



posted on NERC's website and reviewed at the May 4, 2016 open meeting of the NERC Finance and Audit Committee ("FAC"). The unaudited report was accepted by the NERC Board of Trustees at its meeting on May 5, 2016.

## **II. 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

## **III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2016 BUDGET AND PROJECTED ACTUAL 2016 RESULTS**

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

\$500,000 or more from Operating Reserves designated for “unforeseen contingencies” (as defined in NERC’s Working Capital and Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area. In addition, although not required by the Settlement Agreement, NERC is providing, for completeness, information in the attached report on actual cost variances less than budget of \$500,000 or more by department, program area or major activity. The explanations of variances provided herein are consistent with information previously provided to the Commission in NERC’s “Response to September 15, 2015 Letter” filed September 29, 2015, in NERC’s 2016 Business Plan and Budget case, Docket No. RR15-16-000,<sup>4</sup> and in 2015 quarterly variance reports filed with the Commission. While NERC makes every effort to accurately project year end balances and annual expenditures, unforeseen events and changing circumstances could significantly impact the amounts included herein. Furthermore, the risk of these adverse events is much greater when projections are made early in the reporting period.

**A. Compliance Assurance Program<sup>5</sup>**

Actual 2016 direct expenses plus net fixed asset expenditures for the Compliance Assurance Program are projected at year end to be \$1.0M less than budgeted. This under budget variance is primarily due to lower than expected Personnel Expenses related to staff vacancies and the prior transfer of two open budgeted positions in this Program to the Reliability Assessments and Performance Analysis Program where additional near term resources are needed. As the

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<sup>4</sup> *North American Electric Reliability Corporation’s Response to September 15, 2015 Letter*, filed September 29, 2015, in Docket No. RR15-16-000 (“September 29, 2015 Response”).

<sup>5</sup> The Compliance Assurance Program includes the Compliance Analysis, Certification and Registration Program and the Regional Entity Assurance and Oversight Program. These two operational programs were combined for reporting purposes in 2015.

Compliance Assurance Program has stabilized, implemented risk-based monitoring, and gained efficiencies in the administration of the Program, the positions were no longer necessary and were allocated to a more critical area.

**B. Reliability Assessments and Performance Analysis**

Actual 2016 direct expenses plus net fixed asset expenditures for the Reliability Assessments and Performance Analysis Program are projected to be \$786k more than budgeted, primarily due to the transfer of two open positions from the Compliance Assurance Program, as noted above. The primary activities supported by these additional resources include coordination of data for the state of reliability reports, assistance with the BES exception resolution, and historical event data analysis.

**IV. CONCLUSION**

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

Respectfully submitted,

*/s/ Meredith M. Jolivert*

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*Counsel for North American Electric  
Reliability Corporation*

Dated: May 13, 2016

**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 13<sup>th</sup> day of May, 2016.

*/s/ Meredith M. Jolivert*

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

# **ATTACHMENT**

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

Through March 31, 2016, NERC was \$186k, 1.1%, under its expense and fixed asset budget, including costs related to the Cyber Risk Information Sharing Program (CRISP). As reflected in the following table, NERC is projecting to be approximately \$428k, 0.6%, over budget at year-end.

### Actual vs Budget (YTD) and Projection vs Total Budget

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 20,343,468</b>	<b>\$ 17,949,796</b>	<b>\$ 2,393,671</b>	<b>13.3%</b>	<b>\$ 67,533,410</b>	<b>\$ 67,502,155</b>	<b>\$ 31,255</b>	<b>0.0%</b>
<b>EXPENSES and FIXED ASSETS</b>								
PERSONNEL EXPENSES	\$ 10,162,660	\$ 9,691,401	\$ 471,258	4.9%	\$ 37,436,246	\$ 37,283,807	\$ 152,439	0.4%
MEETINGS, TRAVEL and CONFERENCE CALLS	840,672	903,871	(63,199)	-7.0%	3,650,893	3,620,286	30,607	0.8%
CONSULTANTS and CONTRACTS	3,291,293	3,216,483	74,810	2.3%	13,389,440	12,865,914	523,526	4.1%
RENT	812,007	763,572	48,435	6.3%	3,224,287	3,054,287	170,000	5.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	1,465,236	1,560,303	(95,067)	-6.1%	6,135,282	6,341,372	(206,090)	-3.2%
Other Non-Operating Expenses	10,680	15,000	(4,320)	-28.8%	110,000	110,000	-	0.0%
FIXED ASSET PURCHASES (excluding depreciation)	359,452	977,750	(618,298)	-63.2%	3,668,421	3,911,000	(242,579)	-6.2%
<b>TOTAL</b>	<b>\$ 16,942,000</b>	<b>\$ 17,128,380</b>	<b>\$ (186,380)</b>	<b>-1.1%</b>	<b>\$ 67,614,569</b>	<b>\$ 67,186,665</b>	<b>\$ 427,904</b>	<b>0.6%</b>
FTEs	201.11	188.12	12.99	6.9%	190.70	192.49	(1.79)	-0.9%

