

SCHIFF HARDIN LLP
A Limited Liability Partnership

Owen E. MacBride
(312) 258-5680
Email: omacbride@schiffhardin.com

233 SOUTH WACKER DRIVE
SUITE 7100
CHICAGO, ILLINOIS 60606
Tel.: 312.258.5500
Fax: 312.258.5600
www.schiffhardin.com

July 21, 2020

VIA ELECTRONIC FILING

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: North American Electric Reliability Corporation
Docket No. RR20-3-000
Supplement to
Report of Comparisons of Budgeted to Actual Costs for 2019
for NERC and the Regional Entities**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits a supplemental filing to the “North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2019 for NERC and the Regional Entities,” which was originally filed in this docket on May 29, 2020.

This supplemental filing consists of: (1) this transmittal letter, (2) the narrative text of the filing, which follows this transmittal letter, and (3) one attachment identified as Attachment 6A.

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

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric
Reliability Corporation

UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION) Docket No. RR20-3-000
)

SUPPLEMENTAL FILING TO
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S
REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2019
FOR NERC AND THE REGIONAL ENTITIES

James B. Robb
President and Chief Executive Officer
Andrew G. Sharp
Vice President and
Chief Financial Officer
North American Electric Reliability Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Sonia Mendonca
Senior Vice President, General Counsel and
Corporate Secretary
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
Sonia.mendonca@nerc.net

Owen E. MacBride
Schiff Hardin LLP
233 South Wacker Drive, Suite 7100
Chicago, IL 60606
(312) 258-5680
(312) 258-5600 – facsimile
omacbride@schiffhardin.com

July 21, 2020

On May 29, 2020, the North American Electric Reliability Corporation (“NERC”) filed with the Commission the “North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2019 for NERC and the Regional Entities” (“2019 True-up Filing”). At the time of the 2019 True-up Filing, the final, audited 2019 financial report for Texas Reliability Entity, Inc. (“Texas RE”), was not available to be included in the filing. Therefore, draft 2019 financial statements for Texas RE were included in **Attachment 6** to the 2019 True-up Filing. NERC stated in the 2019 True-up Filing that it would make a supplemental filing with the Commission to submit Texas RE’s final 2019 audited financial report when it became available. 2019 True-up Filing at 1 n. 3. The final audited 2019 financial report for Texas RE is now completed and available, and NERC is hereby submitting the Texas RE final audited 2019 financial report with this supplemental filing, as **Attachment 6A**.

NERC respectfully requests that the Commission accept this supplemental filing and **Attachment 6A** hereto to complete the comparisons of actual-to-budgeted funding and costs for NERC and the Regional Entities for the year ended December 31, 2019.

James B. Robb
President and Chief Executive Officer
Andrew G. Sharp
Vice President and Chief Financial Officer
North American Electric Reliability Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Respectfully submitted,

/s/ Owen E. MacBride

Owen E. MacBride
Schiff Hardin LLP
233 South Wacker Drive, Suite 7100
Chicago, IL 60606
(312) 258-5680
(312) 258-5600 – facsimile
omacbride@schiffhardin.com

Sonia Mendonca
Senior Vice President, General Counsel and
Corporate Secretary
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
sonia.mendonca@nerc.net

ATTACHMENT 6A

**2019 AUDITED FINANCIAL REPORT
FOR
TEXAS RELIABILITY ENTITY, INC.**

Texas Reliability Entity, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Texas Reliability Entity, Inc.
December 31, 2019 and 2018

Contents

Independent Auditor’s Report..... 1

Financial Statements

Statements of Financial Position 3
Statements of Activities..... 4
Statements of Functional Expenses 5
Statements of Cash Flows 7
Notes to Financial Statements 8

Other Information

Schedule of Statutory and Nonstatutory Operating Activities 17
Statutory and Nonstatutory Statement of Activity by Program..... 18

Independent Auditor's Report

Board of Directors
Texas Reliability Entity, Inc.
Austin, Texas

We have audited the accompanying financial statements of Texas Reliability Entity, Inc. (Texas RE), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Reliability Entity, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

