

Agenda Finance and Audit Committee OPEN Session

May 8, 2012 | 9:30-10:30 a.m. Eastern

Westin Arlington Gateway 801 North Glebe Road Arlington, VA 22203 703-717-6200

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

- 1. Minutes*— Approve
 - a. May 3, 2012
 - b. February 3, 2012
- 2. Second Quarter Calendar of FAC Responsibilities*
 - a. 2011 Audited Financial Statements: Review Audit Findings and Recommendations Review and Recommend to Board of Trustees
 - b. Performance of External Auditor Review
 - c. First Quarter Statement of Activities Review and Accept
 - d. Review Financial Aspects of Form 990 (No Committee approval required) Review
 - e. Working Capital Policy and Contingency Reserve Guidelines* Review Management Recommendations
 - f. Finance and Audit Committee Mandate Review
 - g. Status on Risk Management and Internal Control Subcommittee Review
- 3. Status of NERC 2013 Business Plan and Budget and Process for Reviewing Regional Entities' Business Plans and Budgets Review
- 4. Future Meetings
 - a. May 18, 2012 Conference Call 1:00 p.m. Eastern
 - b. July 19, 2012 Conference Call 10:30 a.m. Eastern
 - c. August 15, 2012 Quebec City, Canada
 - d. October 31, 2012 Conference Call 11:00 a.m. Eastern

^{*}Background materials included.



Antitrust Compliance Guidelines

I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.



• Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

III. Activities That Are Permitted

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.

Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.



Draft Minutes Finance and Audit Committee

February 3, 2012 | 11:00 a.m. Eastern Conference Call

Chair Fred Gorbet convened a duly-noticed meeting of the Finance and Audit Committee (FAC) of the North American Electric Reliability Corporation on February 3, 2012.

Trustees participating in addition to Chair Gorbet included committee members Tom Berry, David Goulding, Roy Thilly and Board Chair John Q. Anderson. NERC President and CEO Gerry Cauley was also present. NERC staff participants included Michael Walker, David Cook, Susan Turpen, and Holly Mann.

Antitrust Compliance Guidelines

Chair Gorbet directed the participants' attention to the NERC Antitrust Compliance Guidelines.

Self-Assessment Results

Chair Gorbet introduced a representative of TalentQuest who reviewed the self-assessment survey results. A discussion then took place noting there were no "1" ratings on the survey results, the need to provide further guidance in the future when Not Applicable (N/A) may apply and that a "3" rating was not generally an indication of a need for performance improvement. Chair Anderson then asked whether the survey results for this committee were generally in line with the overall survey results. The TalentQuest representative indicated the FAC had more question than the other survey but the results were generally in line with the other committee ratings.

Minutes

On motion of Chair Gorbet the draft minutes of October 27, 2011 were unanimously approved.

Fourth Quarter (unaudited) Statement of Activities and Year-end Results

Michael Walker, chief financial and administrative officer provided highlights regarding year-end NERC and ERO performance. He also indicated that management would be continuing to make efforts to improve the quality of variance reporting and forecasting at both the NERC and Regional Entity levels. Susan Turpen, controller, provided a brief overview of the fourth quarter statement of activities for NERC and the Regional Entities, including a summary of significant variances for NERC and the Regional Entities, as well as reviewed year-end results, as set forth in the detailed reports attached to the agenda materials. There was a general discussion regarding the pattern of budget underruns at the Regions and the ability of the Regions to generally achieve their annual goals and objectives despite these underruns. Chair Gorbet made special note of the efforts by NERC staff to address existing leasehold liabilities in connection with the implementation of NERC's relocation strategy. Upon conclusion of Ms. Turpen's presentation and the committee discussions, the committee voted unanimously to accept the fourth quarter statement of activities for NERC and the Regional Entities.



Strategic Plan

President and CEO Gerry Cauley reviewed the update to the company's strategic goals, including the joint planning sessions with the Regional Entities, the key areas of focus, the relationship to the goals and objectives contained in the 2012 Business Plan and Budget and the fact that these goals would be subject to further review and discussion at the upcoming Corporate Governance and Human Resources Committee (CGHRC) and Board of Trustees meetings. Mr. Cauley also indicated that an effort was made to streamline the number of objectives and concentrate on the three core areas of (1) standards and compliance, (2) reliability risk and (3) coordination and collaboration. Chair Gorbet and Chair Anderson acknowledged the progress and usefulness of the annual goal and objective setting process. A discussion then took place with respect to the specific details of the goals, objectives and measures and the relationship to the business planning and budgeting process.

Business Plan and Budget Schedule

Mr. Walker reviewed the proposed schedule for preparation of the 2013 Business Plan and Budget. He noted the scheduling of a meeting with the trades associations for input prior to posting of the first draft of the business plan and budget, as well as the two committee meetings that will take place to review the Regional Entity Business Plans and Budgets. Chair Gorbet noted the tight timeframe between the Board approval of the NERC and Regional Entity Business Plans and Budgets and the filing for FERC approval thereof. Mr. Walker indicated this was one of the reasons two committee meetings were scheduled to review and provide feedback on the Regional Entity Business Plans and Budgets and that he was comfortable that with the current schedule there was sufficient time to respond to and address any Board or committee recommendations regarding the NERC and Regional Entity Business Plans and Budgets prior to the FERC filing deadline.

Review of Auditor Qualifications

Chair Gorbet noted that management prepared a questionnaire regarding external auditor qualifications and that this would be completed by the committee and management in connection with the 2011 financial statement audit. He also noted that the questionnaire would be provided to the external auditors for their review and comment. Committee member Goulding requested the auditors be asked to identify any unique qualifications which they felt distinguished them from other audit firms.

Working Capital Policy

Mr. Walker summarized the background materials and management's recommendation regarding the development of a working capital policy. He noted that the company typically uses working capital to fund contingencies and that it was not historically needed for cash flow purposes. A discussion then ensured among committee members regarding a review of the historic basis underlying the company's annual working capital requirement set forth in its budget, the approaches by the Regional Entities and the benefits of having some a formal working capital policy, including additional review procedures regarding the use of working capital to fund contingency reserves. Chair Gorbet requested that management develop a recommended policy and guidelines governing the desired amount and use of working capital for review by the committee at its May 2012 meeting. Management was also requested



to provide the committee with additional information regarding policies and practices governing the use of working capital by the Regional Entities.

Investment Policy Governing Investment of Funds Held by the Corporation

As a follow up to the last committee meeting, Mr. Walker provided an update regarding his discussions with representatives of PNC Bank regarding alternative investment options. He reported that the yield would still be well under one percent if the policy were expanded to allow investments in money market vehicles with slightly lower credit ratings than currently permitted under the company's policies and that the additional earnings potential did not justify exploring changes to the company's investment policy at this time. He also indicated that the company would be working with PNC Bank to see if improvements could be made regarding the management of cash balances between the company's sweep and investment accounts.

Risk Management Framework

Chair Gorbet provided an overview of an informal planning meeting of the Risk Management and Internal Controls Subcommittee on January 30. The subcommittee met with members of the Compliance and Certification Executive Committee to develop a proposed subcommittee mandate and discuss the scope of a work plan and meeting schedule for 2012. The chair of the Regional Entity Management Group participated by phone. Mr. Gorbet reported that considerable progress was made on developing a draft mandate and indicated the mandate would be posted for comment, finalized by the subcommittee in April and presented to the CGHRC for review and recommendation to the Board of Trustees at the May meetings. Management also provided a status report regarding efforts to bring on board a manager to help develop and implement the risk management and internal controls program.

Chair Gorbet then opened to the floor for any comments and/or questions from industry attendees. Ms. Jennifer Budd Mattiello from NPCC complimented the NERC management team for its efforts and accomplishments during the year. She also commented that the committee should take note of the fact that the Regional staffs are working extra hours to compensate for the reduced resources which were the primary driver behind the budget underruns and that this extra effort was not sustainable on a long-term basis.

There being no further business, the meeting adjourned at approximately 1:15 p.m.

Submitted by,

Michael Walker

Senior Vice President and Chief Financial and Administrative Officer

Ville Walker

Agenda Item 2a Finance and Audit Committee May 8, 2012

North American Electric Reliability

Corporation

Financial Statements and Supplementary Schedules December 31, 2011 and 2010

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Statements of Financial Position

December 31, 2011 and 2010

	2011	2010
		(Restated)
Assets		
Cash and cash equivalents	/^\$ _19,016;150 🔍	\$ 27,401,407
Accounts receivable, net of allowance for doubtful accounts		>
of \$179,566 in 2011 and 2010	3,542,891\	2,890,791
Prepaid expenses	551,841	536,521
Property and equipment, net (Note 2)	5,088,886	2,004,118
Security deposits	114,903	100,549
Cash surrender value of insurance policies	282,098	252,309
	0.00.504.540	
Total assets	\$ 28,596,769	\$ 33,185,695
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 6,781,754	\$ 3,987,119
Deferred income	2,644,176	4,219,530
Regional assessments collected in advance (Note 5)	4,675,028	9,748,633
Deferred rent	880,941	165,559
Deferred compensation (Note 6)	594,629	620,961
Accrued retirement liabilities (Note 8)	1,682,481	1,474,913
Total liabilities	17,259,009	20,216,715
Commitments		
Net assets		
Unrestricted	8,925,260	2,793,980
Temporarily restricted net assets (restated, Note 10)	2,412,500	10,175,000
	11,337,760	12,968,980
Total liabilities and net assets	\$ 28,596,769	\$ 33,185,695

Statements of Activities

Years Ended December 31, 2011 and 2010

		2011		\wedge	2010	
		Temporarily			Temporarily	
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
					(Restated)	
Revenues				, \		
NERC assessments	\$ 41,106,965	· · · ·	\$ 41,106,965	\$ 37,063,568	\$	\$ 37,063,568
Penalty income		\$ 2,412,500	2,412,500		175,000	175,000
Testing/fees	2,333,524	Service Control of the Control of th	2,333,524	2,182,290		2,182,290
Services and software	236,604		236,604	347,216		347,216
Workshops	400,850	1 1	400,850	191,200		191,200
Interest	12,702	1 / 1/	12,702	20,793		20,793
Miscellaneous	48,951		``	3,901		3,901
Net assets released from restrictions	10,175,000	(10,175,000)				
Total revenues	54,314,596	(7,762,500)	46,552,096	39,808,968	175,000	39,983,968
		The state of the s	7			
Expenses			*			
Salaries	19,681,040		19,681,040	16,878,927		16,878,927
Employee costs	4,019,088		4,019,088	2,830,100		2,830,100
Retirement and savings plans	2,172,130	~ ·	2,172,130	1,751,791		1,751,791
Travel and meetings	3,796,238		3,796,238	3,018,135		3,018,135
Services	13,007,942		13,007,942	9,047,124		9,047,124
Rent	2,016,490		2,016,490	959,819		959,819
Office costs	2,002,252		2,002,252	1,393,267		1,393,267
Computer	252,788		252,788	137,055		137,055
Depreciation and amortization	1,217,872		1,217,872	748,864		748,864
Loss on disposal of fixed assets	17,476		17,476			
Provision for bad debts				29,438		29,438
Total expenses	48,183,316		48,183,316	36,794,520		36,794,520
Change in net assets	6,131,280	(7,762,500)	(1,631,220)	3,014,448	175,000	3,189,448
Net assets (deficiency),						
beginning of year - restated	2,793,980	10,175,000	12,968,980	(220,468)	10,000,000	9,779,532
Net assets, end of year	\$ 8,925,260	\$ 2,412,500	\$ 11,337,760	\$ 2,793,980	\$ 10,175,000	\$ 12,968,980

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

Cash flows from operating activities Change in net assets Adjustments to reconcile changes in unrestricted net assets to net cash (used in) provided by operating activities: Depreciation and amortization Deferred rent Loss on disposal of fixed assets Provision for bad debt expense 2011 (\$1,631,220) \$ 3,189,448 1,217,872 748,864 715,382 18,627 29,438
Cash flows from operating activities Change in net assets Adjustments to reconcile changes in unrestricted net assets to net cash (used in) provided by operating activities: Depreciation and amortization Deferred rent Loss on disposal of fixed assets (\$1,63 f;220) \$ 3,189,448 1,217,872 748,864 715,382 18,627
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Depreciation and amortization Deferred rent Loss on disposal of fixed assets 1,217,872 748,864 18,627
Deferred rent Loss on disposal of fixed assets 18,627 17,476
Loss on disposal of fixed assets
Provision for bad debt expense 29,438
Cash value of insurance policies (29,789) (10,069)
Increase (decrease) in cash attributable to changes in
operating assets and liabilities:
Accounts receivable (652,100) 48,274
Prepaid expenses (15,320) (323,901)
Accounts payable and accrued expenses 2,794,635 (74,603)
Deferred income (1,575,354) (998,873)
Regional assessments collected in advance (5,073,605) 1,268,580
Deferred compensation (26,332) 7,929
Accrued retirement liabilities 207,568 104,971
Net cash (used in) provided by operating activities (4,050,787) 4,008,685
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Cash flows from investing activities
Purchase of property and equipment (4,320,116) (950,032)
Security deposits (14,354) (84,782)
Net cash used in investing activities (4,334,470) (1,034,814)
Net increase in cash and cash equivalents (8,385,257) 2,973,871
Cash and cash equivalents, beginning of year 27,401,407 24,427,536
Cash and cash equivalents, end of year <u>\$ 19,016,150</u> <u>\$ 27,401,407</u>
Supplementary disclosures of non-cash information
Transfer of cash surrender value of life insurance policies from
the company to its employees <u>\$ - \$ 7,429</u>

North American Electric Reliability Corporation Notes to Financial Statements Years Ended December 31, 2011 and 2010

1. Businesses and Summary of Significant Accounting Policies

Description of Business

The 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 mechanism to adjust the overall assessments to a Load-Serving Entity ("LSE") to maintain a working capital reserve. The Corporation assesses each LSE its proportional share of the operating budget based on "net energy for load". On an annual basis, the assessments to LSEs make up approximately 90% of the total funding for the Corporation. The Corporation also generates funding from the collection of fees charged for various services the Corporation provides to the bulk power system industry. 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 standards development.

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.

North American Electric Reliability Corporation Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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 5.

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 both December 31, 2011 and 2010. Cash of \$2,412,500 and \$10,175,000 was temporarily restricted as of December 31, 2011 and 2010, respectively.

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 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 NERC's assessment of penalties to registered entities regarding enforcement of NERC's Reliability Standards. The penalty income is recorded upon receipt of the funds from a registered entity, which occurs 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 Income

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

Accounts Receivable

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

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Depreciation and Amortization

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

Software development Furniture and equipment Leasehold improvements

3-7 years
Term of lease or estimated useful
life of the asset, whichever is shorter

3 years

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

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 2011 or 2010.

The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2008.

Subsequent Events

The Corporation has evaluated subsequent events through May ____, 2012, the date the financial statements were available for issuance.

2. Property and Equipment

Property and equipment consist of the following at December 31, 2011 and 2010:

	2011	2010
Software development	\$ 1,412,769	\$ 1,656,536
Furniture and equipment	5,624,304	1,948,974
Leasehold improvements	897,308	442,489
	7,934,381	4,047,999
Accumulated depreciation and amortization	(2,845,496)	(2,043,881)
	\$ 5,088,885	\$ 2,004,118

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was \$1,217,872 and \$748,864, respectively.

3. Line of Credit

The Corporation has a line of credit with a bank that expires in June 2012. 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, 2011). Total borrowings under the line of credit may not exceed 70% of the qualified accounts receivable. The line of credit is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. As part of the line of credit agreement, the Corporation must maintain \$400,000 in a non-interest bearing account with the lender. There were no borrowings outstanding at both December 31, 2011 and 2010. At December 31, 2011, the available amount under the line of credit was reduced by an open letter of credit of \$65,820, which represents a security deposit for the Corporation's office in Washington, D.C., and an open letter of credit of \$84,781, which represents a security deposit for the Corporation's office in Atlanta, GA. Pursuant to the line of credit agreement, the Corporation is required to comply with financial covenants primarily related to minimum net asset requirements and minimum interest coverage ratio.

4. Penalty Income

The Corporation received \$2,412,500 and \$175,000 of penalty income in 2011 and 2010, respectively, which are temporarily restricted. The penalty monies received in 2011 will be utilized in 2013, in accordance with the timing of the receipt of the income and FERC's requirement for the use of penalty income to reduce assessments. During 2011, NERC recognized the transfer of \$10,175,000 from temporarily restricted net assets to unrestricted net assets.

5. 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. During 2011 and 2010, the regional assessments included in accounts payable were:

	2011	2010	
Total regional assessments billed to WECC, ERCOT,			
individual LSEs and designees	\$ 105,913,224	\$ 103,151,455	
Total regional assessments remitted to regional entities	(105,819,809)	(103,089,946)	
Billings over remittances	\$ 93,415	\$ 61,509	

As of December 31, 2011 and 2010, regional assessments collected in advance and not remitted to the regional entities was \$4,675,028 and \$9,748,633, respectively.

North American Electric Reliability Corporation Notes to Financial Statements Years Ended December 31, 2011 and 2010

6. 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 of \$139,640, 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, 2011 and 2010, the present value of the unfunded liability, using a discount rate of 0.75% was \$64,392 and \$113,293, respectively, and is included in deferred compensation on the statement of financial position.

On October 15, 2008, the Corporation entered into various Executive Benefit Agreements (the "Agreements") with certain executives and the aforementioned retired executive. The Agreements supersede and replace all previous written or oral agreements between the Corporation and these executives. In accordance with the Agreements, while employed by the Corporation, the executives shall be provided with life insurance coverage, through individual and/or group policies, providing a death benefit equal to the lesser of three times base salary or \$500,000, or three times base salary depending upon the executives' employment date. The executives agreed to issue split dollar endorsement agreements with respect to such policies. The Corporation is the sole and exclusive owner of the executives' policies. All policy dividends shall be applied to purchase paid-up additional death benefits. Certain executives have multiple insurance policies and the Corporation agreed to pay the premiums on these policies through December 31, 2013, provided the policies stay in force. Premium costs of the policies will be expensed as incurred during the remaining employment terms of the executives. At December 31, 2011, the face value of the policies in which the Corporation is a primary or co-beneficiary is \$182,502. At December 31, 2011 and 2010, the cash surrender value of all remaining policies was \$282,098 and \$252,309, respectively, and is included as an asset and deferred compensation on the statement of financial position since the policies will be transferred to the employees upon their termination of employment per the Agreements.

Retiree Medical Benefits

Effective September 1, 2007, the board of trustees approved and adopted a policy to provide medical coverage for certain 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 2004 Social Security Administration Actuarial Period Life Table, annual inflation rate of 5% and discount rate of 8%. At December 31, 2011 and 2010, the accrued retiree medical benefits liability was \$248,139 and \$255,359, respectively, and is included in deferred compensation on the statement of financial position. The retiree medical expense related to this policy was \$28,984 and \$26,314, respectively, for the years ended December 31, 2011 and 2010.

7. Commitments

The Corporation leases office space in Princeton, New Jersey and Atlanta, Georgia under non-cancellable lease agreements, with expiration dates in 2013 and 2023, respectively. The Corporation also leases office space in two locations in Washington D.C. under non-cancellable lease agreements with expiration dates of 2017 and 2022, respectively.

North American Electric Reliability Corporation Notes to Financial Statements

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

The Corporation has executed multiple software license, maintenance support and data management service agreements with varying expiration dates through 2017.

Approximate future minimum payments on office lease space, net of rental income for sub-leased space, and service agreements at December 31, 2011, for the next five years individually and in the aggregate are as follows:

Years Ending	Leased	Sub-leased	Service		
December 31,	Space	Space	Agreements		Total
2012	\$ 2,068,000	\$ (271,000)	\$ 1,958,000	 \$:	3,755,000
2013	2,697,000	(293,000)	607,000		3,011,000
2014	2,585,000	(276,000)	145,000		2,454,000
2015	2,654,000	(286,000)	132,000	•	2,500,000
2016	2,726,000	(248,000)	125,000		2,603,000
Thereafter	14,885,000	(50,000)	30,000	1	4,865,000
	\$ 27,615,000	\$ (1,424,000)	\$ 2,997,000	\$ 2	9,188,000

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The difference between rent expense calculated ratably over the lease term and rent paid according to the lease, is recorded as a deferred rent obligation in the amount of \$880,941 and \$165,559 at December 31, 2011 and 2010, respectively, and is included in accounts payable and accrued expenses on the statement of financial position.

Office rent expense for the years ended December 31, 2011 and 2010, was \$2,016,490 and \$959,819, respectively.

8. Defined Contribution 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 profit sharing contribution of 10% of the compensation of all qualifying participants. The additional profit sharing contributions 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, 2011 and 2010, were \$2,172,129 and \$1,751,791, respectively. The contributions accrued as of December 31, 2011 and 2010, amounted to \$1,682,481 and \$1,415,641, respectively, and are included in accrued retirement liabilities in the statement of financial position.

10

North American Electric Reliability Corporation Notes to Financial Statements Years Ended December 31, 2011 and 2010

9. 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 LSE's 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.

10. Prior Period Adjustment/Restatement

Management determined that penalty income received in 2009 and 2010 should have been recorded as temporarily restricted income in the years received. A prior period adjustment is reflected in the financial statements to recognize \$10,000,000 of penalty income as income in 2009 by adjusting temporarily restricted net assets as of January 1, 2010. The 2010 financial statements have been restated to recognize \$175,000 of penalty income in that year as temporarily restricted income and net assets.