### NERC VARIANCES - excluding CRISP

NERC was \$407k, 2.7%, under budget and is projecting to be \$419k, 0.7%, over budget at year-end. A significant portion of the over budget variance relates to costs of ongoing projects that were approved and started in 2015 and will be completed in 2016. As previously reported in the 2015 year-end report, the funding necessary to complete these projects totaling \$320k was transferred from the Operating Contingency Reserve to the Future Obligations Reserve at the end of 2015. Therefore, while the expenditure of these funds will be reflected as an over budget item for 2016, the Operating Contingency Reserve will not be impacted in 2016.

Additional significant factors impacting the year-end variances include the following:

- (1) Increase in DC and Atlanta building operating expenses;
- (2) Use of reserves for IT contract support during periods of staff vacancies;

- (3) Anticipated use of reserves for E-ISAC projects (portal improvements, machine to machine communications (STIX/TAXII) pilot, analysis tools);
- (4) Expected over budget variance in personnel costs; and
- (5) Delay of certain IT projects originally planned for 2016.

The following table and summary of variances by category reflect year-to-date (YTD) actual and 2016 projected results, without CRISP. A summary of results for CRISP is also provided on page 5. This year-end projection will be utilized in preparation of the initial draft of NERC’s 2017 business plan and budget, which will be posted on May 19. It will be updated as part of the second quarter variance report in conjunction with the final draft of the 2017 business plan and budget scheduled to be posted on July 15.

**Actual vs Budget (YTD) and Projection vs Total Budget  
(Excluding CRISP)**

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 15,957,561</b>	<b>\$ 15,931,362</b>	<b>\$ 26,199</b>	<b>0.2%</b>	<b>\$ 59,560,391</b>	<b>\$ 59,529,136</b>	<b>\$ 31,255</b>	<b>0.1%</b>
<b>EXPENSES and FIXED ASSETS</b>								
PERSONNEL EXPENSES	\$ 9,977,116	\$ 9,498,974	\$ 478,142	5.0%	\$ 36,695,156	\$ 36,542,135	\$ 153,021	0.4%
MEETINGS, TRAVEL and CONFERENCE CALLS	832,677	886,507	(53,830)	-6.1%	3,581,438	3,550,831	30,607	0.9%
CONSULTANTS and CONTRACTS	1,500,138	1,744,335	(244,197)	-14.0%	7,389,135	6,977,320	411,815	5.9%
RENT	812,007	763,572	48,435	6.3%	3,224,287	3,054,287	170,000	5.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	1,422,435	1,440,544	(18,109)	-1.3%	5,758,464	5,862,095	(103,631)	-1.8%
Other Non-Operating Expenses	10,680	15,000	(4,320)	-28.8%	110,000	110,000	-	0.0%
FIXED ASSET PURCHASES (excluding depreciation)	339,333	952,750	(613,417)	-64.4%	3,568,421	3,811,000	(242,579)	-6.4%
<b>TOTAL</b>	<b>\$ 14,894,385</b>	<b>\$ 15,301,682</b>	<b>\$ (407,297)</b>	<b>-2.7%</b>	<b>\$ 60,326,900</b>	<b>\$ 59,907,668</b>	<b>\$ 419,233</b>	<b>0.7%</b>
<b>FTEs</b>	<b>198.54</b>	<b>185.35</b>	<b>13.19</b>	<b>7.1%</b>	<b>187.94</b>	<b>189.72</b>	<b>(1.78)</b>	<b>-0.9%</b>

Following is a brief summary of significant variances by major categories:

- Personnel expenses were over budget \$478k, 5.0%, through March 31<sup>st</sup> due to having 13.19, 7.1%, more FTEs than budgeted. The 2016 personnel budget is based on 213 positions, reduced by a vacancy rate of 7.8% (accounting for attrition and timing of new hires). Personnel expenses are projected to be \$153k over budget at year-end based on current staffing assumptions reflecting a stabilizing work force and associated lower vacancy rate of 5.4%.



