

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

North American Electric Reliability Corporation)
)

Docket No. FA11-21-000

COMPLIANCE FILING OF THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”)¹ submits this compliance filing in accordance with the Commission’s January 16, 2013 Order in Docket No. FA11-21-000.² In the January 16 Order, the Commission approved a Settlement Agreement between the Office of Enforcement (“Enforcement”) and NERC related to Enforcement’s findings and recommendations arising out of its 2012 performance audit of NERC. Specifically, Section II.7(b)(i) of the Settlement Agreement requires that:

Within forty-five days of the end of each quarter, beginning with the quarter ending March 31, 2013, NERC will file with the Commission the unaudited report of the NERC budget-to-actual spending variances during the preceding quarter. This report will include information regarding sources and uses of operating and working capital reserves and will match or exceed the level of detail of the quarterly budget-to-actual variance report of NERC expenditures attached to the agenda of NERC Board of Trustees Finance and Audit Committee’s October 2012 meeting.³

Attached hereto is the unaudited report of NERC’s budget-to-actual variance information for the fourth quarter of 2016, in accordance with the January 16 Order. This variance information was

¹ NERC was certified by FERC as the electric reliability organization (“ERO”) authorized by Section 215 of the Federal Power Act. FERC certified NERC as the ERO in its order issued July 20, 2006 in Docket No. RR06-1-000. *Order Certifying North American Electric Reliability Corporation as the Electric Reliability Organization and Ordering Compliance Filing*, 116 FERC ¶ 61,062 (2006) (“ERO Certification Order”).

² See *North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,042 (2013) (“January 16 Order”).

³ *Id.*

posted on NERC's website and reviewed at the February 2, 2017 open meeting of the NERC Finance and Audit Committee ("FAC"). The unaudited report was accepted by the NERC Board of Trustees at its meeting on February 9, 2017.

II. NOTICES AND COMMUNICATIONS

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

Michael Walker*
Senior Vice President and Chief Financial and
Strategic Development Officer
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Commission's official service list

III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2016 BUDGET AND UNAUDITED ACTUAL 2016 RESULTS

The attached fourth quarter 2016 variance report compares actual (unaudited) year-end 2016 financial results to NERC's budgeted expenditures as of December 31, 2016. NERC is providing additional discussion of significant variances between the actual (unaudited) year-end 2016 results and NERC's 2016 budget, by expense category, by NERC department or program area and by major activity within departments and program areas. This discussion focuses on variances of \$500,000 or more between year-end 2016 results and the 2016 budget. For purposes of this discussion, NERC has focused on year end variances in excess of budget of \$500,000 or more, because Section 7(b)(ii) of the Settlement Agreement specifies that NERC will file for

Commission review and approval proposals approved by the NERC Board of Trustees to expend \$500,000 or more from Operating Reserves designated for “unforeseen contingencies” (as defined in NERC’s Working Capital and Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area. In addition, although not required by the Settlement Agreement, NERC is providing, for completeness, information in the attached report on actual cost variances less than budget of \$500,000 or more by department, program area or major activity.

A. Variations by Expense Category

Based on preliminary, unaudited results for the year ending December 31, 2016, NERC was \$733k under its expense and fixed asset budget, including costs related to the Cyber Risk Information Sharing Program (CRISP). Excluding CRISP, NERC was \$618k under budget. Actual 2016 expenses for consultants and outside contractors, excluding CRISP, were under budget \$1.6M as discussed on pages 2 and 3 of the fourth quarter 2016 variance report. All departments contributed to the variance. Information Technology was under budget \$636k for consultants and outside contractors due to lower costs for ERO application support and data analysis. Fixed asset purchases, excluding depreciation, were over budget \$922k for data analysis software related to the GADS Wind project, the authorized use of reserves in connection with a data analysis software that collects and analyzes system inertia data, and labor costs budgeted in personnel expenses but capitalized and reflected as costs associated with certain IT projects as discussed on page 3 of the fourth quarter 2016 variance report.

