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May 30, 2023

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. RR23-_-000
Report of Comparisons of Budgeted to Actual Costs for 2022
for NERC and the Regional Entities

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the "North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2022 for NERC and the Regional Entities."

This filing consists of: (1) this transmittal letter, (2) the narrative text of the filing, which follows this transmittal letter, and (3) Attachments 1 through 8. The Table of Contents to the narrative text list the 8 attachments.

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. RR23-__-000**

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2022 FOR NERC AND THE REGIONAL ENTITIES

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May 30, 2022

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ATTACHMENTS:

I. INTRODUCTION

The North American Electric Reliability Corporation ("NERC") respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2022 for NERC and the six Regional Entities.[1] The Commission originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.[2] In subsequent orders, the Commission clarified and modified the information to be included in the annual actual-to-budgeted cost comparisons filings.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2022, to the budgets of NERC and each Regional Entity for that year, with explanations of significant actual cost-to-budget variances.
- Audited financial statements of NERC and each Regional Entity for the year ended December 31, 2022.
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2022 budgets and actual results.

This filing includes the following attachments:

Attachment 1: 2022 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

Attachment 2: 2022 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 3: 2022 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

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[1] Midwest Reliability Organization ("MRO"), Northeast Power Coordinating Council, Inc. ("NPCC"), ReliabilityFirst Corporation ("ReliabilityFirst"), SERC Reliability Corporation ("SERC"), Texas Reliability Entity, Inc. ("Texas RE"), and Western Electricity Coordinating Council ("WECC").

[2] *North American Electric Reliability Corporation, Order Conditionally Accepting 2008 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 121 FERC ¶ 61,057 (2007) ("*2008 ERO Budget Order*").

Attachment 4: 2022 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 5: 2022 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 6: 2022 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 7: 2022 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

Attachment 8: Metrics Concerning Administrative Costs in 2022 NERC and Regional Entity Budgets and Actual Costs

II. NOTICES AND COMMUNICATIONS

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

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III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2022 – NERC AND REGIONAL ENTITIES

As noted above, in the *2008 ERO Budget Order*, the Commission directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, "in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those deviations."[3] In its June 19, 2008 Order addressing NERC's April 1, 2008 compliance filing to the *2008 ERO Budget Order*, the Commission provided additional direction concerning the

[3] *2008 ERO Budget Order* at P 23.

presentation of the annual filings comparing NERC's and the Regional Entities' actual to budgeted expenditures:

> 37. To promote consistency and transparency, the Commission directs the use of certain practices and formats in future true-up filings. In particular, Regional Entities must provide a cover letter discussing major areas of actual cost-to-budget variances for all of the Regional Entity's statutory programs in the aggregate. Regional Entities should also follow NERC's template for the presentation of actual costs and budgeted costs on a program-by-program and line-item basis. Significant variances must be explained on a line-item basis with enough particularized information to clearly support each such variance. Regional Entities should refrain from using generic, program area summaries to support significant variances. The cause for each such variance should therefore be clear on its face. Further, each Regional Entity must provide an explanation of the allocation methods it used to allocate indirect costs to the direct statutory program or functional areas, as well as any allocation between any statutory and non-statutory activities.
>
> 38. Cash reserves are meant to handle expenses which exceed the amount budgeted, as well as unforeseen events that could occur at any time. However, in the future, the Commission expects NERC and the Regional Entities to justify the use of cash reserves as variances in the April true-up. Cash reserves should not become a means to fund expected projects outside of the budget approval process. The Commission expects that as NERC and the Regional Entities develop experience in planning and functioning under their budgets the amounts and number of variance will decrease. In addition, the Commission expects that with experience, the explanations for the variances will improve.[4]

In addition, although the following directive in the *2008 ERO Budget Order* was expressly applicable to NERC's compliance filing comparing actual expenses to budgets for the year ended December 31, 2007 for NERC and the Regional Entities, NERC has treated the directive as intended to apply to the annual filings comparing actual expenses to budgets for future years as well:

> 66. . . . [T]he Commission reminds NERC and the Regional Entities that, to the extent funding identified as statutory is used to fund non-statutory activities, those funds must be reimbursed (e.g., to load serving entities or to statutory expenditures). NERC is directed to inform the Commission in the . . . compliance

[4] *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) ("*June 19, 2008 Budget Compliance Order*"), PP 37-38.

filing the extent to which this has occurred and document that the funds have been or will be reimbursed.

The comparisons of 2022 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 7**. Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2022, as prepared by its independent public accounting firm.

The comparisons provided in **Attachments 1** through **7** conform to the Commission's directives as quoted above:

- Each comparison contains a cover letter or an overview or summary section identifying overall actual-to-budget variances in Funding, total Expenses, and Fixed Asset Additions and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2022 budget, 2022 actual amounts, and the variance, for major line-item categories of Funding, Expenses, and Fixed Asset Additions.
- For those entities that engaged in both statutory and non-statutory activities in 2022, the comparisons include separate summary tables for statutory programs and non-statutory activities (or for statutory and non-statutory programs combined), prepared using the NERC-supplied template, showing the entity's 2022 budget, 2022 actual amounts, and the variance, for major line-item categories of Funding, Expenses and Fixed Asset Additions.[5]
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2022 budget, 2022 actual amounts, and the variance, for major line-item categories of Funding, Expenses, and Fixed Asset Additions, for each of the statutory programs (direct costs) and for the administrative functions (indirect costs).[6] Explanations for significant line-item actual-to-budget variances are provided following each table, on the immediately following page(s). Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount and greater than $10,000 over or under the budgeted amount.

The Attachments also address (generally in the cover letter or overview section) where

[5] NPCC and WECC had non-statutory activities in 2022 and each has provided information for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, SERC, and Texas RE did not have non-statutory activities in 2022.

[6] The administrative functions are Technical Committees and Member Forums (not used by all entities), General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting.

applicable, whether any statutory funds were used in 2022 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2022); the impact of the entity's 2022 results on its reserves for statutory programs;[7] how indirect costs were allocated to the direct statutory programs or functions; and where applicable, how costs were allocated between statutory programs and non-statutory activities in 2022.

NERC has provided additional information in its 2022 report in **Attachment 1**, including: (1) actual cost to budget variances for Contracts and Consultant expense, by department/program; (2) breakdown and analysis of the changes in its Operating Reserves for 2022; (3) allocation of Interest and Investment Income, Indirect Expenses, and Fixed Asset Additions from Administrative Services programs to the statutory direct programs; and (4) allocation of Financing Activity to the statutory programs. The table on page 4 of **Attachment 1** shows the actual cost to budget variances for Contracts and Consultants expense for 2022 by NERC program area, and is accompanied by a discussion of the principal reasons for actual cost-to-budget variances for Consultants and Contracts expense in the program area. The analysis of changes in Operating Reserves is provided on page 7 of **Attachment 1**, including a table which shows the changes in each category of Operating Reserves due to 2022 budgeted operations and uses of reserves. The allocations of Interest and Investment Income, Indirect Expenses, and Fixed Asset Additions from Administrative Services programs to the statutory direct programs, and the allocation of Financing Activity to the statutory programs, is shown in Tables 1, 2, 3 and 4 on pages 8-10 of **Attachment 1**. In addition, on page 6 of **Attachment 1,** NERC has provided

[7] The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" for the 2022 actual funding and expenditures. A positive "Change in Working Capital" means the entity's total actual funding exceeded its total actual expenditures for the year 2022; a negative "Change in Working Capital" means the entity's total actual funding was less than its total actual expenditures for the year.

an actual cost-to budget comparison for 2022 Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings and Trustee Travel expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees).

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual cost-to-budget variances, and the individual tables for each direct statutory program and the indirect cost functions contain specific explanations of significant variances on a line-item or expense category basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2022 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual cost-to-budget variances experienced by NERC and/or Regional Entities in 2022.

- All entities[8] continued to be impacted by the Covid-19 pandemic continuing into 2022, particularly with respect to Meetings and Travel expenses. The pandemic resulted in continued reduction in travel and in-person meetings, and many staff members worked remotely rather than in their entity's offices. As a result, Meetings and Travel expenses were below budget.
- Due to the pandemic, resulting in many staff members working remotely, some entities' Office Costs were below budget due to reduced needs for office supplies and office maintenance.
- Some entities were under budget in Workshop and Seminar attendance fees, due to the cancellation of anticipated in-person workshops, seminars, and other meetings, or the offering of virtual attendance options.
- Correspondingly, entities incurred lower Meetings expenses than budgeted due to the cancellation of in-person workshops, seminars, board or trustee meetings, and other meetings, particularly the cancellation of meetings and other events that were to be held at locations other than the entity's offices. (Entities held some scheduled meetings, workshops or other events virtually, or offered virtual options to in-person events.)
- Some entities experienced over-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Retirement Expense), in one or more program areas, due to being able to maintain staffing at fuller levels than

[8] The term "entities" used herein includes both NERC and Regional Entities.

reflected in the labor vacancy rates assumed in their budgets.[9] Other entities experienced under-budget variances in Salary Expense and related Personnel Expenses in one or more program areas due to being unable to fill budgeted positions, due to higher vacancy rates (*i.e.*, higher number of unfilled positions), or to filling budgeted positions later in the year, than was assumed in the budget.

- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced higher (or lower) than budgeted Employee Benefits expenses and Retirement costs due to decisions by employees to participate (or not to participate) in the entity's benefits programs, or to select different plan options than budgeted, or due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget. Employee Benefits expense was also lower than budgeted for some entities due to employees not utilizing benefits to the extent assumed in the budget; or due to lower than budgeted relocation expenses (budgeted in Employee Benefits) being incurred in connection with hiring new employees.
- Some entities were able to spend less on Consultants and Contracts than budgeted as a result of having work that was budgeted to be performed by contractors and consultants handled by internal staff of the entity. Increased experience and expertise gained by entity staffs, and implementation of process efficiencies, has enabled entity staffs to perform and complete work for which consultants or contractors were previously used. Further, as noted above, some entities were able to maintain full staffing levels (compared to their budgeted vacancy rates) for part or all of the year, thereby enabling internal staff to perform tasks that may have been budgeted for consultants or contractors.
- Some entities experienced lower than budgeted Consultants and Contracts expense or Professional Services expense because projects or activities for which use of consultants, contractors, or outside professional services was budgeted were reduced in scope, cancelled or deferred, delayed for other reasons, or accelerated into 2021. Other entities experienced higher than budgeted Consultants and Contracts expense due to acceleration into 2022 of projects requiring consultant or contractor assistance, the need to conduct unplanned, emergent projects requiring consultant or contractor assistance, or delay into 2022 in completing projects that were anticipated to be completed in 2021.
- Another cause of over-budget Consultants and Contracts or Professional Services expense for some entities was the need to employ a search firm (or make greater use

[9] In developing their annual budgets, NERC and some of the Regional Entities attempt to address the "vacant position" variance issue by including vacancy factor or similar metric in their budget calculations. The use of these factors recognizes that, as in any organization, a portion of the budgeted positions will be vacant during a part of the year due to delays in filling new or vacant positions and unexpected/unbudgeted departures of existing employees. Nonetheless, variances between the projected and actual vacancy factor can result in variances between budgeted and actual Personnel Expenses.

of search firms than budgeted) to assist in locating candidates to fill vacant positions, including vacancies in senior management positions or the entity's board of trustees or directors. For other entities, budgeted use of outside search firms proved to not be needed.

- Some entities experienced lower-than-budgeted Office Rent and/or Office Costs due to early termination of office leases and negotiation of new leases for smaller spaces (due in part to more employees working remotely) at lower cost, offset in part by unbudgeted costs to purchase equipment and supplies for the new office space. Additionally, some entities' recorded Office Rent expense was impacted by a new accounting standard (ASC 842) for accounting for long-term leases.

- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area or expense category but then recording the actual costs in another program area or areas responsible for incurring, or benefitting from, the cost, or in a different expense category than budgeted.

- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2022 budget were either (i) completed, or at least initiated, in late 2021, (ii) not carried out in 2022 (*e.g.*, delayed/deferred to 2023 or later), or (iii) started but not completed in 2022 (*i.e.*, the project was completed in 2023). This resulted in reduced actual IT costs, Fixed Assets Additions, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts) in 2022 compared to budget. In other cases, projects that were planned and budgeted for execution and completion in 2021 were not fully completed in that year, resulting in unbudgeted or over-budget expenditures in 2022 to complete the projects. Finally, some projects planned for 2023 were accelerated into 2022 due to concerns about potential supply chain issues.

- Some entities budgeted certain expenditures as expenses, but then determined that the actual expenditure(s) needed to be capitalized, based on the entity's capitalization policy or the requirements of GAAP. In other instances, the reverse occurred.

- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of the ratios of numbers of FTEs in each statutory program to total FTEs in the statutory programs. Therefore, due either to (i) higher or lower total Indirect Expenses for an entity than budgeted, or (ii) differences in actual versus budgeted FTEs during the year in individual statutory programs, or both, entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.