- Consultant and Contract expenses were under budget \$244k, 14%, and are projected to be \$412k, 5.9%, over budget at year-end. In addition to smaller over and under budget variances in other departments, the projected over budget variance is primarily due to the anticipated use of reserves for a number of important E-ISAC projects totaling \$410.5k, including priority projects in the 2016 work plan developed with the ESCC Members Executive Committee.

**SUMMARY OF CONSULTANT AND CONTRACT EXPENSES BY DEPARTMENT**

CONSULTANTS and CONTRACTS	Actual	Budget	Variance Over (Under)	Annual Projection	Annual Budget	Variance Over (Under)
COMPLIANCE ASSURANCE	\$ 1,252	\$ 50,001	\$ (48,749)	\$ 122,000	\$ 200,000	\$ (78,000)
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	138,737	271,011	(132,274)	1,003,059	1,084,039	(80,980)
RELIABILITY RISK MANAGEMENT	681,840	316,869	364,971	1,324,833	1,267,475	57,358
E-ISAC	64,846	165,834	(100,988)	1,073,835	663,335	410,500
TRAINING, EDUC and OP CERT	110,698	168,951	(58,253)	674,360	675,800	(1,440)
GEN & ADMIN	-	20,001	(20,001)	80,000	80,000	-
POLICY and EXTERNAL AFFAIRS	500	3,750	(3,250)	15,000	15,000	-
INFORMATION TECHNOLOGY	335,705	523,668	(187,963)	2,135,271	2,094,671	40,600
HUMAN RESOURCES	136,308	137,499	(1,191)	545,000	550,000	(5,000)
FINANCE and ACCOUNTING	30,253	74,250	(43,997)	365,777	297,000	68,777
<b>TOTAL (excluding CRISP)</b>	<b>\$ 1,500,138</b>	<b>\$ 1,744,335</b>	<b>\$ (244,197)</b>	<b>\$ 7,389,135</b>	<b>\$ 6,977,320</b>	<b>\$ 411,815</b>

- Rent expense was over budget \$48k, 6.3%, and projected to be \$170k over budget at year-end due to higher than budgeted building maintenance and real estate taxes expense.
- Fixed Asset Purchases (excluding depreciation) were under budget YTD due to timing of expenses compared to budget allocation. This category is projected to be under budget at year-end due to a revised schedule for development of a replacement for the current Compliance Monitoring and Enforcement tracking database (CRATS).

**SUMMARY OF VARIANCES BY PROGRAM**

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

DIRECT EXPENSES and NET FIXED ASSETS	2016 YTD Actual	2016 YTD Budget	Variance Over/(Under)	2016 Projection	2016 Budget	Variance Over/(Under)
RELIABILITY STANDARDS	916,147	984,160	(68,013)	3,411,786	3,678,708	(266,922)
COMPLIANCE ASSURANCE	1,549,906	1,746,106	(196,200)	5,598,217	6,646,017	(1,047,800)
ENFORCEMENT	644,416	579,878	64,538	2,434,457	2,225,816	208,641
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	1,402,408	1,338,008	64,400	6,016,447	5,230,815	785,631
RELIABILITY RISK MANAGEMENT	1,710,360	1,243,607	466,754	5,212,091	4,880,846	331,245
E-ISAC	1,234,085	1,188,229	45,856	5,049,802	4,742,862	306,939
TRAINING, EDUCATION and OPERATOR CERTIFICATION	446,044	525,765	(79,720)	1,991,550	2,060,167	(68,616)
GENERAL and ADMINISTRATIVE and EXECUTIVE	2,128,772	1,981,130	147,642	8,151,614	8,024,564	127,050
POLICY and EXTERNAL AFFAIRS	533,920	479,085	54,835	1,967,040	1,856,747	110,293
LEGAL and REGULATORY	803,942	890,299	(86,357)	3,362,616	3,465,966	(103,350)
INFORMATION TECHNOLOGY	2,309,861	3,083,424	(773,563)	12,117,145	12,156,674	(39,529)
HUMAN RESOURCES	325,564	383,321	(57,757)	1,616,953	1,510,177	106,776
FINANCE and ACCOUNTING	888,960	878,671	10,289	3,397,183	3,428,307	(31,124)
<b>TOTAL (excluding CRISP)</b>	<b>14,894,385</b>	<b>15,301,682</b>	<b>(407,297)</b>	<b>60,326,900</b>	<b>59,907,668</b>	<b>419,233</b>