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

BKD, LLP

Dallas, Texas
July 13, 2020

Texas Reliability Entity, Inc.
Statements of Financial Position
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 4,439,254	\$ 3,474,259
Assets limited to use – cash	879,996	830,002
	<u>5,319,250</u>	<u>4,304,261</u>
Accounts receivable	14,722	-
Other current assets	405,099	406,188
	<u>5,739,071</u>	<u>4,710,449</u>
Property and Equipment, Net	<u>72,835</u>	<u>210,858</u>
Total assets	<u>\$ 5,811,906</u>	<u>\$ 4,921,307</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 17,274	\$ 34,792
Accrued liabilities	888,941	857,252
Deferred rent	109,713	140,527
	<u>1,015,928</u>	<u>1,032,571</u>
Noncurrent Liabilities		
Deferred rent	-	109,713
	<u>-</u>	<u>109,713</u>
Total liabilities	<u>1,015,928</u>	<u>1,142,284</u>
Net Assets Without Donor Restrictions		
Undesignated	3,915,982	2,949,021
Regulator designated	879,996	830,002
	<u>4,795,978</u>	<u>3,779,023</u>
Total liabilities and net assets	<u>\$ 5,811,906</u>	<u>\$ 4,921,307</u>

Texas Reliability Entity, Inc.
Statements of Activities
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, Gains and Other Support		
Statutory revenue		
Assessments	\$ 13,248,000	\$ 11,271,986
Penalty sanctions	169,195	710,000
Protocol revenue	1,124,495	1,091,743
Interest income	<u>87,818</u>	<u>60,509</u>
 Total revenues, gains and other support	 <u>14,629,508</u>	 <u>13,134,238</u>
 Expenses		
Salaries and related benefits	10,695,121	9,874,885
Facility and equipment costs	1,056,201	1,036,762
Outside services	843,042	687,313
Travel and meetings	394,638	313,130
Administrative and other	485,568	537,426
Depreciation and amortization	<u>137,983</u>	<u>193,694</u>
 Total expenses	 <u>13,612,553</u>	 <u>12,643,210</u>
 Change in Net Assets Without Donor Restrictions	 1,016,955	 491,028
 Net Assets Without Donor Restrictions,		
Beginning of Year	 <u>3,779,023</u>	 <u>3,287,995</u>
 Net Assets Without Donor Restrictions, End of Year	 <u>\$ 4,795,978</u>	 <u>\$ 3,779,023</u>

Texas Reliability Entity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2019

	Statutory Program				Nonstatutory Program	Supporting Services							Total Expenses
	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	State	Total Program	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Total Supporting Services	
Expenses													
Salaries and related benefits													
Salaries	\$ 159,394	\$ 3,676,218	\$ 891,252	\$ 204,356	\$ 735,611	\$ 5,666,831	\$ 961,283	\$ 373,016	\$ 459,769	\$ 107,479	\$ 316,583	\$ 2,218,130	\$ 7,884,961
Payroll taxes	10,667	279,625	62,630	14,109	50,070	417,101	32,331	23,595	35,776	8,333	22,270	122,305	539,406
Employee benefits	32,413	645,134	127,964	25,722	95,489	926,722	52,024	42,343	105,045	33,687	45,516	278,615	1,205,337
Savings and retirement	20,748	515,277	124,905	26,384	96,872	784,186	72,859	53,314	63,443	46,140	45,475	281,231	1,065,417
Total personnel expenses	223,222	5,116,254	1,206,751	270,571	978,042	7,794,840	1,118,497	492,268	664,033	195,639	429,844	2,900,281	10,695,121
Meeting and travel expenses													
Meetings	-	142	-	8,913	-	9,055	31	-	59	15,697	-	15,787	24,842
Travel	2,925	138,251	77,668	5,163	2,110	226,117	99,693	11,914	7,604	2,276	3,933	125,420	351,537
Conference expenses	3,312	6,624	-	3,312	109	13,357	3,312	-	1,590	-	-	4,902	18,259
Total meeting and travel expenses	6,237	145,017	77,668	17,388	2,219	248,529	103,036	11,914	9,253	17,973	3,933	146,109	394,638
Operating expenses													
Consultants and contracts	-	154,747	-	385	3,147	158,279	78,049	1,826	47,132	60,674	-	187,681	345,960
Rent and improvements	-	-	-	-	256,180	256,180	585,095	-	-	-	-	585,095	841,275
Office costs	-	19,626	31,615	7,523	60,638	119,402	109,605	4,002	447,575	10,158	9,750	581,090	700,492
Professional services	-	-	-	250	31,400	31,650	378,574	26,253	11,439	250	48,917	465,433	497,083
Depreciation	-	-	-	-	9,786	9,786	128,198	-	-	-	-	128,198	137,984
Total operating expenses	-	174,373	31,615	8,158	361,151	575,297	1,279,521	32,081	506,146	71,082	58,667	1,947,497	2,522,794
Total expenses	\$ 229,459	\$ 5,435,644	\$ 1,316,034	\$ 296,117	\$ 1,341,412	\$ 8,618,666	\$ 2,501,054	\$ 536,263	\$ 1,179,432	\$ 284,694	\$ 492,444	\$ 4,993,887	\$ 13,612,553