Schedule of Expenses

Years Ended December 31, 2011 and 2010

	2011	2010
Salaries	<u>\$19,681,040</u>	\$ 16,878,927
Employee costs		
Payroll taxes		
FICA	(\$ 865,935)	\$ 711,246
NJUC	87,478	62,863
FUI	10,560	7,920
Medicare	284,489	233,619
Employee benefits - medical	> 1,893,325	1,423,294
Employee benefits - life/disability	182,421	108,672
Employee benefits - officers' life	20,574	31,795
Insurance - workers compensation	72,815	65,555
Relocation expenses	493,388	117,040
Educational	108,103	68,096
	\$ 4,019,088	\$ 2,830,100
Retirement and savings plans	\$ 2,172,130	\$ 1,751,791
		
Travel and meetings		
Meetings	\$ 600,821	\$ 469,140
Workshops	407,822	153,596
Travel	2,466,783	2,046,977
On-line meetings	320,812	348,422
	\$ 3,796,238	\$ 3,018,135

Schedules of Expenses

Years Ended December 31, 2011 and 2010

	2011	2010
Services	e de la companya de	
Temporary office services and agency fees	399,360	\$ 178,731
Contract and consultants	9,730,179	6,797,263
Independent trustee fees	978,800	818,550
Search fees	1,263	62,033
Office and equipment repair/services	776,164	379,406
Recordkeeping fees	19,913	28,744
Accounting and auditing fees	150,486	118,034
Legal fees	> 951,777	664,363
	\$ 13,007,942	\$ 9,047,124
Office costs		
Insurance - commercial	\$ 90,711	\$ 61,624
Publications and subscriptions	38,754	44,381
Dues	34,038	31,664
Postage	15,748	20,606
UPS, express mail, etc.	60,649	42,948
Telephone	484,973	272,561
Utilities	59,369	33,620
Copying	111,622	78,022
Stationery and office forms	12,474	10,985
Office supplies	181,393	118,909
Bank charges	23,525	14,746
Repairs and maintenance	22,512	8,362
Sales and use tax	85,245	48,280
Card fees	102,384	74,393
Internet expenses	593,218	472,370
Miscellaneous	85,637	59,796
	\$ 2,002,252	<u>\$ 1,393,267</u>

Agenda Item 2b Finance and Audit Committee May 8, 2012

Performance of External Auditor

Action

Review

Background

The committee mandate requires that the committee review the performance of the external auditor on an annual basis. The committee requested and management has prepared a survey to facilitate this review. A copy of the proposed form of survey is attached, together with supporting background materials provided by the company's external auditor, WeiserMazars LLP. The survey form was prepared in consultation with, and reflects the input of, Chair Gorbet and has also been reviewed by Jim Sausmer from WeiserMazars LLP. Each of the committee members, as well as the president and chief executive officer, chief financial and administrative officer and controller are requested to complete this survey.

Management will be working with TalentQuest to have the survey put online, as well as compile and summarize the survey results. Any revisions to the form which the committee recommends can be incorporated for use in the final survey form which will be produced and administered by TalentQuest. The survey should be completed after the May 8 committee meeting and the final survey form is provided by TalentQuest.

The results will be compiled and a report prepared for review and discussion at a future committee meeting.

Agenda Item 2b Attachment 1 Finance and Audit Committee May 8, 2012

External Auditor Questionnaire

Assessment Categories	Assessment (See Note 1)			
Experience and Reputation of the Firm	1	2	3	
1. The firm is well respected in the accounting industry.*				
2. The firm is not subject to any material litigation or disciplinary proceedings.*				
3. The firm is familiar with the accounting principles and policies affecting the Company.*				
4. The firm has the resources required to effectively to perform the necessary audit services for the Company*				
Comments				
Audit Team	1	2	3	
6. The audit team has the expertise, including industry knowledge, to audit the Company effectively.*				
7. The firm has adequate quality control processes in place.*				
8. The scope of the engagement partner's involvement in the audit is sufficient.				
9. Sufficient resources are allocated to the audit.				
10. The external audit firm has adequate key member succession plans in place.*				
11. The audit team uses appropriate specialists in relevant areas.				
12. The audit team's review of internal controls and findings is appropriate.				
13. Recommendations are substantive and practical.				
14. The audit team is knowledgeable about evolving relevant accounting and auditing issues.*				
15. The audit team is proactive in identifying relevant accounting and auditing trends affecting the Company.				

Comments				
Execution of Audit	1	2	3	
17. The audit scope is adequate to address all of the financial reporting risks facing The Company.				
18. The auditor reviews and discusses the audit scope and plan with the audit committee.				
19. The respective responsibilities of the auditor and management in executing the audit are clear and understood.				
20. The audit is completed efficiently and on time.				
21. The audit fees are reasonable given in relation to the scope.				
Comments				
Communication with Audit Committee	1	2	3	
Communication with Audit Committee 23. The auditor meets regularly with the audit committee, with management present and in camera.	1	2	3	
23. The auditor meets regularly with the audit committee, with	1	2	3	
23. The auditor meets regularly with the audit committee, with management present and in camera.24. The audit team seeks feedback on the quality of the services		2	3	
 23. The auditor meets regularly with the audit committee, with management present and in camera. 24. The audit team seeks feedback on the quality of the services they provide. 25. Any adjusted audit differences and weaknesses in internal 			3	
 23. The auditor meets regularly with the audit committee, with management present and in camera. 24. The audit team seeks feedback on the quality of the services they provide. 25. Any adjusted audit differences and weaknesses in internal controls are communicated in an appropriate and timely manner. 26. The auditor advises the committee about significant issues and 			3	
 23. The auditor meets regularly with the audit committee, with management present and in camera. 24. The audit team seeks feedback on the quality of the services they provide. 25. Any adjusted audit differences and weaknesses in internal controls are communicated in an appropriate and timely manner. 26. The auditor advises the committee about significant issues and new accounting developments on a timely basis. 			3	
 23. The auditor meets regularly with the audit committee, with management present and in camera. 24. The audit team seeks feedback on the quality of the services they provide. 25. Any adjusted audit differences and weaknesses in internal controls are communicated in an appropriate and timely manner. 26. The auditor advises the committee about significant issues and new accounting developments on a timely basis. 				
 23. The auditor meets regularly with the audit committee, with management present and in camera. 24. The audit team seeks feedback on the quality of the services they provide. 25. Any adjusted audit differences and weaknesses in internal controls are communicated in an appropriate and timely manner. 26. The auditor advises the committee about significant issues and new accounting developments on a timely basis. 	1	2	3	
 23. The auditor meets regularly with the audit committee, with management present and in camera. 24. The audit team seeks feedback on the quality of the services they provide. 25. Any adjusted audit differences and weaknesses in internal controls are communicated in an appropriate and timely manner. 26. The auditor advises the committee about significant issues and new accounting developments on a timely basis. Comments 				

30. The auditors are responsive to requests.		
31. The auditors have credibility.		
Comments:		

Note 1: An assessment of 3 is "satisfactory" (meaning fully meeting the expected and required standard of performance); 2 is "acceptable" (meaning generally meeting the expected and required standard of performance); 1 suggests improvement is needed.

For items marked "*", management will obtain relevant input from the auditor and circulate it to in advance of the questionnaire being completed. The comment boxes may be used to elaborate on numeric responses.

Agenda Item 2b Attachment 2 Finance and Audit Committee May 8, 2012

WeiserMazars LLP

WeiserMazars LLP

Certified Public Accountants Background Information





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- 1. Background
- 2. Top Accounting Firms
- 3. Audit Team Profiles
- 4. Peer Review







WeiserMazars LLP A Full Service Firm with National Focus and International Reach

A History of Excellence

Since 1921, WeiserMazars LLP has provided a unique combination of foresight and experience when fulfilling client needs in accounting, tax and advisory services. Whether on the local level or internationally, the firm guides clients through their day-to-day operations and works with them to ensure they have the right financial structure in place to meet their business goals. Our reputation for integrity and quality has been earned by providing our clients with proactive, value-added guidance at every stage of the business lifecycle. Defining features of our firm include:

- Over 100 partners and more than 700 professionals in six U.S. offices
- Named as one of the Fastest Growing Firms and 25 Largest Accounting Firms in the country by INSIDE Public Accounting (September 2011)
- An integrated, customized approach Our full service platform integrates accounting, auditing, tax and advisory services seamlessly to best address the critical issues our clients face
- Focused industry training our team members at all levels receive specialized industry training so that they are familiar with a client's total business environment

International Capability

We are the independent U.S. member firm of the Mazars Group, one of the world's most prominent international accounting, audit, tax and advisory services organizations with:

- Access to over 14,000 professionals in more than sixty countries on six continents
- International reach uncommon in firms with such an intense focus on coordinated, client-centric service
- Expertise on global issues, cultures and techniques

What Makes WeiserMazars Exceptional

Why WeiserMazars

WeiserMazars is serious about building a long-term, mutually beneficial relationship with our clients. We strive to exceed expectations at every step of our association.

Quick, Accurate Technical Issue Resolution

WeiserMazars' dedicated Technique & Innovation Team ("T&I") defines and promotes policies and procedures which ensure that the firm delivers the highest quality assurance services complying with professional standards. T&I monitors compliance with a view toward continuous improvement in the efficiency and effectiveness of client service deliverables. Constant review of all existing and potential new processes enhances the firm's ability to comply with professional standards, manage risk, obtain satisfactory inspection results and improve the technical competency of our professionals. Because of T&I's proximity to the rest of the WeiserMazars team, we are able to resolve complex technical challenges quickly and accurately, presenting a quality alternative to larger firms by remaining entrepreneurial and client-focused.

Exceptional Service

- Our integrated service platform brings together our national and international professional experts in audit, tax and SEC services
- We offer consistency and quality full service solutions with a high degree of personal attention
- Multiple partners assigned to each client account ensures top-notch service and that a high-level contact is always available
- Continuity in team composition means that WeiserMazars professionals grow with you throughout the engagement as experts in your business' specific needs and cycles
- We are well-versed in current industry trends and constantly monitor the changing landscape to identify new trends

Effective Communication

- Frequent contact keeps the focus on your needs
- Open, interactive and direct communication with management encourages responsiveness to opportunities and crises
- Our comprehensive, periodic reports and meetings mean that you are never surprised by financial developments



A Focused Approach to Auditing and Accounting

WeiserMazars conducts timely and efficient audits. We develop a tailored program for each client that enhances financial reporting efficiency, allowing us to focus on those areas of greatest risk in the audit process. Our increased emphasis on risk, as well as the understanding we gain of the client organization, leads to higher quality audits and contributes to better business practices. By encouraging innovation and critical thinking in our audits we have made them more value-oriented and useful for the client.

We consistently apply the concept of materiality, which reduces time spent in less significant audit areas, so that we can devote more effort to significant analytical procedures during all phases of the audit and continuously assess audit risks and materiality levels. If the company has sound policies, procedures and systems in place, we are able to leverage off such systems, enabling us to implement streamlined audit testing and procedures.

Engagement Efficiency

The professional expertise and passion for client service of our highly-skilled staff reduces the learning curve for new engagements. Through advanced planning techniques we are able to specifically identify required schedules and analyses, prioritize requests and stagger due dates to make better use of our clients' time and resources, introducing minimal disruption into their daily operations.

Our efficiency program incorporates the following practices:

- Controlled costs
- Streamlined processes
- Greater focus on and early detection of accounting and auditing issues
- Effective results



Not-for-Profit

The WeiserMazars Not-for-Profit Group is a dedicated team of professionals with years of hands-on experience in addressing the unique accounting, auditing and business issues that affect tax exempt organizations. The organizations we assist range from small, neighborhood not-for-profits to multi-million dollar complex organizations serving thousands of individuals, many of which receive Federal and State funds.

We understand that tax exempt organizations struggle to fulfill their missions in the face of limited resources and a lack of funding. We provide deep experience in a cost-efficient manner, ensuring continuous partner involvement and an attention to detail that promotes better business practices.

Our professionals have specific industry experience and are available to their technical expertise in areas including:

- Evaluating financial practices and internal control procedures
- Identifying inefficiencies and offering strategies that help organizations operate with increased efficiency
- Identifying potential cost-cutting measures
- Providing guidance for maximizing revenue





New York City 135 West 50th Street New York, NY 10020

Long Island 3000 Marcus Avenue Lake Success, NY 11042

Long Island 400 Garden City Plaza, Suite 100 Garden City, NY 11530 New Jersey 399 Thornall Street Edison, NJ 08837

Pennsylvania 110 Gibraltar Road, Suite 116 Horsham, PA 19044

Chicago 33 West Monroe, Suite 1530 Chicago, IL 60603

WeiserMazars is the independent U.S. member of the Mazars Group. Visit us online at www.weisermazars.com or follow us on :



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accountingTODAY

TOP101FIRMS

Waiting for the thaw







CCH, a Wolters Kluwer business

THE 2011 accounting TODAY TOP 100 FIRMS

RANK	REVENUE						PERSONNEL						FEE SPLIT			
44.40 5	Cl. (Year	\$	%	Off-	Part-	%			%	1	(in percent) A&A Tax MAS Othe				
- 	Chief executive	end	mn.	chg.	ices	ners	chg.	sionals	chg.	emps.	chg.					
1 1 Deloitte § New York City	, ,	Dec	\$10,938.00	2.01	100	2,883	-2.86	33,688	9.96	45,730	7.94	34	21	41	4	
2 2 PwC § 1 New York City		June	\$8,034.00	-2.27	73	2,204	2.04	21,661	-2.17	29,546	-3.38	51	30	19	0	
3 3 Ernst & Young § New York City	,	June	\$7,100.00	-6.82	77	2,300	-8.00	17,500	NC	24,600	-3.91	42	32	20	6	
4 4 KPMG § ² New York City	John Veihmeyer	Sept	\$4,889.00	-3.68	87	1,759	-4.76	14,762	-6.59	21,285	-7.30	46	26	28	0	
5 5 RSM / McGladrey & Pullen ³ Bloomington, Minn	C.Andrews/D.Scudder	April	\$1,378.87	-5.60	88	742	-1.20	4,895	-8.18	7,130	-8.06	43	35	21	1	
6 6 Grant Thornton Chicago	Stephen Chipman	Dec	\$1,085.70	-5.41	50	514	-3.93	3,580	-3.24	5,249	-3.05	47	28	25	0	
7 7 BDO USA Chicago	Jack Weisbaum	June	\$585.00	-5.65	39	263	-3.66	1,682	-9.03	2,497	-7.93	62	26	12	0	
8 8 CBIZ / Mayer Hoffman McCann † 4 Cleveland	D. Sibits/B. Hancock	Dec	\$575.30	-4.00	150	418	-10.11	1,714	-17.79	4,241	-7.40	23	27	50	0	
9 9 Crowe Horwath Oak Brook Terrace, III	Charles Allen	March	\$481.00	-5.31	26	249	3.75	1,559	-4.71	2,315	-4.65	66	23	11	0	
10 10 BKD Springfield, Mo	Neal Spencer	May	\$391.00	-0.51	29	246	-4.65	1,209	-3.74	1,814	-4.07	51	31	18	0	
11 11 Moss Adams Seattle	Rick Anderson	Dec	\$316.00	-2.17	18	238	-0.83	1,068	-5.49	1,687	-4.26	49	33	18	0	
12 12 Plante & Moran Southfield, Mich	Gordon Krater	June	\$298.32	-0.96	16	222	0.45	979	-11.64	1,531	-9.19	49	32	19	0	
13 NR EisnerAmper New York City	Charles Weinstein	Jan	\$251.10	NA	8	169	NA	900	NA	1,069	NA	53	32	15	0	
14 17 Marcum Melville, N.Y	Jeffrey Weiner	Dec	\$250.80	7.29	18	144	0.70	567	-0.35	916	-2.55	40	30	25	5	
15 14 Clifton Gunderson Milwaukee	Krista McMasters	May	\$243.00	-3.19	41	226	14.14	1,427	3.33	1,844	6.16	49	24	27	0	
16 13 Baker Tilly Virchow Krause Chicago	Timothy Christen	May	\$238.00	-8.46	11	107	-0.93	1,119	-2.53	1,346	-1.75	40	34	23	3	
17 15 J.H. Cohn* Roseland, N.J	Thomas Marino	Jan	\$230.00	-2.13	11	150	-1.96	610	-3.94	1,008	-2.80	50	32	1	17	
18 18 LarsonAllen Minneapolis	Gordy Viere	Oct	\$227.00	4.13	19	121	-3.20	977	2.63	1,351	1.43	46	33	19	2	
19 16 UHY Advisors 5 Chicago	R. Stein/A. Frabotta	Dec	\$204.60	-12.71	15	107	-13.71	589	-22.80	939	-19.26	34	40	21	5	
20 19 Dixon Hughes High Point, N.C	Ken Hughes	Dec	\$193.00	-3.50	22	134	NC	723	-4.62	1,080	-2.61	41	34	25	0	
21 20 Reznick Group Bethesda, Md	Kenneth Baggett	Sept	\$191.53	1.02	10	97	-6.73	653	-19.68	961	-16.94	57	28	14	1	
22 22 Rothstein, Kass & Co. Roseland, N.J	S. Kass/H. Altman	Dec	\$163.50	-3.54	8	69	1.47	594	-11.74	762	-9.29	67	31	1	1	
23 21 ParenteBeard Philadelphia	Robert Ciaruffoli	Dec	\$163.00	-4.90	24	147	-11.45	686	-6.92	1,031	-7.86	57	25	18	0	
24 23 Eide Bailly Fargo, N.D	Jerry Topp	April	\$151.80	6.68	19	94	NC	982	12.36	1,327	7.45	44	36	10	10	
25 24 WeiserMazars ⁶ New York City	Douglas Phillips	Dec	\$120.00	-3.54	5	84	-12.50	375	-5.78	581	-4.60	55	35	10	0	

Key and notes: Last year's rankings have been revised based on 2009 revenue provided by firms. Some firms' rankings will therefore differ from those reported last year.

¹ Renamed from PricewaterhouseCoopers. Partner and staff figures and related metrics have been restated for current and previous years to exclude global partners/staff residing in the U.S.

² Office total represents business offices, not every physical location 3 RSM McGladrey and McGladrey & Pullen operate under the brand McGladrey in an alternative practice structure.

⁴ CBIZ and Mayer Hoffman McCann are associated through an alternative practice structure. Revenues are an AT estimate; all other figures are firm-supplied, and do not reflect year-end merger with Kirkland, Russ, Murphy & Tapp. Office figures are for CBIZ alone; MHM has 36 offices nationwide. 5 UHY Advisors and UHY LLP are affiliated through an alternative practice structure.

⁶ Changed name from Weiser on joining international firm Mazars





James M. Sausmer, CPA/ABV, CVA Partner



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As a Partner in the New Jersey office, Jim provides hands-on consulting, auditing, accounting, and tax services to family owned and closely held businesses. He has over 35 years experience servicing a variety of companies with special emphasis in wholesale and distribution, professional services, hotels, not-for-profit and companies in the security industry. In addition to his work with business organizations, Jim assists his clients with issues of estate and succession planning that range from the simple to the complex.

In addition to being a member of the American Institute of Certified Public Accountants, and the New Jersey State Society of Certified Public Accountants, Jim is also a member of the National Association of Certified Valuation Analysts. He is licensed as a Certified Public Accountant in the state of New Jersey.

As a valuation specialist, certified by the National Association of Certified Valuation Analysts, and the American Institute of Certified Public Accountants/Accredited in Business Valuation, Jim performs business valuations for estate and gift planning, mergers and acquisitions, and shareholder disputes. Other service niches include retirement plan audits and reporting on controls at a service organization.

In addition to his role as an accounting and auditing partner, Jim also serves as the Quality Control Director for the firm's Pennsylvania office.

Jim holds a BS degree in Accounting from the State University of New York-Albany as well as an MBA in Accounting and Taxation from Pace University.





Patrick F. Heeney, CPA Senior Manager



WeiserMazars LLP 135 West 50th Street New York, NY 10020 212.375.6825 Patrick.Heeney@WeiserMazars.com

Mr. Heeney is a Senior Manager at the New York office of WeiserMazars LLP specializing in audits of not-for-profit organizations. He has over 13 years experience in public accounting and 10 years in private industry. Patrick has experience planning, conducting and supervising audits of not-for-profit private schools, private and public foundations, governmental audits, trade associations and health and human services agencies. He currently manages engagements where he is responsible for all aspects of the engagement and the client. Patrick also frequently performs the technical quality control review of audits and compliance cost reports within the firm's not-for-profit group.

Patrick has conducted audits in accordance with generally accepted auditing standards; government audit standards and requirements under OMB Circular A-133 and A-110; NYS compliance reporting on Ambulatory Health Care Facilities (AHCF) Medicaid cost Reports; and audited NYS Office of Mental Health Consolidated Fiscal Reports (CFR) for grant and service fee reimbursements provided by various state agencies. Patrick also has expertise with the IRS Form 990 and state information returns.

Patrick is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants and a member of their Not-For-Profit Organizations Committee. He is an active member of the NYSSCPA's subcommittee on CFR's. He currently is an adjunct professor of not-for-profit accounting at New York University in the School of Continuing and Professional Studies and an instructor of continuing education programs in not-for-profit accounting for the American Institute of Certified Public Accountants. He has been participating as a leader in the auditor training program for WeiserMazars new hires for the past five years. Patrick graduated with a degree in Accounting from Pace University.





Douglas W. Ofcharsky, CPA Senior Manager



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Doug has over 18 years of experience in the public accounting realm, with concentrations in the real estate, nonprofit and manufacturing industries. His knowledge enables him to specifically target the needs of his clients, understanding the complexities of grantor and governmental requirements. His approach helps business owners and boards of directors further understand the importance of the accounting function within their organization, and what the financial statements really mean to them.

Previously, Doug served as a manager at Fishbein and Company, P.C., in the accounting and auditing department. His responsibilities included oversight of engagements, staff training, software support, and was involved in the recruitment process for the firm.

Doug is a Certified Public Accountant in the Commonwealth of Pennsylvania, and a member of the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants. He has been published in the Pennsylvania CPA Journal, on the topic of nonprofit board governance, and holds a BS in Accounting from West Chester University.





Lisa W. Heller, CPA Senior Manager



WeiserMazars LLP 399 Thornall Street Edison, NJ 08837 732.205.2034 <u>Lisa.Heller@WeiserMazars.com</u>

Lisa is a Senior Manager in tax services at WeiserMazars. Her practice strengths include tax services for not-for-profit organizations, private foundations, retail, distribution, manufacturing, and professional services firms, and family-owned businesses. Her industry experiences consists of tax compliance services, including preparation and review of Federal Forms 990, 990-T, 1120, and 1065, and related state and local tax forms; preparation of exemption applications; Federal, state, and local audit defense; review of unrelated business activities; review of corporate structure and for-profit subsidiaries; intermediate sanctions compliance; preparation and review of SFAS 109 tax accruals; and day-to-day tax consultations.

Lisa is a Certified Public Accountant. She is a member of the Not-For-Profit Interest Group of the New Jersey Society of Certified Public Accountants. She received her MSPA in Accounting from the University of Hartford, Barney School of Business and she was a Class Ranking Scholar. She received her BA in History of Art at Yale University, Cum Laude and Distinction in the History of Art Major.