Following is a brief summary of significant variances:

- Reliability Standards – Under budget YTD due to timing of expenses compared to budget allocation. Projected to be under budget at year-end due to expected personnel vacancies.
- Compliance Assurance – Under budget primarily due to expected personnel vacancies and the allocation of certain resources to other departments.
- Enforcement – Over budget YTD and projected to be over budget at year end due to lower personnel attrition and enhancements to the current CRATS database that was budgeted in 2015, but not completed. Funding for this project was reserved in the Future Obligations Reserve at the end of 2015.
- Reliability Assessments and Performance Analysis - Over budget for both the first quarter and year-end projections due to the allocation of additional resources to support ongoing program activities. The primary activities supported by these additional resources include coordination of data for the state of reliability reports, assistance with the BES exception resolution, and historical event data analysis.
- Reliability Risk Management – includes Event Analysis and Situation Awareness departments - Over budget YTD due to timing of expenses incurred compared to the allocated budget. Projected to be over budget at year-end due to lower than budgeted attrition.
- E-ISAC – Projected to be over budget at year-end due to the planned use of reserves as detailed above.

**Board of Trustees Expenses**

Board of Trustee expenses were under budget by \$48k, 12.5% through March 31<sup>st</sup>.

<b>Board of Trustee Expenses</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance Over (Under)</b>	<b>%</b>
<b>Meetings and Travel Expenses</b>				
Quarterly Board Meetings and Conference Calls	40,100	60,924	(20,824)	-34.2%
Trustee Travel	21,698	39,333	(17,635)	-44.8%
<b>Total Board of Trustees Meetings and Travel Expenses</b>	<b>61,798</b>	<b>100,257</b>	<b>(38,459)</b>	<b>-38.4%</b>
<b>Professional Services</b>				
Independent Trustee Fees	271,979	281,589	(9,610)	-3.4%
Trustee Search Fees	428	-	428	0.0%
<b>Total Board of Trustee Professional Services Expenses</b>	<b>272,407</b>	<b>281,589</b>	<b>(9,182)</b>	<b>-3.3%</b>
<b>Total Board of Trustee Expenses</b>	<b>334,205</b>	<b>381,846</b>	<b>(47,641)</b>	<b>-12.5%</b>

**CRISP VARIANCES**

CRISP was \$221k, 12.1% over budget through March 31<sup>st</sup>, and is projected to be \$9k, 0.1%, over budget at year-end.

	<b>Actual</b>	<b>Budget</b>	<b>Variance Over (Under)</b>	<b>%</b>	<b>Annual Projection</b>	<b>Annual Budget</b>	<b>Variance Over (Under)</b>	<b>%</b>
<b>TOTAL FUNDING</b>	<b>\$ 4,385,907</b>	<b>\$ 2,018,435</b>	<b>\$ 2,367,473</b>	<b>117.3%</b>	<b>\$ 7,973,019</b>	<b>\$ 7,973,019</b>	<b>\$ -</b>	<b>0.0%</b>
<b>EXPENSES and FIXED ASSETS</b>								
PERSONNEL EXPENSES	\$ 185,544	\$ 192,427	\$ (6,883)		\$ 741,090	\$ 741,671	\$ (582)	
MEETINGS, TRAVEL and CONFERENCE CALLS	7,995	17,364	(9,369)		69,455	69,455	-	
CONSULTANTS and CONTRACTS	1,791,155	1,472,148	319,007		6,000,305	5,888,594	111,711	
RENT	-	-	-		-	-	-	
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	43,428	119,822	(76,958)		379,327	479,277	(102,459)	
Other Non-Operating Expenses	-	-	-		-	-	-	
FIXED ASSET PURCHASES (excluding depreciation)	20,119	25,000	(4,881)		100,000	100,000	(0)	
<b>TOTAL</b>	<b>\$ 2,048,242</b>	<b>\$ 1,826,761</b>	<b>\$ 220,916</b>	<b>12.1%</b>	<b>\$ 7,290,178</b>	<b>\$ 7,278,998</b>	<b>\$ 8,671</b>	<b>0.1%</b>

**OPERATING RESERVES – Current Balances**

As of March 31, 2016, the balance in working capital and operating reserves was \$12M, which was \$2.7M higher than budget. The increase was primarily due to higher CRISP reserves, which increased \$2.2M due to timing differences between receipt of third-party funding for CRISP, which occurs at the beginning of the year, and expenses incurred throughout the year.