B. Compliance Assurance Program and Information Technology

Actual 2016 direct expenses plus net fixed asset expenditures for the Compliance Assurance Program and Information Technology were less than budgeted by \$600k and \$1.1M, respectively, as discussed on pages 4 and 5 of the fourth quarter 2016 variance report.

C. Reliability Risk Management

Actual 2016 direct expenses plus net fixed asset expenditures for the Reliability Risk Management (RRM) department were \$1.4M more than budgeted. The RRM department encompasses multiple program areas and activities, including Performance Analysis, Event Analysis, and Situation Awareness and the overall variance of \$1.4M for the department is applicable to all program areas combined and related to various activities within each program area. Of the overall variance of \$1.4M, lower attrition and the allocation of additional resources accounted for \$555k in additional costs. The department experienced minimal turnover in staff during the year, creating an over budget variance because the attrition assumptions used for budgeting personnel costs did not materialize. In addition to lower attrition than budgeted, additional resources were allocated primarily to Performance Analysis to support various activities including (1) coordination of data for the state of reliability reports (\$65k), (2) assistance with the BES exception resolution (\$50k), and (3) historical event data analysis (\$50k). Additionally, \$66k of approved reserves were used for webTADS software related to user interface and data import enhancements. Another \$163k of approved reserves were used for analysis software to collect and analyze system inertia data. Finally, the Enterprise Reporting for the GADS data software development project (\$494k) was budgeted in IT, but charged to the RRM department. This did not cause a budget variance to NERC's overall financial position, but created a budget variance in

the IT and RRM departments. The project was completed during the year and the costs were transferred to align costs with the program utilizing the system.

IV. CONCLUSION

NERC respectfully requests that the Commission accept this filing as compliant with Section II.7(b)(i) of the Settlement Agreement and the Commission's January 16 Order in Docket No. FA11-21-000.

Respectfully submitted,

/s/ Meredith M. Jolivert

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*Counsel for North American Electric
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Dated: February 14, 2017

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 14th day of February, 2017.

/s/ Meredith M. Jolivert

Meredith M. Jolivert
*Counsel for North American Electric
Reliability Corporation*

ATTACHMENT

North American Electric Reliability Corporation Summary of Unaudited Results December 31, 2016

Based upon preliminary, unaudited results for the year ending December 31, 2016, NERC was \$733k (1.1%) under its expense and fixed asset budget, including costs related to the Cyber Risk Information Sharing Program (CRISP).

Excluding the approved use of reserves, NERC was \$1.1M (1.6%) under its expense and fixed asset budget.

Actual vs Budget (YTD) - including CRISP

	Actual	Budget	Variance Over (Under)	%
TOTAL FUNDING	\$ 67,289,709	\$ 67,502,155	\$ (212,446)	-0.3%
EXPENSES and FIXED ASSETS				
PERSONNEL EXPENSES	\$ 37,255,744	\$ 37,283,807	\$ (28,063)	-0.1%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,470,862	3,620,286	(149,424)	-4.1%
CONSULTANTS and CONTRACTS	11,647,124	12,865,914	(1,218,790)	-9.5%
RENT	3,249,112	3,054,287	194,825	6.4%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	5,733,007	6,341,372	(608,365)	-9.6%
OTHER NON-OPERATING EXPENSES	141,506	110,000	31,506	28.6%
FIXED ASSET PURCHASES (excluding depreciation)	4,956,119	3,911,000	1,045,119	26.7%
TOTAL EXPENSES and FIXED ASSETS	\$ 66,453,473	\$ 67,186,665	\$ (733,192)	-1.1%
APPROVED USE of RESERVES	363,960	-	363,960	
TOTAL EXPENSES and FIXED ASSETS (excluding reserves)	\$ 66,089,514	\$ 67,186,665	\$ (1,097,152)	-1.6%
FTEs	192.7	192.5	0.2	0.1%

NERC VARIANCES - excluding CRISP

NERC was \$618k (1.0%) under its expense and fixed assets budget at year-end. NERC utilized reserves for various expenditures during 2016 (see page 7 for details) and all were appropriately authorized under NERC's reserve policy. Those reserve expenditures, representing specific over budget items, were more than offset by reduced spending in others areas. Reserves were primarily utilized for projects in data analysis and the E-ISAC. NERC was under budget primarily in contracts and consultants, office costs, and meetings, offset by increased spending in fixed assets.