- Some entities realized higher funding from Interest or Investment Income than budgeted due to higher-than-projected interests rates or returns earned on cash balances or investments.

In addition to the above-described causes of actual-to-budget variances, NERC and the Regional Entities experienced other above- or below-budget variances in individual line items for Funding, Expenses and Fixed Asset Additions (and for NERC, in Net Financing Activity) due to particular events and circumstances impacting the particular entity. These variances are identified in the individual actual cost-to-budget comparisons in **Attachments 1** through **7**.

NERC and the six Regional Entities are taking the actual cost-to-budget comparisons for 2022, as well as year-to-date actual cost-to-budget experience for 2023, into account in developing their business plans and budgets for 2024, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2023.

IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2022 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS

In the *June 19, 2008 Budget Compliance Order*, the Commission directed NERC to develop additional metrics analyzing its administrative services expenses and those of the Regional Entities, and to present these metrics in future annual actual cost-to-budget filings and Business Plan and Budget filings. NERC has provided administrative cost metrics for NERC and the Regional Entities in its annual actual cost-to-budget reports for the ensuing years. In accordance with the *June 19, 2008 Budget Compliance Order,* the costs incurred by NERC and the Regional Entities in the following functions are considered to be the administrative services costs: Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting. *See June 19, 2008 Budget Compliance Order*, footnote 13.

Attachment 8 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2022 budgets and 2022 actual costs. In addition, **Attachment 8** provides a comparison of these metrics values for 2020, 2021 and 2022 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on page 1 of **Attachment 8**). (The term "expenditures" as used here means expenses plus capital expenditures (fixed asset additions net of depreciation).)

- Statutory indirect FTE as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on page 1 of **Attachment 8**).
- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on page 1 of **Attachment 8**).

These are the same administrative cost metrics NERC has provided in previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for 2008 through 2021.

V. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission accept this filing and Attachments as compliant with the Commission's requirements for annual presentation of comparisons of actual-to-budgeted funding and costs for NERC and the Regional Entities for the year ended December 31, 2022.

Respectfully submitted,

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ATTACHMENT 1

2022 ACTUAL COST-TO-BUDGET COMPARISON

AND

2022 AUDITED FINANCIAL REPORT

FOR

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

North American Electric Reliability Corporation 2022 Audited Results - Actual to Budget Variance Analysis

For the year ending December 31, 2022, NERC was $1.3M (1.5%) over budget for total funding and was $2.4M (2.7%) under budget for total expenses, fixed asset additions, and net financing activity, inclusive of expenses associated with the Cybersecurity Risk Information Sharing Program (CRISP).

Actual vs Budget – Including CRISP

	YTD Actual	YTD Budget	$ Over (Under)	% Over (Under)
TOTAL FUNDING[A]	**$ 89,550,777**	**$ 88,268,926**	**$ 1,281,851**	**1.5%**
EXPENDITURES				
Personnel	$ 50,273,735	$ 51,966,435	**$ (1,692,700)**	**(3.3%)**
Meetings and Travel	1,735,182	2,608,050	**(872,868)**	**(33.5%)**
Consultants and Contracts	13,766,498	13,674,800	**91,698**	**0.7%**
Office Rent	3,023,870	3,243,277	**(219,407)**	**(6.8%)**
Office Costs, Professional, and Misc.[B]	13,722,914	13,381,972	**340,942**	**2.5%**
Other Non-Operating	787,388	135,000	**652,388**	**483.3%**
Fixed Asset Additions[B]	3,955,242	4,918,750	**(963,508)**	**(19.6%)**
Net Financing Activity[C]	(852,686)	(1,100,000)	**247,314**	**(22.5%)**
TOTAL EXPENDITURES	**$ 86,412,143**	**$ 88,828,284**	**$ (2,416,141)**	**(2.7%)**
RESERVE INCREASE (DECREASE)	**$ 3,138,635**	**$ (559,358)**	**$ 3,697,992**	**(661.1%)**
FTEs	**218.3**	**223.7**	**(5.4)**	**(2.4%)**

A - Penalty income from a registered entity is recorded as penalty revenue for financial statement reporting purposes following the closure of an enforcement matter. For variance and true-up reporting purposes, penalty income is not included in funding until the NERC Board of Trustees and FERC have approved the release of previously collected penalty income from the Assessment Stabilization Reserve to offset assessments.

B - Excludes depreciation expense.

C - A positive amount indicates that NERC is paying off more principal than it is receiving in proceeds. A negative amount indicates that NERC is receiving more in proceeds than it is paying off principal.

Actual vs Budget – Excluding CRISP

	YTD Actual	YTD Budget	$ Over (Under)	% Over (Under)
TOTAL FUNDING[A]	**$ 79,389,667**	**$ 78,983,600**	**$ 406,066**	**0.5%**
EXPENDITURES				
Personnel	$ 49,282,808	$ 50,870,882	**$ (1,588,074)**	**(3.1%)**
Meetings and Travel	1,631,361	2,574,050	**(942,689)**	**(36.6%)**
Consultants and Contracts	7,255,157	7,519,980	**(264,823)**	**(3.5%)**
Office Rent	3,023,870	3,243,277	**(219,407)**	**(6.8%)**
Office Costs, Professional, and Misc.[B]	12,830,393	12,722,031	**108,362**	**0.9%**
Other Non-Operating	787,388	135,000	**652,388**	**483.3%**
Fixed Asset Additions[B]	3,934,915	4,918,750	**(983,835)**	**(20.0%)**
Net Financing Activity[C]	(852,686)	(1,100,000)	**247,314**	**(22.5%)**
TOTAL EXPENDITURES	**$ 77,893,206**	**$ 80,883,970**	**$ (2,990,763)**	**(3.7%)**
RESERVE INCREASE (DECREASE)	**$ 1,496,460**	**$ (1,900,369)**	**$ 3,396,830**	**(178.7%)**
FTEs	**215.3**	**219.8**	**(4.5)**	**(2.1%)**

A - Penalty income from a registered entity is recorded as penalty revenue for financial statement reporting purposes following the closure of an enforcement matter. For variance and true-up reporting purposes, penalty income is not included in funding until the NERC Board of Trustees and FERC have approved the release of previously collected penalty income from the Assessment Stabilization Reserve to offset assessments.

B - Excludes depreciation expense.

C - A positive amount indicates that NERC is paying off more principal than it is receiving in proceeds. A negative amount indicates that NERC is receiving more in proceeds than it is paying off principal.

Summary of Variances by Major Categories (including CRISP)

- Funding was over budget $1.3M (1.5%) primarily attributable to CRISP third-party funding being higher than budget $774k (9.8%) mainly as a result of new program participants that joined in 2022, as well as existing participants who purchased equipment during the year. Additionally, interest and investment income was higher than budget by $371k (484.6%) due to higher interest rates than projected.
- Personnel expenses were under budget by $1.7M (3.3%).

  Under appropriate accounting guidance, certain labor costs that were budgeted as expenses were capitalized and reflected as costs associated with applicable software/tool projects. $276k was capitalized toward these projects and reflected in fixed asset additions. Before recognizing the capitalization of labor costs, the personnel expense category was under budget $1.4M (2.8%) largely because of lower parking and transportation costs due to a continued hybrid workforce, lower training costs, lower temporary office labor, decreased retirement plan costs, and losses in the value of the non-qualified deferred compensation plans (which were equally offset by the increases in Other Non-Operating expenses, creating a net $0 overall budget impact).
- Meetings and Travel expenses were collectively under budget $873k (33.5%). Meeting and conference call expenses were under budget $512k (45.2%) and travel was under budget $361k (24.5%) because of the reduced in-person meetings and travel due to the pandemic in the first half of the year.
- Contracts and Consultants expenses were over budget $92k (0.7%). See below for a brief description of the variances by department if they exceed $10k and 10% of budget.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	$ Over (Under)	% Over (Under)
Reliability Standards and Power Risk Issue Strategic Management	$ 155,499	$ 158,960	$ (3,461)	(2.2%)
Compliance Assurance	471,208	305,000	166,208	54.5%
Registration and Certification	48,280	40,000	8,280	20.7%
Compliance Enforcement	393,694	249,000	144,694	58.1%
BPS Security and Grid Transformation	94,846	-	94,846	
Reliability Assessments and Technical Committees	75,000	210,000	(135,000)	(64.3%)
Advanced System Analytics and Modeling & Power System Analysis	100,000	250,000	(150,000)	(60.0%)
Performance Analysis	203,079	221,227	(18,148)	(8.2%)
Situation Awareness	48,750	15,000	33,750	225.0%
Event Analysis	98,080	118,158	(20,078)	(17.0%)
E-ISAC	2,064,233	2,171,041	(106,808)	(4.9%)
Personnel Certification and Continuing Education	377,008	463,188	(86,180)	(18.6%)
Training and Education	46,117	100,000	(53,883)	(53.9%)
General and Administrative and Executive	147,821	100,000	47,821	47.8%
Legal and Regulatory	457,565	310,000	147,565	47.6%
External Affairs	1,250	20,000	(18,750)	(93.8%)
Information Technology	1,894,734	1,733,406	161,328	9.3%
Human Resources and Administration	433,230	870,000	(436,770)	(50.2%)
Finance and Accounting	144,762	185,000	(40,238)	(21.8%)
TOTAL (excluding CRISP)	**$ 7,255,157**	**$ 7,519,980**	**$ (264,823)**	**(3.5%)**
CRISP	6,511,341	6,154,820	356,521	5.8%
TOTAL (including CRISP)	**$ 13,766,498**	**$ 13,674,800**	**$ 91,698**	**0.7%**

- Compliance Assurance was $166k (54.5%) over budget mainly due to additional dedicated technology support needs for the Align project.
- Compliance Enforcement was $145k (58.1%) over budget primarily attributable to additional dedicated technology support needs for the Align project.
- BPS Security and Grid Transformation was $95k (100%) over budget largely because of an unbudgeted contractor to support operational technology/industrial control system cyber security functions.
- Reliability Assessments and Technical Committees was $135k (64.3%) under budget mainly as a result of lower than anticipated support services for analysis, research, and application support.
- Advanced System Analytics and Modeling & Power System Analysis was $150k (60.0%) under budget largely due to lower than anticipated support services for probabilistic analysis and emerging technologies.
- Situation Awareness was $34k (225.0%) over budget primarily because of unbudgeted NERC Alerts system upgrades that were funded by a deferral of Reliability Assessments department and Event Analysis department system development projects.
- Event Analysis was $20k (17.0%) under budget mainly attributable to lower than budgeted event review augmentation.

- Personnel Certification and Continuing Education was $86k (18.6%) under budget largely as a result of budgeted amounts not used for software enhancement support, lower than budgeted consulting costs for a credential maintenance research project, partially offset by unbudgeted staff augmentation costs.
- Training and Education was $54k (53.9%) under budget primarily due to lower than anticipated support for training materials, partially offset by higher than budgeted ERO Enterprise transformation consulting.
- General and Administrative and Executive was $48k (47.8%) over budget primarily attributable to higher than budgeted strategic consulting support and unbudgeted costs for board governance consulting.
- Legal and Regulatory was $148k (47.6%) over budget largely because of an increased need for internal audit staff augmentation.
- External Affairs was $19k (93.8%) under budget mainly as a result of lower than anticipated communications support needs.
- Human Resources was $437k (50.2%) under budget mainly as a result of NERC strategically moving some budgeted external training support to staff members instead, and also due to the deferral of costs associated with an anticipated technology implementation.
- Finance and Accounting was $40k (21.8%) under budget largely due to less support needed for general accounting matters.

- Office Rent expense was under budget $219k (6.8%) primarily due to an adjustment to comply with the new lease accounting standard (ASC 842) for the audited financial statements.
- Office Costs, Professional Services, and Miscellaneous expenses were collectively $341k (2.5%) over budget. Office costs were $87k (0.8%) over budget. Professional services were $311k (12.5%) over budget primarily as a result of unbudgeted trustee search fees and increased costs for liability insurance, partially offset by lower outside legal costs. Miscellaneous expenses were $58k (39.8%) under budget due to lower rewards and recognition, employee engagement, and sponsorship expenses than budgeted.
- Other Non-Operating expenses were over budget $652k (483.3%) primarily due to losses in the value of the non-qualified deferred compensation plans which are being equally offset by the increases in Personnel expenses creating a net $0 overall budget impact.
- Fixed Asset Additions (excluding depreciation) were under budget $964k (19.6%) mainly as a result of the leasehold improvements and audio visual (A/V) capital lease assets for the new Atlanta office that did not materialize.
- Net Financing Activity was over budget $247k (22.5%) primarily due to lower borrowing on A/V equipment for the new Atlanta office that did not materialize, which was partially offset by lower lease payments for leases that did not commence at all or later in the year.

Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were over budget $42k (2.1%) mostly due to unbudgeted search fees for a trustee and were partially offset by lower than anticipated travel.