AICPA Peer Review Program Administered by the National Peer Review Committee

December 20, 2010

Douglas Allen Phillips, CPA WeiserMazars LLP 135 W 50th St Fl 13 New York, NY 10020

Dear Mr. Phillips:

It is my pleasure to notify you that on December 15, 2010 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is December 31, 2013. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Betty Jo Charles Chair—NPRC

nprc@aicpa.org919 402-4502

cc: William Balhoff, CPA

Firm Number: 10075144 Review Number: 311694

Betty Jo Charles



A Professional Accounting Corporation
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www.pncpa.com

System Review Report

To the Partners of WeiserMazars LLP
And the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of WeiserMazars LLP (the firm) applicable to non-SEC issuers in effect for the year ended June 30, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of WeiserMazars LLP applicable to non-SEC issuers in effect for the year ended June 30, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. WeiserMazars LLP has received a rating of pass.

Baton Rouge, Louisiana

Postlethante stellerite

October 29, 2010



SUMMARY OF FIRST QUARTER, 2012 RESULTS – TOTAL ERO ENTERPRISE (NERC and REGIONAL ENTITIES COMBINED)

The Total ERO Enterprise ended the first quarter of 2012 under budget \$5.2M (11.6%) for combined expense and fixed asset spending.¹ The under budget variances comparing YTD Actual results to the YTD Budget ranged from a low of 3.1% to a high of 23.8%.

NERC and all of the Regions, except Reliability First, were under budget in personnel related expenses as a result of the timing and continued challenges in filling open budgeted positions. As reflected in the following tables and as further explained below, NERC and the Regional Entities were also under budget in nearly all other expense and fixed asset categories for a variety of reasons, including: (1) timing as a result of spreading annual budgets evenly throughout the year, (2) lower negotiated rates for benefits and rent than were known at the time of budget preparation, and (3) lower costs tied to delays in hiring.

Total Budget (Total Expenses plus the Increase (Decrease) in Fixed Assets)

_	2012 YTD Actual	2012 YTD Budget	Variance Over(Under)	Variance to Budget	Entity	2012 Projection	2012 Budget	2012 Variance Over(Under)	Projected Variance to Budget
	12,679,300	14,095,436	(1,416,135)	-10.0%	NERC	51,030,291	53,112,273	(2,081,982)	-3.9%
	1,494,866	1,598,610	(103,744)	-6.5%	FRCC	6,058,987	6,394,454	(335,467)	-5.2%
	1,739,381	2,192,188	(452,807)	-20.7%	MRO	9,475,504	9,057,230	418,274	4.6%
	2,732,766	3,365,030	(632,265)	-18.8%	NPCC	13,338,780	13,680,642	(341,862)	-2.5%
	3,991,125	4,120,500	(129,375)	-3.1%	R <i>First</i>	16,368,016	16,656,499	(288,483)	-1.7%
	2,954,791	3,876,959	(922,168)	-23.8%	SERC	15,267,405	15,594,445	(327,040)	-2.1%
	2,269,886	2,542,487	(272,601)	-10.7%	SPP	10,404,125	11,410,642	(1,006,517)	-8.8%
	2,067,228	2,547,854	(480,626)	-18.9%	TRE	10,613,458	10,613,458	-	0.0%
	9,359,740	10,101,612	(741,872)	-7.3%	WECC	40,875,435	40,537,866	337,569	0.8%
	39,289,083	44,440,676	(5,151,593)	-11.6%		173,432,001	177,057,509	(3,625,508)	-2.0%

The Change in Working Capital for the Total ERO Enterprise was \$35.7M versus a budget of \$30.3M for a variance of \$5.3M, or 17.6%. The increase in working capital over budget was due to being \$5.2M under budget for expenses and fixed assets and being \$178k over budget in Total Funding as further explained below.

¹ Excludes grant funding in WECC. WECC's variance report was prepared with and without federal grants. The results included in this report exclude the funding, expenses and fixed asset spending related to federal grants for comparability to NERC and the other Regions.



The working capital balance for the Total ERO at March 31, 2012 was \$70.3M, which is \$13.4M higher than the budgeted working capital balance of approximately \$57M. A significant reason for the high working capital balance YTD is related to the annual billing of assessments in the WECC Region, compared to quarterly billing in the other Regions. In addition WECC has budgeted a working capital balance of \$10.6M Based on current year end projections, the working capital balance for the Total ERO Enterprise is expected to be \$32.8M, which is approximately \$11.9M higher than budgeted.

Change in Working Capital Based on 2012 Results

2012 YTD Actual	2012 YTD Budget	2012 Variance Over(Under)	Entity	2012 Projection	2012 Budget	2012 Variance Over(Under)
798,849	(804,867)	1,603,717	NERC	2,017,265	(3)	2,017,267
578,275	451,959	126,316	FRCC	(667,207)	(993,474)	326,267
452,501	(306)	452,807	MRO	(707,975)	(289,701)	(418,274)
1,041,860	404,862	636,998	NPCC	23,521	(323,075)	346,596
165,515	70,168	95,347	R <i>First</i>	(2,000,672)	(2,270,127)	269,455
1,382,623	352,423	1,030,200	SERC	402,040	-	402,040
243,256	(29,345)	272,601	SPP	(351,558)	(1,358,075)	1,006,517
886,199	418,568	467,631	FRCC	(466,262)	(466,262)	-
30,102,395	29,457,991	644,404	WECC	(344,299)	-	(344,299)
35,651,473	30,321,453	5,330,021		(2,095,147)	(5,700,717)	3,605,569

Total Working Capital Balance

2012 YTD Actual	2012 YTD Budget	2012 Variance Over(Under)	Entity	2012 Projection	2012 Budget	2012 Variance Over(Under)
4,756,596	993,711	3,762,886	NERC	5,975,012	1,798,578	4,176,434
2,033,882	1,765,156	268,726	FRCC	788,400	319,723	468,677
2,475,634	1,406,038	1,069,596	MRO	1,315,158	1,116,643	198,515
4,886,615	3,464,066	1,422,549	NPCC	3,868,276	2,736,129	1,132,147
3,730,078	3,340,296	389,782	R <i>First</i>	1,563,891	1,000,001	563,890
3,350,248	1,982,442	1,367,806	SERC	2,369,665	1,630,019	739,646
2,881,698	1,328,730	1,552,968	SPP	2,286,884	-	2,286,884
4,429,449	2,612,453	1,816,996	FRCC	3,076,988	1,727,623	1,349,365
40,720,374	39,208,958	1,511,416	WECC	10,273,680	9,750,967	522,713
69,264,574	56,101,850	13,162,725		31,517,954	20,079,683	11,438,271



Variances by Funding, Expense and Fixed Asset Categories

Total Funding

Total Funding for the Total ERO Enterprise was slightly over budget by \$178.4k. NERC, FRCC, NPCC, and SERC were over budget and Reliability First, Texas RE and WECC were under budget. Total Funding for MRO and SPP was equal to budget. NERC was over budget due to (1) an increase in the number of system operator tests taken, (2) an increase in fees to review continuing education courses, and (3) higher workshop fees. FRCC reported higher workshop fees than budgeted. NPCC was over budget due to interest income that was not budgeted. SERC was over budget due to (1) higher than budgeted workshop fees resulting from the budget being spread evenly throughout the year though workshops are primarily held in the first two quarters, and (2) due to higher miscellaneous funding which represents the amount billed by SERC to act as the compliance enforcement authority in the FRCC and SPP Regions. Some audits performed in the FRCC Region in the first quarter were not budgeted, which also resulted in an over budget variance in Consulting and Contracts costs in FRCC as noted below under Operating Expenses. ReliabilityFirst was under budget due to a loss in value in long term investments. Texas RE allocates the budget for Membership Dues and Workshop Fees evenly throughout the year, though membership renewals occur in the fall and planned workshops are held in May and October. WECC was under budget due to lower attendance at workshops than budgeted and due to recognition of unrealized losses in WECC's investments accounts.

Total Funding												
2012 YTD Actual	2012 YTD Budget	Variance Over(Under)	Variance to Budget	Entity	2012 Projection	2012 Budget	2012 Variance Over(Under)					
13,478,150	13,290,568	187,581	1%	NERC	53,047,557	53,112,272	(64,715)					
2,073,141	2,050,569	22,572	1%	FRCC	5,391,780	5,400,980	(9,200)					
2,191,882	2,191,882	-	0%	MRO	8,767,529	8,767,529	-					
3,774,626	3,769,892	4,734	0%	NPCC	13,362,301	13,357,567	4,734					
4,156,640	4,190,668	(34,028)	-1%	R <i>First</i>	14,367,344	14,386,372	(19,028)					
4,337,414	4,229,382	108,032	3%	SERC	15,669,445	15,594,445	75,000					
2,513,142	2,513,142	-	0%	SPP	10,052,567	10,052,567	-					
2,953,427	2,966,422	(12,995)	0%	TRE	10,147,196	10,147,196	-					
39,462,135	39,559,603	(97,468)	0%	WECC	40,531,136	40,537,867	(6,731)					
74,940,557	74,762,128	178,428	0%		171,336,855	171,356,795	(19,940)					

Personnel Expenses and FTEs

The Total ERO Enterprise was \$3.0M, (10%), under budget for Personnel Expenses through March 31, 2012, with total staffing at 93% of the budgeted level. NERC and all Regions except Reliability *First* were under budget due to delays in hiring, unanticipated vacancies, and lower than budgeted benefits and retirement costs. NERC made significant changes to its retirement plans which impacted both YTD and projected year-end results, and to benefit plans which took effect on April 1, 2012, which are



reflected in the projected year-end results. SERC reported having 16 open positions, with 6 positions being filled during the first quarter. MRO and Reliability First reported lower than budgeted benefits costs due to lower negotiated rates than budgeted. NPCC and WECC reported lower enrollments in benefit plans among existing employees. Reliability First was over budget due to timing of payroll taxes and retirement benefits associated with payment of incentive compensation that occured in the first quarter but were budgeted evenly throughout the year. NERC and all Regions except MRO, Texas RE and WECC project to be under budget at the end of the year for Personnel Expenses. MRO and Texas RE currently project year end Personnel Expenses to be equal to budget. WECC currently expects to exceed their 2012 budget for Personnel Expense despite being under budget through the end of the first quarter due to anticipated additional hiring over budget before the end of the year.

				Personnel Exp	penses			
2012 YTD Actual	2012 YTD Budget	Variance Over(Under)	% Variance to Budget	Entity	2012 Projection	2012 Budget	2012 Variance Over(Under)	% Variance Over(Under)
7,484,976	8,702,233	(1,217,257)	-14%	NERC	29,938,196	33,005,813	(3,067,617)	-9%
1,111,985	1,241,470	(129,485)	-10%	FRCC	4,643,007	4,965,882	(322,875)	-7%
1,422,471	1,450,236	(27,765)	-2%	MRO	5,800,942	5,800,942	-	0%
1,870,972	2,081,417	(210,445)	-10%	NPCC	7,954,163	8,182,160	(227,997)	-3%
3,259,749	3,102,876	156,873	5%	R <i>First</i>	12,640,519	12,974,285	(333,766)	-3%
2,392,901	2,953,375	(560,474)	-19%	SERC	11,476,464	11,813,504	(337,040)	-3%
1,054,445	1,113,637	(59,192)	-5%	SPP	4,301,038	4,454,543	(153,505)	-3%
1,529,319	1,931,035	(401,716)	-21%	TRE	7,982,968	7,982,968	-	0%
5,996,255	6,568,082	(571,827)	-9%	WECC	27,783,378	26,795,288	988,090	4%
26,123,073	29,144,361	(3,021,288)	-10%		90%	115,975,385	(3,454,710)	-3%

	FTEs **												
2012 Actual	2012 Budget	Variance Over(Under)	2012 Actual to Budget	Entity	2012 Projection	2012 Budget	2012 Variance Over(Under)	2012 YTD Actual to Budget					
165.11	173.00	(7.89)	95%	NERC	175.46	176.75	(1.29)	99%					
24.63	30.69	(6.06)	80%	FRCC	25.45	30.69	(5.24)	83%					
34.93	37.00	(2.07)	94%	MRO	35.63	37.00	(1.37)	96%					
32.42	35.42	(3.00)	92%	NPCC	33.92	35.42	(1.50)	96%					
64.50	68.00	(3.50)	95%	R <i>First</i>	68.00	70.58	(2.58)	96%					
60.79	65.70	(4.91)	93%	SERC	67.00	73.70	(6.70)	91%					
30.12	33.50	(3.38)	90%	SPP	32.50	33.50	(1.00)	97%					
50.60	58.00	(7.40)	87%	TRE	58.00	58.00	-	100%					
181.11	192.20	(11.09)	94%	WECC	201.20	196.20	5.00	103%					
644.21	693.51	(49.30)	93%		697.16	711.84	(14.68)	98%					

^{**} This represents equivalent full time positions from a budget and actual financial perspective and does not necessarily represent actual headcount.



Meeting, Travel and Conferencing Expenses

The Total ERO Enterprise was under budget \$600.4k (20%) for Meeting, Travel and Conferencing expenses through March 31, 2012. NERC and all Regions, except ReliabilityFirst were under budget, with under budget variances ranging from 6% at NERC to 63% at MRO. NERC was under budget for travel and conferencing expenses and over budget for meeting expenses related to higher costs for the NASPI workshop due to higher attendance, and related to the Human Performance Workshop which was not budgeted. The higher workshop expenses were offset by higher workshop fees as noted above. The under budget variance at the Regional Entities was primarily due to timing, but also due to having fewer FTEs on staff as reported by SPP and Texas RE, continued emphasis on the use of technology as reported by NPCC and SERC, and due to greater use of the Region's in-house meeting facility as reported by WECC.

	Meeting, Travel and Conferencing Expenses												
2012 YTD Actual	2012 YTD Budget	Variance Over(Under)	% Variance to Budget	Entity	2012 Projection	2012 Budget	Variance Over(Under)	% Variance to Budget					
905,490	959,278	(53,789)	-6%	NERC	4,043,026	3,872,780	170,246	4%					
61,950	80,453	(18,503)	-23%	FRCC	272,300	321,814	(49,514)	-15%					
70,698	190,799	(120,101)	-63%	MRO	775,924	763,194	12,730	2%					
145,431	202,534	(57,103)	-28%	NPCC	1,091,935	1,071,935	20,000	2%					
232,633	217,677	14,956	7%	R <i>First</i>	895,489	841,756	53,733	6%					
140,423	257,015	(116,592)	-45%	SERC	1,114,669	1,114,669	-	0%					
121,072	143,500	(22,428)	-16%	SPP	585,500	715,000	(129,500)	-18%					
82,374	112,596	(30,222)	-27%	TRE	414,948	414,948	-	0%					
580,840	777,475	(196,635)	-25%	WECC	2,657,629	3,189,357	(531,728)	-17%					
2,340,911	2,941,327	(600,417)	-20%		11,851,420	12,305,453	(454,033)	-4%					

Operating Expenses

Operating expenses for the Total ERO Enterprise were approximately \$2.1M (17%) under budget for the first quarter of 2012. FRCC and Texas RE were over budget. NERC and the other six Regions were under budget. The three major expense categories contributing to the \$2.1M under budget variance were (1) Consultants and Contracts, under budget \$823.3k (20.4%); (2) Professional Services, under budget \$197.5k (12.9%); and (3) Depreciation, under budget \$909.1k (47.2%). **Consultants and Contracts**

- NERC was under budget \$436.8k primarily due to timing as NERC projects to be over budget \$186.5k by year end. Expenses have not yet been incurred for several significant projects, including development of the ES-ISAC secure portal, the redesign of NERC's website, Events Analysis ERO Project Management, Standards balloting software upgrade, and audit support costs.
- MRO, NPCC, Reliability First, SERC, SPP, and WECC were collectively under budget \$472k. MRO, NPCC, and Reliability First, reported that the under budget variances were primarily due to timing and are projecting to be at or close to budget by year end. WECC also reported that the



YTD under budget variance was due to timing related to the Base Case Coordinating System project. SERC reported higher than budgeted costs for hosting and maintaining SERC's servers and higher than budgeted costs for the compliance portal. The over budget projects were offset by lower than budgeted costs for a number of other projects, but most significantly related to delays on various compliance and IT projects and studies of resource adequacy and under frequency load shedding. SPP was under budget primarily due to the elimination of consulting activity related to enforcement caseload reduction and delayed approval of the BES exemption process.

• FRCC and Texas RE were collectively \$85.5k over budget. FRCC was \$78.4k over budget due to audits of their RC and PA functions by SERC during the first quarter which were not budgeted to occur in 2012.

Professional Services

- NPCC was \$139.1k under budget due to fees associated with the search for an independent director being incurred in late 2011 but budgeted in 2012.
- NERC and the other Regional Entities were collectively under budget \$58.4k for a variety of reasons as further explained in attached variance reports.

Depreciation – The under budget variance is primarily due to WECC's practice of allocating the annual budget for depreciation evenly throughout the year and recording actual depreciation expense in December. WECC has reported that this practice will be changed and actual depreciation expense will be recorded quarterly, beginning in the second quarter.

			Op	perating Expenses				
2012 YTD Actual	2012 YTD Budget	Variance Over(Under)	% Variance to Budget	Entity	2012 Projection	2012 Budget	Variance Over(Under)	% Variance to Budget
4,429,176	4,716,082	(286,906)	-6%	NERC	17,735,566	17,362,307	373,258	2%
347,604	288,223	59,381	21%	FRCC	1,187,650	1,152,897	34,753	3%
390,897	560,669	(169,772)	-30%	MRO	2,245,767	2,242,673	3,094	0%
763,972	1,049,752	(285,780)	-27%	NPCC	4,366,245	4,498,245	(132,000)	-3%
612,789	710,652	(97,863)	-14%	R <i>First</i>	2,823,192	2,852,280	(29,088)	-1%
427,227	652,307	(225,080)	-35%	SERC	2,619,224	2,609,224	10,000	0%
140,857	166,825	(25,968)	-16%	SPP	1,402,500	1,767,000	(364,500)	-21%
660,172	638,104	22,068	3%	TRE	2,723,147	2,723,147	-	0%
2,210,927	3,259,426	(1,048,499)	-32%	WECC	12,846,977	13,037,704	(190,727)	-1%
9,983,621	12,042,040	(2,058,419)	-17%		47,950,268	48,245,477	(295,210)	-1%

Fixed Assets

The Total ERO Enterprise was \$645.7k over budget for Fixed Assets, primarily due to the \$909.1k variance in depreciation expense that was the result of WECC not recording depreciation expense in the first quarter. The budget for Fixed Assets is calculated by subtracting depreciation expense from



the projected cost of adding new assets. Eliminating the reversal of depreciation from the variance calculation, actual fixed asset additions were \$293.4k under budget.

Increase(Decrease) in Fixed Assets

2012 YTD Actual	2012 YTD Budget	Variance Over(Under)	% Variance to Budget	Entity	2012 Projection	2012 Budget	Variance Over(Under)
(140,341)	(282,158)	141,816	-50%	NERC	(686,496)	(1,128,627)	442,131
(26,673)	(11,536)	(15,137)	131%	FRCC	(43,970)	(46,139)	2,169
(144,685)	(9,516)	(135,169)	1420%	MRO	575,387	172,937	402,450
(47,609)	31,328	(78,937)	-252%	NPCC	(73,563)	(73,563)	-
(114,046)	89,295	(203,341)	-228%	R <i>First</i>	8,816	(11,822)	20,638
(5,760)	14,262	(20,022)	-140%	SERC	57,048	57,048	-
-	-	-		SPP	-	-	-
(172,246)	(81,217)	(91,029)	112%	TRE	(296,948)	(296,948)	-
640,639	(406,900)	1,047,539	-257%	WECC	(2,075,044)	(2,098,600)	23,556
(10,721)	(656,442)	645,720	-98%		(2,534,770)	(3,425,714)	890,944



CONSOLIDATED ERO Statement of Activities, Fixed Assets and Change in Working Capital As of March 31, 2012 (Unaudited)