	Actual	Budget	Variance Over (Under)	Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$6,313,523	\$ (237,741)	\$3,431,795	\$ 1,213,419	\$930,568	\$ 500,000	
<b><u>Change in Reserves from Current Year Operations</u></b>								
Change in Reserves from budgeted operations	3,552,031	821,416	2,730,614	-	1,289,426	64,744	2,197,860	
Approved use of reserves	(150,563)	-	(150,563)	(98,723)	(51,840)			
<b><u>Capital Financing</u></b>								
Proceeds from Financing Activities (non-current only)	589,375		589,375		589,375			
Debt Service	(105,417)	(87,917)	(17,500)		(105,417)			
<b>Other adjustments to reserves**</b>	2,036,727	2,271,000	(234,273)	(234,273)	-			2,271,000
<b>Reserve Balance</b>	<b>\$11,997,936</b>	<b>\$9,318,023</b>	<b>\$ 2,679,913</b>	<b>\$3,098,800</b>	<b>\$ 2,934,964</b>	<b>\$995,312</b>	<b>\$2,697,860</b>	<b>\$ 2,271,000</b>

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

\*\*\* Represents \$500k of insurance reserves, plus 2016 CRISP funding billed, net of 2016 actual YTD expenses.

**OPERATING RESERVES – Year-End Projection**

The current year-end projection in total operating reserves for 2016 is \$8.0M, including \$2.3M in the Assessment Stabilization Reserves and \$1.8M in the Operating Contingency Reserve. The ending balance projected in the 2016 budget for the Operating Contingency Reserve was \$2.5M. The lower projected balance in the Operating Contingency Reserve of \$1.8M results primarily from the following factors:

- The 2016 beginning balance was \$134k lower than originally budgeted.
- NERC anticipated the use of up to \$500k from this reserve for E-ISAC projects not yet defined as of the 2016 budget approval (currently projecting \$410k).

	2016 Projection	2016 Budget	Variance Over (Under)	Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$ 6,313,523	\$ (237,741)	\$3,431,796	\$ 1,213,419	\$930,568	\$500,000	\$ -
<b><u>Change in Reserves from Current Year Operations</u></b>								
Change in Reserves from budgeted operations	734,159	315,490	418,669		895,931	(161,772)	-	
Approved use of reserves	(815,318)	-	(815,318)	(320,218)	(495,100)			
<b><u>Capital Financing</u></b>								
Proceeds from Financing Activities (non-current only)	1,256,042	1,000,000	256,042		1,256,042			
Debt Service	(1,055,000)	(1,055,000)	-		(1,055,000)			
<b>Other adjustments to reserves**</b>	1,806,132	2,170,614	(364,482)	(464,868)	-			2,271,000
<b>Reserve Balance</b>	<b>\$ 8,001,797</b>	<b>\$ 8,744,627</b>	<b>\$ (742,830)</b>	<b>\$2,646,709</b>	<b>\$ 1,815,292</b>	<b>\$768,796</b>	<b>\$500,000</b>	<b>\$ 2,271,000</b>

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

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

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Activities and Fixed Assets Budget**  
**(Unaudited)**  
**For the period ended 03/31/2016**