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Meetings and Travel Expenses				
Quarterly Board Meetings	$ 244,855	$ 240,000	$ 4,855	2.0%
Trustee Travel	128,673	160,000	(31,327)	(19.6%)
Total	**$ 373,528**	**$ 400,000**	**$ (26,472)**	**(6.6%)**
Professional Services				
Independent Trustee Fees	$ 1,530,000	$ 1,580,000	$ (50,000)	(3.2%)
Trustee Search Fees	118,554	-	118,554	
Total	**$ 1,648,554**	**$ 1,580,000**	**$ 68,554**	**4.3%**
Total Board of Trustee Expenses	**$ 2,022,082**	**$ 1,980,000**	**$ 42,082**	**2.1%**

Operating Reserves Analysis

Reserve Account	1/1/2022 Beginning Balance	Budgeted Funding/(Use)[(1)]	Unbudgeted Funding/(Use)[(2)]	Operating and Financing Activity Versus Budget[(3)]	12/31/2022 Ending Balance
NERC Operating Contingency	**$ 8,728,678**	$ (64,253)	$ -	$ 2,216,318	**$ 10,880,743**
Future Obligations	**1,381,843**	(679,629)	1,591,642	-	**2,293,856**
Assessment Stabilization	**2,521,000**	-	735,000	-	**3,256,000**
System Operator	**915,083**	(86,212)	-	135,412	**964,284**
CRISP Defense Fund	**512,821**	-	50,000	(62,821)	**500,000**
CRISP Operating	**1,596,902**	300,000	445,316	619,404	**2,961,621**
CRISP Special Projects	**445,316**	-	(445,316)	-	**-**
Total Reserves	**$ 16,101,643**	$ (530,094)	$ 2,376,642	$ 2,908,313	**$ 20,856,504**

NOTES:

(1) *The amended 2022 Business Plan & Budget (2022 BP&B) contained a budgeted use of NERC Operating Contingency Reserves (OCR) totaling $64,253 and a budgeted use of $708,893 of Future Obligation Reserves (FOR) to help fund costs of a potential new Atlanta office space (which was partially offset by a generation of FOR from office lease activity totaling $29,264, for a net budgeted use of $679,629). The Atlanta office costs did not materialize and the funds will remain in the NERC OCR and FOR (see footnote 2 below for an explanation of the FOR activity).*

The 2022 BP&B included a use of System Operator Reserves derived from budgeted revenues being $86,212 lower than budgeted expenses.

The 2022 BP&B also contained $300,000 to build the balance in the CRISP Operating Reserve.

(2) *The unbudgeted addition to the FOR of $1,591,649 is the result of lease concessions received for the existing Atlanta office and the avoidance of reserves used for costs at a new Atlanta office that did not materialize.*

An increase of $735,000 in the Assessment Stabilization Reserve is due to the unbudgeted collection of penalties.

An increase of $50,000 in the CRISP Defense Fund is the result of new participants joining the program.

Reflected in the $445,316 transfer from CRISP Special Projects Reserve to the CRISP Operating Reserve is $269,663 of spend on special projects and $175,653 remaining balance transferred into the CRISP Operating Reserve.

(3) *This column primarily reflects the net impact of normal operations. For example, under normal circumstances, if tracking well under budget in actual expenditures, this would reflect additional funds into the reserve account. It also reflects the increase or decrease in working capital during the period.*

As of December 31, 2022 the balance in reserves was $20.9M, $12.2M more than the budget of $8.7M. $6.9M of the over budget amount was because of higher than budgeted beginning reserve balances due to activity in 2021, and the remainder was due to general operating activity, unbudgeted penalty collections, lease concessions received on the current Atlanta office space, and the avoidance of Operating Contingency and Future Obligation reserve usage for a potential move to a new Atlanta office location that did not materialize.

Allocation of Administrative Programs Amounts to Statutory Programs

Amounts allocated from the administrative programs to the statutory programs are done on the basis of the number of FTEs in each statutory program compared to the total number of FTEs in all of the statutory programs combined. This method is used for both the budget and actuals (with a slight modification for the interest and investment income allocation as is further discussed below in that section).

There are two drivers that impact the amount of actual administrative program cost allocation that a statutory program receives compared to the budgeted amount:

1. the amount of actual dollar expenditures in the allocation category compared to the budget dollar amounts (as can be seen in the below tables in the "Due to $ Over (Under)" column), and
2. the actual pro-rata share % of the statutory program area FTEs to the total actual statutory program FTEs compared to the budgeted pro-rata share % of the statutory program area FTEs to the total budgeted statutory program FTEs (as can be seen in the below tables in the "Due to FTE Over (Under)" column.

Interest and Investment Income Allocation

Table 1

	Statutory Program	FTEs						Allocation of Administrative Program Interest and Investment Income				Breakdown of Over (Under)		
Dept #	Name	Actual #	Budget #	Over (Under) #	Actual %	Budget %	Over (Under) %	Actual $	Budget $	Over (Under) $	Over (Under) %	Due to $ Over (Under)	Due to FTE Over (Under)	Total
300	Reliability Standards and PRISM[A]	20.07	19.74	**0.33**	15.3%	14.5%	**0.8%**	$ 50,023	$ 10,895	**$ 39,128**	359.1%	$ 36,623	$ 2,506	**$ 39,128**
400	Compliance Assurance	16.69	17.86	**(1.17)**	12.7%	13.1%	**(0.4%)**	41,599	9,857	**31,741**	322.0%	33,135	(1,393)	**31,741**
500	Registration and Certification	4.00	3.76	**0.24**	3.0%	2.8%	**0.3%**	9,970	2,075	**7,895**	380.4%	6,976	919	**7,895**
404	Compliance Enforcement	10.97	12.22	**(1.25)**	8.4%	9.0%	**(0.6%)**	27,342	6,744	**20,598**	305.4%	22,671	(2,074)	**20,598**
800	BPS Security and Grid Transformation	3.31	3.76	**(0.45)**	2.5%	2.8%	**(0.2%)**	8,250	2,075	**6,175**	297.5%	6,976	(801)	**6,175**
801	RATA[B]	7.95	7.52	**0.43**	6.1%	5.5%	**0.5%**	19,815	4,150	**15,664**	377.4%	13,951	1,713	**15,664**
802	ASAM & Power System Analysis[C]	7.42	8.46	**(1.04)**	5.7%	6.2%	**(0.6%)**	18,494	4,669	**13,825**	296.1%	15,695	(1,871)	**13,825**
803	Performance Analysis	6.47	6.58	**(0.11)**	4.9%	4.8%	**0.1%**	16,126	3,632	**12,494**	344.0%	12,208	287	**12,494**
1001	Situation Awareness	7.83	7.52	**0.31**	6.0%	5.5%	**0.4%**	19,516	4,150	**15,365**	370.2%	13,951	1,414	**15,365**
402	Event Analysis	7.00	6.58	**0.42**	5.3%	4.8%	**0.5%**	17,447	3,632	**13,815**	380.4%	12,208	1,608	**13,815**
1004	E-ISAC	37.53	40.01	**(2.48)**	28.6%	29.4%	**(0.8%)**	93,541	22,082	**71,460**	323.6%	74,226	(2,767)	**71,460**
900	Training and Education	2.00	1.88	**0.12**	1.5%	1.4%	**0.1%**	4,985	1,038	**3,947**	380.4%	3,488	459	**3,947**
	Total Statutory Programs	**131.24**	**135.89**	**(4.65)**	**100.0%**	**100.0%**	**(0.0%)**	**$ 327,108**	**$ 75,000**	**$ 252,108**	336.1%	$ 252,108	$ (0)	**$ 252,108**

A - Reliability Standards and Power Risk Issue Strategic Management
B - Reliability Assessments and Technical Committees
C - Advanced System Analytics and Modeling & Power System Analysis

Total interest and investment income of the administrative programs was $327k, which was $252k (336.1%) over the budget of $75k. The above table shows the allocation of the over budget amount from the administrative programs to the statutory programs. The actual allocation of this income per statutory program area FTE was $3k, which was $2k (351.6%) over the $1k budget per statutory program area FTE. The $252k over budget amount was mainly due to higher interest rates than projected.

The Personnel Certification and Continuing Education, as well as the CRISP, statutory programs each have separate bank accounts that receive interest and investment income. The income from these bank accounts is recorded directly to those departments. The other departments combined use one bank account that receives interest and investment income. That income is initially recorded to the General and

Administrative department and then allocated to the other program areas based on the FTE allocation method described above, excluding the Personnel Certification and Continuing Education and CRISP FTEs since those programs do not receive income from that bank account.

Indirect Expense Allocation

Table 2

Statutory Program	FTEs						Allocation of Administrative Program Total Expenses				Breakdown of Over (Under)		
Name	Actual #	Budget #	Over (Under) #	Actual %	Budget %	Over (Under) %	Actual $	Budget $	Over (Under) $	Over (Under) %	Due to $ Over (Under)	Due to FTE Over (Under)	Total
Reliability Standards and PRISM[A]	20.07	19.74	**0.33**	14.6%	13.8%	**0.8%**	$ 5,236,409	$ 4,916,148	**$ 320,262**	6.5%	$ 39,733	$ 280,529	**$ 320,262**
Compliance Assurance	16.69	17.86	**(1.17)**	12.2%	12.5%	**(0.4%)**	4,354,543	4,447,943	**(93,400)**	(2.1%)	35,949	(129,349)	**(93,400)**
Registration and Certification	4.00	3.76	**0.24**	2.9%	2.6%	**0.3%**	1,043,629	936,409	**107,220**	11.5%	7,568	99,652	**107,220**
Compliance Enforcement	10.97	12.22	**(1.25)**	8.0%	8.6%	**(0.6%)**	2,862,153	3,043,329	**(181,176)**	(6.0%)	24,596	(205,773)	**(181,176)**
BPS Security and Grid Transformation	3.31	3.76	**(0.45)**	2.4%	2.6%	**(0.2%)**	863,603	936,409	**(72,806)**	(7.8%)	7,568	(80,374)	**(72,806)**
RATA[B]	7.95	7.52	**0.43**	5.8%	5.3%	**0.5%**	2,074,213	1,872,818	**201,395**	10.8%	15,136	186,259	**201,395**
ASAM & Power System Analysis[C]	7.42	8.46	**(1.04)**	5.4%	5.9%	**(0.5%)**	1,935,932	2,106,920	**(170,988)**	(8.1%)	17,028	(188,017)	**(170,988)**
Performance Analysis	6.47	6.58	**(0.11)**	4.7%	4.6%	**0.1%**	1,688,070	1,638,716	**49,354**	3.0%	13,244	36,110	**49,354**
Situation Awareness	7.83	7.52	**0.31**	5.7%	5.3%	**0.4%**	2,042,904	1,872,818	**170,086**	9.1%	15,136	154,950	**170,086**
Event Analysis	7.00	6.58	**0.42**	5.1%	4.6%	**0.5%**	1,826,351	1,638,716	**187,635**	11.5%	13,244	174,391	**187,635**
E-ISAC	37.53	40.01	**(2.48)**	27.3%	28.0%	**(0.7%)**	9,791,851	9,963,978	**(172,127)**	(1.7%)	80,530	(252,657)	**(172,127)**
CRISP	3.02	3.94	**(0.92)**	2.2%	2.8%	**(0.6%)**	787,940	980,303	**(192,363)**	(19.6%)	7,923	(200,286)	**(192,363)**
Personnel Certification and CE[D]	3.00	2.82	**0.18**	2.2%	2.0%	**0.2%**	782,722	702,307	**80,415**	11.5%	5,676	74,739	**80,415**
Training and Education	2.00	1.88	**0.12**	1.5%	1.3%	**0.1%**	521,815	468,205	**53,610**	11.5%	3,784	49,826	**53,610**
Total Statutory Programs	**137.26**	**142.65**	**(5.38)**	**100.0%**	**100.0%**	**(0.0%)**	**$35,812,135**	**$35,525,018**	**$ 287,116**	0.8%	$ 287,116	$ (0)	**$ 287,116**

A - Reliability Standards and Power Risk Issue Strategic Management
B - Reliability Assessments and Technical Committees
C - Advanced System Analytics and Modeling & Power System Analysis
D - Personnel Certification and Continuing Education

Total expenses (excluding fixed asset additions and net financing activity) of the administrative programs were $35.8M, which was $287k (0.8%) over the budget of $35.5M. The above table shows the allocation of the over budget amount from the administrative programs to the statutory programs. The actual allocation of these indirect expenses (excluding fixed asset additions and net financing activity) per statutory program area FTE was $261k, which was $12k (4.8%) over the $249k budget per statutory program area FTE.

The $287k over budget amount was driven primarily by the net effect of several factors. First, personnel expenses were slightly under budget primarily due to 1) losses in the value of the non-qualified deferred compensation plans (which were equally offset by the increases in Other Non-Operating expenses creating a net $0 overall budget impact) and 2) the transfer of personnel dollars budgeted in the IT department but recorded to the relevant statutory program areas for work performed directly in those areas. These amounts were offset by higher personnel expenses mainly because of lower than budgeted attrition. Second, office rent was under budget mainly due to an adjustment to comply with the new lease accounting standard (ASC 842) for the audited financial statements. Third, office costs were over budget largely because of A/V costs that were budgeted in financing activity but recorded to office costs in accordance with accounting requirements for the audited financial statements.

