

posted on NERC's website and reviewed in open session at the February 11, 2015 meeting of the NERC Finance and Audit Committee. The unaudited report was accepted by the NERC Board of Trustees at its meeting on February 12, 2015.

I. NOTICES AND COMMUNICATIONS

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

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*Persons to be included on the
Commission's official service list

II. CONCLUSION

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

Respectfully submitted,

/s/ Meredith M. Jolivert

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*Counsel for North American Electric
Reliability Corporation*

Dated: February 13, 2015

CERTIFICATE OF SERVICE

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

Dated at Washington, D.C. this 13th day of February, 2015.

/s/ Meredith M. Jolivert

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

ATTACHMENT

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

Based upon preliminary, unaudited results for the year ending December 31, 2014, NERC was \$1.98M, 3.5%, under budget for total expenses and fixed asset (capital) purchases, inclusive of expenses associated with the Cyber Risk Information Sharing Program (CRISP), which were entirely funded by CRISP participants.¹

As further explained below, NERC was under budget in 2014 primarily due to: (i) lower than budgeted personnel expenses due to staff vacancies; (ii) lower than budgeted fixed asset expenditures for software application development; and (iii) lower than budgeted travel expense. Contract and consulting expenses were over budget due to CRISP, offset by lower than budgeted expenses for other ES-ISAC support services and expenses to support the System Operator Certification and Training programs.

2014 ACTUAL VERSUS BUDGET BY CATEGORY, including CRISP

	2014 Actual (with CRISP)	2014 Budget	2014 Variance Over(Under)	%
Funding, excluding CRISP	53,661,497	53,735,383	(73,885)	
CRISP Funding	1,669,228	-	1,669,228	
TOTAL FUNDING	55,330,725	53,735,383	1,595,343	3.0%
BUDGET - EXPENSES and FIXED ASSETS				
PERSONNEL EXPENSES	32,737,457	34,059,655	(1,322,198)	-3.9%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,480,141	3,789,525	(309,384)	-8.2%
CONSULTANTS and CONTRACTS	7,657,463	6,828,973	828,490	12.1%
RENT	2,736,348	2,617,299	119,049	4.5%
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,874,556	5,832,854	41,702	0.7%
Other Non-Operating Expenses	102,181	144,000	(41,819)	-29.0%
FIXED ASSET PURCHASES (excludes the credit for depreciation)	1,822,910	3,117,790	(1,294,880)	-41.5%
TOTAL BUDGET	54,411,056	56,390,096	(1,979,040)	-3.5%
FTEs	177.3	189.5	(12.2)	-6.4%

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

¹ Excluding CRISP funding and expenses, as reflected in the table attached as Exhibit A, NERC was \$3.5M, 6.2%, under budget for the year ending December 31, 2014.