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
<b>Funding</b>								
Assessments	\$ 14,270,364	\$ 14,270,364	-		\$ 57,081,445	\$ 57,081,445	\$ -	
Penalties	1,439,000	1,439,000	-		1,439,000	1,439,000	-	
Third-Party Funding (CRISP)	4,075,139	1,707,684	2,367,455		6,830,738	6,830,738	-	
Testing	470,414	466,992	3,422		1,867,972	1,867,972	-	
Services & Software	10,000	12,506	(2,506)		50,000	50,000	-	
Workshop Fees	71,225	52,500	18,725		261,255	230,000	31,255	
Interest	7,326	750	6,576		3,000	3,000	-	
Miscellaneous	-	-	-		-	-	-	
<b>Total Funding</b>	<b>\$ 20,343,468</b>	<b>\$ 17,949,796</b>	<b>\$ 2,393,671</b>	<b>13.3%</b>	<b>\$ 67,533,410</b>	<b>\$ 67,502,155</b>	<b>\$ 31,255</b>	<b>0.0%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 7,557,349	\$ 7,178,937	\$ 378,412		\$ 29,166,976	\$ 28,842,336	\$ 324,640	
Payroll Taxes	839,328	789,061	50,267		1,833,263	1,871,367	(38,105)	
Employee Benefits	909,810	894,840	14,970		3,411,122	3,579,280	(168,158)	
Savings & Retirement	856,173	828,564	27,609		3,024,885	2,990,823	34,062	
<b>Total Personnel Expenses</b>	<b>\$ 10,162,660</b>	<b>\$ 9,691,401</b>	<b>\$ 471,258</b>	<b>4.9%</b>	<b>\$ 37,436,246</b>	<b>\$ 37,283,807</b>	<b>\$ 152,439</b>	<b>0.4%</b>
<b>Meeting Expenses</b>								
Meetings	\$ 248,846	\$ 272,926	\$ (24,080)		\$ 1,168,136	\$ 1,096,500	\$ 71,636	
Travel	543,149	550,944	(7,795)		2,162,757	2,203,786	(41,029)	
Conference Calls	48,677	80,001	(31,324)		320,000	320,000	-	
<b>Total Meeting Expenses</b>	<b>\$ 840,672</b>	<b>\$ 903,871</b>	<b>\$ (63,199)</b>	<b>-7.0%</b>	<b>\$ 3,650,893</b>	<b>\$ 3,620,286</b>	<b>\$ 30,607</b>	<b>0.8%</b>
<b>Operating Expenses</b>								
Consultants and Contracts	\$ 3,291,293	\$ 3,216,483	\$ 74,810		\$ 13,389,440	\$ 12,865,914	\$ 523,526	
Rent & Improvements	812,007	763,572	48,435		3,224,287	3,054,287	170,000	
Office Costs	961,655	948,915	12,739		3,684,482	3,795,572	(111,090)	
Professional Services	501,257	602,325	(101,068)		2,414,300	2,509,300	(95,000)	
Miscellaneous	2,324	9,063	(6,738)		36,500	36,500	-	
Depreciation	618,576	660,552	(41,975)		2,558,606	2,641,943	(83,337)	
<b>Total Operating Expenses</b>	<b>\$ 6,187,112</b>	<b>\$ 6,200,909</b>	<b>\$ (13,797)</b>	<b>-0.2%</b>	<b>\$ 25,307,615</b>	<b>\$ 24,903,515</b>	<b>\$ 404,100</b>	<b>1.6%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 10,680</b>	<b>\$ 15,000</b>	<b>\$ (4,320)</b>	<b>-28.8%</b>	<b>\$ 110,000</b>	<b>\$ 110,000</b>	<b>\$ -</b>	<b>0.0%</b>
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
<b>Total Expenses</b>	<b>\$ 17,201,123</b>	<b>\$ 16,811,182</b>	<b>\$ 389,942</b>	<b>2.3%</b>	<b>\$ 66,504,754</b>	<b>\$ 65,917,608</b>	<b>\$ 587,146</b>	<b>0.9%</b>
<b>Net Change in Assets</b>	<b>\$ 3,142,344</b>	<b>\$ 1,138,615</b>	<b>\$ 2,003,729</b>	<b>176.0%</b>	<b>\$ 1,028,656</b>	<b>\$ 1,584,547</b>	<b>\$ (555,891)</b>	<b>-35.1%</b>
<b>Fixed Assets</b>								
Depreciation	\$ (618,576)	\$ (660,552)	\$ 41,975		\$ (2,558,606)	\$ (2,641,943)	\$ 83,337	
Computer & Software	180,253	586,750	(406,497)		2,074,868	2,347,000	(272,132)	
Furniture & Fixtures	-	-	-		-	-	-	
Equipment	179,200	391,000	(211,800)		1,593,553	1,564,000	29,553	
Leasehold Improvements	-	-	-		-	-	-	
Allocation of Fixed Assets	-	-	-		-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (259,124)</b>	<b>\$ 317,199</b>	<b>\$ (576,322)</b>	<b>-181.7%</b>	<b>\$ 1,109,815</b>	<b>\$ 1,269,057</b>	<b>\$ (159,242)</b>	<b>-12.5%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>\$ 16,942,000</b>	<b>\$ 17,128,380</b>	<b>\$ (186,380)</b>	<b>-1.1%</b>	<b>\$ 67,614,569</b>	<b>\$ 67,186,665</b>	<b>\$ 427,904</b>	<b>0.6%</b>
<b>FTE's</b>	<b>201.11</b>	<b>188.12</b>	<b>12.99</b>	<b>6.9%</b>	<b>190.70</b>	<b>192.49</b>	<b>(1.79)</b>	<b>-0.9%</b>