Actual vs Budget (YTD) - excluding CRISP

	Actual	Budget	Variance Over (Under)	%
TOTAL FUNDING	\$ 59,431,737	\$ 59,529,136	\$ (97,399)	-0.2%
EXPENSES and FIXED ASSETS				
PERSONNEL EXPENSES	\$ 36,624,479	\$ 36,542,135	\$ 82,344	0.2%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,431,013	3,550,831	(119,818)	-3.4%
CONSULTANTS and CONTRACTS	5,383,857	6,977,320	(1,593,463)	-22.8%
RENT	3,249,112	3,054,287	194,825	6.4%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	5,591,268	5,862,095	(270,826)	-4.6%
OTHER NON-OPERATING EXPENSES	141,506	110,000	31,506	28.6%
FIXED ASSET PURCHASES (excluding depreciation)	4,733,258	3,811,000	922,258	24.2%
INDIRECT EXPENSES and ALLOCATION OF FIXED ASSETS	(558,992)	(694,022)	135,029	-19.5%
TOTAL	\$ 58,595,501	\$ 59,213,646	\$ (618,145)	-1.0%
FTEs	190.3	189.7	0.6	0.3%

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

- Personnel expenses were over budget \$82k (0.2%). Salaries, incentive compensation and benefits were collectively over budget \$304k due primarily to the addition of staff resources during the year. Payroll taxes and retirement costs were under budget \$222k largely due to the timing of new hires.

Under appropriate accounting guidance, certain labor costs were capitalized and reflected as costs associated with applicable IT projects. For 2016, \$462k was capitalized toward these projects and reflected in fixed assets. Before recognizing the capitalization of labor, the personnel expense category was over budget \$544k (excluding CRISP).
- Meeting, travel and conferencing expenses were collectively under budget \$120k (3.4%). Meetings and conferencing expenses were collectively \$151k under budget, offset by travel expenses \$31k over budget.
- Consultant and Contract expenses were under budget \$1.6M (22.8%). The following is a brief summary of variances by department:
 - Several departments, including Compliance Analysis and Certification, Compliance Assurance, Training, Human Resources, and Finance were under budget due to the less than anticipated use of outside consulting support related to various activities in those groups.
 - RASA: Under budget primarily because certain 2016 budgeted costs related to work on the Clean Power Plan analysis were incurred in late 2015. Additionally, the department purchased certain analytical tools that allowed for additional and more efficient work by NERC staff and lessened the need for external contractors.
 - E-ISAC: The department re-assessed the budgeted project list in early 2016 to allocate funds to the highest priority items while assuming some reserve expenditures for unanticipated larger projects. The actual expenditures were either lower than assumed or had a smaller impact on 2016 reserves than

expected. For example, the STIX-TAXII project was undertaken in 2016, but the agreements called for lower initial costs than were assumed and license/support costs are spread over the agreement term.

- Information Technology: Under budget due to lower costs for ERO application support and data analysis.