- **Funding** - \$1.6M, 3.0%, over budget due to funding of CRISP expenses by CRISP participants. Funding, excluding CRISP, was under budget \$73.9k due primarily to lower than budgeted workshop fees. Although the original budget included fees from attendees of the modeling workshops held by the RAPA program, NERC decided to forego those fees, given availability of funding and lower participation costs to attendees. Additionally, there were no NERC sponsored NASPI workshops in 2014. When the 2014 budget was developed, it was assumed that NERC might continue to sponsor NASPI workshops.
- **Personnel Expenses** - \$1.3M, 3.9%, under budget due to:
 - Salaries expense, which is comprised of base salaries, preliminary incentive compensation results, employment agency fees, and temporary office services, was \$470.1k, 1.8% under budget, primarily due to having fewer than budgeted FTEs on staff.
 - NERC's year-end under run in personnel expense was generally consistent with prior forecasts. The company's 2015 personnel expense budget reflects updated assumptions regarding timing of new hires and attrition at the time of budget preparation. Management is continuing to review current openings, resource needs and allocation, as well as assumptions on timing of new hires and attrition, in an effort to further minimize significant budget underruns resulting from lower than budgeted FTEs.
 - Management will provide the CGHRC, FAC and Board of Trustees with information regarding the financial impact of final year-end performance results and incentive compensation recommendations. The final audited year-end results will reflect actual performance and incentive compensation results.
 - Temporary office services and employment agency fees were collectively \$194.3k over budget due to the increased use of temporary staffing to support NERC's ongoing operations during times of staff vacancies.
 - Payroll taxes were \$47.2k, 3.0%, over budget due to a higher maximum taxable earnings cap than assumed in the budget.
 - Benefits expense, which is comprised of education and training, health and life, workers compensation, and relocation was \$351.5k, 10.4%, under budget.
 - Health and life benefits were \$323.6k, 11.8%, under budget due to having fewer FTEs on staff than budgeted and lower than budgeted renewal costs associated with NERC's health plans.
 - Education and training expenses were \$56.8k, 32.4%, over budget due to an increased focus on staff training and professional development.
 - Relocation, workers' compensation and other employee benefits were collectively \$84.7k, 18.4%, under budget.
 - Retirement expenses were \$547.8k, 19.0%, under budget primarily due to having fewer FTEs on staff, later eligibility dates due to timing of hiring, and due to forfeiture of unvested funds related to personnel attrition.

- **Meetings, Travel, Conferencing and Webinar** expenses were collectively under budget \$309.4k, 8.2%. Meetings expenses were \$59.9k under budget due to the elimination of direct NERC support for NASPI workshops as noted above. Travel expenses were \$250.3k under budget due to having fewer FTEs on staff and ongoing focus on travel expense management. Conferencing expenses were approximately equal to budget.
- **Consultants and Contracts** expenses were \$828.5k, 12.1%, over budget due to CRISP, which was not budgeted in 2014. CRISP expenses were fully funded by the participants of the program. The following table summarizes the over and under budget variances for Consultants and Contracts by Program area.

CONSULTANTS and CONTRACTS	2014 Actual	2014 Budget	Over(Under)
REGIONAL ENTITY OVERSIGHT AND ASSURANCE	432,286	400,000	32,286
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	773,387	638,085	135,302
RELIABILITY RISK MANAGEMENT	1,630,442	1,289,108	341,334
CRITICAL INFRASTRUCTURE DEPARTMENT	150,865	190,000	(39,135)
ISAC	516,819	786,450	(269,631)
TRAINING, EDUCATION and OPERATOR CERTIFICATION	407,909	848,830	(440,922)
GENERAL and ADMINISTRATIVE	17,955	-	17,955
POLICY and EXTERNAL AFFAIRS	13,900	75,000	(61,100)
INFORMATION TECHNOLOGY	1,990,310	1,944,000	46,310
HUMAN RESOURCES	287,465	257,500	29,965
FINANCE and ACCOUNTING	184,883	400,000	(215,117)
CONTRACTS and CONSULTANTS (excluding CRISP)	6,406,219	6,828,973	(422,754)
CRISP	1,251,244	-	1,251,244
TOTAL CONTRACTS and CONSULTANTS	7,657,463	6,828,973	828,490

- Regional Entity Oversight and Assurance – Over budget \$32.3k for outside consulting support in connection with the Reliability Assurance Initiative pilot programs and development of the associated internal control evaluation and testing processes.
- Reliability Assessments and Performance Analysis – Over budget \$135.3k due to the FAC 3 vegetation management project, which was anticipated to be funded from Known Contingency Reserves in the 2014 Business Plan and Budget.
- Reliability Risk Management – \$341.3k over budget due to higher than budgeted expenses for NERCnet and for the secure alerts reporting system, offset by lower than budgeted expenses for SAFNR.
- Critical Infrastructure Department – Under budget \$39.1k due to lower than budgeted expenses to support the ESCC Committee.
- ISAC – Under budget \$269.6k due to lower than budgeted expenses related to cyber risk preparedness assessments, communications and software support services.