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
STATEMENT OF FINANCIAL POSITION  
(Unaudited)**

	Unaudited		Working Capital and Operating Reserves	
	3/31/2016	12/31/2015	3/31/2016	12/31/2015
<b>ASSETS</b>				
Cash	\$ 43,524,361	\$ 40,308,955	\$ 43,524,361	\$ 40,308,955
Accounts receivable, net of allowance for uncollectible accounts of \$0	19,411,594	3,986,346	19,411,594	3,986,346
Prepaid expenses and other current assets	1,458,835	1,291,805	1,458,835	1,291,805
Security deposit	125,416	125,416		
457(b) – Non-Qualified Deferred Compensation	744,439	744,439		
457(f) - Non-Qualified Def Comp	473,741	271,200		
Property and equipment	8,016,354	8,301,731		
<b>Total Assets</b>	<b>\$ 73,754,740</b>	<b>\$ 55,029,892</b>		
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
<b>Current Portion</b>				
Accounts payable and accrued expenses (includes vacation accrual)	\$ 5,915,429	\$ 5,326,723	\$ (5,915,429)	\$ (5,326,723)
Accrued incentive compensation	1,248,096	4,721,278	(1,248,096)	(4,721,278)
Deferred rent-current	340,760	322,016	(340,760)	(322,016)
Deferred compensation - current	-	-	-	-
Capital lease obligations - current	64,728	64,728	(64,728)	(64,728)
Accrued retirement liabilities	674,037	1,878,830	(674,037)	(1,878,830)
Debt service - current portion	1,038,940	744,253	(1,038,940)	(744,253)
Deferred income	19,819,707	7,961,316	(19,819,707)	(7,961,316)
Deferred revenue - other	-	-	-	-
Deferred revenue - penalties	-	-	-	-
Deferred revenue - CRISP	2,508,514	2,508,514	(2,508,514)	(2,508,514)
Regional assessments	20,786,642	12,273,666	(20,786,642)	(12,273,666)
<b>Total Current Portion</b>	<b>\$ 52,396,854</b>	<b>\$ 35,801,324</b>		
<b>Long-Term Portion</b>				
Deferred compensation <sup>1</sup>	1,071,896	1,038,350		
Long-Term Debt	1,164,270	680,311		
Penalties-Assessments stabilization	2,271,000	-		
Deferred Rent-non-current	3,320,768	3,412,298		
CRISP Insurance Reserve	500,000	500,000		
Capital lease obligations - non-current	151,752	151,752		
<b>Total Long-Term Portion</b>	<b>\$ 8,479,686</b>	<b>\$ 5,782,711</b>		
<b>Total Liabilities</b>	<b>\$ 60,876,540</b>	<b>\$ 41,584,035</b>		
Net Assets - unrestricted	\$ 12,878,200	\$ 9,735,856		
Net Assets - restricted	-	3,710,000	-	(3,710,000)
<b>Total Liabilities and Net Assets</b>	<b>\$ 73,754,740</b>	<b>\$ 55,029,891</b>	<b>\$ 11,997,935</b>	<b>\$ 6,075,782</b>
<sup>1</sup> Includes 457b and 457f liabilities, life insurance for former executive, and retiree medical				
<b>Working Capital and Operating Reserves</b>	<b>\$ 11,997,935</b>	<b>\$ 6,075,782</b>		

**Financial Covenants**

1 - WC & OR Balance to Debt Service Ratio > 1.2 to 1.0 (Working Capital / Debt Service)	11.55
2 - Liquidity to Debt Service Ratio > 1.5 to 1.0* (= Cash - Regional Assessments - Restricted Net Assets)	21.89