**Consultant and Contract Expenses
By Department**

CONSULTANTS and CONTRACTS	Actual	Budget	Variance Over (Under)
COMPLIANCE ANALYSIS and CERTIFICATION	\$ -	\$ 50,000	\$ (50,000)
COMPLIANCE ASSURANCE	5,347	200,000	(194,653)
RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS	406,570	575,000	(168,430)
RELIABILITY RISK MANAGEMENT	1,720,788	1,776,514	(55,726)
E-ISAC	528,872	663,335	(134,463)
TRAINING, EDUCATION & OPERATOR CERTIFICATION	548,567	675,800	(127,233)
GENERAL & ADMINISTRATIVE	77,285	80,000	(2,715)
POLICY and EXTERNAL AFFAIRS	11,682	15,000	(3,318)
INFORMATION TECHNOLOGY	1,458,681	2,094,671	(635,990)
HUMAN RESOURCES	431,446	550,000	(118,554)
FINANCE and ACCOUNTING	194,620	297,000	(102,380)
TOTAL (excluding CRISP)	\$ 5,383,857	\$ 6,977,320	\$ (1,593,463)
CRISP	6,263,267	5,888,594	374,673
TOTAL CONTRACTS and CONSULTANTS	\$ 11,647,124	\$ 12,865,914	\$ (1,218,790)

- Office Costs, Professional Services and Miscellaneous expenses were collectively \$271k (4.6%) under budget primarily due to lower than budgeted costs for outside counsel, which are included in professional services expenses.
- Fixed Asset Purchases (excluding depreciation) were \$922k (24.2%) over budget due to the GADS Wind project (originally budgeted in contracts and consultants but recognized in fixed assets), the authorized use of reserves in connection with a data analysis software that collects and analyzes system inertia data, and labor costs budgeted in personnel expenses but capitalized and reflected as costs associated with certain IT projects. See page 5 for additional information.

Summary of Variances by Program

The following table reflects variances by department as of December 31, 2016.

DIRECT EXPENSES and NET FIXED ASSETS	2016 Actual	2016 Budget	Variance Over/(Under)
RELIABILITY STANDARDS	\$ 3,446,759	\$ 3,678,708	\$ (231,949)
COMPLIANCE ANALYSIS, CERTIFICATION and REGISTRATION	1,921,550	2,086,784	(165,234)
COMPLIANCE ASSURANCE	3,959,360	4,559,234	(599,873)
ENFORCEMENT	2,419,224	2,225,816	193,408
RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS	3,889,873	3,392,571	497,303
RELIABILITY RISK MANAGEMENT	8,086,089	6,719,091	1,366,998
E-ISAC	4,596,789	4,742,862	(146,073)
TRAINING, EDUCATION and OPERATOR CERTIFICATION	1,829,096	2,060,167	(231,071)
GENERAL and ADMINISTRATIVE and EXECUTIVE	8,273,017	8,024,564	248,453
POLICY and EXTERNAL AFFAIRS	2,050,987	1,856,747	194,240
LEGAL and REGULATORY	3,024,511	3,465,966	(441,454)
INFORMATION TECHNOLOGY	11,007,151	12,156,674	(1,149,524)
HUMAN RESOURCES	1,180,710	1,510,177	(329,466)
FINANCE and ACCOUNTING	3,469,376	3,428,307	41,069
TOTAL (excluding CRISP)	\$ 59,154,494	\$ 59,907,668	\$ (753,174)
CRISP	7,298,979	7,278,998	19,982
TOTAL (EXPENSES and NET FIXED ASSETS)	\$ 66,453,473	\$ 67,186,665	\$ (733,192)

Following is a brief summary of significant variances:

- Reliability Standards; Compliance Analysis, Certification and Registration; Compliance Assurance – Under budget primarily due to resource allocations and timing of new hires, and lower than budgeted outside contract support related to risk-based compliance monitoring, as noted above.
- Enforcement – Over budget due to higher than budgeted employee retention (attrition was less than budgeted vacancy rate), as well as enhancements to the current CRATS database that was budgeted in 2015 but not completed until 2016. Funding for this project was reserved in the Future Obligations Reserve at the end of 2015.
- Reliability Assessments and System Analysis (RASA) – Over budget due to the allocation of additional resources to support ongoing program activities in specific departments within this program area.
- Reliability Risk Management (RRM) (includes Event Analysis, Performance Analysis, and Situation Awareness departments) – Over budget due to (1) allocation of additional staff resources to support ongoing program activities, (2) the approved use of reserves for enhancements to webTADS related to

interface and data import, and (3) development of Enterprise Reporting for GADS data, which was budgeted in IT but charged to the Performance Analysis program to align costs with the program utilizing the system.