- CRISP – Not budgeted in 2014 and therefore all expenses represent a variance to budget. The 2014 contractor budget was \$1.25M for initial start-up. Actual total 2014 CRISP expenses were approximately \$1.67M and included personnel, travel, office, legal, and insurance costs. Funding in excess of these costs, which was received from CRISP participants in 2014, is either being held as budgeted CRISP reserves, used to fund 2015 expenses, or credited toward 2015 billing, in each case in accordance with the CRISP contract documentation.²
 - Training, Education and Operator Certification – \$440.9k under budget due to: (i) lower than budgeted expenses related to the system operator database improvement project and examination development project; (ii) lower than budgeted system operator testing expenses resulting from a new vendor contract signed after the 2014 budget was developed; and (iii) lower than budgeted costs for industry and staff training.
 - General and Administrative - \$18.0k over budget due to costs associated with the ERO effectiveness survey.
 - Policy and External Affairs – Under budget \$61.1k due to a reduction in the need for outside consulting to support external affairs, as a result of certain duties now being performed internally.
 - Information Technology – \$46.3k over budget primarily due to slightly higher than budgeted total software development costs.
 - Human Resources - \$29.9k over budget due to vendor support for benefits enrollment process improvements.
 - Finance and Accounting - \$215.1k under budget due to lower than budgeted consulting support.
- **Rent** - \$119.0k, 4.5%, over budget due to: (i) an approximate reduction of \$24.5k in sublease revenue from NERC's former Washington, DC office in connection with negotiation and execution of a sublease amendment as a result of the subtenant's bankruptcy reorganization; and (ii) due to an \$80.0k increase in property taxes in Atlanta based on an updated assessment by Fulton County. With respect to the sublease agreement, the company received an upfront payment in connection with the execution of its current lease space in Washington, D.C. to offset potential liabilities associated with the sublease. This upfront payment is included in the company's working capital reserves and is being amortized over the term of the lease and is sufficient to offset the reduction in sublease revenue resulting from the subtenant bankruptcy.
 - **Office Costs, Professional Services and Miscellaneous** - \$41.7k, 0.7%, were over budget due to:
 - Office Costs were \$253.8k, 7.2%, under budget due primarily to lower than budgeted expenses for telecommunications and service agreements related to network equipment and software licenses.

² Certain aspects of the contracts supporting CRISP affect the accounting applicable to funding and expenses. Pursuant to the master agreement with CRISP utility participants funding is provided in advance. These pre-payments are recorded as assets on the company's balance sheet, offset by deferred liabilities and recognized as revenues on the Statement of Activities as expenses are incurred.

- Professional Services were \$311.9k, 13.6%, over budget due to higher than budgeted outside legal fees associated with negotiation of the CRISP contracts, and higher than budgeted insurance costs related to cyber and professional liability.³
 - Miscellaneous expenses, which were \$16.4k, 45.0%, under budget, consist of employee rewards and recognition expenses, costs associated with community responsibility activities, and charitable contributions.
- **Other Non-Operating Expenses** were \$41.8k, 29.0%, under budget due to lower than budgeted interest expense associated with the capital financing loan. Interest expense is lower than budget due to a lower than budgeted interest rate and a delay in closing the capital financing program loan. The loan closed in January, 2014 instead of the fourth quarter of 2013 as originally planned. Under the loan agreements, NERC pays a variable rate based on certain indices and the rate at closing was 2.9% compared to the 2014 budgeted rate of 3.5%.
 - **Fixed Asset Purchases**, excluding depreciation, were \$1.3M, 41.5%, under budget primarily due to a reduction in software development and associated hardware expenditures as NERC updated and refined the ERO Enterprise and internal software application development strategies.

Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were slightly over budget by \$4.9k, 0.3%.. The referenced increase in trustee compensation was approved by the Board on August 15, 2013.

