,859	222,268	178,817	22,263
MRO	245,922	200,295	372,535	98,685
NPCC	387,039	333,952	545,474	136,901
RFC	238,724	217,539	315,420	68,269
SERC	205,392	181,387	274,672	70,681
SPP RE	333,763	194,075	1,676,919	157,971
Texas RE	182,263	160,747	280,835	50,316
WECC	235,900	241,710	219,348	56,992
TOTAL/Average	\$ 253,971	\$ 222,630	\$ 352,402	\$ 85,109

The accompanying narrative in this filing is essential to understanding the financial information on this schedule

Analysis of Administrative (Indirect) Costs
2011, 2012 and 2013 Actual

	2011 ACTUAL SPEND					2012 ACTUAL SPEND					2013 ACTUAL SPEND				
	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	\$ 51,331,461	\$ 29,699,184	\$ 21,632,277	42.14%	\$ 1.37	\$ 51,200,212	\$ 30,071,355	\$ 21,128,857	41.27%	\$ 1.42	\$ 54,714,887	\$ 30,571,766	\$ 24,143,121	44.13%	\$ 1.27
FRCC	5,177,020	4,476,298	700,722	13.54%	6.39	5,519,156	4,918,683	600,473	10.88%	8.19	5,864,298	5,249,163	615,135	10.49%	8.53
MRO	7,385,721	4,593,792	2,791,929	37.80%	1.65	8,819,027	4,607,445	4,211,582	47.76%	1.09	8,574,820	5,185,929	3,388,891	39.52%	1.53
NPCC	11,754,576	9,256,662	2,497,914	21.25%	3.71	12,916,639	10,619,055	2,297,584	17.79%	4.62	11,275,494	7,240,821	4,034,673	35.78%	1.79
RFC	15,158,286	10,361,567	4,796,719	31.64%	2.16	16,014,703	10,712,245	5,302,458	33.11%	2.02	17,545,584	11,493,152	6,052,432	34.50%	1.90
SERC	11,438,066	7,155,166	4,282,900	37.44%	1.67	13,271,927	8,658,435	4,613,492	34.76%	1.88	15,880,967	9,677,541	6,203,426	39.06%	1.56
SPP RE	8,397,845	4,116,846	4,280,999	50.98%	0.96	9,552,118	4,400,658	5,151,460	53.93%	0.85	9,681,482	4,568,970	5,112,512	52.81%	0.89
Texas RE	8,179,402	5,289,369	2,890,033	35.33%	1.83	9,031,959	5,991,084	3,040,875	33.67%	1.97	9,536,748	6,400,635	3,136,113	32.88%	2.04
WECC	57,554,596	46,643,617	10,910,979	18.96%	4.27	62,137,704	51,286,671	10,851,033	17.46%	4.73	66,511,396	52,124,780	14,386,616	21.63%	3.62
TOTAL/Average	\$ 176,376,973	\$ 121,592,501	\$ 54,784,472	31.06%	\$ 2.22	\$ 188,463,445	\$ 131,265,631	\$ 57,197,814	30.35%	\$ 2.29	\$ 199,585,676	\$ 132,512,757	\$ 67,072,919	33.61%	\$ 1.98
3-Year Average														31.72%	\$ 2.15

	2011 ACTUAL FTEs					2012 ACTUAL FTEs					2013 ACTUAL FTEs				
	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	140.25	101.04	39.21	27.96%	2.58	167.83	116.03	51.80	30.86%	2.24	174.75	120.86	53.89	30.84%	2.24
FRCC	25.48	21.15	4.33	16.99%	4.88	25.42	21.22	4.20	16.52%	5.05	28.99	25.92	3.07	10.59%	8.44
MRO	32.97	24.47	8.50	25.78%	2.88	35.44	25.14	10.30	29.06%	2.44	37.91	28.51	9.40	24.80%	3.03
NPCC	29.83	23.08	6.75	22.63%	3.42	33.34	25.42	7.92	23.76%	3.21	35.22	26.22	9.00	25.55%	2.91
RFC	62.05	48.77	13.28	21.40%	3.67	65.46	49.58	15.88	24.26%	3.12	69.80	53.70	16.10	23.07%	3.34
SERC	56.70	43.95	12.75	22.49%	3.45	68.70	52.95	15.75	22.93%	3.36	69.89	51.06	18.83	26.94%	2.71
SPP RE	26.38	22.51	3.87	14.67%	5.82	29.77	26.27	3.50	11.76%	7.51	30.00	25.80	4.20	14.00%	6.14
Texas RE	42.70	31.60	11.10	26.00%	2.85	51.29	38.79	12.50	24.37%	3.10	56.15	43.50	12.65	22.53%	3.44
WECC	188.70	146.80	41.90	22.20%	3.50	199.93	154.88	45.05	22.53%	3.44	227.81	177.57	50.24	22.05%	3.53
TOTAL/Average	605.06	463.37	141.69	23.42%	3.27	677.18	510.28	166.90	24.65%	3.06	730.52	553.14	177.38	24.28%	3.12
3-Year Average														24.14%	3.14

	2011 ACTUAL SPEND per FTE				2012 ACTUAL SPEND per FTE				2013 ACTUAL SPEND per FTE			
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 366,000	\$ 293,935	\$ 551,703	\$ 154,241	\$ 305,072	\$ 259,169	\$ 407,893	\$ 125,894	\$ 313,104	\$ 252,952	\$ 448,007	\$ 138,158
FRCC	203,180	211,645	161,830	27,501	217,119	231,795	142,970	23,622	202,287	202,514	200,370	21,219
MRO	224,013	187,732	328,462	84,681	248,844	183,271	408,891	118,837	226,189	181,899	360,520	89,393
NPCC	394,052	401,069	370,061	83,738	387,422	417,744	290,099	68,914	320,145	276,156	448,297	114,556
RFC	244,291	212,458	361,199	77,304	244,649	216,060	333,908	81,003	251,369	214,025	375,927	86,711
SERC	201,730	162,802	335,914	75,536	193,187	163,521	292,920	67,154	227,228	189,533	329,444	88,760
SPP RE	318,341	182,890	1,106,201	162,282	320,864	167,516	1,471,846	173,042	322,716	177,092	1,217,265	170,417
Texas RE	191,555	167,385	260,363	67,682	176,096	154,449	243,270	59,288	169,844	147,141	247,914	55,852
WECC	305,006	317,736	260,405	57,822	310,797	331,138	240,866	54,274	291,960	293,545	286,358	63,152
TOTAL/Average	\$ 291,503	\$ 262,409	\$ 386,650	\$ 90,544	\$ 278,306	\$ 257,242	\$ 342,707	\$ 84,465	\$ 273,210	\$ 239,565	\$ 378,131	\$ 91,815
3-Year Average									\$ 281,007	\$ 253,072	\$ 369,163	\$ 88,941

The accompanying narrative in this filing is essential to understanding the financial information on this schedule