Fixed Asset Additions Allocation

Table 3

Statutory Program	FTEs						Allocation of Administrative Program Fixed Asset Additions				Breakdown of Over (Under)		
Name	Actual #	Budget #	Over (Under) #	Actual %	Budget %	Over (Under) %	Actual $	Budget $	Over (Under) $	Over (Under) %	Due to $ Over (Under)	Due to FTE Over (Under)	Total
Reliability Standards and PRISM[A]	20.07	19.74	**0.33**	14.6%	13.8%	**0.8%**	$ 391,214	$ 508,567	**$ (117,353)**	(23.1%)	$(138,311)	$ 20,958	**$(117,353)**
Compliance Assurance	16.69	17.86	**(1.17)**	12.2%	12.5%	**(0.4%)**	325,330	460,132	**(134,802)**	(29.3%)	(125,139)	(9,664)	**(134,802)**
Registration and Certification	4.00	3.76	**0.24**	2.9%	2.6%	**0.3%**	77,970	96,870	**(18,900)**	(19.5%)	(26,345)	7,445	**(18,900)**
Compliance Enforcement	10.97	12.22	**(1.25)**	8.0%	8.6%	**(0.6%)**	213,833	314,827	**(100,994)**	(32.1%)	(85,621)	(15,373)	**(100,994)**
BPS Security and Grid Transformation	3.31	3.76	**(0.45)**	2.4%	2.6%	**(0.2%)**	64,520	96,870	**(32,350)**	(33.4%)	(26,345)	(6,005)	**(32,350)**
RATA[B]	7.95	7.52	**0.43**	5.8%	5.3%	**0.5%**	154,965	193,740	**(38,774)**	(20.0%)	(52,690)	13,915	**(38,774)**
ASAM & Power System Analysis[C]	7.42	8.46	**(1.04)**	5.4%	5.9%	**(0.5%)**	144,634	217,957	**(73,323)**	(33.6%)	(59,276)	(14,047)	**(73,323)**
Performance Analysis	6.47	6.58	**(0.11)**	4.7%	4.6%	**0.1%**	126,116	169,522	**(43,406)**	(25.6%)	(46,104)	2,698	**(43,406)**
Situation Awareness	7.83	7.52	**0.31**	5.7%	5.3%	**0.4%**	152,626	193,740	**(41,114)**	(21.2%)	(52,690)	11,576	**(41,114)**
Event Analysis	7.00	6.58	**0.42**	5.1%	4.6%	**0.5%**	136,447	169,522	**(33,075)**	(19.5%)	(46,104)	13,029	**(33,075)**
E-ISAC	37.53	40.01	**(2.48)**	27.3%	28.0%	**(0.7%)**	731,553	1,030,756	**(299,203)**	(29.0%)	(280,327)	(18,876)	**(299,203)**
CRISP	3.02	3.94	**(0.92)**	2.2%	2.8%	**(0.6%)**	58,867	101,411	**(42,543)**	(42.0%)	(27,580)	(14,963)	**(42,543)**
Personnel Certification and CE[D]	3.00	2.82	**0.18**	2.2%	2.0%	**0.2%**	58,477	72,652	**(14,175)**	(19.5%)	(19,759)	5,584	**(14,175)**
Training and Education	2.00	1.88	**0.12**	1.5%	1.3%	**0.1%**	38,985	48,435	**(9,450)**	(19.5%)	(13,172)	3,723	**(9,450)**
Total Statutory Programs	**137.26**	**142.65**	**(5.38)**	**100.0%**	**100.0%**	**(0.0%)**	**$ 2,675,538**	**$ 3,675,000**	**$ (999,462)**	(27.2%)	$(999,462)	$ (0)	**$(999,462)**

A - Reliability Standards and Power Risk Issue Strategic Management
B - Reliability Assessments and Technical Committees
C - Advanced System Analytics and Modeling & Power System Analysis
D - Personnel Certification and Continuing Education

Total fixed asset additions for the administrative programs were $2.7M, which was $1.0M (27.2%) under the budget of $3.7M. The above table shows the allocation of the under budget amount from the administrative programs to the statutory programs. The actual allocation of fixed asset additions per statutory program area FTE was $20k, which was $6k (24.3%) under the $26k budget per statutory program area FTE. The $1.0M under budget amount was largely due to lower spending on leasehold improvements and A/V equipment for a new Atlanta office that did not materialize.

Net Financing Activity Allocation

Table 4

Statutory Program	FTEs						Allocation of Administrative Program Net Financing Activity				Breakdown of Over (Under)		
Name	Actual #	Budget #	Over (Under) #	Actual %	Budget %	Over (Under) %	Actual $	Budget $	Over (Under) $	Over (Under) %	Due to $ Over (Under)	Due to FTE Over (Under)	Total
Reliability Standards and PRISM[A]	20.07	19.74	**0.33**	14.6%	13.8%	**0.8%**	$ (181,714)	$ (204,119)	**$ 22,405**	(11.0%)	$ 32,140	$ (9,735)	**$ 22,405**
Compliance Assurance	16.69	17.86	**(1.17)**	12.2%	12.5%	**(0.4%)**	(151,111)	(184,679)	**33,567**	(18.2%)	29,079	4,489	**33,567**
Registration and Certification	4.00	3.76	**0.24**	2.9%	2.6%	**0.3%**	(36,216)	(38,880)	**2,664**	(6.9%)	6,122	(3,458)	**2,664**
Compliance Enforcement	10.97	12.22	**(1.25)**	8.0%	8.6%	**(0.6%)**	(99,323)	(126,359)	**27,037**	(21.4%)	19,896	7,141	**27,037**
BPS Security and Grid Transformation	3.31	3.76	**(0.45)**	2.4%	2.6%	**(0.2%)**	(29,969)	(38,880)	**8,911**	(22.9%)	6,122	2,789	**8,911**
RATA[B]	7.95	7.52	**0.43**	5.8%	5.3%	**0.5%**	(71,979)	(77,759)	**5,780**	(7.4%)	12,244	(6,464)	**5,780**
ASAM & Power System Analysis[C]	7.42	8.46	**(1.04)**	5.4%	5.9%	**(0.5%)**	(67,181)	(87,479)	**20,299**	(23.2%)	13,774	6,525	**20,299**
Performance Analysis	6.47	6.58	**(0.11)**	4.7%	4.6%	**0.1%**	(58,579)	(68,040)	**9,460**	(13.9%)	10,713	(1,253)	**9,460**
Situation Awareness	7.83	7.52	**0.31**	5.7%	5.3%	**0.4%**	(70,893)	(77,759)	**6,867**	(8.8%)	12,244	(5,377)	**6,867**
Event Analysis	7.00	6.58	**0.42**	5.1%	4.6%	**0.5%**	(63,378)	(68,040)	**4,661**	(6.9%)	10,713	(6,052)	**4,661**
E-ISAC	37.53	40.01	**(2.48)**	27.3%	28.0%	**(0.7%)**	(339,797)	(413,705)	**73,908**	(17.9%)	65,140	8,768	**73,908**
CRISP	3.02	3.94	**(0.92)**	2.2%	2.8%	**(0.6%)**	(27,343)	(40,702)	**13,359**	(32.8%)	6,409	6,950	**13,359**
Personnel Certification and CE[D]	3.00	2.82	**0.18**	2.2%	2.0%	**0.2%**	(27,162)	(29,160)	**1,998**	(6.9%)	4,591	(2,594)	**1,998**
Training and Education	2.00	1.88	**0.12**	1.5%	1.3%	**0.1%**	(18,108)	(19,440)	**1,332**	(6.9%)	3,061	(1,729)	**1,332**
Total Statutory Programs	**137.26**	**142.65**	**(5.38)**	**100.0%**	**100.0%**	**(0.0%)**	**$ (1,242,754)**	**$ (1,475,000)**	**$ 232,246**	(15.7%)	$ 232,246	$ 0	**$ 232,246**

A - Reliability Standards and Power Risk Issue Strategic Management
B - Reliability Assessments and Technical Committees
C - Advanced System Analytics and Modeling & Power System Analysis
D - Personnel Certification and Continuing Education

Financing activity *proceeds* has the effect of reducing the budget and financing activity *principal payments* has the effect of increasing the budget. The budget included financing activity for equipment leases that did not commence at all or later in the year than had been budgeted due to supply chain issues (and will be financed in 2023 when the equipment is received). Because of this, the financing activity *proceeds* allocation from the administrative departments was below budget and the financing activity *principal payments* allocation was also below budget. This resulted in total net financing activity for the administrative programs being $232k (15.7%) over budget. The above table shows the allocation of the over budget amount from the administrative programs to the statutory programs. The actual allocation of financing activity per statutory program area FTE was $9k, which was $1k (12.4%) less than the budget of $10k per statutory program FTE.

Use of Statutory Funds for Non-Statutory Activities

NERC does not have non-statutory activities and, therefore, did not use statutory funds for non-statutory activities.

Summary of Variances by Program

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD Actual	YTD Budget	$ Over (Under)	% Over (Under)
Reliability Standards and Power Risk Issue Strategic Management	$ 4,410,108	$ 4,321,038	$ **89,069**	**2.1%**
Compliance Assurance	5,765,584	5,972,082	**(206,499)**	**(3.5%)**
Registration and Certification	982,629	995,345	**(12,716)**	**(1.3%)**
Compliance Enforcement	3,826,668	3,782,700	**43,968**	**1.2%**
BPS Security and Grid Transformation	995,349	935,162	**60,187**	**6.4%**
Reliability Assessments and Technical Committees	1,937,188	2,246,928	**(309,740)**	**(13.8%)**
Advanced System Analytics and Modeling & Power System Analysis	1,994,441	2,633,697	**(639,257)**	**(24.3%)**
Performance Analysis	1,869,922	2,146,112	**(276,189)**	**(12.9%)**
Situation Awareness	3,142,751	3,129,990	**12,761**	**0.4%**
Event Analysis	1,894,469	2,078,854	**(184,386)**	**(8.9%)**
E-ISAC	12,304,805	13,281,050	**(976,244)**	**(7.4%)**
Personnel Certification and Continuing Education	1,050,021	1,097,635	**(47,614)**	**(4.3%)**
Training and Education	474,354	538,358	**(64,003)**	**(11.9%)**
General and Administrative and Executive	9,812,090	9,385,265	**426,826**	**4.5%**
Legal and Regulatory	5,566,295	5,123,376	**442,919**	**8.6%**
External Affairs	3,191,808	3,151,081	**40,727**	**1.3%**
Information Technology	13,479,028	14,026,598	**(547,570)**	**(3.9%)**
Human Resources and Administration	3,036,808	3,852,313	**(815,505)**	**(21.2%)**
Finance and Accounting	2,158,890	2,186,385	**(27,495)**	**(1.3%)**
TOTAL (excluding CRISP)	**$ 77,893,206**	**$ 80,883,970**	**$ (2,990,763)**	**(3.7%)**
CRISP	8,518,936	7,944,314	**574,622**	**7.2%**
TOTAL (including CRISP)	**$ 86,412,143**	**$ 88,828,284**	**$ (2,416,141)**	**(2.7%)**

Please see the subsequent pages of this report for detailed discussion by category of certain program variances, generally those variances exceeding $10k and 10% of budget.