- E-ISAC – Under budget primarily due to lower expenditures in contracts and consultants (as mentioned above).
- Legal and Regulatory – Under budget due primarily to fewer personnel resources during the year and less use of outside legal counsel.
- Human Resources – Under budget due to lower temporary office services, outside compensation consultants and other general consulting services.
- Information Technology – The under budget variance of \$1.1M was primarily related to ERO Application development costs that are budgeted in IT but recorded in the programs utilizing the applications. Approximately \$668k of costs were allocated from the IT department to other operating programs. Even before the impacts of these allocations, the IT department was \$481k under budget in total. This is primarily due to lower costs for ERO application support and lower personnel expenses resulting from fewer resources on staff than were budgeted.

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

<u>Information Technology</u>	<u>2016</u>
Actual	\$ 11,007,151
Budget	12,156,674
Variance Over (Under)	\$ (1,149,523)
<u>Transferred Projects</u>	
ERGADS (to RRM)	\$ 370,040
GADS-Wind (to RRM)	54,068
MIDAS (to RRM)	79,122
SBS Enhancements (to Standards)	62,154
BESnet Enhancements (to RASA)	81,047
CRATS (to Enforcement)	21,788
Total Transferred	\$ 668,219
Adjusted Variance Over (Under)	\$ (481,304)

Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were under budget \$74k (4.6%).

Board of Trustee Expenses	Actual	Budget	Variance Over (Under)	%
Meetings and Travel Expenses				
Quarterly Board Meetings and Conference Calls	\$ 204,063	\$ 244,000	\$ (39,937)	-16.4%
Trustee Travel	116,559	157,329	(40,770)	-25.9%
Total Board of Trustees Meetings and Travel Expenses	\$ 320,623	\$ 401,329	\$ (80,706)	-20.1%
Professional Services				
Independent Trustee Fees	1,126,354	1,126,354	-	0.0%
Trustee Search Fees	106,334	100,000	6,334	6.3%
Total Board of Trustee Professional Services Expenses	\$ 1,232,688	\$ 1,226,354	\$ 6,334	0.5%
Total Board of Trustee Expenses	\$ 1,553,310	\$ 1,627,683	\$ (74,373)	-4.6%

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

CRISP was \$115k (1.4%) under budget. The under runs in actual versus budgeted CRISP costs, which are funded by CRISP participants, will be credited to CRISP participants pursuant to the terms of the CRISP participant agreements.

	Actual	Budget	Variance Over (Under)	%
TOTAL FUNDING	\$ 7,857,972	\$ 7,973,019	\$ (115,047)	-1.4%
EXPENSES and FIXED ASSETS				
PERSONNEL EXPENSES	\$ 631,265	\$ 741,671	\$ (110,407)	
MEETINGS, TRAVEL and CONFERENCE CALLS	39,849	69,455	(29,606)	
CONSULTANTS and CONTRACTS	6,263,267	5,888,594	374,673	
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	141,739	479,277	(337,539)	
FIXED ASSET PURCHASES (excluding depreciation)	222,860	100,000	122,860	
INDIRECT EXPENSES and ALLOCATION OF FIXED ASSETS	558,992	694,022	(135,029)	
TOTAL EXPENSES and FIXED ASSETS	\$ 7,857,972	\$ 7,973,019	\$ (115,047)	-1.4%

Operating Reserves Analysis

As of December 31, 2016, the balance in working capital and operating reserves was \$8.7M, including \$2.3M in the Operating Contingency Reserve (OCR) and \$2.3M in the Assessment Stabilization Reserve (ASR).