				(Unaudited)						
	2012	2012	2012 Variance			2012		2012	2	2012 Variance
	YTD Actual	YTD Budget	Over(Under)			Projection		Budget		Over(Under)
				Funding						
				ERO Funding						
\$	67,907,935 \$	67,907,936	(1)	ERO Assessments	\$	160,699,270	\$	160,699,270		-
	5,648,778	5,648,778	-	Penalty Sanctions		5,962,653		5,962,653		-
\$	73,556,713 \$	73,556,714	\$ (1)	Total ERO Funding	\$	166,661,923	\$	166,661,923	\$	=
\$	- \$	-	_	Federal Grants	Ś	-	\$	-		_
•	-	6,875	(6,875)	Membership Dues	,	27,500	т	27,500		-
	590,738	515,250	75,488	Testing Fees		2,061,000		2,061,000		-
	79,200	84,500	(5,300)	Services & Software		150,220		272,000		(121,780)
	471,165	389,590	81,575	Workshops		1,664,585		1,617,575		47,010
	79,092	98,543	(19,451)	Interest		416,800		394,171		22,629
	163,649	110,656	52,993	Miscellaneous		354,827		322,626		32,201
\$	74,940,557 \$	74,762,128	\$ 178,428	Total Funding (A)	\$	171,336,855	\$	171,356,795	\$	(19,940)
				Expenses						
				Personnel Expenses						
\$	19,520,477 \$	21,540,599	(2,020,122)	Salaries	\$	86,192,879	\$	87,503,094		(1,310,215)
	1,882,002	1,929,966	(47,963)	Payroll Taxes		6,244,131		6,261,462		(17,332)
	2,432,940	2,887,503	(454,562)	Benefits		10,580,215		11,702,703		(1,122,488)
	2,287,653	2,786,294	(498,640)	Retirement Costs		9,503,450		10,508,125		(1,004,675)
\$	26,123,073 \$	29,144,361	\$ (3,021,288)	Total Personnel Expenses	\$	112,520,675	\$	115,975,385	\$	(3,454,710)
				Meeting Expenses						
\$	641,923 \$	653,819	(11,896)	Meetings	\$	2,768,849	\$	2,915,855		(147,006)
	1,585,900	2,085,824	(499,925)	Travel		8,340,964		8,582,859		(241,895)
	113,088	201,684	(88,595)	Conference Calls		741,607		806,739		(65,132)
\$	2,340,911 \$	2,941,327	\$ (600,417)	Total Meeting Expenses		11,851,420	\$	12,305,453	\$	(454,033)
				Operating Expenses						
\$	3,216,349 \$	4,039,630	(823,281)	Consultants & Contracts	\$	17,003,694	\$	16,240,651		763,043
	1,775,236	1,823,949	(48,713)	Office Rent		7,519,588		7,297,718		221,870
	2,608,179	2,669,363	(61,183)	Office Costs		9,841,834		10,435,201		(593,367)
	1,337,974	1,535,446	(197,472)	Professional Services		6,089,473		6,325,507		(236,034)
	30,188	48,847	(18,660)	Miscellaneous		126,305		200,109		(73,804)
_	1,015,695	1,924,805	(909,110) \$ (2,058,419)	Depreciation	<u> </u>	7,369,374	,	7,746,291	ć	(376,917)
\$	9,983,621 \$	12,042,040	\$ (2,058,419)	Total Operating Expenses	\$	47,950,268	\$	48,245,477	\$	(295,210)
\$	38,447,605 \$	44,127,728	\$ (5,680,124)	Total Direct Expenses	\$	172,322,362	\$	176,526,315	\$	(4,203,953)
\$	921,121 \$	1,065,861	\$ (144,740)	Indirect Expenses	\$	3,904,430	\$	4,263,442	\$	(359,012)
\$	(68,921) \$	(96,471)	\$ 27,550	Other Non-Operating Expenses	\$	(260,021)	\$	(306,534)	\$	46,513
\$	39,299,805 \$	45,097,118	\$ (5,797,314)	Total Expenses (B)	\$	175,966,771	Ś	180,483,223	Ś	(4,516,452)
\$	35,640,752 \$	29,665,010	• • • • • • • • • • • • • • • • • • • •	Change in Assets	\$	(4,629,917)		(9,126,429)		4,496,512
		.,,.	, -,,	•	<u> </u>	(/ /- /	_	(=, =, =,		,,-
	(4.045.605)	(4.024.005)	000 110	Fixed Assets		(7.260.274)		(7.746.204)		276 047
	(1,015,695)	(1,924,805)	909,110	Depreciation		(7,369,374)		(7,746,291)		376,917
	914,955 212	1,190,882 19,207	(275,926) (18,995)	Computer & Software CapEx Furniture & Fixtures CapEx		2,882,963 19,419		3,923,525		(1,040,562) 212
	40,232	34,068	6,164	Equipment CapEx		1,196,724		19,207 127,638		1,069,086
	49,575	24,207	25,368			735,498		250,207		485,291
\$	(10,721) \$	(656,442)				(2,534,770)	Ś	(3,425,714)	Ś	890,944
\$	39,289,083 \$	44,440,677			\$	173,432,001		177,057,509		(3,625,508)
\$	35,651,473 \$	30,321,452	\$ 5,330,022	Change in Working Capital (A-B-C)		(2,095,147)		(5,700,715)		3,605,568
<u>, </u>	644.2	693.5	(49.3)	FTEs	,	697.2	7	711.8	7	(14.7)
					,					
	33,613,101	25,780,397	7,832,704	Beginning Working Capital	_	33,613,101		25,780,397		7,832,704
	35,651,473	30,321,453	5,330,021	Change in Working Capital		(2,095,147)		(5,700,714)		3,605,567
	69,264,574	56,101,850	13,162,725	Working Capital Balance		31,517,954		20,079,683		11,438,271

North American Electric Reliability Corporation- Review of March 31, 2012 Unaudited Results-Budget to Actual Variance Analysis

Summary of Results as of March 31, 2012

Through March 31, 2012, NERC was under its expense and fixed asset budget \$1.4M, or 10%. The first quarter budget variance was primarily due to (1) lower personnel expenses due to having fewer employees on staff than budget, (2) significant savings associated with NERC's employee benefits and retirement plans as a result of changes that were implemented after the 2012 budget was developed, and, (3) lower contractor and consulting expenses primarily due to timing. Funding from system operator testing fees and workshop fees were collectively over budget \$190.7k. As a result of being under budget in expenses and fixed assets and over budget in funding, NERC added \$798.8k to working capital reserves, which was \$1.6M over budget for the period

FUNDING – (\$187.6k over budget YTD; Projected to be \$64.7k under budget at year end) Total funding was higher than budgeted primarily due to (1) an increase in the number of system operator tests taken, (2) an increase in fees to review continuing education courses, resulting in \$75.5k higher funding from testing fees than budgeted, and (3) \$115.2k (collectively) from higher workshop fees from the NASPI workshop and fees from the Human Performance Workshop which was not budgeted.

Actual to Budget Variances for Expenses and Fixed Assets by Department and Category

The following table sets forth a summary of expense by department and category, followed by a discussion of significant variances.



TOTAL BUDGET (EXPENSES and NET FIXED ASSETS)	2012 YTD Actual	2012 YTD Budget	Variance Over/(Under)
RELIABILITY STANDARDS	1,090,693	1,409,269	(318,577)
COMPLIANCE OPERATIONS	871,001	1,187,417	(316,417)
COMPLIANCE ENFORCEMENT	640,449	867,803	(227,354)
EVENTS ANALYSIS and INVESTIGATIONS	857,519	826,509	31,010
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	1,262,922	1,361,951	(99,029)
SITUATION AWARENESS	1,525,050	1,539,193	(14,143)
CRITICAL INFRASTRUCTURE PROTECTION	928,604	1,372,650	(444,046)
TRAINIING, EDUCATION and OPERATOR CERTIFICATION	413,802	478,340	(64,538)
GENERAL and ADMINISTRATIVE and EXECUTIVE	1,695,316	1,460,840	234,476
GOVERNMENT RELATIONS	175,086	177,355	(2,269)
LEGAL and REGULATORY	905,597	1,037,448	(131,850)
INFORMATION TECHNOLOGY	1,471,918	1,506,025	(34,107)
HUMAN RESOURCES	383,617	366,110	17,507
FINANCE and ACCOUNTING	436,708	489,633	(52,925)
TOTAL BUDGET	12,679,300	14,095,436	(1,416,135)

All departments were under budget for the first quarter of 2012 except Events Analysis and Investigations, General and Administrative, which includes the Executive and Government Relations Departments, and Human Resources. The under budget variances were primarily related to lower personnel costs and contract and consultant expenses. Events Analysis and Investigations was over budget primarily due to consulting expenses to investigate the southwest blackout event. General and Administrative was primarily over budget due to a change in accounting for rent expense and costs for the February Board of Trustees meeting and other meetings which were held in conjunction with the February board meeting. All variances are explained by the major expense categories in further detail below.

- Personnel Expenses (\$1.2M under budget YTD; Projected to be \$3.1M under budget at year end) NERC ended the quarter with 164 employees on staff (headcount) versus the budgeted headcount of 173. Due to the timing of new hires, the actual FTEs through March 31, 2012 were 165.11, or 7.9 fewer FTEs than budgeted. In addition and as further explained below, NERC made significant changes to its retirement plans which impacted both YTD and Projected yearend results, and to employee medical benefit plans which took effect on April 1, 2012, which are reflected in the Projected year-end results. Further information regarding the status of employee hiring and changes to retirement plans is included in the May Corporate Governance and Human Resources Committee meeting materials.
 - Salaries and Payroll Taxes (\$615.2k under budget YTD; projected to be \$1.2M under budget at year end) Salaries expense is comprised of salaries, at risk performance compensation, employment agency fees and temporary office services. Salaries are \$631.3k under budget due to having 7.9 fewer FTEs on staff than planned. The at risk performance compensation accrual is \$28.3k higher than budget, since we are accruing based upon the 2011 payout level which was higher than the budget assumption. Due to



timing of hiring and staff turnover that occurs during the course of the year, management believes that the total incentive compensation award will not exceed the amount budgeted in 2012. The actual year end budget impact will reflect actual documented performance results. Employment agency fees were \$25k under budget due to successful recruiting of new staff with limited use of professional search firms during the first quarter. Temporary office services were \$12.7k over budget related to the increased use of temporary staffing to support NERC's ongoing operations during times of staff vacancies.

- Employee Benefits (\$96.1k under budget YTD; Projected to be \$704.4k under budget at year end) Employee benefits expense includes education and training, medical and life insurance benefits, workers compensation insurance and relocation expenses.
 - Education and training benefits were \$24k over budget YTD, and are projected to be over budget \$100k at year end. Employees are required to take continuing education every year and the cost was under estimated at the time the budget was filed.
 - Medical, life and workers' compensation insurance were \$115.8k under budget due to having fewer FTEs on staff and lower than budgeted costs per employee. Medical and life benefits costs are projected to under run the budget in 2012 by \$900k due to the conversion to high deductible medical plans and an increase in the employee's co-pay toward premium costs.
 - Employee relocation costs were \$4.4k under budget YTD and are expected to be at budget by year end.
- Savings and Retirement (\$455.1k under budget YTD; Projected to be \$1.1M under budget at year end) Savings and Retirement expenses are under budget and are projected to remain under budget through the end of the year due to fewer FTEs on staff, forfeiture of unvested funds due to personnel attrition, and due to changes in the defined contribution portion of the retirement plan.
- Meeting, Travel and Conferencing Expenses (\$53.8k under budget YTD; Projected to be \$170.2k over budget at year end)
 - Meeting Expenses were over budget \$116.7k as of March 31, 2012 and are projected to be \$41.0k over budget at year end, primarily due to higher expenses for the NASPI workshop and due to expenses related to the Human Performance workshop, which was not specifically planned at the time the budget was prepared. These higher expenses are, however, offset by increased funding from workshop fees which offset most of the expenses associated with planning and conducting these workshops.
 - o **Travel Expenses** were under budget \$144.4k YTD and are currently projected to be \$102.2k over budget by year end. Management continually monitors travel activity



- and expenses, and plans to implement additional controls over employee travel expenses to further reduce costs.
- Conferencing Expenses were \$26.1k under budget and are projected to be \$27k over budget at year end as NERC continues to rely heavily on the use of webinars for communication and education opportunities.
- Operating Expenses (\$286.9k under budget YTD; Projected to be \$373.3k over budget at year end)
 - Consultants and Contracts (\$436.8k under budget YTD; Projected to be \$186.5k over budget at year end)
 - Standards (\$3.7k under budget YTD; projected to be \$3.0k under budget at year end) —The Standards Program expects to use \$12k of the total 2012 budget of \$15k during the second and third quarters to support CIP standards development.
 - Events Analysis and Investigations (\$40.8k over budget YTD; Projected to be \$10.0k over budget at year end) Due to expenses related to the investigation of the southwest blackout event.
 - Reliability Assessments and Performance Analysis (\$118.4k under budget YTD; Projected to be \$41.0k under budget at year end) The under budget variance is primarily a timing issue related to development of the spare equipment database, centralized data collection, and the TADS database. \$50k budgeted for a modeling initiative which was expected but will not require consultant support will be partially used for a modeling validation workshop to be held in Atlanta, GA in early May. The costs associated with the workshop will be recorded as Meeting Expense.
 - Training, Education and System Operator Certification Programs (\$37.4k under budget YTD; Projected to be \$247.5k over budget at year end)
 - Contract and consulting expenses for the System Operator Certification
 Program were over budget \$21.0k related to the increase in the number
 of tests being taken, offset by the \$75.5k of funding in excess of budget as
 described above. The Personnel Certification Governance Committee
 proposes to spend \$250k that was not budgeted in 2012 to begin an
 upgrade of the System Operator Certification and Continuing Education
 Database. The unbudgeted expense will be funded from working capital
 which includes excess funds generated from testing fees above expenses
 from this program area.
 - Contract and consulting expenses for the Training and Education Program were \$58.5k under budget YTD due to timing of course development, auditor skills training, and other planned staff development training.
 Funding for these projects is expected to be fully utilized by year end.



- Situation Awareness and Infrastructure Security (\$74.1k over budget YTD;
 Projected to be \$362.6k over budget at year end)
 - The NASPI project, which is primarily related to the company's contract with the Grid Protection Alliance (GPA), was over budget approximately \$51.k through March 31, 2012, and is expected to be over budget \$238k at year end as a result of the carryover of unused 2011 contractual cofunding commitments for the SIEGate Project pursuant to the terms of NERC's contract with GPA for this project. This carryover was not anticipated at the time the budget was prepared and total costs to the SIE Gate project remain on budget and are capped pursuant to the contract terms. Management is projecting to cease third party NASPI funding by the end of 2013 but will continue to utilize staff to support NASPI activities
 - The SAFNR contract was approximately \$20k under budget through March 31, 2012, due to timing. SAFNR project costs are expected to be at or slightly higher than budget at year end.
 - The expense for various reliability monitoring tools was \$40k under budget through March 31, 2012 and is projected to be \$40k under budget at year end due to the elimination of the contract for Control Performance Standard 1 and Balancing Authority ACE Limits (CPS1-BAAL).
 - The IDC contract was approximately \$67.7k over budget through March 31, 2012, and is projected to be \$211k over budget at year end due to costs associated with the "generation to load reporting" change order and the incentive availability performance component which were planned but not included in the 2012 budget. NERC has issued a notice of termination of its IDC contract, effective in the second quarter of 2013 and is working with the vendor and users to transition this service to an end user funded model.
- Critical Infrastructure Protection (\$133.8k under budget YTD; Projected to be \$293.7k under budget at year end) The contract for development of the ES-ISAC secure portal platform development was signed in February, and no expense was recorded by the end of the first quarter. The contract and consulting budget for the ES-ISAC includes \$250k for cybersecurity analyst support which may not be utilized this year and for purposes of the current year end forecast has been removed. To the extent additional consulting support is required it it will be included and explained in future variance reports. \$48.8k is planned for purchase of a software tool that will be used for analyzing hostile and random threats to the bulk electric system.
- Information Technology (\$272.3k under budget YTD; Projected to be \$78.7k under budget at year end) A number of projects are in process, but invoices were not received by the end of the quarter. Projects in progress include redesign of



NERC's website, Events Analysis ERO Project Management, Standards balloting software upgrade, and ongoing support of NERC's membership registry and user management programs. Management will be evaluating whether to accelerate certain planned and critical IT projects supporting operating and program area needs given available funding.

- Human Resources (\$94.4k over budget YTD; Projected to be \$17.3k under budget at year end) The YTD variance is related to timing. The budgets for executive and staff training and development, executive recruiting, compensation consulting, and employee, industry and board surveys were spread evenly throughout the year, however higher costs for compensation studies, executive training and development occurred during the first quarter.
- Finance and Accounting (\$74.3k under budget YTD; Projected to be at budget at year end) Funding for formation of the risk management and internal audit program has not yet been utilized due to a delay in hiring the manager of the program, but management anticipates the expense to be equal to the budget by year end. Several procurements are underway to retain contractors to assist with audit programs, including Regional Entity audit oversight
- Office Rent (\$122.8k over budget YTD; Projected to be \$479.8k over budget at year end) Rent expense was over budget through March 31, 2012 and will continue to be over budget approximately \$480k at year end due to a change in the accounting for the cash contribution from the landlord at 1325 G Street. For budget purposes, the cash contribution was treated as a credit against rent expense in 2012 only, but for accounting purposes is now amortized over the life of the lease. This over budget variance is offset by lower than budgeted rent expense that is the cumulative result of the partial buy-out of the Princeton lease and the sub-lease agreements in Princeton and Washington, D.C.
- o **Office Costs** (\$92.2k over budget YTD; Projected to be at budget at year end) Primarily related to higher telephone and internet expense than budgeted.
- Depreciation (\$33.2k over budget YTD; Projected to be \$122.6k over budget at year end) The over budget YTD and projected expense for depreciation is related to investments in the new data center, NERC's new headquarters and expansion of the Washington, DC office which were not fully known at the time of the budget submission.
- **Fixed Assets, excluding depreciation** (\$113.5k over budget YTD; Projected to be \$133.6k over budget at year end) \$80.1k of the YTD and Projected over budget variance is related to leasehold improvements and equipment purchases associated with the relocation of the Washington DC office that were not billed until 2012. \$37.5k is for the software tool for the ES-ISAC that will be used for analyzing hostile and random threats to the bulk power system.



Projected Year End Working Capital

Year end working capital is currently projected to be approximately \$6M, which is approximately \$4.2M greater than budget. The projected additional working capital is primarily due to a higher than projected working capital balance at the beginning of 2012. As part of the May 2012 Finance and Audit Committee agenda, management will be presenting a proposed working capital policy and guidelines regarding the use of contingency funds, including working capital funds in excess of budget.



NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION Statement of Activities, Fixed Assets and Change in Working Capital (Unaudited) For the period ended 03/31/2012

		2012 Actual		2012 Budget		12 Variance ver(Under)		2012 Projection		2012 Budget		Variance ver(Under)
Funding												
ERO Funding ERO Assessments	\$	12,665,318	\$	12,665,318		(1) 0	\$	50,661,272	\$	50,661,272		- -
Penalty Sanctions Total ERO Funding	\$	12,665,318	\$	12,665,318	\$	(1)	\$	50,661,272	\$	50,661,272	\$	
Testing Fees		590,738		515,250		75,488		2,061,000		2,061,000		_
Services & Software		59,040		62,500		(3,460)		130,060		250,000		(119,940)
Workshops		157,725		42,500		115,225		175,225		120,000		55,225
Interest		3,524		5,000		(1,476)		20,000		20,000		=
Miscellaneous	_	1,806				1,806	_			-	_	
Total Funding (A)	\$	13,478,150	\$	13,290,568	\$	187,581	<u> \$ </u>	53,047,557	\$	53,112,272	\$	(64,715)
Expenses												
Personnel Expenses	<u> </u>	F F C A A 7 F	ċ	6 470 667		(645 403)	<u>,</u>	22 620 000	,	24 000 022		(4.460.053)
Salaries Payroll Taxes	\$	5,564,475 610,544	\$	6,179,667 661,343		(615,192) (50,798)	\$	23,639,980 1,414,038	\$	24,800,833 1,524,935		(1,160,853)
Benefits		701,429		797,556		(96,126)		2,485,939		3,190,308		(704,369)
Retirement Costs		608,527		1,063,668		(455,140)		2,398,239		3,489,736		(1,091,497)
Total Personnel Expenses	\$	7,484,976	\$	8,702,233	\$	(1,217,257)	\$	29,938,196	\$		\$	(3,067,617)
Meeting Expenses	_		_						_			
Meetings	\$	291,760	\$	175,083		116,677	\$	776,996	Ş	736,000		40,996
Travel Conference Calls		552,609 61,121		696,967 87,228		(144,359) (26,106)		2,890,120 375,910		2,787,870 348,910		102,250 27,000
Total Meeting Expenses	\$	905,490	\$	959,278	\$	(53,789)	\$		\$	3,872,780	\$	170,246
Operating Expenses		•		•		•				•		
Consultants & Contracts	\$	2,036,465	\$	2,473,233		(436,768)	Ś	8,473,781	\$	8,287,314		186,467
Office Rent	Ÿ	698,821	Ψ.	576,064		122,757	Ψ.	2,784,036	~	2,304,257		479,779
Office Costs		797,255		705,046		92,210		2,711,924		2,703,819		8,105
Professional Services		442,337		482,497		(40,160)		2,148,593		2,140,000		8,593
Miscellaneous		7,443		4,062		3,380		25,074		26,200		(1,126)
Depreciation	_	446,855		475,180	\$	(28,325)	_	1,592,158	Ś	1,900,717	_	(308,559)
Total Operating Expenses	\$	4,429,176	\$	4,716,082		(286,906)		17,735,566			\$	373,258
Total Direct Expenses	\$	12,819,642	\$	14,377,593	\$	(1,557,952)	<u>\$</u>	51,716,787	\$	54,240,900	\$	(2,524,113)
Indirect Expenses	\$	-	\$	-	\$	-	_				\$	-
Other Non-Operating Expenses	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Total Expenses (B)	\$	12,819,642	\$	14,377,593	\$	(1,557,952)	\$	51,716,787	\$	54,240,900	\$	(2,524,113)
Change in Assets	\$	658,508	\$	(1,087,025)	\$	1,745,533	\$	1,330,769	\$	(1,128,630)	\$	2,459,398
Fixed Assets												
Depreciation		(446,855)		(475,180)		28,325		(1,592,158)		(1,900,717)		308,559
Computer & Software CapEx		226,168		193,023		33,146		825,316		772,090		53,226
Furniture & Fixtures CapEx		212		-		212		212		-		212
Equipment CapEx		32,293		-		32,293		32,293		-		32,293
Leasehold Improvements	_	47,841		(202.150)	,	47,841	_	47,841	Ś	- (1 130 (37)	Ś	47,841
Inc(Dec) in Fixed Assets (C)	\$	(140,341)		(282,158)	\$	141,816	\$			(1,128,627)	Þ	442,131
Total Budget (B + C)	\$	12,679,300	\$	14,095,436	\$	(1,416,135)	\$	51,030,291	\$	53,112,273	\$	(2,081,982)
Change in Working Capital (A-B-C)	\$	798,849	\$	(804,867)	\$	1,603,717	\$	2,017,265	\$	0	\$	2,017,267
FTEs		165.11		173.00		(7.89)		175.46		176.75		(1.29)
Beginning WC - 1/1/11		3,957,747		1,798,578		2,159,169		3,957,747		1,798,578		2,159,169
Change to WC - 2011		798,849		(804,867)		1,603,717	_	2,017,265		0		2,017,265
Working Capital at 12/31/11		4,756,596		993,711		3,762,886		5,975,012		1,798,578		4,176,434



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2012 First Quarter Year to Date Budget Variance Explanations

Statutory Funding

Total Actual Over Budget \$22k:

Timing difference in period over which budget is allocated to actual time of the spring workshops, over budget \$24,000 Maintenance Pass-through was lower (\$2,000) than budgeted.

Statutory Expenditures

Total Under Budget (\$104k)

Statutory Personnel Expenses

Total Actual Under Budget (\$129k):

More time was spent in Standards, and Training than was budgeted, less time was spent in Compliance, Reliability Assessment, Situational Awareness and General Administrative than was budgeted, while Compliance has one addition to staff unfilled, one replacement unfilled for the 1th Quarter. Retirement and Benefits are down for the same reason. Payroll taxes are over budget due to Social Security and Unemployment limits starting back up in the new year.