North American Electric Reliability Corporation
Statement of Activities (including CRISP)

	Actual*	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	78,387,280	78,387,280	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	**78,387,280**	**78,387,280**	**-**	**0.0%**
Third-Party Funding (CRISP)	8,702,463	7,928,423	774,040	9.8%
Testing, Renewal, & Continuing Ed Fees	1,895,874	1,756,723	139,151	7.9%
Services & Software	46,000	60,000	(14,000)	(23.3%)
Miscellaneous Funding	71,917	60,000	11,917	19.9%
Interest & Investment Income	447,243	76,500	370,743	484.6%
Total Funding (A)	**89,550,777**	**88,268,926**	**1,281,851**	**1.5%**
Expenses				
Personnel Expenses				
Salaries	38,513,167	39,557,528	(1,044,361)	(2.6%)
Payroll Taxes	2,409,429	2,310,836	98,593	4.3%
Benefits	5,444,840	6,038,487	(593,647)	(9.8%)
Retirement Costs	3,906,299	4,059,585	(153,286)	(3.8%)
Total Personnel Expenses	**50,273,735**	**51,966,436**	**(1,692,701)**	**(3.3%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	620,704	1,132,550	(511,846)	(45.2%)
Travel	1,114,478	1,475,500	(361,022)	(24.5%)
Total Meetings and Travel Expenses	**1,735,182**	**2,608,050**	**(872,868)**	**(33.5%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	13,766,498	13,674,800	91,698	0.7%
Office Rent	3,023,870	3,243,277	(219,407)	(6.8%)
Office Costs	10,836,452	10,749,222	87,230	0.8%
Professional Services	2,799,343	2,488,100	311,243	12.5%
Miscellaneous	87,119	144,650	(57,531)	(39.8%)
Total Operating Expenses, excluding Depreciation	**30,513,282**	**30,300,049**	**213,233**	**0.7%**
Total Direct Expenses	**82,522,199**	**84,874,535**	**(2,352,336)**	**(2.8%)**
Indirect Expenses	**-**	**-**	**-**	
Other Non-Operating Expenses	**787,388**	**135,000**	**652,388**	**483.3%**
Total Expenses (B)	**83,309,587**	**85,009,535**	**(1,699,948)**	**(2.0%)**
Change in Net Assets (=A-B)	**6,241,190**	**3,259,391**	**2,981,799**	**91.5%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**3,955,243**	**4,918,750**	**(963,507)**	**(19.6%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(1,483,672)	(2,100,000)	616,328	**(29.3%)**
Loan or Financing Lease - Principal Payments (+)	630,985	1,000,000	(369,015)	**(36.9%)**
Net Financing Activity (D)	**(852,687)**	**(1,100,000)**	**247,313**	**(22.5%)**
Total Budget (=B+C+D)	**86,412,143**	**88,828,285**	**(2,416,142)**	**(2.7%)**
Change in Working Capital (=A-B-C-D)	**3,138,634**	**(559,359)**	**3,697,993**	**(661.1%)**
FTEs	**218.27**	**223.72**	**(5.45)**	**(2.4%)**

*** 12/31/2022 actual amounts are based on the audited financial statements, with the exception of penalty income and depreciation expense as described in footnotes A and B, respectively, in the first table of this report.**

Reliability Standards and Power Risk Issue Strategic Management
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	9,530,739	9,530,739	0	**0.0%**
Penalties Released	-	-	-	
Total NERC Funding	**9,530,739**	**9,530,739**	**0**	**0.0%**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(21)	-	(21)	
Interest & Investment Income	50,023	10,895	39,128	**359.1%**
Total Funding (A)	**9,580,741**	**9,541,634**	**39,107**	**0.4%**
Expenses				
Personnel Expenses				
Salaries	3,125,671	2,951,243	174,428	**5.9%**
Payroll Taxes	197,341	183,584	13,757	**7.5%**
Benefits	441,788	467,848	(26,060)	**(5.6%)**
Retirement Costs	299,467	324,253	(24,786)	**(7.6%)**
Total Personnel Expenses	**4,064,268**	**3,926,928**	**137,340**	**3.5%**
Meetings and Travel Expenses				
Meetings & Conference Calls	13,866	65,000	(51,134)	**(78.7%)**
Travel	99,335	115,000	(15,665)	**(13.6%)**
Total Meetings and Travel Expenses	**113,201**	**180,000**	**(66,799)**	**(37.1%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	155,499	158,960	(3,461)	**(2.2%)**
Office Rent	-	-	-	
Office Costs	75,669	52,850	22,819	**43.2%**
Professional Services	-	-	-	
Miscellaneous	1,470	2,300	(830)	**(36.1%)**
Total Operating Expenses, excluding Depreciation	**232,639**	**214,110**	**18,529**	**8.7%**
Total Direct Expenses	**4,410,108**	**4,321,038**	**89,069**	**2.1%**
Indirect Expenses	**5,236,409**	**4,916,148**	**320,262**	**6.5%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**9,646,517**	**9,237,186**	**409,331**	**4.4%**
Change in Net Assets (=A-B)	**(65,776)**	**304,448**	**(370,224)**	**(121.6%)**
Fixed Asset Additions, excluding Right of Use Assets (C)	**391,214**	**508,567**	**(117,353)**	**(23.1%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(216,941)	(290,610)	73,669	**(25.3%)**
Loan or Financing Lease - Principal Payments (+)	35,227	86,491	(51,264)	**(59.3%)**
Net Financing Activity (D)	**(181,714)**	**(204,119)**	**22,405**	**(11.0%)**
Total Budget (=B+C+D)	**9,856,017**	**9,541,634**	**314,383**	**3.3%**
Change in Working Capital (=A-B-C-D)	**(275,276)**	**0**	**(275,276)**	
FTEs	**20.07**	**19.74**	**0.33**	**1.7%**

Explanation of Variances by Category – Reliability Standards and Power Risk Issue Strategic Management

- **Funding** – Interest and investment income was $39k (359.1%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Meetings and Travel Expenses** – Under budget $67k (37.1%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Operating Expenses**
  - Office costs were $23k (43.2%) over budget primarily attributable to higher than budgeted telephone and office supplies expense.

- **Fixed Asset Additions**
  - Under budget $117k (23.1%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $22k (11.0%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Compliance Assurance
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	10,685,621	10,685,621	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**10,685,621**	**10,685,621**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(18)	-	(18)	
Interest & Investment Income	41,599	9,857	31,741	**322.0%**
Total Funding (A)	**10,727,202**	**10,695,478**	**31,724**	**0.3%**
Expenses				
Personnel Expenses				
Salaries	2,842,805	3,102,464	(259,659)	**(8.4%)**
Payroll Taxes	188,600	185,439	3,161	**1.7%**
Benefits	528,933	630,085	(101,152)	**(16.1%)**
Retirement Costs	292,978	343,078	(50,100)	**(14.6%)**
Total Personnel Expenses	**3,853,316**	**4,261,066**	**(407,750)**	**(9.6%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	23,217	80,000	(56,783)	**(71.0%)**
Travel	74,158	220,000	(145,842)	**(66.3%)**
Total Meetings and Travel Expenses	**97,376**	**300,000**	**(202,624)**	**(67.5%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	471,208	305,000	166,208	**54.5%**
Office Rent	-	-	-	
Office Costs	666,519	638,516	28,003	**4.4%**
Professional Services	-	-	-	
Miscellaneous	680	2,500	(1,820)	**(72.8%)**
Total Operating Expenses, excluding Depreciation	**1,138,407**	**946,016**	**192,391**	**20.3%**
Total Direct Expenses	**5,089,099**	**5,507,082**	**(417,983)**	**(7.6%)**
Indirect Expenses	**4,354,543**	**4,447,943**	**(93,400)**	**(2.1%)**
Other Non-Operating Expenses	**22,937**	**27,500**	**(4,563)**	**(16.6%)**
Total Expenses (B)	**9,466,579**	**9,982,525**	**(515,947)**	**(5.2%)**
Change in Net Assets (=A-B)	**1,260,624**	**712,953**	**547,670**	**76.8%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**783,843**	**710,132**	**73,712**	**10.4%**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(180,406)	(262,932)	82,527	**(31.4%)**
Loan or Financing Lease - Principal Payments (+)	224,328	265,754	(41,426)	**(15.6%)**
Net Financing Activity (D)	**43,922**	**2,821**	**41,101**	**1456.8%**
Total Budget (=B+C+D)	**10,294,344**	**10,695,478**	**(401,134)**	**(3.8%)**
Change in Working Capital (=A-B-C-D)	**432,858**	**(0)**	**432,858**	
FTEs	**16.69**	**17.86**	**(1.17)**	**(6.6%)**

Explanation of Variances by Category – Compliance Assurance

- **Funding** – Interest and investment income was $32k (322.0%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Personnel Expenses** – Under budget $408k (9.6%) primarily attributable to turnover and the timing in the hiring of replacements, and lower than budgeted parking/transportation costs because of the pandemic.

- **Meetings and Travel Expenses** – Under budget $203k (67.5%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Operating Expenses**
  - Contract and consultant expenses were $166k (54.5%) over budget mainly as a result of additional dedicated technology support needs for the Align project.

- **Fixed Asset Additions**
  - Software was over budget $209k (83.4%) primarily due to additional Align project enhancements.
  - The fixed asset additions allocation was under budget $134k (29.3%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Loan principal payments were over budget $7k (4.0%) due to higher than budgeted principal payments on prior year ERO Secure Evidence Locker financings.
  - Over budget $34k (18.2%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Registration and Certification
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	1,987,669	1,987,669	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**1,987,669**	**1,987,669**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(4)	-	(4)	
Interest & Investment Income	9,970	2,075	7,895	**380.4%**
Total Funding (A)	**1,997,635**	**1,989,744**	**7,890**	**0.4%**
Expenses				
Personnel Expenses				
Salaries	670,849	657,424	13,425	**2.0%**
Payroll Taxes	48,896	39,504	9,392	**23.8%**
Benefits	124,496	130,998	(6,502)	**(5.0%)**
Retirement Costs	76,638	73,320	3,319	**4.5%**
Total Personnel Expenses	**920,879**	**901,245**	**19,633**	**2.2%**
Meetings and Travel Expenses				
Meetings & Conference Calls	-	2,000	(2,000)	**(100.0%)**
Travel	6,859	31,000	(24,141)	**(77.9%)**
Total Meetings and Travel Expenses	**6,859**	**33,000**	**(26,141)**	**(79.2%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	48,280	40,000	8,280	**20.7%**
Office Rent	-	-	-	
Office Costs	6,611	10,350	(3,739)	**(36.1%)**
Professional Services	-	-	-	
Miscellaneous	-	750	(750)	**(100.0%)**
Total Operating Expenses, excluding Depreciation	**54,891**	**51,100**	**3,791**	**7.4%**
Total Direct Expenses	**982,629**	**985,345**	**(2,716)**	**(0.3%)**
Indirect Expenses	**1,043,629**	**936,409**	**107,220**	**11.5%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**2,026,258**	**1,921,754**	**104,504**	**5.4%**
Change in Net Assets (=A-B)	**(28,623)**	**67,990**	**(96,613)**	**(142.1%)**
Fixed Asset Additions, excluding Right of Use Assets (C)	**77,970**	**106,870**	**(28,900)**	**(27.0%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(43,237)	(55,354)	12,117	**(21.9%)**
Loan or Financing Lease - Principal Payments (+)	7,021	16,474	(9,454)	**(57.4%)**
Net Financing Activity (D)	**(36,216)**	**(38,880)**	**2,664**	**(6.9%)**
Total Budget (=B+C+D)	**2,068,012**	**1,989,744**	**78,267**	**3.9%**
Change in Working Capital (=A-B-C-D)	**(70,377)**	**(0)**	**(70,377)**	
FTEs	**4.00**	**3.76**	**0.24**	**6.4%**

Explanation of Variances by Category – Registration and Certification

- **Meetings and Travel Expenses** – Under budget $26k (79.2%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Indirect Expenses** – Over budget $107k (11.5%) as a result of the allocation of costs (excluding fixed asset additions and financing activity) from the administrative programs. See Table 2 and the related write-up for more information.

- **Fixed Asset Additions**
  - Software was under budget $10k (100.0%) primarily due to budgeted capitalized enhancements and modifications for Entity Registration CORES that did not occur.
  - The fixed asset additions allocation was under budget $19k (19.5%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $3k (6.9%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Compliance Enforcement
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	7,007,753	7,007,753	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**7,007,753**	**7,007,753**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(12)	-	(12)	
Interest & Investment Income	27,342	6,744	20,598	**305.4%**
Total Funding (A)	**7,035,083**	**7,014,497**	**20,586**	**0.3%**
Expenses				
Personnel Expenses				
Salaries	1,669,692	1,838,076	(168,384)	**(9.2%)**
Payroll Taxes	113,327	122,697	(9,370)	**(7.6%)**
Benefits	169,003	210,112	(41,109)	**(19.6%)**
Retirement Costs	175,170	204,099	(28,929)	**(14.2%)**
Total Personnel Expenses	**2,127,192**	**2,374,984**	**(247,792)**	**(10.4%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	-	7,000	(7,000)	**(100.0%)**
Travel	6,039	30,000	(23,961)	**(79.9%)**
Total Meetings and Travel Expenses	**6,039**	**37,000**	**(30,961)**	**(83.7%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	393,694	249,000	144,694	**58.1%**
Office Rent	-	-	-	
Office Costs	623,257	639,816	(16,559)	**(2.6%)**
Professional Services	-	15,000	(15,000)	**(100.0%)**
Miscellaneous	-	1,900	(1,900)	**(100.0%)**
Total Operating Expenses, excluding Depreciation	**1,016,952**	**905,716**	**111,236**	**12.3%**
Total Direct Expenses	**3,150,183**	**3,317,700**	**(167,517)**	**(5.0%)**
Indirect Expenses	**2,862,153**	**3,043,329**	**(181,176)**	**(6.0%)**
Other Non-Operating Expenses	**22,937**	**27,500**	**(4,563)**	**(16.6%)**
Total Expenses (B)	**6,035,273**	**6,388,529**	**(353,256)**	**(5.5%)**
Change in Net Assets (=A-B)	**999,810**	**625,968**	**373,842**	**59.7%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**672,347**	**564,827**	**107,520**	**19.0%**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(118,577)	(179,901)	61,324	**(34.1%)**
Loan or Financing Lease - Principal Payments (+)	214,288	241,042	(26,754)	**(11.1%)**
Net Financing Activity (D)	**95,711**	**61,141**	**34,570**	**56.5%**
Total Budget (=B+C+D)	**6,803,331**	**7,014,497**	**(211,167)**	**(3.0%)**
Change in Working Capital (=A-B-C-D)	**231,752**	**(0)**	**231,752**	
FTEs	**10.97**	**12.22**	**(1.25)**	**(10.2%)**

Explanation of Variances by Category – Compliance Enforcement

- **Funding** – Interest and investment income was $21k (305.4%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Personnel Expenses** – Under budget $248k (10.4%) primarily attributable to turnover and the timing in the hiring of replacements.