Board of Trustee Expenses

Meetings and Travel Expenses

Quarterly Board Meetings and Conference Calls	226,408	256,206	(29,798)	-11.6%
Trustee Travel	162,157	155,000	7,157	4.6%
Total Board of Trustees Meetings and Travel Expenses	388,565	411,206	(22,641)	-5.5%

Professional Services

Independent Trustee Fees	1,010,000	1,000,000	10,000	1.0%
Trustee Search Fees	87,563	70,000	17,563	0.0%
Total Board of Trustee Professional Services Expenses	1,097,563	1,070,000	27,563	2.6%
Total Board of Trustee Expenses	1,486,128	1,481,206	4,922	0.3%

³ As previously noted 2014 CRISP costs were totally funded by CRISP participants.

Operating Reserve Analysis

As of December 31, 2014, the total balance in working capital and operating reserves was \$7.8M. The balances in the Known Contingency Reserve, Unknown Contingency Reserve, the System Operator Reserves, and CRISP Reserves as of December 31, 2014, were \$850.0k, \$1.5M, \$1.3M, and \$585.5k respectively. After taking into consideration the use of reserves, which are restricted for future liabilities associated with NERC’s lease obligations, the balance in operating reserves as of December 31, 2014 was approximately \$2.5M higher than budget, inclusive of CRISP reserves, which were not budgeted and are entirely funded by CRISP participants. These reserves are primarily cash, but also include some prepaid expenses that are expected to eventually be amortized as expenses.

A total of \$711.0k of Unknown Contingency Reserves were used in 2014: (i) \$50.5k for RAI contract support to develop the internal control evaluation and testing processes; (ii) \$50.4k for data modeling and change orders related to generation databases; (iii) \$25.1k for preliminary work on the development of a replacement for a software application used in connection with the Generator Analysis Database (GADS); (iv) \$9.6k for a cyber asset survey and to begin preparations for GridEx III in 2015; (v) \$43.6k for executive coaching and HR administrative support; (vi) \$18.0k for an ERO effectiveness assessment; and (vii) \$491.1k for IT architecture and strategy consulting, compliance database maintenance, and various IT infrastructure projects, including disaster recovery and network simplification. Known Contingency Reserves totaling \$150k were used for the FAC3 vegetation research project.

	2014 Actual	2014 Budget*	Variance - Actual to Budget	December 31, 2014 Reserve Balances			
				Known Contingency Reserves	Unknown Contingency Reserves	System Operator Reserves	CRISP Reserves***
WORKING CAPITAL and OPERATING RESERVES							
Balance as of 01/01/2014	6,264,672	8,217,862	(1,953,190)				
Less: Adjustment for future liabilities	(3,817,478)	(3,788,645)	(28,833)				
Beginning Available Operating Reserves	2,447,194	4,429,217	(1,982,023)	1,000,000	(69,672)	1,516,866	-
Proceeds from Financing Activities (non-current portion only)	456,806		456,806		456,806		
Change in Reserves from Current Year Operations	919,669	(2,654,713)	3,574,383	(150,000)	1,197,563	(213,394)	85,500
Other adjustments to reserves**	449,603		449,603		(50,397)		500,000
Reserve Balance	4,273,272	1,774,504	2,498,769	850,000	1,534,300	1,303,472	585,500

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

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

***Actual funding received from CRISP participants in excess of year-to-date actual expenses, pre-paid insurance and the insurance reserve fund as of December 31, 2014 was \$2.8M. This amount is not reflected in the CRISP Reserve balance because the funds will be used for future expenses or credited back to the participants.