Statutory Meeting Expenses

Total Actual Under Budget \$(19k):

Travel is normally light in the 1st Quarter of the year but is budgeted evenly over the year. Additionally, Training Workshops were not completed in the 1st Quarter so costs are not complete.

Statutory Operating Expenses

Total Actual Over Budget \$59k:

Compliance spent less than anticipated on the Guidance software in 2010, 2011and 2012—therefore Depreciation is less than budgeted. Also, Office Rent and Office Costs were under budget. These are offset by Consulting and Contracting due to the SERC audit of the RC and PA functions during the 1st Quarter and were considerably more than budgeted since it was assumed when the budget was completed in 2011 that those audits would occur in 2013 – not 2012. Additionally legal fees were more than budgeted due to the RE Legal Committee representation being more than budgeted.

Fixed Assets

Total Actual Under Budget (\$15k):

No software in progress was billed in the 1st Quarter. Also, leasehold improvements were budgeted evenly over the year but will not occur until 4th Quarter. Additionally, equipment was budgeted for new hires that were not filled.

Change In Working Capital

Total Actual Under Budget (\$126k)

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

						tatutory 1 31, 201	•							
(In Whole Dollars)						,	_							
		2012 YTD Actual		2012 YTD Budget		2012 YTD Variance	%		012 Pull Year Projection		012 Budget	1 1 1 1 1 1	12 Projected Variance	%
Funding	_	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		- And Bet		ingunee	70		Trojection		7012 Duager	24.4	· ranance	70
ERO Funding														
ERO Assessments Penalty Sanctions	\$	1,106,211 874,700	\$	1,106,211 874,700	\$	-		\$	4,424,850	\$	4,424,850	\$	•	
Total ERO Funding	-\$	1,980,911	\$		\$	 -		-\$	874,700 5,299,550	S	874,700 5,299,550	\$		0.0%
Membership Dues				-		-		<u> </u>		\$	•	s	_	
Testing Fees		-		-		-			•		-		-	
Services & Software Workshops		20,160		22,000		(1,840)			20,160		22,000		(1.840)	
Interest		72,070		47,658		24,412			72.070		79.430		(7.360)	
Miscellancous		-	*******	-		_			-				-	
Total Funding	S	2,073,141	S	2,050,569	S	22,572	1.1%	S	5,391,780	S	5,400,980	S	(9,200)	-0.2%
Expenses														
Personnel Expenses Salaries	s	910.600	on the	017.007	e	/10/ 3 5 0\		æ	2 421 700	Ф	2 (/5 500	d)	(0.47, 0.00)	
Payroll Taxes	Э	810.569 75,545	\$	916,927 61,695	2	(106,358) 13,850		3	3.421.708 281,835	3	3.667,708 246,785	\$	(246,000) 35,050	
Benefits		107,461		137.570		(30,109)			449.303		550,278		(100.975)	
Retirement Costs	-	118,410	6	125,278		(6,868)	10.407		490,161	475	501.111	<i>(</i> 2)	(10,950)	
Total Personnel Expenses	_3	1,111,985	S	1,241,470	3	(129,485)	-10.4%	3	4,643,007	S	4,965,882	\$	(322,875)	-6.5%
Meeting Expenses Meetings	\$	15,957	ď	15 405	ď	262		ď١	(1.20(ų,	(0.55/	Φ	(1.550)	
Travel	Þ	42,617	\$	15,695 59,795	\$	262 (17,178)		\$	61,206 194,180	\$	62,776 239,180	\$	(1,570) (45,000)	
Conference Calls	_	3,376		4,963		(1,587)			16,914		19,858		(2,944)	
Total Meeting Expenses	<u>S</u>	61,950	\$	80,453	\$	(18,503)	-23.0%	S	272,300	S	321,814	\$	(49,514)	-15.4%
Operating Expenses														
Consultants & Contracts Office Rent	\$	129,138 105,718	\$	50,755 109,411	\$	78,383		\$		\$	203.016	\$	130.807	
Office Costs		31.493		45,989		(3,693)			425.847 103,559		437,647 183,959		(11,800) (80,400)	
Professional Services		50,079		44,343		5,736			191.242		177.376		13,866	
Miscellaneous Depreciation		(1)		(1)		(6.540)			100 150		-		(17.720)	
Total Operating Expenses	<u> </u>	31,177 347,604	S	37,726 288,223	\$	(6,549) 5 9, 38 1	20.6%	•	133,179 1,187,650	•	150,899 1,152,897	\$	(17,720) 34,753	3.0%
Total Indirect Expenses	=			200,220			20.070		1,101,000		1,132,077		34,733	3.070
Other Non-Operating Expenses	<u></u>		<u> </u>		\$			S		\$	-	\$		
				1 (10 146			5 50/						(22 - (24)	
Total Expenses		1,521,539		1,610,146	\$				6,102,957		6,440,593	\$	(337,636)	-5.2%
Change in Assets	<u>\$</u>	551,602	<u>\$</u>	440,423	\$	111,179	25.2%	\$	(711,177)	\$	(1,039,613)	\$	328,436	-31.6%
Fixed Asset Expenditures														
Depreciation	\$	(31,177)	\$	(37,726)	\$	6,549		\$, , , , ,	\$	(150,899)	S	17,720	
Software CapEx Furniture & Fixtures CapEx		-		15,000		(15,000)			60,000		60,000		-	
Equipment & Computers CapE		4,504		6,190		(1,686)			14,209		24, 760		(10,551)	
Leasehold Improvements		-,		5,000		(5,000)			15,000		20,000		(5,000)	
Increase/(Decrease) in Fixed Assets	\$	(26,673)	\$	(11,536)	\$	(15,137)	131.2%	\$	(43,970)	\$	(46,139)	\$	2,169	-4.7%
Total Budget	\$	1,494,866	\$	1,598,610	\$	(103,744)		\$	6,058,987	\$	6,394,454	\$	(335,467)	-5.2%
CHANGE IN WORKING CAPITAL	-\$	578,275	\$	451,959	\$	126,316	27.9%	\$	(667,207)		(993,474)	\$	326,267	-32.8%
FTEs		24.63	:::=	30.69		(6.06)		-	25.45		30.69		(5.24)	22.070
		205		50.00		(0.00)			20,70		50.07		(3.27)	
Beginning Working Capital 1/1		1,455,607		1,313,197		142,410			1,455,607		1,313,197		142,410	
Change in Working Capital		578,275		451,959		126,316			(667,207)		(993,474)		326,267	

Working Capital at 3/31/2012

2,033,882

1,765,156

268,726

788,400

319,723

468,677





Sue Clarke, VP of Finance and Administration P: (651) 855-1707

F: (651) 855-1712

E: sa.clarke@midwestreliability.org

April 20, 2012

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

RE:

Unaudited Midwest Reliability Organization (MRO) 2012 First Quarter Statement of Activity – Cash Flow through March 31, 2012 the Outlook for 2012 Budget

Dear Mr. Walker and Ms. Turpen:

MRO Staff expects the 2012 operating budget to be "tight" but manageable. Since the majority of MRO's costs are in salaries and salary related costs, managing staff productivity will be important to meeting responsibilities under the delegation agreement. Please note that the budgeted expenses are allocated on a straight-line basis and many of the actual expenses are not timed on a straight-line basis.

The overall budget (operating budget and fixed asset budget) will be over budget by approximately \$418k. On March 29, 2012, the MRO Board approved a 2012 budget target of \$9,475,504 which includes costs resulting from a move to a different facility. These fixed costs were anticipated in 2011 however, due to the timing of the lease agreement; the costs were pushed into 2012. The budget target is \$418,274 more than the 2012 approved budget of \$9,057,230. The Board essentially approved \$418,274 of the \$705,260 underage from 2011 to be used in 2012. This does not result in any additional funding needed as MRO will draw from the underage in 2011. Cash is sufficient and staff anticipates that reserves will remain at the Board stipulated 45 days for the duration of 2012. Therefore, MRO is not requesting any supplemental funding as a result of the anticipated overage in 2012.

Below is a variance report:

Personnel

MRO staff expects to be on budget by the end of the year for FTEs. On the other hand, due to timing of staffing, personnel costs may fluctuate during the year. The benefits costs are not trending on budget due to favorable negotiations on health and dental insurance rates. Retirement costs are trending higher than budget as a result of revised actuarial estimates which were not available during the budget development process. The calculation is prepared on a one year lag basis. MRO staff believes that the underage in benefit costs will offset some of the overage in retirement costs.





Meeting Expenses

MRO staff expects to be on budget by the end of the year, however there are numerous timing issues surrounding any estimate. Meetings take place when it is necessary, travel takes place when necessary. MRO reimburses committee members for travel costs related to work, for the good of the regional reliability. Since MRO has a variety of registered entities, travel reimbursement permits the smaller entities to participate and creates a level playing field for participation in the stakeholder related work of MRO. The timing of reimbursements can vary throughout the year.

Operating Expenses

 $\underline{\text{Consultants and Contracts}}$ - MRO staff expects to be on budget by the end of the year. The current underage is a result of timing.

Office Rent - MRO expects to come in over budget because the square footage of the new facility is more than budgeted. The savings resulting from the new facility are in the 2012 budget (ex. meeting expenses should decline as MRO will insource many more meetings as compared with past years. MRO meetings drew over 1,000 attendees who partly drove the decision to move to a new facility to accommodate meetings and a more convenient location to the airport).

Office Costs - MRO staff plans to be under budget by end year due to savings being realized in the contract computer software maintenance support. MRO has insourced IT support services as compared with previous outsourcing arrangements with third parties

Professional Services - MRO staff plans to be on budget by end of the year.

<u>Fixed Assets</u> - Fixed assets will be over budget. On March 29, 2012, the MRO Board approved a 2012 budget target of \$9,475,504 which includes costs resulting from a move to a different facility. These fixed costs were anticipated in 2011 however, due to the timing of the lease agreement; the costs were pushed into 2012. The largest deviation was in leasehold improvements.

Change in Assets

MRO plans to be over budget by (\$418,274) 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

MRO Finance and Audit Committee



Midwest Reliability Organization Statement of Activity From 1/1/2012 to 03/31/2012 PRELIMINARY (Unaudited)

(In Whole Dollars)		2012 YTI			%	Unaudited 2012 End O Year	f 2012	2012 Projected	%
Funding		Actual	Budget	Variance	Variance	Projection	Budget	Variance	Variance
ERO Funding									
43.0	ERO Assessments	\$2,087,25	7 \$2,087,257	(0	0.00%	\$8,349,029	\$8,349,029		
	Penalty Sanctions	104,62				418,500	418,500		0.00%
Total ERO Funding		\$2,191,88	2 \$2,191,882	\$ (0		\$8,767,529		\$	0.00%
	El trata de la constante de la					1			0.0070
	Federal Grants								
	Membership Dues Testing Fees		_		•	-	1		
	Services & Software	-	-			~	-		
	Workshops					~	-		
	Interest					-	-		
	Miscellaneous	2				7	-9	-	
Total Funding		\$2,191,883	\$2,191,882	\$ (0	Y	\$8,767,529	\$8,767,529	\$ -	
		1 1 1 1	- 7				ψ0,707,023	\$ -	
Expenses									
Personnel Expenses	Liverity.								
	Salaries	\$1,080,308		(47,949		\$4,513,031	\$4,513,031		0.00%
	Payroll Taxes Benefits	78,259		3,124		300,539	300,539		0.00%
	Retirement Costs	79,464		(23,761		412,899	412,899		0.00%
Total Personnel Expenses	Remement Costs	\$1,422,471		40,822		574,473	574,473		0.00%
result electrics Expended		\$ 1,422,47	\$1,450,236	\$ (27,764)	-1.91%	\$5,800,942	\$5,800,942	\$ -	0.00%
Meeting Expenses									
	Meetings	\$ 7,739	\$ 33,564	(25,824)	-76.94%	\$ 132,454	£ 424.054	(4.000)	
	Travel	58,199		(86,411		592,970	\$ 134,254 578,440	(1,800) 14,530	
	Conference Calls	4,760		(7,865)		50,500	50,500	14,530	2.51%
Total Meeting Expenses		\$ 70,699	\$ 190,799	\$ (120,100)		\$ 775,924	\$ 763,194	\$ 12,730	1.67%
						22 13 445	7 700,104	¥ 12,730	1.07%
Operating Expenses	de la companya della companya della companya de la companya della								
	Consultants & Contracts	\$ 93,177		(106,017)		\$ 796,776	\$ 796,776		0.00%
	Office Rent	46,156	1000	(51,764)		429,774	391,680	38,094	9.73%
	Office Costs Professional Services	89,265		(28,665)	A STATE	436,719	471,719	(35,000)	-7.42%
	Miscellaneous	14,830	48,500	(33,670)	-69.42%	194,000	194,000	-	0.00%
	Depreciation	147,469	97,125	50,345		alvance	W. O. E. A.		
Total Operating Expenses	- Jr. t status ()	\$ 390,896		\$ (169,772)		388,498	388,498		0.00%
			0 000,000	¥ (105,112)	-30.26%	\$2,245,767	\$2,242,673	\$ 3,094	0.14%
	Total Direct Expenses	\$1,884,066	\$2,201,702	\$ (317,636)		\$8,822,633	\$8,806,809	\$ 15.824	
						40,022,000	\$0,000,009	\$ 15,824	
Indirect Expenses						-			
		1							
Other Non-Operating Expenses		\$.	\$.	\$ -		\$ 77,484	\$ 77,484	\$ -	
Total Expenses		24 004 000		400000000			March Street		
Total Expenses		\$1,884,066	\$2,201,702	\$ (317,636)	la la	\$8,900,117	\$8,884,293	\$ 15,824	
Change in Assets		\$ 307,815	\$ (9.820)	£ 247 C25		4	at Australia		
		\$ 307,013	4 (3,020)	\$ 317,635		\$ (132,588)	\$ (116,764)	\$ (15,824)	
Fixed Assets									
	Depreciation	(147,469	(97,125)	(50,345)	51.84%	(388,498)	(388,498)		diam.
	Computer & Software CapEx	2,784	87,609	(84,825)	-96.82%	310,435	350,435	(40,000)	0.00%
	Furniture & Fixtures CapEx	2	-			-	000,400	(40,000)	-11.41%
	Equipment CapEx	-	Tel			2		- C	
VARANCE ENDINORS	Leasehold Improvements	-				653,450	211,000	442,450	
Inc(Dec) in Fixed Assets		\$ (144,685	\$ (9,516)	\$ (135,169)		\$ 575,387	\$ 172,937		
Total Pudges (P.) C		Tar Gallande	a Bankino	V C					
Total Budget (B + C)		5 1,739,381	\$ 2,192,187	\$ (452,805)		\$ 9,475,504	\$ 9,057,230	\$ 418,274	
Change in Working Capital (A-B-C)		\$ 452,500	ė inne	A	3				
Same Same Salara fit and		432,300	\$ (304)	\$ 452,805		\$ (707,975)	\$ (289,701)	\$ (418,274)	
FTEs		34.93	37,00	(2.07)	E 500/	95.00	24.22	47/12/5-	
		200	37,00	(2.01)	-5.59%	35,63	37.00	(1.37)	-3.70%



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

April 20, 2012

North American Electric Reliability Corporation 3353 Peachtree Road NE Suite 600, North Tower Atlanta, GA 30326

Attention: Mr. Michael Walker

Subject: NPCC Regional Entity Division Variance Comparison and

First Quarter 2012 Statement of Activities

Dear Michael:

The variance comparison for the period ended March 31st, 2012 is included along with Northeast Power Coordinating Council, Inc.'s unaudited first Quarter 2012 Statement of Activities.

Please do not hesitate to contact me via email at jhala@npcc.org or via telephone at (212) 840-1070 should you have any comments or questions with regard to the materials provided.

Sincerely,

Jessica Hala

Jessica Hala Senior Financial Analyst

JH: jh Enclosures

cc: Mr. Christopher Weir, CPA – NPCC Treasurer Mr. Edward A. Schwerdt – NPCC President & CEO Ms. Jennifer Budd Mattiello – NPCC Vice President & COO ERO Finance Group





NPCC Regional Entity Division Budget to Actual Variance Comparison as of March 31, 2012

INCOME

- Penalty Sanctions (Actual income of \$614k remitted to NPCC as of June 30, 2011 has been applied to reduce 2012 assessments to NPCC U.S. load serving entity designees.) All penalty sanctions remitted from July 1, 2011 through June 30, 2012 will be applied to reduce 2013 assessments to NPCC U.S. load serving entity designees and will be included in the NPCC 2013 Business Plan and Budget.
- Interest Income (Actual income of \$5k year-to-date not included in budget)

 NPCC has not budgeted for interest income as returns on U.S. treasury securities fund are negligible and corporate money market fund returns for 2011 were minimal for operating fund investment.
 - NPCC allocated \$5k as a portion of total interest income (93%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2012 funding. A common system of accounts, with divisional separation, is used for both RE and CS revenue tracking and financial reporting.

EXPENSES

- Personnel Expenses (Variance of \$210k under budget year-to-date and \$228k under budget FYP)
 - O Recruiting knowledge-based professionals continues to be challenging. Three of the four positions budgeted for the full year in 2012 have not yet been filled and are currently projected based on an estimated start date of July 1, 2012. In the benefits area, a significant number of professionals retained over the past four years continue to waive health insurance coverage, keeping superior coverage available to them from a prior employer. NPCC continues to budget for its full staff's health insurance coverage. The full year projection was adjusted for the first quarter underage.
- Meetings and Conference Calls (Variance of \$57k under budget year-to-date and as budgeted FYP)
 - Continued efforts to hold more meetings onsite or via webinar have kept meeting and conference call
 expenses under budget. Current underage is projected to be made up later in the year due to timing of
 planned meetings.
- Contracts & Consultants (Variance of \$97k under budget year-to-date and as budgeted FYP)
 - Year-to-date under budget is due to the timing of the use of independent, exclusive contractors for compliance audits. Full year projection continues to be as budgeted.

- **Professional Services** (Variance of \$139k under budget year-to-date and \$60k under budget FYP)
 - O Under budget due to judicious use of outside counsel and timing of Independent Director search. A portion of Independent Director search fees were budgeted in 2012, however, the search fees were paid in full in 2011. The full year projection has been reduced to account for this underage. If compliance hearings were to be required, it is expected that there could be a multi-year budgetary impact and that in the near term hearings would have been funded out of operating cash reserves as there is no 2012 budget for hearings.
- Miscellaneous (Actual variance of \$34k under budget year-to-date and \$72k under budget FYP)
 - expenses related to NPCC's responsibilities as WECC CEA of \$72k were included under miscellaneous expense in the 2012 budget. However, the actual expenses are being recorded to the appropriate account based on expense type (i.e. Travel, Contracts, etc). Therefore, the full year projection for miscellaneous expense has been reduced by \$72k. Additionally, NPCC will be conducting a second on-site audit of WECC during 2012, in addition to the one on-site audit that was included in the 2012 budget (one 693 audit and one CIP audit). The additional expense in 2012 due to the timing of the second on-site audit is currently estimated to be approximately \$60k \$75k. The total expenses related to the WECC audits will be trued up with WECC at year end, as per the CEA Agreement. The additional expenses related to the second on-site audit have not yet resulted in an adjustment to the full year projection in other areas such as Travel and Contracts but will continue to be monitored by NPCC through the remainder of the year.

FIXED ASSETS

• NPCC made no fixed asset acquisitions in first quarter 2012.

(Unaudited) Submitted April 20th, 2012



Northeast Power Coordinating Council, Inc. - Regional Entity Division Statement of Activities, Fixed Assets and Change in Working Capital (Unaudited)

For the Period Ended March 31, 2012

	2012 YTD Actual	2012 YTD Budget	Actual Variance from Budget Over(Under)	%	2012 Projection	2012 Annual Budget	Projection Variance from Budget Over(Under)	%
Funding								
Assessments	3,137,892	3,137,892	-		12,551,567	12,551,567	-	
Penalties	614,000	614,000	-		614,000	614,000	-	
Testing	-	-	-		-	-	-	
Services & Software	-	-	-		120,000	120,000	-	
Workshop Fees Interest	4,734	-	4,734		120,000 4,734	120,000	- 4,734	
Miscellaneous	18,000	18,000	-,,,,,,		72,000	72,000	-	
Total Funding	3,774,626	3,769,892	4,734	0.13%	13,362,301	13,357,567	4,734	0.04%
Expenses Personnel Expenses								
Salaries	1,147,901	1,395,584	(247,683)		5,379,663	5,582,337	(202,674)	
Payroll Taxes	139,156	125,570	13,586		343,449	358,772	(15,324)	
Employee Benefits	353,451	334,186	19,265		1,326,744	1,336,744	(10,000)	
Savings & Retirement	230,464	226,077	4,387		904,307	904,307	-	
Total Personnel Expenses	1,870,972	2,081,417	(210,445)	-10.11%	7,954,163	8,182,160	(227,998)	-2.79%
Meeting Expenses Meetings	18,683	41,400	(22,717)		288,000	288,000	_	
Travel	120,903	139,400	(18,497)		717,000	697,000	20,000	
Conference Calls	5,845	21,734	(15,889)		86,935	86,935	-	
Total Meeting Expenses	145,431	202,534	(57,103)	-28.19%	1,091,935	1,071,935	20,000	1.87%
Operating Expenses								
Consultants and Contracts	289,522	386,075	(96,553)		1,888,100	1,888,100	-	
Rent & Improvements Office Costs	150,589 110,301	159,272 130,241	(8,683) (19,940)		641,936 519,102	641,936 519,102	-	
Professional Services	163,479	302,553	(139,074)		1,102,663	1,162,663	(60,000)	
Miscellaneous	2,472	36,647	(34,175)		74,589	146,589	(72,000)	
Depreciation	47,609	34,964	12,645		139,855	139,855	- 1	
Total Operating Expenses	763,972	1,049,752	(285,780)	-27.22%	4,366,245	4,498,245	(132,000)	-2.93%
Other Non-Operating Expenses	-	-	-	n/a	-	1,865	(1,865)	-100.00%
Total Expenses	2,780,375	3,333,703	(553,328)	-16.60%	13,412,343	13,754,205	(341,863)	-2.49%
Net Change in Assets	994,251	436,189	558,062	127.94%	(50,042)	(396,638)	346,596	-87.38%
Fixed Assets Depreciation	(47,609)	(34,964)	(12,645)		(139,855)	(139,855)	-	_
Computer & Software CapEx	-	40.00-	-		-	-	-	
Furniture & Fixtures CapEx	-	19,207	(19,207)		19,207	19,207	-	
Equipment CapEx Leasehold Improvements	-	27,878 19,207	(27,878) (19,207)		27,878 19,207	27,878 19,207	-	
Incr(Dec) in Fixed Assets	(47,609)	31,328		-251.97%	(73,563)	(73,563)	-	0.00%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	2,732,766	3,365,031	(632,265)	-18 79%	13,338,780	13,680,642	(341,863)	-2.50%
Change in Working Capital (Total Funding less Total Budget)	1,041,860	404,861	636,999	157.34%	23,521	(323,075)	346,596	-107.28%
Equivalent Full Time Employees	32.42	35.42	(3.00)		33.92	35.42	(1.50)	
Headcount	33.00	36.00	(3.00)		36.00	36.00	-	
B	2 044	2.050.531	705		2 044	2.050.621	705 -21	
Beginning WC - 1/1/12 Change to WC - 2012		3,059,204 404,861	785,551 636,999		3,844,755 23,521	3,059,024 (323,075)	785,731 346,596	
Working Capital at 3/31/12 and Projected 12/31/12		3,464,065	1,422,550		3,868,276		1,132,327	
=								

April 20, 2012

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

Subject: 2012, 1st Quarter Statement of Activities Variance Report - Unaudited

Mr. Michael Walker:

As requested, the attached 2012, 1st Quarter Statement of Activities (unaudited) is a comparison of budgeted and actual expenses relative to the 2012 Reliability *First* Corporation's Business Plan and Budget, as approved by NERC and FERC.