OCR: The 2016 ending balance was above the assumed starting balance of \$1.7M in the 2017 budget. The 2017 budget included additional funding for the OCR of \$500k and an ending balance for 2017 of \$2.2M. Therefore, NERC is above budget in reserves to start the 2017 year.

The \$2.3M balance is net of approximately \$96k which has been transferred from the OCR to the Future Obligations Reserve (FOR) to fund ongoing projects. All of these projects have internal approval, executed contracts, were budgeted in 2016, and work is underway. The completion of these projects and their funding from the FOR is expected in early 2017 and will have no impact on the 2017 OCR.

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

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

ASR: The 2016 ending balance agrees to the projected beginning balance for the 2017 budget. The 2017 budget anticipates \$500k in penalties to be deposited in the ASR and the use of \$1.1M in ASR funds to offset 2017 assessments. The ending ASR balance for 2017 is projected and budgeted to be \$1.7M.

				December 31, 2016 Reserve Balances				
	Actual	Budget	Variance Over (Under)	Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$ 6,313,523	\$ (237,741)	\$ 3,431,795	\$ 1,213,419	\$ 930,568	\$ 500,000	
Change in Reserves from Current Year Operations								
Change in Reserves from budgeted operations	1,489,489	315,490	1,173,999	96,145	1,495,567	(102,223)		
Approved use of reserves	(653,252)	-	(653,252)	(289,293)	(363,960)			
Capital Financing								
Proceeds from Financing Activities (non-current only)	989,375	1,000,000	(10,625)		989,375			
Debt Service	(1,044,253)	(1,055,000)	10,747		(1,044,253)			
Other adjustments to reserves**	1,889,990	2,271,000	(381,010)	(381,010)				2,271,000
Reserve Balance	\$ 8,747,131	\$ 8,845,013	\$ (97,882)	\$ 2,857,637	\$ 2,290,150	\$ 828,344	\$ 500,000	\$ 2,271,000

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

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

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

	Actual	Budget	Variance Over (Under)	%
Funding				
Assessments	\$ 57,081,445	\$ 57,081,445	-	
Assessment Stabilization Reserves - Penalties	1,439,000	1,439,000	-	
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	6,712,475	6,830,738	(118,263)	
Testing	1,734,068	1,867,972	(133,905)	
Services & Software	43,000	50,000	(7,000)	
Workshop Fees	240,837	230,000	10,837	
Interest	38,682	3,000	35,682	
Miscellaneous	202	-	202	
Total Funding	\$ 67,289,709	\$ 67,502,155	\$ (212,446)	-0.3%
Expenses				
Personnel Expenses				
Salaries	\$ 29,012,522	\$ 28,842,336	\$ 170,186	
Payroll Taxes	1,734,572	1,871,367	(136,795)	
Employee Benefits	3,629,217	3,579,280	49,937	
Savings & Retirement	2,879,432	2,990,823	(111,391)	
Total Personnel Expenses	\$ 37,255,744	\$ 37,283,807	\$ (28,063)	-0.1%
Meeting Expenses				
Meetings	\$ 972,077	\$ 1,096,500	\$ (124,423)	
Travel	2,231,078	2,203,786	27,292	
Conference Calls	267,707	320,000	(52,293)	
Total Meeting Expenses	\$ 3,470,862	\$ 3,620,286	\$ (149,424)	-4.1%
Operating Expenses				
Consultants and Contracts	\$ 11,647,124	\$ 12,865,914	\$ (1,218,790)	
Rent & Improvements	3,249,112	3,054,287	194,825	
Office Costs	3,484,889	3,795,572	(310,683)	
Professional Services	2,221,425	2,509,300	(287,875)	
Miscellaneous	26,693	36,500	(9,807)	
Depreciation	2,402,156	2,641,943	(239,787)	
Total Operating Expenses	\$ 23,031,399	\$ 24,903,515	\$ (1,872,116)	-7.5%
Other Non-Operating Expenses				
	\$ 141,506	\$ 110,000	\$ 31,506	28.6%
Indirect Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 63,899,510	\$ 65,917,608	\$ (2,018,098)	-3.1%
Net Change in Assets	\$ 3,390,199	\$ 1,584,547	\$ 1,805,652	114.0%
Fixed Assets				
Depreciation	\$ (2,402,156)	\$ (2,641,943)	\$ 239,787	
Computer & Software	3,491,927	2,347,000	1,144,927	
Furniture & Fixtures	-	-	-	
Equipment	1,464,192	1,564,000	(99,808)	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	-	-	-	
Incr(Dec) in Fixed Assets	\$ 2,553,963	\$ 1,269,057	\$ 1,284,906	101.2%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	\$ 66,453,473	\$ 67,186,665	\$ (733,192)	-1.1%
FTE's	192.7	192.5	0.2	0.1%