- **Meetings and Travel Expenses** – Under budget $31k (83.7%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Operating Expenses**
  - Contract and consultant expenses were $145k (58.1%) over budget mainly as a result of additional dedicated technology support needs for the Align project.
  - Professional services expenses were $15k (100%) under budget because of costs budgeted for legal services that were not needed.

- **Fixed Asset Additions**
  - Software was over budget $209k (83.4%) primarily due to Align project enhancements.
  - The fixed asset additions allocation was under budget $101k (32.1%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Loan principal payments were over budget $7k (4.0%) due to higher than budgeted principal payments on prior year ERO Secure Evidence Locker financings.
  - Over budget $27k (21.4%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

BPS Security and Grid Transformation
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	1,924,892	1,924,892	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**1,924,892**	**1,924,892**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(4)	-	(4)	
Interest & Investment Income	8,250	4,669	3,581	**76.7%**
Total Funding (A)	**1,933,138**	**1,929,561**	**3,577**	**0.2%**
Expenses				
Personnel Expenses				
Salaries	632,298	696,193	(63,895)	**(9.2%)**
Payroll Taxes	36,454	40,725	(4,272)	**(10.5%)**
Benefits	106,904	93,830	13,074	**13.9%**
Retirement Costs	41,022	75,113	(34,092)	**(45.4%)**
Total Personnel Expenses	**816,677**	**905,862**	**(89,185)**	**(9.8%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	599	-	599	
Travel	14,634	24,000	(9,366)	**(39.0%)**
Total Meetings and Travel Expenses	**15,233**	**24,000**	**(8,767)**	**(36.5%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	94,846	-	94,846	
Office Rent	-	-	-	
Office Costs	16,279	4,500	11,779	**261.7%**
Professional Services	-	-	-	
Miscellaneous	3,315	800	2,515	**314.4%**
Total Operating Expenses, excluding Depreciation	**114,440**	**5,300**	**109,140**	**2059.2%**
Total Direct Expenses	**946,349**	**935,162**	**11,187**	**1.2%**
Indirect Expenses	**863,603**	**936,409**	**(72,806)**	**(7.8%)**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**1,809,952**	**1,871,571**	**(61,619)**	**(3.3%)**
Change in Net Assets (=A-B)	**123,186**	**57,990**	**65,196**	**112.4%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**113,520**	**96,870**	**16,650**	**17.2%**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(35,778)	(55,354)	19,576	**(35.4%)**
Loan or Financing Lease - Principal Payments (+)	5,810	16,474	(10,665)	**(64.7%)**
Net Financing Activity (D)	**(29,969)**	**(38,880)**	**8,911**	**(22.9%)**
Total Budget (=B+C+D)	**1,893,504**	**1,929,561**	**(36,057)**	**(1.9%)**
Change in Working Capital (=A-B-C-D)	**39,634**	**0**	**39,634**	
FTEs	**3.31**	**3.76**	**(0.45)**	**(12.0%)**

Explanation of Variances by Category – BPS Security and Grid Transformation

- **Personnel Expenses** – Under budget $89k (9.8%) primarily attributable to the timing in the hiring of two positions.

- **Operating Expenses**
  - Contract and consultant expenses were $95k (100.0%) over budget mainly as a result of an unbudgeted contractor to support operational technology/industrial control system cyber security functions.
  - Office costs were $12k (261.7%) greater than budget mainly due to unbudgeted software maintenance support costs.

- **Fixed Asset Additions**
  - Software was over budget $49k (100%) due to an unbudgeted perpetual software license purchase.
  - The fixed asset additions allocation was under budget $32k (33.4%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $9k (22.9%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Reliability Assessments and Technical Committees
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	4,231,576	4,231,576	0	**0.0%**
Penalties Released	-	-	-	
Total NERC Funding	**4,231,576**	**4,231,576**	**0**	**0.0%**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(8)	-	(8)	
Interest & Investment Income	19,815	4,150	15,664	**377.4%**
Total Funding (A)	**4,251,383**	**4,235,727**	**15,656**	**0.4%**
Expenses				
Personnel Expenses				
Salaries	1,361,549	1,269,181	92,368	**7.3%**
Payroll Taxes	85,818	77,297	8,521	**11.0%**
Benefits	139,133	161,154	(22,021)	**(13.7%)**
Retirement Costs	139,091	141,933	(2,843)	**(2.0%)**
Total Personnel Expenses	**1,725,591**	**1,649,565**	**76,026**	**4.6%**
Meetings and Travel Expenses				
Meetings & Conference Calls	7,730	135,000	(127,270)	**(94.3%)**
Travel	59,609	58,000	1,609	**2.8%**
Total Meetings and Travel Expenses	**67,339**	**193,000**	**(125,661)**	**(65.1%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	75,000	210,000	(135,000)	**(64.3%)**
Office Rent	-	-	-	
Office Costs	68,832	93,063	(24,231)	**(26.0%)**
Professional Services	-	-	-	
Miscellaneous	426	1,300	(874)	**(67.2%)**
Total Operating Expenses, excluding Depreciation	**144,258**	**304,363**	**(160,105)**	**(52.6%)**
Total Direct Expenses	**1,937,188**	**2,146,928**	**(209,740)**	**(9.8%)**
Indirect Expenses	**2,074,213**	**1,872,818**	**201,395**	**10.8%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**4,011,401**	**4,019,746**	**(8,345)**	**(0.2%)**
Change in Net Assets (=A-B)	**239,982**	**215,980**	**24,001**	**11.1%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**154,965**	**293,740**	**(138,774)**	**(47.2%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(85,933)	(110,708)	24,775	**(22.4%)**
Loan or Financing Lease - Principal Payments (+)	13,954	32,949	(18,995)	**(57.7%)**
Net Financing Activity (D)	**(71,979)**	**(77,759)**	**5,780**	**(7.4%)**
Total Budget (=B+C+D)	**4,094,387**	**4,235,727**	**(141,340)**	**(3.3%)**
Change in Working Capital (=A-B-C-D)	**156,996**	**(0)**	**156,996**	
FTEs	**7.95**	**7.52**	**0.43**	**5.7%**

Explanation of Variances by Category – Reliability Assessments and Technical Committees

- **Funding** – Interest and investment income was $16k (377.4%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Personnel Expenses** – Over budget $76k (4.6%) primarily attributable to lower than budgeted attrition, partially offset by lower than budgeted training costs and parking and transportation costs due to a continued hybrid workforce.

- **Meetings and Travel Expenses** – Under budget $126k (65.1%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Operating Expenses**
  - Contract and consultant expenses were $135k (64.3%) under budget primarily due to lower than anticipated support services for analysis, research, and application support.
  - Office costs were under budget $24k (26.0%) mainly due to lower than budgeted software license and support costs.

- **Indirect Expenses** – Over budget $201k (10.8%) as a result of the allocation of costs (excluding fixed asset additions and financing activity) from the administrative programs. See Table 2 and the related write-up for more information.

- **Fixed Asset Additions**
  - Software was under budget $100k (100.0%) due to budgeted Reliability Assessment and enterprise reporting system development that were deferred and used to fund NERC Alert enhancements in the Situation Awareness department.
  - The fixed asset additions allocation was under budget $39k (20.0%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $6k (7.4%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Advanced System Analytics and Modeling & Power System Analysis
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	4,867,464	4,867,464	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**4,867,464**	**4,867,464**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(8)	-	(8)	
Interest & Investment Income	18,494	3,632	14,862	**409.2%**
Total Funding (A)	**4,885,950**	**4,871,095**	**14,854**	**0.3%**
Expenses				
Personnel Expenses				
Salaries	1,310,097	1,486,411	(176,314)	**(11.9%)**
Payroll Taxes	86,266	91,092	(4,826)	**(5.3%)**
Benefits	164,833	238,773	(73,940)	**(31.0%)**
Retirement Costs	147,497	166,198	(18,700)	**(11.3%)**
Total Personnel Expenses	**1,708,693**	**1,982,473**	**(273,780)**	**(13.8%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	-	35,000	(35,000)	**(100.0%)**
Travel	12,789	100,000	(87,211)	**(87.2%)**
Total Meetings and Travel Expenses	**12,789**	**135,000**	**(122,211)**	**(90.5%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	100,000	250,000	(150,000)	**(60.0%)**
Office Rent	-	-	-	
Office Costs	172,682	264,824	(92,142)	**(34.8%)**
Professional Services	-	-	-	
Miscellaneous	276	1,400	(1,124)	**(80.3%)**
Total Operating Expenses, excluding Depreciation	**272,958**	**516,224**	**(243,266)**	**(47.1%)**
Total Direct Expenses	**1,994,441**	**2,633,697**	**(639,257)**	**(24.3%)**
Indirect Expenses	**1,935,932**	**2,106,920**	**(170,988)**	**(8.1%)**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**3,930,373**	**4,740,618**	**(810,245)**	**(17.1%)**
Change in Net Assets (=A-B)	**955,577**	**130,478**	**825,099**	**632.4%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**144,634**	**217,957**	**(73,323)**	**(33.6%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(80,204)	(124,547)	44,343	**(35.6%)**
Loan or Financing Lease - Principal Payments (+)	13,024	37,068	(24,044)	**(64.9%)**
Net Financing Activity (D)	**(67,181)**	**(87,479)**	**20,299**	**(23.2%)**
Total Budget (=B+C+D)	**4,007,826**	**4,871,095**	**(863,269)**	**(17.7%)**
Change in Working Capital (=A-B-C-D)	**878,124**	**(0)**	**878,124**	
FTEs	**7.42**	**8.46**	**(1.04)**	**(12.3%)**

Explanation of Variances by Category – Advanced System Analytics and Modeling & Power System Analysis

- **Funding** – Interest and investment income was $15k (409.2%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Personnel Expenses** – Under budget $274k (13.8%) primarily attributable to the timing in hiring of one FTE and at a lower salary than budgeted, in addition to lower than budgeted training costs and parking and transportation costs due to a continued hybrid workforce.

- **Meetings and Travel Expenses** – Under budget $122k (90.5%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Operating Expenses**
  - Contract and consultant expenses were $150k (60.0%) under budget primarily due to lower than anticipated support services for probabilistic analysis and emerging technologies.
  - Office cost expenses were $92k (34.8%) under budget mainly because of software that was budgeted but not needed.

- **Fixed Asset Additions**
  - Under budget $73k (33.6%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $20k (23.2%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Performance Analysis
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	3,824,235	3,824,235	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**3,824,235**	**3,824,235**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	46,000	60,000	(14,000)	**(23.3%)**
Miscellaneous Funding	(7)	-	(7)	
Interest & Investment Income	16,126	2,075	14,051	**677.1%**
Total Funding (A)	**3,886,354**	**3,886,310**	**44**	**0.0%**
Expenses				
Personnel Expenses				
Salaries	932,513	925,965	6,548	**0.7%**
Payroll Taxes	64,433	63,638	795	**1.2%**
Benefits	125,777	143,602	(17,824)	**(12.4%)**
Retirement Costs	90,445	102,292	(11,846)	**(11.6%)**
Total Personnel Expenses	**1,213,169**	**1,235,497**	**(22,328)**	**(1.8%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	599	10,000	(9,402)	**(94.0%)**
Travel	6,999	25,000	(18,001)	**(72.0%)**
Total Meetings and Travel Expenses	**7,597**	**35,000**	**(27,403)**	**(78.3%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	203,079	221,227	(18,148)	**(8.2%)**
Office Rent	-	-	-	
Office Costs	289,380	278,288	11,092	**4.0%**
Professional Services	-	-	-	
Miscellaneous	197	1,100	(903)	**(82.1%)**
Total Operating Expenses, excluding Depreciation	**492,656**	**500,615**	**(7,959)**	**(1.6%)**
Total Direct Expenses	**1,713,422**	**1,771,112**	**(57,689)**	**(3.3%)**
Indirect Expenses	**1,688,070**	**1,638,716**	**49,354**	**3.0%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**3,401,492**	**3,409,828**	**(8,335)**	**(0.2%)**
Change in Net Assets (=A-B)	**484,862**	**476,483**	**8,379**	**1.8%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**282,616**	**544,522**	**(261,906)**	**(48.1%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(69,936)	(96,870)	26,934	**(27.8%)**
Loan or Financing Lease - Principal Payments (+)	11,356	28,830	(17,474)	**(60.6%)**
Net Financing Activity (D)	**(58,579)**	**(68,040)**	**9,460**	**(13.9%)**
Total Budget (=B+C+D)	**3,625,529**	**3,886,310**	**(260,781)**	**(6.7%)**
Change in Working Capital (=A-B-C-D)	**260,825**	**(0)**	**260,825**	
FTEs	**6.47**	**6.58**	**(0.11)**	**(1.7%)**

Explanation of Variances by Category – Performance Analysis

- **Funding**
  - Services and software fees were $14k (23.3%) under budget due to less than expected purchases of NERC's PC-GAR software.
  - Interest and investment income was $14k (677.1%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Personnel Expenses** – Under budget $22k (1.8%) primarily attributable to lower than budgeted training costs, parking and transportation costs due to a continued hybrid workforce, and lower than budgeted retirement plan elections.