Texas Reliability Entity, Inc.
Statement of Functional Expenses (Continued)
Year Ended December 31, 2018

	Statutory Program				Nonstatutory Program	Supporting Services							Total Expenses
	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	State	Total Program	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Total Supporting Services	
Expenses													
Salaries and related benefits													
Salaries	\$ 155,186	\$ 3,522,373	\$ 846,959	\$ 156,950	\$ 562,630	\$ 5,244,098	\$ 877,979	\$ 356,071	\$ 425,419	\$ 101,098	\$ 300,154	\$ 2,060,721	\$ 7,304,819
Payroll taxes	10,543	266,395	58,999	10,615	38,572	385,124	25,347	20,096	32,841	7,951	19,564	105,799	490,923
Employee benefits	31,915	589,471	131,958	35,297	74,370	863,011	35,976	43,810	114,363	36,815	39,985	270,949	1,133,960
Savings and retirement	19,177	465,505	112,455	21,817	81,208	700,162	61,684	51,298	60,044	30,888	41,107	245,021	945,183
Total personnel expenses	216,821	4,843,744	1,150,371	224,679	756,780	7,192,395	1,000,986	471,275	632,667	176,752	400,810	2,682,490	9,874,885
Meeting and travel expenses													
Meetings	-	306	20	1,774	-	2,100	246	-	321	11,205	-	11,772	13,872
Travel	1,272	108,446	64,626	752	2,176	177,272	75,006	8,137	7,212	4,567	3,541	98,463	275,735
Conference expenses	7,494	9,770	-	3,358	112	20,734	2,276	-	513	-	-	2,789	23,523
Total meeting and travel expenses	8,766	118,522	64,646	5,884	2,288	200,106	77,528	8,137	8,046	15,772	3,541	113,024	313,130
Operating expenses													
Consultants and contracts	-	150,240	-	2,317	1,724	154,281	16,387	1,814	57,835	31,168	-	107,204	261,485
Rent and improvements	-	-	-	-	258,176	258,176	570,131	-	-	-	-	570,131	828,307
Office costs	-	22,440	68,523	3,614	104,906	199,483	89,725	4,683	427,904	12,285	11,802	546,399	745,882
Professional services	-	-	-	-	27,945	27,945	326,175	13,745	9,765	750	47,447	397,882	425,827
Depreciation	-	-	-	-	15,109	15,109	178,585	-	-	-	-	178,585	193,694
Total operating expenses	-	172,680	68,523	5,931	407,860	654,994	1,181,003	20,242	495,504	44,203	59,249	1,800,201	2,455,195
Total expenses	\$ 225,587	\$ 5,134,946	\$ 1,283,540	\$ 236,494	\$ 1,166,928	\$ 8,047,495	\$ 2,259,517	\$ 499,654	\$ 1,136,217	\$ 236,727	\$ 463,600	\$ 4,595,715	\$ 12,643,210

Texas Reliability Entity, Inc.
Statement of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 1,016,955	\$ 491,028
Item not requiring cash		
Depreciation	137,983	193,694
Changes in		
Accounts receivable	(14,722)	-
Other current assets	1,129	(55,226)
Accounts payable	(17,518)	(25,443)
Accrued liabilities	31,689	14,569
Deferred rent	(140,527)	(85,381)
	<u>1,014,989</u>	<u>533,241</u>
Net cash provided by operating activities		
Investing Activities		
Capital expenditures for property and equipment and systems under development	<u>-</u>	<u>(45,592)</u>
Net cash used in investing activities	<u>-</u>	<u>(45,592)</u>
Net Increase in Cash and Cash Equivalents	1,014,989	487,649
Cash and Cash Equivalents, Beginning of Year	<u>4,304,261</u>	<u>3,816,612</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,319,250</u></u>	<u><u>\$ 4,304,261</u></u>

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Organization and Operations

Texas Reliability Entity, Inc. (Texas RE) is a Texas nonprofit corporation that is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Texas RE was formed January 1, 2010, to be the Regional Entity for the Electric Reliability Council of Texas, Inc. (ERCOT) region and to preserve and enhance reliability across the ERCOT region among all users, owners and operators of the bulk-power system (BPS). Texas RE became the Regional Entity for the ERCOT region on July 1, 2010, pursuant to its *Amended and Restated Delegation Agreement* with North American Electric Reliability Corporation (NERC), which was renewed and approved by the Federal Energy Regulatory Commission (FERC) for a five-year term effective January 1, 2016.