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)
For the period ended 12/31/2016

	Unaudited 12/31/2016	Audited 12/31/2015	Working Capital and Operating Reserves	
			12/31/2016	12/31/2015
ASSETS				
Cash	\$ 54,523,918	\$ 40,308,955	\$ 54,523,918	\$ 40,308,955
Accounts receivable, net of allowance for uncollectible accounts of \$0	3,781,867	3,986,346	3,781,867	3,986,346
Prepaid expenses and other current assets	2,046,006	1,291,805	2,046,006	1,291,805
Security deposit	125,416	125,416		
457(b) – Non-Qualified Deferred Compensation	1,109,883	744,438		
457(f) - Non-Qualified Deferred Compensation	473,741	271,200		
Property and equipment	10,771,834	8,301,731		
Total Assets	\$ 72,832,665	\$ 55,029,891		
LIABILITIES AND NET ASSETS				
Liabilities				
Current Portion				
Accounts payable and accrued expenses (includes vacation accrual)	\$ 4,118,648	\$ 5,326,723	\$ (4,118,648)	\$ (5,326,723)
Accrued incentive compensation	4,979,436	4,721,278	(4,979,436)	(4,721,278)
Deferred rent-current	396,121	322,016	(396,121)	(322,016)
Deferred compensation - current	-	-	-	-
Capital lease obligations - current	64,728	64,728	(64,728)	(64,728)
Accrued retirement liabilities	1,903,342	1,878,830	(1,903,342)	(1,878,830)
Debt service - current portion	1,238,940	744,253	(1,238,940)	(744,253)
Deferred income	12,306,862	7,961,316	(12,306,862)	(7,961,316)
Deferred revenue - CRISP	2,624,242	2,508,514	(2,624,242)	(2,508,514)
Regional assessments	23,472,340	12,273,666	(23,472,340)	(12,273,666)
Total Current Portion	\$ 51,104,660	\$ 35,801,324		
Long-Term Portion				
Deferred compensation ¹	1,537,980	1,038,350		
Long-Term Debt	625,433	680,311		
Penalties-Assessments stabilization	2,271,000	-		
Deferred Rent-non-current	3,015,784	3,412,298		
CRISP Insurance Reserve	500,000	500,000		
Capital lease obligations - non-current	151,752	151,752		
Total Long-Term Portion	\$ 8,101,950	\$ 5,782,711		
Total Liabilities	\$ 59,206,610	\$ 41,584,035		
Net Assets - unrestricted	\$ 13,126,055	\$ 9,735,856		
Net Assets - restricted	500,000	3,710,000	(500,000)	(3,710,000)
Total Liabilities and Net Assets	\$ 72,832,665	\$ 55,029,891	\$ 8,747,131	\$ 6,075,782
Working Capital and Operating Reserves	\$ 8,747,131	\$ 6,075,782		

Financial Covenants

1 - WC & OR Balance to Debt Service Ratio > 1.2 to 1.0 (=Working Capital / Debt Service)	7.06
2 - Liquidity to Debt Service Ratio > 1.5 to 1.0* (= Cash - Regional Assessments - Restricted Net Assets)	24.66