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

- 1. Variances equal to or greater than +/- 10% of budget
- 2. Variances greater than \$10,000

Significant Variances

For the quarter ending March 31, 2012, Reliability First Corporation is \$129K (3.14%) under budget, while on target to complete our intended objectives. The major contributors, using the criteria above, include:

- Payroll Taxes \$45K Over
- Savings and Retirement costs \$111K Over
- Contracts & Consultants \$60K Under
- Rent & Utilities \$39K Under
- Computer Software & Hardware \$216K Under

Funding

• Investment Income: \$34K (227%) under budget for Year-to-Date (YTD) Investment income is under budget due to our long term investments losing value during the first quarter.

Expenses

- Personnel Expenses
 - Payroll Taxes: 45K (24%) over budget for YTD
 Payroll taxes are over budget due to the taxes associated with the annual incentive compensation to the staff. Budgeted payroll taxes are allocated across the year according to the biweekly payroll amounts.

Savings & Retirement Costs: \$111K (31%) over budget for YTD
 Savings & Retirement costs are over budget due to the retirement costs associated with the annual incentive compensation to the staff. Budgeted retirement costs are allocated across the year according to the biweekly payroll amounts.

Operating Expenses

- Contracts & Consultants: \$60K (77%) under budget for YTD
 Contracts & Consultants are under budget due to timing. Various projects such as new phone system, Eastern Interconnection Reliability Assessment Group (ERAG) activities and expense report system automation did not occur in the first quarter as planned. The expected use of contractors for 693 audits is lower than expected.
- Rent & Utilities: \$39K (29%) under budget for YTD
 Rent & Utilities are under budget as a result of the delay in securing an offsite
 disaster recovery site. This delay is due to the consideration of establishing a
 disaster recovery site with other Regional Entities.
- Professional Services: \$18K (13%) under budget for YTD
 Professional Services are under budget due to the use of in-house counsel versus more costly outside legal support.

Fixed Assets

• Computer Hardware & Software: \$216K (100%) under budget for YTD Computer Hardware & Software is under budget due to the delay in the new phone and web conferencing system.

Year End Projection

For the year end projection, Reliability *First* is projecting a year-end variance of \$288K (1.7%) under budget. The major contributors to the projected variance are:

- Employee Benefits is projected to be \$151K under budget due to medical benefit premiums costing less than expected. Actual premium increased 0% versus the expected 12% which is effective April 1st.
- Rent & Utilities is projected to be \$154K under budget due to the delay in securing a disaster recovery site until late 4th quarter.

For more information, please contact me at 330.456.2488 or jack.istvan@rfirst.org.

Sincerely,

Jack A. Istvan

Chief Financial Officer and Treasurer



Reliability*First* Corporation Statement of Activities, Fixed Assets and Change in Working Capital (unaudited) From 01/01/2012 Through 03/31/2012

(In Whole Numbers)

2012 YTD Actual	2012 YTD Budget	YTD Variance Over/(Under)	% Variance	_	Total 2012 Projection	Total 2012 Budget	Total 2012 Projected Variance Over/(Under)	% Projected Variance
				Frankina				
3,383,568	3,383,568	0	0.00%	Funding	13,534,272	13,534,272	0	0.00%
792,100			0.00%	Assessments	792,100		0	0.00%
792,100			0.00%	Penalty Sanctions	792,100	792,100 0	0	0.00%
(19,028)	15,000		-226.85%	Membership Dues	40,972	60,000	(19,028)	-31.71%
(17,020)	15,000		0.00%	Investment Income Miscellaneous Income	40,772	00,000	(17,020)	0.00%
4,156,640	4,190,668		-0.81%	Total Funding	14.367.344	14,386,372	(19,028)	-0.13%
.,,	.,,	(2.7,525)		-	,	,	(,)	
				Expenses				
				Personnel Expenses				
2,291,435	2,265,687	25,748	1.14%	Salaries	9,383,207	9,637,622	(254,415)	-2.64%
230,688	185,943	44,745	24.06%	Payroll Taxes	576,887	581,453	(4,566)	-0.79%
272,229	297,237	(25,008)	-8.41%	Employee Benefits	1,132,719	1,283,552	(150,833)	-11.75%
465,397	354,009	111,388	31.46%	Savings & Retirement Costs	1,547,706	1,471,658	76,048	5.17%
3,259,749	3,102,876	156,873	5.06%	Total Personnel Expenses	12,640,519	12,974,285	(333,766)	-2.57%
				Meeting Expenses				
39,846	42,045	(2,199)	-5.23%	Meeting Expenses Meetings	124,341	144,630	(20,289)	-14.03%
190,229	173,088		9.90%	Travel	760,916	686,950	73,966	10.77%
2,558	2,544	14	0.55%	Conference Calls	10,232	10,176	56	0.55%
232,633	217,677	14,956	6.87%	Total Meeting Expenses	895,489	841,756	53,733	6.38%
				<u> </u>				
	==	(=====()	=, ===,	Operating Expenses		=	(00 (01)	
17,874	77,600		-76.97%	Contracts & Consultants	491,496	514,100	(22,604)	-4.40%
94,426	133,597		-29.32%	Rent & Utilities	377,704	531,460	(153,756)	-28.93%
246,004	224,772		9.45%	Office Costs	984,016	772,146	211,870	27.44%
121,763	139,839		-12.93% -66.97%	Professional Services	487,052 10,752	500,432	(13,380)	-2.67% -60.64%
2,688 15,988	8,139 0		0.00%	Miscellaneous Proceeds/Loss on sale of Asset	15,988	27,320 0	(16,568) 15,988	0.00%
		.,	-9.99%	Depreciation				-9.99%
114,046 612,789	126,705 710,652	(97,863)	-13.77%	Total Operating Expenses	456,184 2,823,192	506,822 2,852,280	(50,638) (29,088)	-1.02%
212,121	,	(11/222)				_,	(21/202)	
4,105,171	4,031,205	73,966	1.83%	Total Expenses	16,359,200	16,668,321	(309,121)	-1.85%
51,469	159,463	(107,994)	-67.72%	Net Change in Assets	(1,991,856)	(2,281,949)	290,093	-12.71%
				Fired Assets				
(114,046)	(126,705)	12,659	-9.99%	Fixed Assets Depreciation	(456,184)	(506,822)	50,638	-9.99%
(114,046)			-100.00%	Depreciation Computer Hardware & Software	465,000	495,000	(30,000)	-6.06%
0			0.00%	Furniture & Fixtures	465,000	493,000	(30,000)	0.00%
0			0.00%	Leasehold Improvements	0	0	0	0.00%
(114,046)	89,295		-227.72%	•	8,816	(11,822)	20,638	-174.57%
	•			Increase/(Decrease) in Fixed Assets			·	
				Total Budget				
3,991,125	4,120,500	(129,375)	-3.14%	(Expenses + Incr/(Decr) in Fixed Assets)	16,368,016	16,656,499	(288,483)	-1.73%
165,515	70,168	95,347	135.88%	Change in Working Capital (Total Funding less Total Budget) =	(2,000,672)	(2,270,127)	269,455	-11.87%
66.00	68.00	(2.00)	-2.94%	Budgeted Head Count	73.00	73.00	0.00	0.00%
64.50	68.00	(3.50)	-5.15%	FTE	68.00	70.58	(2.58)	-3.66%



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

April 20, 2012

Mike Walker North American Electric Reliability Corporation 3353 Peachtree Rd, NE Atlanta, GA 30326

Re: 1st Quarter 2012 Unaudited Financial Statements – Budget vs. Actual

Mike:

Following please find SERC's first quarter 2012 financial statements showing actual to budgeted figures.

If you have any questions, please let me know.

Thank you,

Jennifer Kelly

Director of Finance and Human Resources

cc: Scott Henry, President/CEO
John Twitchell, Vice President/CPO



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

Budget to Actual Comparison as of March 31, 2012

Income

- Workshops (Actual \$45,437 over budget)
 - The budgeted income is allocated evenly over all four quarters. The workshops are primarily held in the first two quarters, with most of the revenue being received in the first quarter.
- Miscellaneous (Actual \$61,186 over budget)
 - The income recorded in Miscellaneous represents the cross regional monitoring activities for FRCC and SPP. The regional entity audited reimburses for actual costs incurred. The actual income represents the costs associated with auditing and enforcement activities for FRCC, which was not budgeted to be audited in 2012. Due to timing and to accommodate FRCC, the audits of FRCC were performed in 2012, rather than in 2011.

Expense

- Personnel Expenses (Actual \$560,474 under budget)
 - During the first quarter there were sixteen (16) open positions, of which six (6) were filled throughout the first quarter, causing SERC to be under budget in personnel expenses.
- Meeting Expenses (Actual \$116,592 under budget)
 - Meetings Expense (\$51,628 under budget) This is mainly due to a timing difference. During the first quarter, the significant meetings that were held include the spring Standing Committee meetings and the first Compliance Seminar. Due to timing, the invoice for the first Compliance Seminar has not been received. The majority of SERC's larger meetings are held after the first quarter. Additionally, there has been a greater emphasis on the use of technology by hosting meetings using Webex, which have lowered the meeting costs.
 - Travel Expense (\$53,506 under budget) This is mainly due to a timing difference. The budget is evenly allocated over all four quarters. A low number of meetings and audits are scheduled during the first quarter, causing the expense to be lower than budget. Additionally, SERC has emphasized the use of technology by hosting meetings using Webex. By doing this, travel costs have decreased.

Contracts/Consultants (\$89,472 under budget)

- Actual costs for hosting and maintaining SERC's servers are higher than budgeted by approximately \$12,900.
- During the first quarter, a significant amount of work has been done on the compliance portal, causing an overrun of approximately \$50,600.
- Participation in the OATI schedule checkout tool was lower than planned in 2012.
 SERC budgeted for 22 balancing authorities for the entire year. By March, 21 balancing authorities had joined. The total cost reduction was approximately \$1,500.



- The budget is allocated evenly over the year. Reliability Assessments has several software development projects that will not get started until mid 2012, causing SERC to be under budget by approximately \$20,500.
- SERC is under budget by approximately \$40,600 due to contractor delays on various compliance projects.
- For the first quarter, SERC has not incurred significant contract costs related to resource adequacy study, ERAG and the regional UFLS study, causing SERC to be under budget by approximately \$57,900.
- For the first quarter, SERC has not incurred significant contract costs related to event analysis technical expertise, GIS software, Inter7 hotline enhancements and the restoration drill, causing SERC to be under budget by approximately \$5,800.
- As of the first quarter, the four System Operator Conferences have not been held, and therefore the expenses for the presenters and simulation tool have not been incurred, causing SERC to be under budget by \$8,800.
- As of the first quarter, SERC has not incurred costs related to various IT projects, causing SERC to be under budget by approximately \$13,000.

• Rent & Improvements (\$26,559 under budget)

 The new office space lease in effect has a lower per square foot price than originally budgeted in 2012. When the 2012 budget was developed, the final lease for additional office space was not signed.

Office Costs (\$96,629 under budget)

The budget includes \$100,000 for the purchase of office furniture and equipment to furnish the new office space and \$93,000 for the purchase of computers for existing staff replacements and for the budgeted new positions. These items were purchased in 2011, causing the under run in 2012.

Fixed Assets (\$20,022 under budget)

The budget is allocated evenly over the year. Several software projects have not been completed and capitalized as of the first quarter, causing the under run in the assets and depreciation expense.



SERC Reliability Corporation Statement of Activities From 01/01/12 to 03/31/12 (Unauditied)

2012 YTD 2012 Actual Projection Variance 2012 Variance

		2012 YTD	2012 YTD	from Budget		2012	Annual	from Budget	
		Actual	Budget	Over(Under)	%	Projection	Budget	Over(Under)	%
	- Funding								,
	Assessments	3,711,319	3,711,319	_		14,845,275	14,845,275	_	
	Penalties	434,500	434,500	_		434,500	434,500	_	
	Workshop Fees	86,500	41,063	45,437		264,670	264,670	-	
	Interest	3,209	2,500	709		10,000	10,000	-	
	Miscellaneous	101,886	40,000	61,886		115,000	40,000	75,000	
Α	Total Funding	4,337,414	4,229,382	108,032	2.55%	15,669,445	15,594,445	75,000	0.48%
	Expenses								
	Personnel Expenses								
	Salaries	1,967,154	2,227,102	(259,948)		8,684,955	8,908,407	(223,452)	
	Payroll Taxes	144,207	200,439	(56,232)		738,264	801,758	(63,494)	
	Employee Benefits	112,672	223,970	(111,298)		884,174	895,883	(11,709)	
	Savings & Retirement	168,868	301,864	(132,996)		1,169,071	1,207,456	(38,385)	
	Total Personnel Expenses	2,392,901	2,953,375	(560,474)	-18.98%	11,476,464	11,813,504	(337,040)	-2.85%
	Meeting Expenses	2,332,301	2,333,373	(300,171)	10.5070	11,170,101	11,013,301	(337,010)	2.0370
	Meetings	27,239	78,867	(51,628)		402,078	402,078	_	
	Travel	100,642	154,148	(53,506)		616,591	616,591	_	
	Conference Calls	12,542	24,000	(11,458)		96,000	96,000	_	
	Total Meeting Expenses	140,423	257,015	(116,592)	-45.36%	1,114,669	1,114,669	_	0.00%
	Operating Expenses	1.0,.20	237,013	(110)001)	1313070		1,11 .,003		0.0070
	Consultants and Contracts	200,347	289,819	(89,472)		1,159,275	1,159,275	-	
	Rent & Improvements	84,622	111,181	(26,559)		444,722	444,722	-	
	Office Costs	74,090	170,719	(96,629)		682,875	682,875	-	
	Professional Services	27,764	22,350	5,414		99,400	89,400	10,000	
	Miscellaneous	1,696	-	1,696		, -	, -	-	
	Depreciation	38,708	58,238	(19,530)		232,952	232,952	-	
	Total Operating Expenses	427,227	652,307	(225,080)	-34.51%	2,619,224	2,609,224	10,000	0.38%
		_	_	_				-	0.00%
_	()ther Non-()nerating Expenses								0.0070
В	Other Non-Operating Expenses							/	
	Other Non-Operating Expenses Total Expenses	2,960,551	3,862,697	(902,146)	-23.36%	15,210,357	15,537,397	(327,040)	-2.10%
=A-B		2,960,551 1,376,863	3,862,697 366,685	(902,146) 1,010,178	-23.36% 275.49%	15,210,357 459,088	15,537,397 57,048	(327,040) 402,040	
=A-B	Total Expenses Net Change in Assets							, , ,	
=A-B	Total Expenses Net Change in Assets Fixed Assets	1,376,863	366,685	1,010,178		459,088	57,048	, , ,	
=A-B	Total Expenses Net Change in Assets Fixed Assets Depreciation	1,376,863 (38,708)	366,685 (58,238)	1,010,178 19,530		459,088 (232,952)	57,048 (232,952)	, , ,	
=A-B	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx	1,376,863	366,685	1,010,178		459,088	57,048	, , ,	
=A-B	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx	1,376,863 (38,708)	366,685 (58,238)	1,010,178 19,530		459,088 (232,952)	57,048 (232,952)	, , ,	
=A-B	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx	1,376,863 (38,708)	366,685 (58,238)	1,010,178 19,530		459,088 (232,952)	57,048 (232,952)	, , ,	
	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx	1,376,863 (38,708) 32,948 - -	366,685 (58,238) 72,500	1,010,178 19,530 (39,552) - -		(232,952) 290,000 - - -	57,048 (232,952) 290,000 - - -	, , ,	
	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets	1,376,863 (38,708)	366,685 (58,238)	1,010,178 19,530	275.49%	459,088 (232,952)	57,048 (232,952)	402,040 : - - - - -	704.74%
С	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets Total Budget (Expenses plus Incr(Dec) in	1,376,863 (38,708) 32,948 - - - (5,760)	366,685 (58,238) 72,500 - - 14,262	1,010,178 19,530 (39,552) - - - (20,022)	275.49%	459,088 (232,952) 290,000 - - - - 57,048	57,048 (232,952) 290,000 - - - - 57,048	402,040 :	0%
С	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets	1,376,863 (38,708) 32,948 - -	366,685 (58,238) 72,500	1,010,178 19,530 (39,552) - -	275.49%	(232,952) 290,000 - - -	57,048 (232,952) 290,000 - - -	402,040 : - - - - -	704.74%
С	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets Total Budget (Expenses plus Incr(Dec) in	1,376,863 (38,708) 32,948 - - - (5,760)	366,685 (58,238) 72,500 - - 14,262	1,010,178 19,530 (39,552) - - - (20,022)	275.49%	459,088 (232,952) 290,000 - - - - 57,048	57,048 (232,952) 290,000 - - - - 57,048	402,040 :	0%
C =B+C	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	1,376,863 (38,708) 32,948 - - - (5,760)	366,685 (58,238) 72,500 - - 14,262	1,010,178 19,530 (39,552) - - - (20,022)	275.49%	459,088 (232,952) 290,000 - - - - 57,048	57,048 (232,952) 290,000 - - - - 57,048	402,040 :	0%
C =B+C	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets Total Budget (Expenses plus Incr(Dec) in Fixed Assets) Change in Working Capital (Total Funding less Total Budget)	1,376,863 (38,708) 32,948 - (5,760) 2,954,791 1,382,623	366,685 (58,238) 72,500 - - 14,262 3,876,959 352,423	1,010,178 19,530 (39,552) - (20,022) (922,168) 1,030,200	275.49%	459,088 (232,952) 290,000 - - - 57,048 15,267,405	57,048 (232,952) 290,000 - - - 57,048 15,594,445	402,040 : - - - - - (327,040) 402,040	0%
C =B+C	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets Total Budget (Expenses plus Incr(Dec) in Fixed Assets) Change in Working Capital (Total Funding less Total Budget) FTE's	1,376,863 (38,708) 32,948 - (5,760) 2,954,791 1,382,623	366,685 (58,238) 72,500 - - 14,262 3,876,959 352,423	1,010,178 19,530 (39,552) (20,022) (922,168) 1,030,200	275.49%	459,088 (232,952) 290,000 57,048 15,267,405 402,040	57,048 (232,952) 290,000 57,048 15,594,445 - 73.70	402,040	0%
C =B+C	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets Total Budget (Expenses plus Incr(Dec) in Fixed Assets) Change in Working Capital (Total Funding less Total Budget)	1,376,863 (38,708) 32,948 - (5,760) 2,954,791 1,382,623	366,685 (58,238) 72,500 - - 14,262 3,876,959 352,423	1,010,178 19,530 (39,552) - (20,022) (922,168) 1,030,200	275.49%	459,088 (232,952) 290,000 - - - 57,048 15,267,405	57,048 (232,952) 290,000 - - - 57,048 15,594,445	402,040 : - - - - - (327,040) 402,040	0%
C =B+C	Total Expenses Net Change in Assets Fixed Assets Depreciation Computer & Software CapEx Furniture & Fixtures CapEx Equipment CapEx Leasehold Improvements Incr(Dec) in Fixed Assets Total Budget (Expenses plus Incr(Dec) in Fixed Assets) Change in Working Capital (Total Funding less Total Budget) FTE's	1,376,863 (38,708) 32,948 - (5,760) 2,954,791 1,382,623	366,685 (58,238) 72,500 - - 14,262 3,876,959 352,423	1,010,178 19,530 (39,552) (20,022) (922,168) 1,030,200	275.49%	459,088 (232,952) 290,000 57,048 15,267,405 402,040	57,048 (232,952) 290,000 57,048 15,594,445 - 73.70	402,040 :	0%

1,982,442

1,367,806

2,369,665

1,195,519

739,646

Working Capital at 03/31/12 3,350,248



Southwest Power Pool Regional Entity Unaudited Actual to Budget Comparison as of March 31, 2012

EXPENSES

Personnel Expenses (Actual - \$59K under budget) – Personnel expenses trailed budget primarily due to the timing of hiring additional RE direct staff to fill open budgeted positions. Three of the positions that were added in 2012 (compliance engineer, CIP analyst, and an enforcement attorney), which were budgeted to be filled February 1, 2012, were unfilled as of March 31, 2012. The enforcement attorney position was filled April 1, 2012, and the other two positions are projected to be filled July 2012. In addition to these unfilled positions, under spend in budgeted personnel expenses also results from partial pay for a compliance engineer that was called to active military duty in mid-February, 2012. SPP RE projects full year personnel costs to be lower than 2012 budget by \$154K.