- **Meetings and Travel Expenses** – Under budget $27k (78.3%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Fixed Asset Additions**
  - Software was under budget $219k (58.3%) primarily due the deferral of GADS-wind and GADS-solar projects that helped fund the additional Align project enhancements.
  - The fixed asset additions allocation was under budget $44k (25.6%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $9k (13.9%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Situation Awareness
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	5,114,638	5,114,638	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**5,114,638**	**5,114,638**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(8)	-	(8)	
Interest & Investment Income	19,516	4,150	15,365	**370.2%**
Total Funding (A)	**5,134,145**	**5,118,788**	**15,357**	**0.3%**
Expenses				
Personnel Expenses				
Salaries	1,287,782	1,227,161	60,621	**4.9%**
Payroll Taxes	84,961	76,087	8,873	**11.7%**
Benefits	246,823	258,757	(11,934)	**(4.6%)**
Retirement Costs	132,898	134,973	(2,075)	**(1.5%)**
Total Personnel Expenses	**1,752,464**	**1,696,978**	**55,486**	**3.3%**
Meetings and Travel Expenses				
Meetings & Conference Calls	38,896	70,000	(31,104)	**(44.4%)**
Travel	9,468	22,000	(12,532)	**(57.0%)**
Total Meetings and Travel Expenses	**48,364**	**92,000**	**(43,636)**	**(47.4%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	48,750	15,000	33,750	**225.0%**
Office Rent	-	-	-	
Office Costs	1,216,991	1,217,412	(421)	**(0.0%)**
Professional Services	-	-	-	
Miscellaneous	315	1,100	(785)	**(71.3%)**
Total Operating Expenses, excluding Depreciation	**1,266,057**	**1,233,512**	**32,545**	**2.6%**
Total Direct Expenses	**3,066,884**	**3,022,490**	**44,394**	**1.5%**
Indirect Expenses	**2,042,904**	**1,872,818**	**170,086**	**9.1%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**5,109,788**	**4,895,308**	**214,480**	**4.4%**
Change in Net Assets (=A-B)	**24,358**	**223,480**	**(199,123)**	**(89.1%)**
Fixed Asset Additions, excluding Right of Use Assets (C)	**228,493**	**301,240**	**(72,747)**	**(24.1%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(84,636)	(110,708)	26,072	**(23.6%)**
Loan or Financing Lease - Principal Payments (+)	13,743	32,949	(19,206)	**(58.3%)**
Net Financing Activity (D)	**(70,893)**	**(77,759)**	**6,867**	**(8.8%)**
Total Budget (=B+C+D)	**5,267,388**	**5,118,788**	**148,600**	**2.9%**
Change in Working Capital (=A-B-C-D)	**(133,243)**	**(0)**	**(133,243)**	
FTEs	**7.83**	**7.52**	**0.31**	**4.1%**

Explanation of Variances by Category – Situation Awareness

- **Funding**
  - Interest and investment income was $15k (370.2%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Meetings and Travel Expenses** – Under budget $44k (47.4%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Operating Expenses**
  - Contract and consultant expenses were $34k (225.0%) over budget primarily because of unbudgeted NERC Alerts system enhancements that were funded by a deferral of Reliability Assessments and Event Analysis system development projects.

- **Fixed Asset Additions**
  - Software was under budget $7k (8.0%) due to lower than anticipated capitalized software needs.
  - Equipment and servers was under budget $25k (100%) because it was determined that the equipment purchase was not needed.
  - The fixed asset additions allocation was under budget $41k (21.2%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $7k (8.8%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Event Analysis
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	3,815,421	3,815,421	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**3,815,421**	**3,815,421**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(7)	-	(7)	
Interest & Investment Income	17,447	3,632	13,815	**380.4%**
Total Funding (A)	**3,832,861**	**3,819,053**	**13,808**	**0.4%**
Expenses				
Personnel Expenses				
Salaries	1,357,488	1,297,758	59,730	**4.6%**
Payroll Taxes	83,864	73,630	10,234	**13.9%**
Benefits	179,311	205,684	(26,373)	**(12.8%)**
Retirement Costs	146,181	145,524	657	**0.5%**
Total Personnel Expenses	**1,766,844**	**1,722,596**	**44,248**	**2.6%**
Meetings and Travel Expenses				
Meetings & Conference Calls	50	35,000	(34,950)	**(99.9%)**
Travel	16,198	91,000	(74,802)	**(82.2%)**
Total Meetings and Travel Expenses	**16,248**	**126,000**	**(109,752)**	**(87.1%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	98,080	118,158	(20,078)	**(17.0%)**
Office Rent	-	-	-	
Office Costs	13,012	50,500	(37,488)	**(74.2%)**
Professional Services	-	-	-	
Miscellaneous	285	1,600	(1,315)	**(82.2%)**
Total Operating Expenses, excluding Depreciation	**111,377**	**170,258**	**(58,881)**	**(34.6%)**
Total Direct Expenses	**1,894,469**	**2,018,854**	**(124,386)**	**(6.2%)**
Indirect Expenses	**1,826,351**	**1,638,716**	**187,635**	**11.5%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**3,720,820**	**3,657,570**	**63,250**	**1.7%**
Change in Net Assets (=A-B)	**112,041**	**161,483**	**(49,442)**	**(30.6%)**
Fixed Asset Additions, excluding Right of Use Assets (C)	**136,447**	**229,522**	**(93,075)**	**(40.6%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(75,664)	(96,870)	21,205	**(21.9%)**
Loan or Financing Lease - Principal Payments (+)	12,286	28,830	(16,544)	**(57.4%)**
Net Financing Activity (D)	**(63,378)**	**(68,040)**	**4,661**	**(6.9%)**
Total Budget (=B+C+D)	**3,793,889**	**3,819,053**	**(25,164)**	**(0.7%)**
Change in Working Capital (=A-B-C-D)	**38,972**	**0**	**38,972**	
FTEs	**7.00**	**6.58**	**0.42**	**6.4%**

Explanation of Variances by Category – Event Analysis

- **Funding** – Interest and investment income was $14k (380.4%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Personnel Expenses** – Over budget $44k (2.6%) primarily due to no attrition and was partially offset by lower than budgeted parking and transportation costs due to a continued hybrid workforce.

- **Meetings and Travel Expenses** – Under budget $110k (87.1%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Operating Expenses**
  - Contract and consultant expenses were $20k (17.0%) under budget primarily attributable to lower than budgeted event review augmentation.
  - Office costs were $37k (74.2%) under budget mainly as a result of a budgeted membership that was not renewed.

- **Indirect Expenses** – Over budget $188k (11.5%) as a result of the allocation of costs (excluding fixed asset additions and financing activity) from the administrative programs. See Table 2 and the related write-up for more information.

- **Fixed Asset Additions**
  - Software was under budget $60k (100.0%) due to lower than anticipated capitalized software needs.
  - The fixed asset additions allocation was under budget $33k (19.5%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $5k (6.9%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

E-ISAC (excluding CRISP)
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	23,779,997	23,779,997	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**23,779,997**	**23,779,997**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	72,023	60,000	12,023	**20.0%**
Interest & Investment Income	93,541	22,082	71,460	**323.6%**
Total Funding (A)	**23,945,561**	**23,862,079**	**83,482**	**0.3%**
Expenses				
Personnel Expenses				
Salaries	6,663,485	7,160,834	(497,350)	**(6.9%)**
Payroll Taxes	445,402	439,258	6,144	**1.4%**
Benefits	879,237	933,864	(54,628)	**(5.8%)**
Retirement Costs	672,945	800,898	(127,953)	**(16.0%)**
Total Personnel Expenses	**8,661,068**	**9,334,855**	**(673,787)**	**(7.2%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	98,138	90,000	8,138	**9.0%**
Travel	91,182	200,000	(108,818)	**(54.4%)**
Total Meetings and Travel Expenses	**189,320**	**290,000**	**(100,680)**	**(34.7%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	2,064,233	2,171,041	(106,808)	**(4.9%)**
Office Rent	-	-	-	
Office Costs	1,326,608	1,384,704	(58,096)	**(4.2%)**
Professional Services	-	-	-	
Miscellaneous	2,595	9,200	(6,605)	**(71.8%)**
Total Operating Expenses, excluding Depreciation	**3,393,436**	**3,564,945**	**(171,509)**	**(4.8%)**
Total Direct Expenses	**12,243,824**	**13,189,800**	**(945,976)**	**(7.2%)**
Indirect Expenses	**9,791,851**	**9,963,978**	**(172,127)**	**(1.7%)**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**22,035,674**	**23,153,777**	**(1,118,103)**	**(4.8%)**
Change in Net Assets (=A-B)	**1,909,886**	**708,301**	**1,201,585**	**169.6%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**792,535**	**1,122,006**	**(329,471)**	**(29.4%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(405,669)	(589,003)	183,334	**(31.1%)**
Loan or Financing Lease - Principal Payments (+)	65,872	175,299	(109,426)	**(62.4%)**
Net Financing Activity (D)	**(339,797)**	**(413,705)**	**73,908**	**(17.9%)**
Total Budget (=B+C+D)	**22,488,412**	**23,862,079**	**(1,373,667)**	**(5.8%)**
Change in Working Capital (=A-B-C-D)	**1,457,149**	**(0)**	**1,457,149**	
FTEs	**37.53**	**40.01**	**(2.48)**	**(6.2%)**

Explanation of Variances by Category – E-ISAC (excluding CRISP)

- **Funding**
  - Miscellaneous funding was $12k (20.0%) over budget due to the receipt of unbudgeted revenue related to the E-ISAC's Vendor Affiliate Program[1].
  - Interest and investment income was $71k (323.6%) over budget due to the interest and investment income allocation from the administrative programs. See Table 1 and the related write-up for more information.

- **Personnel Expenses** – Under budget $674k (7.2%) primarily attributable to turnover and the timing in the hiring of replacements and new hires.

- **Meetings and Travel Expenses** – Under budget $101k (34.7%) largely because of reduced in-person meetings and lower employee travel in the first half of the year due to the pandemic.

- **Fixed Asset Additions**
  - Software was over budget $20k (47.8%) because of internal labor costs budgeted as expense that were capitalized and added to the cost of the E-ISAC sharing platform for proper accounting treatment.
  - Equipment was under budget $50k (100%) because it was determined that the equipment purchase was not needed.
  - Under budget $299k (29.0%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $74k (17.9%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

[1] The Vendor Affiliate Program launched in 2022 with incremental implementation over three years. With the increasing complexities and risk in reliance on supply chain software components, this fee-for-service program provides opportunities for collaboration and information sharing between the E-ISAC and the vendor community. Participating vendors collaborate with electricity sector stakeholders in a trusted environment, providing timely and actionable information, helping to maintain situational awareness as events unfold, and offering post-event analysis and subject matter expertise on an ongoing basis. Sales and business development activities are strictly prohibited. For further information on the Vendor Affiliate Program, *see Compliance Filing of the North American Electric Reliability Corporation*, Docket Nos. RR22-4-000 and RR22-4-001 (Jan. 3, 2023) at 8-13.

CRISP
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	1,355,903	1,355,903	0	**0.0%**
Penalties Released	-	-	-	
Total NERC Funding	**1,355,903**	**1,355,903**	**0**	**0.0%**
Third-Party Funding (CRISP)	8,702,463	7,928,423	774,040	**9.8%**
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(3)	-	(3)	
Interest & Investment Income	102,748	1,000	101,748	**10174.8%**
Total Funding (A)	**10,161,111**	**9,285,326**	**875,785**	**9.4%**
Expenses				
Personnel Expenses				
Salaries	787,319	850,486	(63,168)	**(7.4%)**
Payroll Taxes	31,716	40,853	(9,137)	**(22.4%)**
Benefits	116,613	135,168	(18,555)	**(13.7%)**
Retirement Costs	55,280	69,046	(13,767)	**(19.9%)**
Total Personnel Expenses	**990,927**	**1,095,553**	**(104,626)**	**(9.6%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	25,975	12,000	13,975	**116.5%**
Travel	77,846	22,000	55,846	**253.8%**
Total Meetings and Travel Expenses	**103,821**	**34,000**	**69,821**	**205.4%**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	6,511,341	6,154,820	356,521	**5.8%**
Office Rent	-	-	-	
Office Costs	448,132	469,391	(21,259)	**(4.5%)**
Professional Services	444,237	190,000	254,237	**133.8%**
Miscellaneous	152	550	(398)	**(72.3%)**
Total Operating Expenses, excluding Depreciation	**7,403,861**	**6,814,761**	**589,100**	**8.6%**
Total Direct Expenses	**8,498,609**	**7,944,314**	**554,295**	**7.0%**
Indirect Expenses	**787,940**	**980,303**	**(192,363)**	**(19.6%)**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**9,286,549**	**8,924,618**	**361,932**	**4.1%**
Change in Net Assets (=A-B)	**874,561**	**360,708**	**513,853**	**142.5%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**79,195**	**101,411**	**(22,216)**	**(21.9%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(32,644)	(57,949)	25,305	**(43.7%)**
Loan or Financing Lease - Principal Payments (+)	5,301	17,247	(11,946)	**(69.3%)**
Net Financing Activity (D)	**(27,343)**	**(40,702)**	**13,359**	**(32.8%)**
Total Budget (=B+C+D)	**9,338,401**	**8,985,326**	**353,075**	**3.9%**
Change in Working Capital (=A-B-C-D)	**822,710**	**300,000**	**522,710**	**174.2%**
FTEs	**3.02**	**3.94**	**(0.92)**	**(23.3%)**

Explanation of Variances by Category – CRISP

- **Funding** – Interest and investment income in the bank account specific to this program area was $102k (10,174.8%) over budget due to higher interest rates than projected.