As the Regional Entity, Texas RE proposes and facilitates development of new and modified NERC Reliability Standards and Regional Standards (Standards); monitors, assesses, investigates and enforces compliance by registered entities with Standards in the ERCOT region and oversees the mitigation of any violations. Texas RE is authorized to impose penalties and sanctions for violations, but NERC and FERC must approve determination of all violations and the imposition of all penalties and sanctions. These Regional Entity activities are referred to herein as “statutory” activities.

The ERCOT region is the geographic area located within the state of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 75% of the Texas land area and 90% of Texas load.

In addition to Texas RE’s statutory activities as the Regional Entity, Texas RE has a contract with the PUCT and ERCOT to be the Reliability Monitor for the ERCOT region. As the Reliability Monitor, Texas RE monitors, investigates and reports to the PUCT regarding compliance with state reliability rules (the reliability-based ERCOT Protocols and Operating Guides), and coordinates and assists PUCT staff with related reliability-related matters. The PUCT is responsible for the enforcement of violations of the state reliability rules. Texas RE’s activities under this contract are permitted by NERC and FERC, by *Exhibit E* to the *Delegation Agreement*, and these activities are referred to herein as “nonstatutory” activities.

Membership and Governance

Texas RE has the following six membership sectors under its Bylaws:

- System Coordination and Planning: An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA) or Resource Planner (RP).
- Transmission and Distribution: An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP) and/or Transmission Operator (TOP), and is not a Cooperative or Municipal Utility.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

- **Cooperative Utility:** An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the state of Texas or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- **Municipal Utility:** An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- **Load-Serving and Marketing:** An entity that secures wholesale transmission service or is engaged in the activity of buying and selling of wholesale electric power in the ERCOT region on a physical or financial basis, or qualifies under any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is a user, owner or operator of the ERCOT region BPS that qualifies to join one of the six membership sectors listed in the Texas bylaws. Eligible entities must complete and submit a membership application and comply with the bylaws. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards development process, even if not a Texas RE member.

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine directors:

- Texas RE President and Chief Executive Officer
- Four Independent Directors
- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the *Bylaws and Delegation Agreement*, and to elect a Chief Executive Officer to manage and be responsible for the day-to-day ongoing activities of Texas RE. The Board has one subcommittee, the Audit, Governance, and Finance Committee, which is comprised of the Independent Directors.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Texas RE has one stakeholder committee, the Member Representatives Committee (MRC). The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters through its elected Chair and Vice-Chair, who serve as directors.

Note 2: Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

Texas RE considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted of a sweep account with a financial institution.

At December 31, 2019, Texas RE's cash accounts, excluding its sweep account that had a balance of \$5,603,518, exceeded federally insured limits by approximately \$785,000. Texas RE places its cash with a high quality financial institution and management believes no significant risks exist with respect to uninsured balances.

Assets Limited to Use

As stipulated by NERC policies, Texas RE records fines and penalties that are required to be used in future operations as assets limited to use. Assets limited to use (maintained in a financial institution) were \$879,996 and \$830,002 at December 31, 2019 and 2018, respectively.

Revenue Recognition

Texas RE funds its statutory operations primarily from assessments NERC collects from load serving entities and pays to Texas RE in four quarterly payments, pursuant to the Delegation Agreement. All statutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE funds its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. All nonstatutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Texas RE recognizes revenue related to fines and penalties in the period in which they are earned (all appeals have been exhausted).