As noted above, the year end balances in the Known Contingency Reserve, Unknown Contingency Reserve, System Operator Reserves, and CRISP Reserves are collectively approximately \$4.3M, which is approximately \$2.3M higher than the 2015 beginning balance included in the 2015 Business Plan and Budget. As reflected in the following table, the 2014 year-end balances in the Known and Unknown Contingency Reserves combined, were approximately \$1.37M higher on January 1, 2015 compared to the projected balances included in NERC’s 2015 business plan and budget. As a result of ending 2014 with a \$1.37M higher balance in the combined Known and Unknown Reserves, management did not draw on the capital financing loan in 2014, which will reduce the 2015 budgeted loan repayment costs. In 2014 management was also authorized by the Finance and Audit Committee to use a portion of these surplus reserves to fund the tenant portion of the build out costs of the additional lease space in the company’s Washington, D.C. office to facilitate the separation of the ES-ISAC, as well as to fund certain improvements to the office space the company leases in Atlanta, Georgia. Due to timing of lease negotiations and build out schedules, these costs will be incurred in 2015. The total projected costs for these improvements is still projected to be within these authorizations.

2014 Year End Balances in Reserves Compared to the Projected 2015 Beginning Balance per the 2015 Budget

	Known & Unknown Contingency Reserves	System Operator Reserves	CRISP	Total
2014 Actual	2,384,300	1,303,472	585,500	4,273,272
2015 Beginning Balance per 2015 Budget	1,009,081	996,430	0	2,005,511
Variance - Over(Under)	1,375,219	307,042	585,500	2,267,761

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

	2014 Actual (with CRISP)	2014 Budget	2014 Variance Over(Under)	%
Funding				
Assessments	51,401,382	51,401,382	(0)	
Penalties	290,000	290,001	(0)	
Third-Party Funding (CRISP)	1,669,228	-	1,669,228	
Testing	1,659,137	1,620,000	39,137	
Services & Software	77,000	50,000	27,000	
Workshop Fees	231,090	354,000	(122,910)	
Interest	2,830	20,000	(17,170)	
Miscellaneous	58	-	58	
Total Funding	55,330,725	53,735,383	1,595,343	3.0%
Expenses				
Personnel Expenses				
Salaries	25,748,480	26,218,572	(470,092)	
Payroll Taxes	1,618,202	1,570,954	47,248	
Employee Benefits	3,034,393	3,385,917	(351,524)	
Savings & Retirement	2,336,382	2,884,212	(547,830)	
Total Personnel Expenses	32,737,457	34,059,655	(1,322,198)	-3.9%
Meeting Expenses				
Meetings	992,258	1,052,150	(59,892)	
Travel	2,169,256	2,419,525	(250,269)	
Conference Calls	318,627	317,850	777	
Total Meeting Expenses	3,480,141	3,789,525	(309,384)	-8.2%
Operating Expenses				
Consultants and Contracts	7,657,463	6,828,973	828,490	
Rent & Improvements	2,736,348	2,617,299	119,049	
Office Costs	3,252,270	3,506,074	(253,804)	
Professional Services	2,602,219	2,290,280	311,939	
Miscellaneous	20,067	36,500	(16,433)	
Depreciation	1,845,951	2,333,007	(487,056)	
Total Operating Expenses	18,114,319	17,612,133	502,186	2.9%
Other Non-Operating Expenses	102,181	144,000	(41,819)	-29.0%
Total Expenses	54,434,097	55,605,313	(1,171,216)	-2.1%
Net Change in Assets	896,628	(1,869,930)	2,766,559	-147.9%
Fixed Assets				
Depreciation	(1,845,951)	(2,333,007)	487,056	
Computer & Software	1,440,269	2,904,790	(1,464,521)	
Furniture & Fixtures	-	-	-	
Equipment	352,392	213,000	139,392	
Leasehold Improvements	30,248	-	30,248	
Incr(Dec) in Fixed Assets	(23,041)	784,783	(807,824)	-102.9%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	54,411,056	56,390,096	(1,979,040)	-3.5%
FTE's	177.31	189.53	(12.22)	-6.4%

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
Statement of Financial Position
(Unaudited)
For the period ended 12/31/2014