Travel and Meeting Expenses (Actual - \$48K under budget) –Travel expenses trailed budget due to the timing of hiring additional budgeted staff and lower than expected travel costs. SPP RE projects full year travel expenses to be lower than 2012 budget by \$130K.

Other Operating Expenses (Actual - \$26K under budget) – Other Operating Expenses trailed budget primarily due to the elimination of consulting activity related to enforcement caseload reduction initiative and delayed approval of the BES exemption process. SPP RE was able to achieve its targeted 12-month caseload in 2011, and the activity on the BES exemption process is expected to occur no earlier than the fourth quarter 2012. SPP RE projects full year consulting and professional costs to be lower than 2012 budget by \$365K.

Indirect Costs¹ (Actual - \$165K under budget) - Indirect costs include identifiable infrastructure and overhead resources associated with SPP's business model. These shared services and costs are allocated to the regional entity based on direct resources engaged to perform specific statutory functions. These costs are intended to replace budgeted overhead items such as office rent, depreciation, communications, technology support, etc. Actual indirect costs trail budgeted costs due to the timing of hiring additional RE direct staff to fill open budgeted positions and a reduction in the fixed overhead rate. SPP RE projects full year indirect costs to be lower than 2012 budget by \$359K.

¹ Due to timing of the budget schedule, the estimated overhead rate used to develop the 2012 budget was the actual Indirect Overhead Rate for 2010, which was \$71.04. The 2012 YTD and Projected Indirect Costs are calculated using the actual Indirect Overhead Rate for 2011, which was is \$67.35. The Final 2012 actual results will reflect the actual 2012 Indirect Overhead Rate.



SOUTHWEST POWER POOL

STATEMENT OF ACTIVITIES 2012 MARCH YTD DRAFT (UNAUDITED)

Regional Entity						
	2012 241 257	4014 3 4 1 D CVV		2012 FULL	2012 5777 7	
(In Whole Dellane)	2012 MARCH YTD ACTUAL	2012 MARCH YTD BUDGET	VARIANCE	YEAR PROJECTION	2012 FULL YEAR BUDGET	VARIANCE
(In Whole Dollars) Funding	TIDACTUAL	1 1D BUDGET	VARIANCE	PROJECTION	TEAR BUDGET	VARIANCE
ERO Funding	2,462,912	2,462,912	_	9,851,647	9,851,647	_
Testing Fees	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	625	-	625	625	-	625
Miscellaneous	50,230	50,230		200,920	200,920	
Total Funding (A)	2,513,767	2,513,142	625	10,053,192	10,052,567	625
Expenses						
Personnel Expenses						
Salaries	849,991	955,173	(105,182)	3,586,115	3,820,690	(234,575)
Payroll Taxes	90,464	60,341	30,123	274,338	241,364	32,974
Benefits	63,646	59,039	4,608	297,140	236,154	60,986
Retirement Costs Total Personnel Expenses	50,344 1,054,445	39,084 1,113,636	(59,191)	143,445 4,301,038	156,335 4,454,543	(12,890) (153,505)
Total Fersonnel Expenses	1,034,443	1,113,030	(59,191)	4,301,038	4,454,543	(153,505)
Meeting Expenses Meetings	23,110	18,750	4,360	86,500	75,000	11,500
Travel	97,962	124,750	(26,788)	499,000	640,000	(141,000)
Conference Calls	77,702	124,730	(20,766)	-	-	(141,000)
Total Meeting Expenses	121,072	143,500	(22,428)	585,500	715,000	(129,500)
Operating Expenses						
Contracts & Consultants	65,273	76,300	(11,027)	1,090,000	1,421,500	(331,500)
Office Rent	-	-	-	-	-	-
Office Costs	-	625	(625)	2,500	2,500	-
Administrative Costs	4,098	-	4,098	-	-	-
Professional Services	71,486	89,900	(18,414)	310,000	343,000	(33,000)
Computer Purchase & Maint.	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Miscellaneous/ Contingency						
Total Operating Expenses	140,857	166,825	(25,968)	1,402,500	1,767,000	(364,500)
Total Direct Expenses	1,316,374	1,423,961	(107,587)	6,289,038	6,936,543	(647,505)
SPP Inc. Indirect Expenses	953,512	1,118,525	(165,013)	4,115,087	4,474,099	(359,012)
SPP RE Indirect Expenses (1)				-		
Total Indirect Expenses	953,512	1,118,525	(165,013)	4,115,087	4,474,099	(359,012)
Total Expenses (B)	2,269,886	2,542,486	(272,599)	10,404,125	11,410,642	(1,006,517)
Net Change in Assets (A-B)	243,881	(29,344)	273,224	(350,933)	(1,358,075)	1,007,142
	-					
Fixed Assets						
Depreciation G. F.	-	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx Equipment CapEx	•	-	-	-	-	-
Leasehold Improvements	-	_	-	-	-	-
Increase/(Decrease) in Fixed Assets (C)	-	-	-	-	-	-
Total Budget (Expenses plus Incr (Dec) in Fixed Assets (B+C)	1,316,374	1,423,961	(107,587)	6,289,038	6,936,543	(647,505)
Change in Working Capital (Total Funding less Total Budget) (A-B-C)	\$ 243,881	\$ (29,344)	\$ 273,224	\$ (350,933)	\$ (1,358,075)	\$ 1,007,142
FTEs	30.12	22 50	(2.20)	22 50	33.50	(1.00)
Headcount (RE Direct Staff YTD-end Count)	28	33.50 32	(3.38)	32.50 32	33.50	(1.00)
And Diver July 112 the County	26	32		32	31	
Beginning WC - 01/01/2012*	2,638,442	1,358,075	1,280,367	2,638,442	1,358,075	1,280,367
Change to WC - 2012 YTD		(29,344)	273,224	(350,933)	(1,358,075)	1,007,142
Working Capital at 03/31/2012 and Projected 12/31/12		1,328,731	1,553,591	2,287,509		2,287,509
					· ————	

^{*} Adjusted Beginning WC Balance to reflect 2011 true-up adjustments and to removed penalty payments received after June 30, 2011



MEMORANDUM

To: Michael Walker and Susan Turpen, NERC

From: Thuy Le, Accountant, Texas RE

CC: W Lane Lanford, President & CEO, Texas RE

Judy Foppiano, Finance & Accounting Mgr., Texas RE

Date: April 24, 2012

Re: 1st Quarter Statement of Activities Report

Dear Mike and Susan,

Texas Reliability Entity (Texas RE) has completed the analysis requirements to file the 1st Quarter, 2012 variance report for NERC's use. The budget comparison of actual and projected expenses is compared to the Approved 2012 Texas RE budget, as approved by NERC and FERC. Texas RE is including variance explanations for those items that are greater than \$10,000. Texas RE believes that those variances that are less than the stated threshold would not be material to users of the financial information; however, Texas RE can provide additional information if needed. The variances for the year are as follows:

INCOME

- Membership Dues (Actual \$6,875 under budget)
 - Membership Dues is allocated evenly throughout the year. This is under budget due to the timing. Membership renewal will occur in the fall.
- Workshops (Actual \$7,500 under budget)
 - Workshop revenue is allocated evenly throughout the year. It is anticipated that workshops will be held in May and October.

EXPENSES

- Personnel Expenses (Actual \$402K under budget year-to-date)
 - Salary expenses are approximately \$261K under budget due to FTE vacancies year-to-date. The vacancies are the result of timing of new hires and turnover.
 - o Payroll taxes, Employee Benefits, and Savings and Retirement expenses are a function of payroll. The variances are a result of FTE vacancies.
- **Meetings & Travel** (Actual \$30K under budget year-to-date)
 - Meeting expenses are \$10K over budget due to unbudgeted NERC meetings hosted in Austin. These are: Enforcement, Sanctions and Mitigation Working Group (ESMWG), Compliance Monitoring Process Working Group (CMPWG), CIP Compliance Working Group (CCWG), ERO-Compliance and Enforcement Management Group (ECEMG), TFE Managers
 - Travel expenses are \$38K under budget due to timing of audits and staff training.
- **Professional Services** (Actual \$17K over budget year-to-date)
 - Professional Services is over budget due to unbudgeted CEO search at the end of 2011 to the first guarter of 2012.



- **Depreciation** (Actual \$13K over budget year-to-date)
 - o Depreciation is higher than plan; expect this to continue throughout the year.

FIXED ASSETS

- Computer & Software CapEX (Actual \$83K under budget year-to-date)
 - Under budget due to positions remaining open and deferral of starting the Sharepoint project.

As you are reviewing the enclosed report, please do not hesitate to contact me at 512.583.4961 with questions or concerns.

Best Regards,

Thuy Le Accountant Texas Reliability Entity, Inc. 805 Las Cimas Pkwy, Suite 200 Austin, TX 78746 www.texasre.org

TEXAS RELIABILITY ENTITY, INC. Statement of Activities For Year-to-Date March 31, 2012 (Unaudited)

(In Whole Dollars)

		2012 YTD Actual		2012 YTD Budget	١	2012 YTD Variance ver(Under)	%	P	2012 rojection		2012 Budget	2012 Projected Variance Over(Under)	%
Funding						(,		-	,				
ERO Funding													
ERO Assessments	\$	2,375,967	\$	2,375,967		(0)		\$	9,503,866	\$	9,503,866	-	
Penalty Sanctions		572,830		572,830		(0.075)			572,830		572,830	-	
Membership Dues			\$	6,875		(6,875)			27,500		27,500	-	
Testing Fees						-			-		-	-	
Services & Software Workshops				7,500		(7,500)			30,000		30,000	-	
Interest		4,631		3,250		1,381			13,000		13,000	_	
Miscellaneous		1,001		-		- 1,001			-		-	_	
Total Funding	\$	2,953,427	\$	2,966,422	\$	(12,995)	-0.44%	\$ 1	0,147,196	\$	10,147,196	\$ -	0.00%
Expenses													
Personnel Expenses													
Salaries	\$	1,134,615	\$	1,395,952		(261,337)		\$	5,854,972	\$	5,854,972	-	
Payroll Taxes	Ψ	93,519	•	147,317		(53,798)		Ψ	521,980	•	521,980	-	
Benefits		150,511		198,606		(48,094)			806,045		806,045	-	
Retirement Costs		150,674		189,160		(38,486)			799,971		799,971	-	
Total Personnel Expenses	\$	1,529,320	\$	1,931,035	\$	(401,714)	-20.80%	\$	7,982,969	\$	7,982,969	\$ -	0.00%
Meeting Expenses													
Meetings	\$	19,528	\$	9,300		10,228		\$	37,200	\$	37,200	-	
Travel	•	61,135	•	98,796		(37,661)		•	359,748	•	359,748	-	
Conference Calls		1,711		4,500		(2,789)			18,000		18,000	-	
Total Meeting Expenses	\$	82,374	\$	112,596	\$	(30,222)	-26.84%	\$	414,948	\$	414,948	\$ -	0.00%
Operating Expenses													
Consultants & Contracts	\$	69.225	\$	62,154		7,072		\$	272,570	\$	272,570	-	
Office Rent		116,265		124,750		(8,485)		·	499,000		499,000	-	
Office Costs		78,765		85,353		(6,588)			344,329		344,329	-	
Professional Services		206,086		189,130		16,956			853,300		853,300	-	
Miscellaneous		-		-		-			-		-	-	
Depreciation Total Operating Expenses	\$	189,831 660,172	\$	176,717 638,104	¢	13,113 22,067	3.46%	\$	753,948 2,723,147	\$	753,948 2,723,147	\$ -	0.00%
		,		ĺ									
Total Direct Expenses	\$	2,271,866	\$	2,681,735	\$	(409,869)	-15.28%	\$ 1	1,121,065	\$	11,121,065	\$ -	0.00%
Indirect Expenses	\$	(32,391)	\$	(52,664)	\$	20,273	-38.49%	\$	(210,657)	\$	(210,657)	\$ -	0.00%
Other Non-Operating Expenses	\$	-	\$	-	\$	-		\$	-	\$	-	\$ -	0.00%
Total Expenses	\$	2,239,475	\$	2,629,071	\$	(389,596)	-14.82%	\$ 1	0,910,408	\$	10,910,408	\$ -	0.00%
Net Change in Assets	\$	713,953	\$	337,351	\$	376,601	112%	\$	(763,212)	\$	(763,212)	\$ -	0%
		.,		,,,,,,				÷			,	•	
Fixed Assets													
Depreciation		(189,831)		(176,717)		(13,113)			(753,948)		(753,948)	-	
Computer & Software CapEx		12,416		95,500		(83,084)			382,000		382,000	-	
Furniture & Fixtures CapEx		- 0.405		-		-			-		-	-	
Equipment CapEx Leasehold Improvements		3,435 1,734		-		3,435 1.734			75,000		75,000	-	
Increase/(Decrease) in Fixed Assets	\$	(172,246)	\$	(81,217)	\$	(91,028)	112%	\$	(296,948)	\$	(296,948)	\$ -	0%
Total Budget (Expenses plus Incr/(Dec) in Fixed Assets)	\$	2,067,229	\$	2,547,853	\$	(480,624)	-19%	\$ 1	0,613,460	\$	10,613,460	\$ -	0%
Change in Working Capital (Total Funding less Total Budget)	\$	886,198	\$	418,569	\$	467,629	112%	\$	(466,264)	\$	(466,264)	\$ -	
	Ť	•				•	,0	<u> </u>				•	
FTEs		50.6		58.0)	(7.4)			58.0		58.0	-	
B		0.540.650		0.400.60=		4 0 40 00=			0.540.050		0.400.00=	4 0 40 00=	
Beginning WC - 1/1/1: Change to WC - 201:		3,543,250 886,198		2,193,885 418,569		1,349,365 467,629			3,543,250 (466,264)		2,193,885 (466,264)	1,349,365	
Working Capital at 3/31/12 and Projected 12/31/12		4,429,448		2,612,454		1,816,994		_	3,076,986		1,727,621	1,349,365	
•		,							, -,		, ,,,	, ,	



801-883-6866 tkritzberg@wecc.biz

April 26, 2012

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

RE: WECC Q1 2012 Statement of Activities and Variance Report

Dear Mr. Walker:

Attached is WECC's first quarter Statement of Activities (unaudited) along with the requested variance report.

If you have any questions or need additional information, please do not hesitate to contact me.

Regards,

Tricia Kritzberg Controller

Enclosures

cc: Jillian Lessner, Director of Finance Susan Turpen, NERC Controller



Statutory Statement of Activities (Unaudited) For the One Quarter Ended March 31, 2012 Variance Explanations

Year-to-date variances greater than \$10,000 and 10 percent are explained below.

The explanations below pertain to all statutory activities, including costs funded by federal grants.

FUNDING

- Workshop Fees: \$96,000 under budget YTD
 - Lower than anticipated attendance at workshops has resulted in lower workshop revenue.
- Miscellaneous: \$11,000 under budget YTD
 - In accordance with Generally Accepted Accounting Principles, WECC adjusts its investment account balances to fair market value. These adjustments result in unrealized gains or losses that roll into Miscellaneous funding.
 - The projected 2012 under-run of \$43,000 also relates to lower-than-expected rates of return.

EXPENSES

- Employee Benefits: \$164,000 under budget YTD
 - Training is under budget by \$45,000 due to the utilization of more economic means of training, such as in-house training sessions. The variance is also the result of the timing of new hires.
 - Medical, dental, life, and other insurance are under budget by \$69,000 due to the timing of hiring budgeted positions, normal turnover, and lower-than-budgeted enrollment among existing employees.
 - Other benefits are under budget by \$50,000 due to the timing of new hires and normal turnover.
- Savings & Retirement: \$44,000 under budget YTD
 - Retirement costs are under budget due to the timing of new hires and normal turnover, and fluctuate with salaries.
 - o The level of employee participation in the 401(k) plan is lower than budgeted.
- Meetings: \$47,000 under budget YTD
 - Meetings are under budget YTD and are projected to be under budget at year end due to increased use of the Salt Lake City meeting facilities instead of hotels.
- Travel: \$154,000 under budget YTD
 - Greater-than-budgeted use of the Salt Lake City meeting facilities has resulted in less travel by WECC employees.



- Conference Calls: \$28,000 under budget YTD
 - Lower-than-budgeted use of conference calls has resulted in cost savings.
- Consultants and Contracts: \$1.06 million under budget YTD
 - Consultants and Contracts costs associated with the grants are under budget by \$950,000 due to timing of work performed varying from the evenly-allocated budget.
 - Consultants and Contracts costs not associated with the grants are under budget by \$110,000 as a result of timing variances related to the Base Case Coordination System project.

• Professional Services

- The projected 2012 under-run of \$229,000 relates to higher-than-budgeted use of WECC employees instead of consulting services.
- Depreciation: \$918,000 under budget YTD
 - Depreciation is evenly allocated in the budget; however, actual depreciation is recorded in December as part of the Company's year-end closing procedures, resulting in a timing variance.
- Other Non-Operating Expenses: \$28,000 under budget YTD
 - Other Non-Operating Expenses is under budget by \$28,000 as a result of a lower-than-budgeted non-statutory overhead allocation for the first quarter. This allocation is based on the expenses in general and administrative departments, which was less than anticipated.

FIXED ASSETS

- Computer & Software CapEx: \$907,000 over budget YTD
 - Computer & Software CapEx costs associated with the grants are over budget by \$778,000 as a result of timing variances related to grant assets budgeted in 2011 that were purchased in 2012.
 - Computer & Software CapEx costs not associated with the grants are over budget by \$129,000 as a result of timing variances related to Reliability Coordination assets budgeted in 2011 that were purchased in 2012.
 - The projected 2012 under-run of \$1.64 million relates to grant assets that were budgeted in 2012 but will not be purchased until 2013.

Equipment CapEx

• The projected 2012 over-run of \$1.27 million relates to grant assets budgeted in 2011 that were purchased in 2012.

Leasehold Improvements

 The projected 2012 over-run of \$679,000 relates to grant assets budgeted in 2011 that were purchased in 2012.



(In Whole Dollars)

Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2012 to 3/31/2012 (Unaudited)

	2012 YTD	2012 YTD	2012 YTD Variance	۰,		2012 Annual	2012 Projected Variance	24
	Actual	Budget	Over(Under)	%	2012 Projection	Budget	Over(Under)	%
Funding				0.000/				0.000/
Assessments Penalties	36,977,492 2,256,023	36,977,492 2,256,023	-	0.00% 0.00%	36,977,492 2,256,023	36,977,492 2,256,023	-	0.00% 0.00%
Federal Grants	6,499,902	6,857,825	(357,923)	-5.22%	28,908,559	2,230,023	1,477,259	5.39%
Testing	0,499,902	0,837,823	(337,323)	-3.22/0	28,908,339	27,431,300	1,477,233	3.3370
Services & Software	_	_	_		_	_	_	
Workshop Fees	154,870	250,869	(95,999)	-38.27%	1,002,620	1,003,475	(855)	-0.09%
Interest	82,023	72,793	9,230	12.68%	328,094	291,171	36,923	12.68%
Miscellaneous	(8,273)	2,426	(10,699)	-441.01%	(33,093)	9,706	(42,799)	-440.94%
Total Funding	45,962,037	46,417,428	(455,391)	-0.98%	69,439,695	67,969,167	1,470,528	2.16%
Expenses								
Personnel Expenses								
Salaries	4,971,294	5,507,072	(535,778)	-9.73%	22,911,305	22,440,789	470,516	2.10%
Payroll Taxes	441,274	449,293	(8,019)	-1.78%	1,880,637	1,832,319	48,318	2.64%
Employee Benefits	629,673	793,510	(163,837)	-20.65%	2,935,373	3,220,423	(285,050)	-8.85%
Savings & Retirement	329,749	374,097	(44,348)	-11.85%	1,553,960	1,525,325	28,635	1.88%
Total Personnel Expenses	6,371,990	7,123,972	(751,982)	-10.56%	29,281,275	29,018,856	262,419	0.90%
Meeting Expenses	200.056	247 472	/AC E47\	10.000/	074 656	1 110 205	(247.540)	22.420/
Meetings Travel	200,956 367,474	247,473 521,355	(46,517) (153,881)	-18.80% -29.52%	871,656 1,733,918	1,119,205 2,085,420	(247,549) (351,502)	-22.12% -16.86%
Conference Calls	22,614	50,140	(27,526)	-54.90%	100,411	2,083,420	(100,149)	-49.93%
Total Meeting Expenses	591,044	818,968	(227,924)	-27.83%	2,705,985	3,405,185	(699,200)	-20.53%
Operating Expenses	331,044	010,300	(227,324)	27.0370	2,703,303	3,403,103	(033,200)	20.5570
Consultants and Contracts	3,894,084	4,949,743	(1,055,659)	-21.33%	21,630,934	19,798,972	1,831,962	9.25%
Rent & Improvements	478,639	523,290	(44,651)	-8.53%	1,916,569	2,093,160	(176,591)	-8.44%
Office Costs	1,388,803	1,508,921	(120,118)	-7.96%	5,651,104	6,035,686	(384,582)	-6.37%
Professional Services	240,150	232,990	7,160	3.07%	703,223	931,961	(228,738)	-24.54%
Miscellaneous	(98)	-	(98)		(98)	-	(98)	
Depreciation	-	918,150	(918,150)	-100.00%	3,672,600	3,672,600	-	0.00%
Total Operating Expenses	6,001,578	8,133,094	(2,131,516)	-26.21%	33,574,332	32,532,380	1,041,952	3.20%
Other Non-Operating Expenses	(68,921)	(96,471)	27,550	-28.56%	(337,505)	(385,883)	48,378	-12.54%
Total Expenses	12,895,691	15,979,563	(3,083,872)	-19.30%	65,224,087	64,570,539	653,548	1.01%
Net Change in Assets	33,066,346	30,437,865	2,628,481	8.64%	4,215,608	3,398,629	816,979	24.04%
Fixed Assets								
Depreciation		(918,150)	918,150	-100.00%	(3,672,600)	(3,672,600)		0.00%
Computer & Software CapEx	1,417,784	511,250	906,534	177.32%	5,434,440	7,071,228	(1,636,788)	-23.15%
Furniture & Fixtures CapEx		-	-	17715270	-	-	(2,050,700,	23.2370
Equipment CapEx	_	_	-		1,266,566	-	1,266,566	
Leasehold Improvements	-	-	-		678,600	-	678,600	
Incr(Dec) in Fixed Assets	1,417,784	(406,900)	1,824,684	-448.44%	3,707,006	3,398,628	308,378	9.07%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	14,313,475	15,572,663	(1,259,188)	-8.09%	68,931,093	67,969,167	961,926	1.42%
Change in Working Capital (Total Funding less Total Budget)	31,648,562	30,844,765	803,797	2.61%	508,602	-	508,602	
FTEs	198.11	209.20	(11.09)		218.20	213.20	5.00	
Headcount	198.11	209.20	, ,		218.20	213.20	10.00	
neadcount	133.00	213.00	(16.00)		255.00	223.00	10.00	
Beginning WC - 1/1/12	10,617,979	9,750,967	867,012		10,617,979	9,750,967	867,012	
Change to WC - 2012		30,844,765	803,797		508,602		508,602	
Working Capital at 3/31/12 and Projected 12/31/12	42,266,541	40,595,732	1,670,809		11,126,581	9,750,967	1,375,614	