Related Party Transactions

Texas RE compensates its independent board directors, which is a common practice in the industry in which Texas RE operates. The authority to compensate its independent board directors is specified in the Bylaws, which were approved by the Texas RE membership. Texas RE independent board director compensation (totaling approximately \$324,000 during 2019 and \$283,000 during 2018) is paid monthly. In addition to their compensation, Texas RE independent board members are reimbursed for their reasonable out-of-pocket expenses incurred related to their duties as a Texas RE independent board member.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Repairs and maintenance costs are expensed when incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Equipment	5 years
Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	7 years
Leasehold improvements	7.5 years

Long-lived Asset Impairment

Texas RE evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Deferred Rent

In 2010, Texas RE entered into an operating lease agreement that was modified in 2019 with the lease of additional space, which contains provisions for future increases in rent payments. In accordance with accounting principles generally accepted in the United States of America, Texas RE records monthly rent expense equal to the total of payments due over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program and management and general categories based on actual use and management estimates.

Income Taxes

Texas RE is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Texas RE is subject to federal income tax on any unrelated business taxable income.

Texas RE files tax returns in the U.S. federal jurisdiction. With a few exceptions, Texas RE is no longer subject to U.S. federal examinations by tax authorities for years before 2016.

Note 3: Property and Equipment

Property and equipment at December 31 consists of:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 761,631	\$ 761,631
Computer hardware	754,361	754,361
Computer software	1,493,734	1,493,734
Furniture	402,859	402,859
Leasehold improvement	<u>546,346</u>	<u>546,346</u>
Total property and equipment	3,958,931	3,958,931
Less accumulated depreciation and amortization	<u>3,886,096</u>	<u>3,748,073</u>
Total property and equipment, net	<u><u>\$ 72,835</u></u>	<u><u>\$ 210,858</u></u>

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 4: Operating Leases

Texas RE leases office space, datacenter space and equipment under noncancellable agreements recorded as operating leases. Texas RE entered into an office lease on February 9, 2015, that includes tenant improvement allowances of \$200,000, which have been recorded in property and equipment and deferred rent in the accompanying statements of financial position at December 31, 2019. The tenant improvement allowance is amortized as a reduction of rent expense on a straight-line basis over the life of the lease, with an unamortized value of \$28,572 and \$66,667 at December 31, 2019 and 2018, respectively.

On March 27, 2019, Texas RE executed an extension of the lease agreement for the period October 1, 2020 through March 31, 2022.

Future minimum lease payments at December 31, 2019, were:

2020	\$ 790,087
2021	788,743
2022	<u>201,504</u>
	<u>\$ 1,780,334</u>

Note 5: Employee Benefit Plans

Texas RE employees are sponsored under the Texas Reliability Entity, Inc. 401(k) Savings Plan (Plan) which is subject to the provisions of the *Employee Retirement Income Security Act of 1974*. The Plan utilizes a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate. Texas RE matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE match of 75% after five years. In addition, Texas RE contributes 10% of a participant's eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE contributions of 10% after three years. Employer contributions to the 401(k) plan were \$1,032,013 and \$927,726, respectively, in 2019 and 2018.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,439,254	\$ 3,474,259
Accounts receivable	14,722	-
Other current assets	<u>405,099</u>	<u>406,188</u>
 Total financial assets	 4,859,075	 3,880,447
 Less regulator designated net assets	 <u>879,996</u>	 <u>830,002</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 3,979,079</u>	 <u>\$ 3,050,445</u>

Texas RE manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Texas RE has a Working Capital and Operating Reserve Policy to retain a \$2,000,000 cash reserve, or an amount as adjusted by the Board of Directors, or as required by regulators.

This operating reserve is a contingency reserve to ensure the stability of the ongoing operations of Texas RE. As part of Texas RE's liquidity management, its financial assets are structured to be available as its general expenditures, liabilities and other obligations come due. In addition, Texas RE invests cash in excess of daily requirements in short-term investments. To achieve these targets, Texas RE monitors its liquidity quarterly, and monitors its reserves annually.

During the years ended December 31, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 7: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption.

On June 3, 2020, the FASB issued an Accounting Standards Update (ASU) that grants a delay in the effective date. As a result, the new revenue recognition standard is effective for Texas RE for fiscal year 2020.

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement.

On June 3, 2020, the FASB issued an ASU that grants a delay in the effective date. As a result, the new lease standard is effective for Texas RE for fiscal year 2022.

Texas RE is evaluating the impact the standards will have on the financial statements.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 8: Subsequent Events

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of Texas RE. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through the date of July 13, 2020, which is the date the financial statements were available to be issued.