	12/31/2014	12/31/2013	Available Operating Reserves		CRISP Reserves (included in 12/31/14 total)
			12/31/2014	12/31/2013	
ASSETS					
Cash	38,900,478	26,182,060	38,900,478	26,182,060	3,285,994
Accounts receivable, net of allowance for uncollectible accounts of 0 and 62,573 in 2014 and 2013	55,889,502	3,353,895	55,889,502	3,353,895	1,102,698
Prepaid expenses and other current assets	756,727	869,876	756,727	869,876	85,500
Security deposit	99,136	99,136			
Cash value of insurance policies	-	-			
Employee Fiduciary - 457b	320,660	320,660			
Property and equipment	5,892,948	5,645,116			
Total Assets	101,859,451	36,470,743			4,474,193
LIABILITIES AND NET ASSETS					
Liabilities					
Current Portion					
Accounts payable and accrued expenses (includes vacation accrual)	30,630,067	2,917,303	(30,630,067)	(2,917,303)	
Accrued incentive compensation	4,099,161	4,025,979	(4,099,161)	(4,025,979)	
Deferred rent-current	249,269	182,421	(249,269)	(182,421)	
Deferred compensation - current	14,257	20,386	(14,257)	(20,386)	
Capital lease obligations - current	56,457	47,108	(56,457)	(47,108)	
Accrued retirement liabilities	1,907,562	1,788,624	(1,907,562)	(1,788,624)	
Debt service - current portion	421,667	-	(421,667)	-	
Deferred income	21,926,841	5,287,044	(21,926,841)	(5,287,044)	
Deferred revenue - penalties	0	-	(0)	-	
Deferred revenue - CRISP	3,888,693	-	(3,888,693)	-	3,888,693
Regional assessments	20,544,968	9,427,293	(20,544,968)	(9,427,293)	
Total Current Portion	83,738,942	23,696,159			3,888,693
Long-Term Portion					
Deferred compensation ¹	601,510	597,514			
Long-Term Debt	456,806	-			
Deferred Rent-non-current	3,569,492	3,817,478	(3,569,492)	(3,817,478)	
CRISP Insurance Reserve	500,000	-			500,000
Capital lease obligations - non-current	216,481	-			
Total Long-Term Portion	5,344,289	4,414,992			500,000
Total Liabilities	89,083,231	28,111,151			4,388,693
Net Assets - unrestricted	8,811,220	7,914,592			85,500
Net Assets - restricted	3,965,000	445,000	(3,965,000)	(445,000)	
Total Liabilities and Net Assets	101,859,451	36,470,743	4,273,272	2,447,194	4,474,193
¹ Includes 457b liability, life insurance for former executive, and retiree medical					
Working Capital and Operating Reserves	7,842,764	6,264,672			585,499
Less: Restriction for future liabilities	(3,569,492)	(3,817,478)			
Working Capital and Operating Reserves, net of Restrictions	4,273,272	2,447,194			585,499

EXHIBIT A

2014 ACTUAL VERSUS BUDGET BY CATEGORY, excluding CRISP

	2014 Actual (with CRISP)	2014 Budget	2014 Variance Over(Under)	%
Funding, excluding CRISP	53,661,497	53,735,383	(73,885)	
TOTAL FUNDING	53,661,497	53,735,383	(73,885)	-0.1%
<u>BUDGET - EXPENSES and FIXED ASSETS</u>				
PERSONNEL EXPENSES	32,737,457	34,059,655	(1,322,198)	-3.9%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,472,926	3,789,525	(316,599)	-8.4%
CONSULTANTS and CONTRACTS	6,406,219	6,828,973	(422,754)	-6.2%
RENT	2,736,348	2,617,299	119,049	4.5%
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,615,448	5,832,854	(217,406)	-3.7%
Other Non-Operating Expenses	102,181	144,000	(41,819)	-29.0%
FIXED ASSET PURCHASES (excludes the credit for depreciation)	1,822,910	3,117,790	(1,294,880)	-41.5%
TOTAL BUDGET	52,893,489	56,390,096	(3,496,607)	-6.2%
FTEs	177.3	189.5	(12.2)	-6.4%