(In Whole Dollars)

Western Electricity Coordinating Council Statutory Statement of Activities without Federal Grants From 1/1/2012 to 3/31/2012 (Unaudited)

	2012 YTD Actual	2012 YTD Budget	2012 YTD Variance Over(Under)	%	2012 Projection	2012 Annual Budget	2012 Projected Variance Over(Under)	%
Funding			,		,		,	
Funding	26 077 402	26 077 402		0.000/	26.077.402	26 077 402		0.000/
Assessments	36,977,492	36,977,492	-	0.00%	36,977,492	36,977,492	-	0.00%
Penalties	2,256,023	2,256,023	-	0.00%	2,256,023	2,256,023	-	0.00%
Federal Grants	-	-	-		-	-	-	
Testing Services & Software	-	-	-		-	-	-	
Workshop Fees	154,870	250,869	(05.000)	-38.27%	1 002 620	1,003,475	- (000)	-0.09%
Interest	82,023	72,793	(95,999) 9,230	12.68%	1,002,620 328,094	291,171	(855) 36,923	12.68%
Miscellaneous	(8,273)	2,426	(10,699)	-441.01%	(33,093)	9,706	(42,799)	-440.95%
	39,462,135	39,559,603	(97,468)	-0.25%				_
Total Funding	39,402,133	39,559,603	(97,408)	-0.25%	40,531,136	40,537,867	(6,731)	-0.02%
Expenses								
Personnel Expenses								
Salaries	4,674,029	5,076,249	(402,220)	-7.92%	21,729,248	20,717,494	1,011,754	4.88%
Payroll Taxes	419,620	412,183	7,437	1.80%	1,792,801	1,683,876	108,925	6.47%
Employee Benefits	592,077	736,114	(144,037)	-19.57%	2,785,252	2,990,840	(205,588)	-6.87%
Savings & Retirement	310,529	343,536	(33,007)	-9.61%	1,476,077	1,403,078	72,999	5.20%
Total Personnel Expenses	5,996,255	6,568,082	(571,827)	-8.71%	27,783,378	26,795,288	988,090	3.69%
Meeting Expenses								
Meetings	198,061	239,115	(41,054)	-17.17%	860,074	1,035,917	(175,843)	-16.97%
Travel	361,604	494,270	(132,666)	-26.84%	1,710,439	1,977,080	(266,641)	-13.49%
Conference Calls	21,175	44,090	(22,915)	-51.97%	87,116	176,360	(89,244)	-50.60%
Total Meeting Expenses	580,840	777,475	(196,635)	-25.29%	2,657,629	3,189,357	(531,728)	-16.67%
Operating Expenses								
Consultants and Contracts	315,328	424,500	(109,172)	-25.72%	2,497,873	1,698,000	799,873	47.11%
Rent & Improvements	478,639	511,754	(33,115)	-6.47%	1,916,569	2,047,016	(130,447)	-6.37%
Office Costs	1,176,908	1,188,688	(11,780)	-0.99%	4,056,810	4,754,752	(697,942)	-14.68%
Professional Services	240,150	216,334	23,816	11.01%	703,223	865,336	(162,113)	-18.73%
Miscellaneous	(98)	-	(98)		(98)	-	(98)	
Depreciation		918,150	(918,150)	-100.00%	3,672,600	3,672,600	-	0.00%
Total Operating Expenses	2,210,927	3,259,426	(1,048,499)	-32.17%	12,846,977	13,037,704	(190,727)	-1.46%
Other Non-Operating Expenses	(68,921)	(96,471)	27,550	-28.56%	(337,505)	(385,883)	48,378	-12.54%
Total Expenses	8,719,101	10,508,512	(1,789,411)	-17.03%	42,950,479	42,636,466	314,013	0.74%
Net Change in Assets	30,743,034	29,051,091	1,691,943	5.82%	(2,419,343)	(2,098,599)	(320,744)	15.28%
Fixed Assets								_
Depreciation	-	(918, 150)	918,150	-100.00%	(3,672,600)	(3,672,600)	-	0.00%
Computer & Software CapEx	640,639	511,250	129,389	25.31%	550,212	1,574,000	(1,023,788)	-65.04%
Furniture & Fixtures CapEx	, <u> </u>	· -	· -		, <u> </u>	-	-	
Equipment CapEx	-	_	-		1,047,344	-	1,047,344	
Leasehold Improvements	-	-	-		· · · · ·	_	-	
Incr(Dec) in Fixed Assets	640,639	(406,900)	1,047,539	-257.44%	(2,075,044)	(2,098,600)	23,556	-1.12%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	9,359,740	10,101,612	(741,872)	-7.34%	40,875,435	40,537,867	337,568	0.83%
Change in Working Capital (Total Funding less Total Budget)	30,102,395	29,457,991	644,404	2.19%	(344,299)	-	(344,299)	
FTEs	181.11	192.20	(11.09)		201.20	196.20	5.00	
Headcount	182.00	198.00	(16.00)		218.00	208.00	10.00	

Working Capital and Contingency Reserve Guidelines

Action

Review

Background

At its February 2012 meeting the committee requested that management develop and present recommendations with respect to a working capital policy and guidelines applicable to the use of contingency reserves which are not required to satisfy cash flow requirements or for categories of expenditures set forth in the company's currently effective budget.

This document sets forth management's proposals with respect to:

- 1. The establishment of the level of working capital reserves as part of the Business Plan and Budget process;
- 2. Guidelines and authorities required to access budgeted levels of working capital reserves; and
- 3. Guidelines and authorities required to reallocate budgeted expenditures (excluding working capital reserves) on an inter-year basis.

Summary

Establishing the Level of Working Capital and Operating Reserves

Management recommends that a policy be adopted establishing four components to the company's working capital requirements. These four components include (1) an amount necessary to satisfy projected cash flow and cash balance requirements, (2) an amount necessary to satisfy known contingencies where the specific timing and amount is uncertain, (3) an amount available to be utilized for unforeseen contingency and (4) excess funds applicable to the Personnel Certification and Operator Training Program. Each of these categories would be separately identified and quantified each year in the Business Plan and Budget submitted to the Board of Trustees for approval. Each category is discussed further below.

(1) Projected Cash Flow and Cash Balance Requirements

Management recommends that certain funds be set aside for purposes of satisfying cash flow and cash balance requirements set forth and approved annually as part of the company's business plan and budget. Annual cash flow and cash balance requirements would be determined based on a review of (a) projected cash flow needs over the budget year and (b) cash balances required to satisfy applicable covenants or other obligations contained in any loan or other agreement to which the company is a party.

(2) Known Contingencies Where the Amount and Timing Are Uncertain

Management also recommends that an operating reserve be created to provide funding for known contingencies specifically set forth in the business plan and budget but where the timing and amount of funding to satisfy the contingency when it materializes is uncertain. An example would be the need for additional resources to address a requirement or process where regulatory or other governmental authorizations or directives are pending or anticipated but an order has not yet been issued so the amount of the impact and timing is uncertain but management has nevertheless concluded that additional resources are likely to be required. The projected resources or range of resources associated with such contingencies would be set forth and approved as part of the annual business plan and budget, providing opportunity for stakeholder review and comment on identified contingencies.

(3) <u>Unforeseen Contingencies</u>

Management further recommends that an operating reserve be created to fund known unknown contingencies which were not anticipated at the time of preparation and approval of the business plan and budget. Examples of unforeseen contingencies might include supplemental resources required to assist in the evaluation of significant events affecting the bulk electric system such as the February Cold Weather Event and Southwest Outage. The need for funding for unforeseen contingencies has also previously arisen in connection with unforeseen regulatory directives and has been recognized by the FERC as an important consideration in the company's determination of its working capital requirements.¹

(4) Excess Funds applicable to the Personnel Certification and Operator Training Program Management also recommends that in the event the company realizes higher levels of funding from operator certification and training above incurred expenses, this excess funding will be added to working capital and set aside and used solely for operator training and certification needs as determined by the company and the Personnel Certification Governance Committee. This is consistent with the requirements of Section 6.04.4.10 of the Rules of Procedure. Expenditures of these funds would be reported as part of the company's quarterly variance reporting to the Finance and Audit Committee. Reports are also posted on the company's website and reviewed on conference calls or meetings of the committee which are open to the public.

Guidelines and Authorities for Accessing Working Capital and Operating Reserves for Contingencies

The following guidelines and authorities will apply for accessing budgeted working capital and operating reserves.

1. Reserves required for cash flow and covenant requirements may be accessed by the chief financial and administrative officer with approval of the president and chief executive officer.

¹ 2010 ERO Budget Order (issued Oct. 15, 2009), 129 FERC ¶ 61,040, at P 24: "Working capital reserves provide readily available funds, which are available without a charge for or restriction on their use, to meet unforeseen expenditures. The Commission is concerned about the risks and costs associated with NERC's relying solely on a line of credit and not having available working capital reserves."

- 2. For known contingency reserves identified in the company's approved Business Plan and Budget, management recommends that the company's president and chief executive officer be vested with the authority to authorize such expenditures up to the amount set forth in the approved budget.
- 3. For expenditure of budgeted contingency reserves for unforeseen resource needs management recommends that:
 - i. The president and chief executive officer have authority to make expenditures up to \$250,000.
 - ii. For expenditures of budgeted contingency reserves for unforeseen resources greater than \$250,000 and less than \$500,000 prior approval of the Finance and Audit Committee would be required.
 - iii. For expenditures of budgeted contingency reserves for unforeseen circumstances in excess of \$500,000 approval of the Board of Trustees would be required, after notice to and recommendation by the Finance and Audit Committee.
 - iv. For any expenditures of funds in excess of NERC-approved annual budget, inclusive of budgeted working capital and contingency operating reserves, approval of the Board of Trustees would be required, after notice to and recommendation by the Finance and Audit Committee.

All expenditures of contingency funds would be subject to applicable company policies and procedures, including currently effective procurement policies and delegations of authority, and reported in the budget variance reports included in the quarterly open Finance and Audit Committee agenda materials.

The procedures set forth in Section 1108 of the Rules of Procedure, including Board of Trustees and FERC approval, would continue to apply in circumstances where the company requires funding between normal annual budget cycles in excess of amounts available through approved assessments and working capital resources.

Guidelines and Authorities Required to Reallocate Budgeted Expenditures on an Inter-year Basis

During the course of the year events may unfold such that some approved budget areas are running below budget, freeing up funds that could be reallocated through the year in response to changing priorities. Management recommends that where such underruns occur, the president and chief executive officer have the flexibility to reallocate resources under the same guidelines and authorities that are set out above for accessing budgeted reserves for unforeseen contingencies. That is, discretion for allocation of amounts up to \$250,000; approval from Finance and Audit Committee for amounts greater than \$250,000 and less than \$500,000 and approval from the Board of Trustees for amounts greater than \$500,000. Any such reallocations would be reported in the budget variance reports included in the quarterly open Finance and Audit Committee agenda materials.

Addition of Unbudgeted FTE Additions

Any FTE additions, whether funded through use of working capital, contingency reserves or other funds, in excess of the total FTEs set forth in the company's approved Business Plan and Budget for the applicable budget year will require approval of the Board of Trustees after review by the Corporate Governance and Human Resources Committee and the Finance and Audit Committee.



Board of Trustees Finance and Audit Committee Mandate

Approved by Board of Trustees: August 4, 2011

- 1. The Finance and Audit Committee (FAC) shall be composed of not less than three and not more than six trustees.
- 2. The members of the FAC shall be appointed or reappointed by the Board of Trustees (Board) at the regular meeting of the board immediately following each annual meeting of the Member Representatives Committee. Each member of the FAC shall continue to be a member thereof until his/her successor is appointed, unless he/she shall resign or be removed or shall cease to be a trustee of the corporation. Where a vacancy occurs at any time in the membership of the FAC, it may be filled by the Board of Trustees. The president and chief executive officer of the corporation shall not be eligible for appointment to the FAC.
- 3. The Board or, in the event of their failure to do so, the members of the FAC, shall appoint a chair from among their members. The FAC shall also appoint a secretary who need not be a trustee.
- 4. The place of meetings of the FAC and the procedures at such meetings shall be the same as for regular board meetings of the corporation, or as determined by the members of the FAC, provided that:
 - a) A quorum for meetings shall be a majority of the number of members of the FAC.
 - b) The FAC shall meet as required and at least once per quarter.
- 5. The duties and responsibilities of the FAC include:
 - a) Ensuring management maintains the quality, credibility, and the objectivity of the corporation's financial reports;
 - b) Satisfying itself as to the adequacy and integrity of the supporting systems of internal accounting controls;
 - c) Appointing, receiving reports from and monitoring the independent external auditor (auditor), who shall report to the FAC on behalf of the board for purposes of the annual independent audit and such other matters that may be assigned to the auditor from time to time;
 - d) Reviewing and making recommendations to the Board with respect to the annual ERO (NERC and the Regional Entities) business plan and budget preparation and approval, including associated assessments, as well as any other special budget and assessments of the corporation



or a regional entity, and such other matters as are deemed necessary and advisable by the FAC in connection with the preparation and approval thereof, in each case consistent with applicable requirements of the rules of procedure, applicable laws, rules, regulations and directives of governmental and regulatory authorities with jurisdiction.

6. In fulfilling these duties and responsibilities, the FAC shall:

- a) Review and recommend for Board approval the corporation's audited annual financial statements. This review will include:
 - Discussing with management and the auditor the adequacy and effectiveness of the internal accounting and financial controls, including the corporation's system for monitoring and managing business risk;
 - Reviewing and discussing the audited financial statements of the corporation with management and the auditor, including their judgment about the accounting principles, the reasonableness of significant judgments and the clarity of the disclosures in the financial statements;
 - Reviewing with management, the auditor, and legal counsel the corporation's procedures
 to ensure compliance with applicable laws and regulations, and any significant litigation,
 claim, or other contingency, including tax assessments, that would have a material effect
 upon the financial position or operating results of the corporation, as well as the disclosure
 or impact on the results of any such matters in the annual financial statements;
 - Discussing the results of the annual audit, any matters required to be communicated to the FAC by the auditor under generally accepted auditing standards, and any other matters that the auditor feels should be communicated to the FAC;
 - Reviewing with the auditor any significant emerging accounting and reporting issues and their potential impact on the corporation's financial statements; and
 - Meeting with the auditor, with and without management present, to discuss the results of the annual audit.
- b) Review and approve the auditor's estimated annual audit fees and expenses.
- c) Review with management all interim and unaudited financial statements prepared for external distribution and recommend acceptance of any such statements to the Board.
- d) Review the financial aspects of the Corporation's Form 990 prior to it being filed with the Internal Revenue Service.
- e) Review and recommend approval by the board of an investment policy governing the investment of funds held by the Corporation.



- f) Review policies for the approval of senior management expenses, including those of the chief executive officer.
- g) Whenever it may be appropriate to do so, to retain and receive advice from experts, including independent legal counsel and independent public accountants, and to conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the FAC as the FAC may consider appropriate.
- h) Review this mandate on an annual basis and recommend to the Corporate Governance and Human Resources Committee any changes to this mandate that the FAC considers advisable.
- i) Complete a self-assessment annually to determine how effectively the FAC is meeting its responsibilities.
- j) Perform such other functions as may be delegated from time to time by the board.



Risk Management and Internal Controls Subcommittee Mandate

Approved by Board of Trustees: [month] [day], 2012

- The Risk Management and Internal Controls Subcommittee (RMICS) shall be comprised of
 members of the corporation's Finance and Audit Committee (FAC), the Chair of the Compliance and
 Certification Committee (CCC) and the Chair of the Regional Entity Management Group (REMG). In
 the event they are unavailable to attend a meeting, the Chairs of the CCC and REMG shall each be
 entitled to designate an alternate member of the CCC Executive Committee (Chair, Vice Chair and
 Subcommittee Chairs) and REMG, respectively, to attend and participate in RMICS meetings and/or
 conference calls in their absence.
- 2. The chair of the FAC shall chair the RMICS. The RMICS shall also appoint a secretary who shall be an employee of the corporation who is not a RMICS member. The chief executive officer, chief financial and administrative officer and such other employees of the corporation or other individuals as the chair of the RMICS deems advisable may attend the meetings of the RMICS.
- 3. The place of meetings of the RMICS and the procedures at such meetings shall be as determined by the members of the RMICS, provided that:
 - (a) A quorum for meetings shall be a majority of the number of members of RMICS.
 - (b) It shall meet as required and at least once per guarter.
 - (c) The meetings of the RMICS will be closed given the sensitive nature of the material discussed.
 - (d) The RMICS may, at the discretion of the chair and with notice to the RMICS members, meet in special session with only trustees of the corporation present.
- 4. Given the sensitive and confidential nature of the material reviewed and discussed by the RMICS, the members of the CCC Executive Committee and the REMG shall be required to enter into confidentiality agreements with the corporation in a form approved by the RMICS.
- 5. The duties and responsibilities of the RMICS include:
 - (a) Assisting the FAC in reviewing, making recommendations to the Board of Trustees and overseeing the development and implementation of internal risk management and internal control strategies, policies, procedures and mitigation programs.
 - (b) Providing oversight and direction to the design and implementation of risk management practices which ensure:
 - i. Best practices are incorporated;
 - ii. That management understands and accepts its responsibility for identifying, assessing and managing risk;



- iii. That risk assessments are performed periodically and completely; and
- iv. That adequate and effective risk mitigation strategies are in place.
- (c) Monitoring and assessing the adequacy of:
 - i. The corporation's compliance with internal operating procedures and controls, as well as corporate ethics policies, codes of conduct, and conflicts of interest;
 - ii. The corporation's and the eight Regional Entities' compliance with the Rules of Procedure (ROP), as well as applicable FERC and other governmental authorizations, regulations and orders;
 - iii. Regional Entities' performance of obligations under the delegation agreements between the Regional Entities and the corporation; and
 - iv. Risk mitigation practices adopted by the corporation.
- (d) Coordinating with the CCC with respect to the CCC's execution of its responsibilities under applicable FERC orders, the Rules of Procedure and CCC Charter, including:
 - i. Monitoring NERC's compliance with the reliability standards that apply to NERC;
 - Establishing procedures for monitoring NERC's compliance with the ROP, for standards development, compliance monitoring and enforcement, and the organization registration and certification program;
 - iii. Overseeing NERC's performance of an independent audit of its compliance monitoring and enforcement and organization registration and organization certification programs; and
 - iv. Sharing information in order to leverage RMICS and CCC activities to maximize the benefits of both internal review and independent review perspectives.
- (e) Overseeing the establishment and implementation of internal audit and risk management capability to ensure that risks are being systematically identified and appropriate control procedures established and implemented.
- (f) Providing recommendations regarding resource requirements in connection with the annual business plan and budget process.
- (g) Preparing reports to the Board of Trustees no less than annually and at such other times as deemed necessary in the judgment of the chair of the RMICS regarding:
 - i. The magnitude of all material risks to the corporation;
 - ii. The processes, procedures and controls in place to manage material risks; and
 - iii. The overall effectiveness of the risk management and internal controls process.
- (h) Reviewing this mandate annually and recommending to the corporation's Corporate Governance and Human Resources Committee such changes that the RMICS considers advisable.
- (i) Completing a self-assessment annually regarding the subcommittee's effectiveness.
- (j) Performing such other functions which may from time to time be delegated or assigned by the Board of Trustees or FAC.



2012 Risk Management and Internal Controls Subcommittee (RMICS) Work Plan

- 1. Finalize Charter, post for stakeholder comment, submit to Corporate Governance and Human Resources Committee (CGHRC) for review and obtain Board of Trustees approval.
 - Target May CGHRC conference call and May Board of Trustees meeting.
- 2. Develop schedule for RMICS meetings.
- 3. Develop a plan for RMICS and NERC Compliance and Certification Committee (CCC) coordination, include one meeting per year with the CCC Executive Committee (Chair, Vice Chair and Subcommittee Chairs) to discuss and coordinate RMICS work plan and CCC work plan.
- 4. Create inventory of operating procedures and controls, ethics, conflict of interest, codes of conduct, corporate, contract, Rules of Procedure and regulatory requirements, as well as other items, for detailed risk analysis.
 - Focus will be limited to NERC, but will include pertinent aspects of the Regional Delegation
 Agreements and Compliance Monitoring and Enforcement Program delegated functions to the
 Regional Entities (RE).
- 5. Develop templates for gathering and inventorying risk information, including likelihood of risk being realized, potential impacts and mitigation measures.
- 6. Create a list of NERC personnel to provide, as well as other sources of, risk and risk mitigation information.
- 7. Establish procedures and protocols for collection of risk and risk mitigation information, including quality control review of information and monitoring of risk exposures and mitigation activities.
- 8. Establish appropriate Information Technology processes and systems to support RMICS activities, to include protection of information as necessary.
- 9. Develop audit programs; for NERC and RE oversight.
- 10. Develop short and long-term resource and budget forecasts for input into ERO business plan and budget process, including an evaluation of the:
 - Use of NERC Compliance Operations and Critical Infrastructure Protection audit resources to support the risk management and internal controls framework.
 - Integration of CCC NERC Rules of Procedure oversight activities into the risk management and internal controls framework.
 - The structure and use of RE and external consulting resources.
- 11. Commence gathering risk and risk mitigation information and provide an initial assessment of risk and risk mitigation information.
- 12. Provide periodic updates to the NERC Board of Trustees, in no event less than annually (closed session).