Other Information

Texas Reliability Entity, Inc.
Schedule of Statutory and Nonstatutory Operating Activities
Year Ended December 31, 2019

	Statutory	Nonstatutory	Total
Revenues, Gains and Other Support			
Statutory revenue	\$ 13,417,195	\$ -	\$ 13,417,195
Protocol revenue	-	1,124,495	1,124,495
Interest income	87,605	213	87,818
	<u>13,504,800</u>	<u>1,124,708</u>	<u>14,629,508</u>
Expenses			
Salaries and related benefits	9,717,078	978,043	10,695,121
Facility and equipment costs	784,138	272,063	1,056,201
Outside services	808,495	34,547	843,042
Travel and meetings	392,419	2,219	394,638
Administrative and other	440,813	44,755	485,568
Depreciation and amortization	128,197	9,786	137,983
	<u>12,271,140</u>	<u>1,341,413</u>	<u>13,612,553</u>
Change in Unrestricted Net Assets	1,233,660	(216,705)	1,016,955
Unrestricted Net Assets, Beginning of Year	<u>2,969,496</u>	<u>809,527</u>	<u>3,779,023</u>
Unrestricted Net Assets, End of Year	<u>\$ 4,203,156</u>	<u>\$ 592,822</u>	<u>\$ 4,795,978</u>

Texas Reliability Entity, Inc.
Statutory and Nonstatutory Statement of Activity by Program
Year Ended December 31, 2019

	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Statutory Total	State (Nonstatutory) Total	Total
Funding												
Assessments	\$ 365,967	\$ 10,466,652	\$ 1,756,641	\$ 658,740	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,248,000	\$ -	\$ 13,248,000
Penalty sanctions	4,674	133,673	22,435	8,413	-	-	-	-	-	169,195	-	169,195
State (non-statutory) funding	-	-	-	-	-	-	-	-	-	-	1,124,495	1,124,495
Interest income	2,598	67,860	12,471	4,676	-	-	-	-	-	87,605	213	87,818
Total funding	373,239	10,668,185	1,791,547	671,829	-	-	-	-	-	13,504,800	1,124,708	14,629,508
Expenses												
Salaries and related benefits												
Salaries	159,394	3,676,218	891,252	204,356	961,283	373,016	459,769	107,479	316,583	7,149,350	735,611	7,884,961
Payroll taxes	10,667	279,625	62,630	14,109	32,331	23,595	35,776	8,333	22,270	489,336	50,070	539,406
Employee benefits	32,413	645,134	127,964	25,722	52,024	42,343	105,045	33,687	45,516	1,109,848	95,489	1,205,337
Savings and retirement	20,748	515,277	124,905	26,384	72,859	53,314	63,443	46,140	45,475	968,545	96,872	1,065,417
Total personnel expenses	223,222	5,116,254	1,206,751	270,571	1,118,497	492,268	664,033	195,639	429,844	9,717,079	978,042	10,695,121
Meeting and travel expenses												
Meetings	-	142	-	8,913	31	-	59	15,697	-	24,842	-	24,842
Travel	2,925	138,251	77,668	5,163	99,693	11,914	7,604	2,276	3,933	349,427	2,110	351,537
Conference expenses	3,312	6,624	-	3,312	3,312	-	1,590	-	-	18,150	109	18,259
Total meeting and travel expenses	6,237	145,017	77,668	17,388	103,036	11,914	9,253	17,973	3,933	392,419	2,219	394,638
Operating expenses												
Consultants and contracts	-	154,747	-	385	78,049	1,826	47,132	60,674	-	342,813	3,147	345,960
Rent and improvements	-	-	-	-	585,095	-	-	-	-	585,095	256,180	841,275
Office costs	-	19,626	31,615	7,523	109,604	4,002	447,575	10,158	9,750	639,853	60,639	700,492
Professional services	-	-	-	250	378,574	26,253	11,439	250	48,917	465,683	31,400	497,083
Depreciation and amortization	-	-	-	-	128,198	-	-	-	-	128,198	9,786	137,984
Total operating expenses	-	174,373	31,615	8,158	1,279,520	32,081	506,146	71,082	58,667	2,161,642	361,152	2,522,794
Total expenses	229,459	5,435,644	1,316,034	296,117	2,501,053	536,263	1,179,432	284,694	492,444	12,271,140	1,341,413	13,612,553
Change in Unrestricted Net Assets	\$ 143,780	\$ 5,232,541	\$ 475,513	\$ 375,712	\$ (2,501,053)	\$ (536,263)	\$ (1,179,432)	\$ (284,694)	\$ (492,444)	\$ 1,233,660	\$ (216,705)	\$ 1,016,955