- **Personnel Expenses** – Under budget $105k (9.6%) primarily due to an open FTE position that was not filled during the year.

- **Meetings and Travel Expenses** – Over budget $70k (205.4%) due to increased outreach efforts to add new members to the CRISP program.

- **Operating Expenses**
  - Professional services were $254k (133.8%) over budget primarily because of increased costs for liability insurance, partially offset by budgeted outside legal costs that were not incurred.

- **Indirect Expenses** – Under budget $192k (19.6%) as a result of the allocation of costs (excluding fixed asset additions and financing activity) from the administrative programs. See Table 2 and the related write-up for more information.

- **Fixed Asset Additions**
  - Software was over budget $20k (100.0%) because of internal labor costs budgeted as expense that were capitalized and added to the cost of the E-ISAC sharing platform for proper accounting treatment.
  - The fixed asset additions allocation was under budget $43k (42.0%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

- **Financing Activity**
  - Over budget $13k (32.8%) due to the financing activity allocation from the administrative programs. See Table 4 and the related write-up for more information.

Personnel Certification and Continuing Education
Statement of Activities

	YTD Actual	YTD Budget	$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	-	-	-	
Penalties Released	-	-	-	
Total NERC Funding	**-**	**-**	**-**	
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	1,895,874	1,756,723	139,151	**7.9%**
Services & Software	-	-	-	
Miscellaneous Funding	(3)	-	(3)	
Interest & Investment Income	17,387	500	16,887	**3377.5%**
Total Funding (A)	**1,913,258**	**1,757,223**	**156,035**	**8.9%**
Expenses				
Personnel Expenses				
Salaries	340,498	318,852	21,646	**6.8%**
Payroll Taxes	25,182	23,835	1,346	**5.6%**
Benefits	39,176	43,222	(4,046)	**(9.4%)**
Retirement Costs	38,544	35,638	2,906	**8.2%**
Total Personnel Expenses	**443,400**	**421,547**	**21,853**	**5.2%**
Meetings and Travel Expenses				
Meetings & Conference Calls	41,719	32,000	9,719	**30.4%**
Travel	7,878	14,000	(6,122)	**(43.7%)**
Total Meetings and Travel Expenses	**49,597**	**46,000**	**3,597**	**7.8%**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	377,008	463,188	(86,180)	**(18.6%)**
Office Rent	-	-	-	
Office Costs	179,898	166,600	13,298	**8.0%**
Professional Services	-	-	-	
Miscellaneous	118	300	(182)	**(60.6%)**
Total Operating Expenses, excluding Depreciation	**557,024**	**630,088**	**(73,064)**	**(11.6%)**
Total Direct Expenses	**1,050,021**	**1,097,635**	**(47,614)**	**(4.3%)**
Indirect Expenses	**782,722**	**702,307**	**80,415**	**11.5%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**1,832,743**	**1,799,942**	**32,801**	**1.8%**
Change in Net Assets (=A-B)	**80,516**	**(42,719)**	**123,235**	**(288.5%)**
Fixed Asset Additions, excluding Right of Use Assets (C)	**58,477**	**72,652**	**(14,175)**	**(19.5%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(32,428)	(41,516)	9,088	**(21.9%)**
Loan or Financing Lease - Principal Payments (+)	5,266	12,356	(7,090)	**(57.4%)**
Net Financing Activity (D)	**(27,162)**	**(29,160)**	**1,998**	**(6.9%)**
Total Budget (=B+C+D)	**1,864,058**	**1,843,435**	**20,624**	**1.1%**
Change in Working Capital (=A-B-C-D)	**49,200**	**(86,212)**	**135,412**	**(157.1%)**
FTEs	**3.00**	**2.82**	**0.18**	**6.4%**

Explanation of Variances by Category – Personnel Certification and Continuing Education

- **Funding** – Interest and investment income in the bank account specific to this program area was $17k (3,377.5%) over budget due to higher interest rates than projected.

- **Operating Expenses**
  - Contract and consultant expenses were $86k (18.6%) under budget largely because of budgeted amounts not used for software enhancement support, lower than budgeted consulting costs for a credential maintenance research project, partially offset by unbudgeted staff augmentation costs.

- **Indirect Expenses** – Over budget $80k (11.5%) as a result of the allocation of costs (excluding fixed asset additions and financing activity) from the administrative programs. See Table 2 and the related write-up for more information.

- **Fixed Asset Additions**
  - Under budget $14k (19.5%) due to the fixed asset allocation from the administrative programs. See Table 3 and the related write-up for more information.

Training and Education
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	1,034,520	1,034,520	(0)	**(0.0%)**
Penalties Released	-	-	-	
Total NERC Funding	**1,034,520**	**1,034,520**	**(0)**	**(0.0%)**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	(2)	-	(2)	
Interest & Investment Income	4,985	1,038	3,947	**380.4%**
Total Funding (A)	**1,039,502**	**1,035,557**	**3,945**	**0.4%**
Expenses				
Personnel Expenses				
Salaries	254,813	234,880	19,932	**8.5%**
Payroll Taxes	18,911	18,880	31	**0.2%**
Benefits	43,046	49,040	(5,994)	**(12.2%)**
Retirement Costs	28,456	26,357	2,099	**8.0%**
Total Personnel Expenses	**345,225**	**329,158**	**16,067**	**4.9%**
Meetings and Travel Expenses				
Meetings & Conference Calls	-	2,000	(2,000)	**(100.0%)**
Travel	-	3,500	(3,500)	**(100.0%)**
Total Meetings and Travel Expenses	**-**	**5,500**	**(5,500)**	**(100.0%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	46,117	100,000	(53,883)	**(53.9%)**
Office Rent	-	-	-	
Office Costs	83,012	103,000	(19,988)	**(19.4%)**
Professional Services	-	-	-	
Miscellaneous	-	700	(700)	**(100.0%)**
Total Operating Expenses, excluding Depreciation	**129,129**	**203,700**	**(74,571)**	**(36.6%)**
Total Direct Expenses	**474,354**	**538,358**	**(64,003)**	**(11.9%)**
Indirect Expenses	**521,815**	**468,205**	**53,610**	**11.5%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**996,169**	**1,006,562**	**(10,393)**	**(1.0%)**
Change in Net Assets (=A-B)	**43,333**	**28,995**	**14,338**	**49.5%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**38,985**	**48,435**	**(9,450)**	**(19.5%)**
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(21,618)	(27,677)	6,059	**(21.9%)**
Loan or Financing Lease - Principal Payments (+)	3,510	8,237	(4,727)	**(57.4%)**
Net Financing Activity (D)	**(18,108)**	**(19,440)**	**1,332**	**(6.9%)**
Total Budget (=B+C+D)	**1,017,046**	**1,035,557**	**(18,511)**	**(1.8%)**
Change in Working Capital (=A-B-C-D)	**22,456**	**0**	**22,456**	
FTEs	**2.00**	**1.88**	**0.12**	**6.4%**

Explanation of Variances by Category – Training and Education

- **Operating Expenses**
  - Contract and consultant expenses were $54k (53.9%) under budget largely because of lower than anticipated support for training materials, partially offset by higher than budgeted ERO Enterprise transformation consulting.
  - Office costs were $20k ($19.4%) under budget to lower than anticipated software license and support costs.

- **Indirect Expenses** – Over budget $54k (11.5%) as a result of the allocation of costs (excluding fixed asset additions and financing activity) from the administrative programs. See Table 2 and the related write-up for more information.

Administrative Services
Statement of Activities

	Actual	Budget	$ Over/(Under)	% Over/(Under)
Funding				
NERC Funding				
NERC Assessments	(773,146)	(773,146)	-	**0.0%**
Penalties Released	-	-	-	
Total NERC Funding	**(773,146)**	**(773,146)**	**-**	**0.0%**
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	-	-	-	
Interest & Investment Income	-	-	-	
Total Funding (A)	**(773,146)**	**(773,146)**	**-**	**0.0%**
Expenses				
Personnel Expenses				
Salaries	15,276,310	15,540,598	(264,288)	**(1.7%)**
Payroll Taxes	898,259	834,316	63,943	**7.7%**
Benefits	2,139,767	2,336,350	(196,583)	**(8.4%)**
Retirement Costs	1,569,687	1,416,863	152,824	**10.8%**
Total Personnel Expenses	**19,884,023**	**20,128,127**	**(244,104)**	**(1.2%)**
Meetings and Travel Expenses				
Meetings & Conference Calls	369,916	557,550	(187,634)	**(33.7%)**
Travel	631,484	520,000	111,484	**21.4%**
Total Meetings and Travel Expenses	**1,001,400**	**1,077,550**	**(76,150)**	**(7.1%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	3,079,362	3,218,406	(139,044)	**(4.3%)**
Office Rent	3,023,870	3,243,277	(219,407)	**(6.8%)**
Office Costs	5,649,570	5,375,408	274,162	**5.1%**
Professional Services	2,355,106	2,283,100	72,006	**3.2%**
Miscellaneous	77,288	119,150	(41,862)	**(35.1%)**
Total Operating Expenses, excluding Depreciation	**14,185,197**	**14,239,341**	**(54,144)**	**(0.4%)**
Total Direct Expenses	**35,070,620**	**35,445,018**	**(374,398)**	**(1.1%)**
Indirect Expenses	**(35,812,135)**	**(35,525,018)**	**(287,116)**	**0.8%**
Other Non-Operating Expenses	**741,514**	**80,000**	**661,514**	**826.9%**
Total Expenses (B)	**-**	**-**	**-**	
Change in Net Assets (=A-B)	**(773,146)**	**(773,146)**	**-**	**0.0%**
Fixed Asset Additions, excluding Right of Use Assets (C)	**-**	**-**	**-**	
Financing Activity				
Loan or Financing Lease - Borrowing (-)	-	-	-	
Loan or Financing Lease - Principal Payments (+)	-	-	-	
Net Financing Activity (D)	**-**	**-**	**-**	
Total Budget (=B+C+D)	**-**	**-**	**-**	
Change in Working Capital (=A-B-C-D)	**(773,146)**	**(773,146)**	**-**	**0.0%**
FTEs	**81.0**	**81.1**	**(0.06)**	**(0.1%)**

Summary of Direct Expenses, Fixed Asset Additions, and Net Financing Activity by Administrative Program

Administrative Services (in whole dollars)	Direct Expenses, Fixed Asset Additions, and Net Financing Activity			FTEs		
	Actual	Budget	Over (Under)	Actual	Budget	Over (Under)
General and Administrative	$ 13,003,898	$ 12,536,346	$ 467,552	19.2	18.8	0.4
Legal and Regulatory	5,566,295	5,123,376	442,919	16.2	16.0	0.2
Information Technology	13,479,028	14,026,598	(547,570)	28.3	27.5	0.8
Human Resources	3,036,808	3,852,313	(815,505)	10.2	11.3	(1.1)
Finance and Accounting	2,158,890	2,186,385	(27,495)	7.0	7.5	(0.5)
Total Administrative Services	**$ 37,244,919**	**$ 37,725,018**	**$ (480,099)**	**81.0**	**81.1**	**(0.1)**

Explanation of Variances by Category – All Administrative Services Programs

- **Personnel Expenses** – Under budget $244k (1.2%) including the previously mentioned losses in the value of the non-qualified deferred compensation plans (which were equally offset by the increases in Other Non-Operating expenses creating a net $0 overall budget impact). Excluding the losses, personnel expenses were over budget $372k (1.8%) mainly as a result of lower than budgeted attrition, employee transition costs and board-approved compensation adjustments, partially offset by personnel dollars budgeted in the IT department but directly allocated to the relevant statutory program areas for work performed directly in those areas, lower than budgeted temporary office labor, and lower than budgeted parking and transportation costs due to a continued hybrid workforce.

- **Meetings and Travel Expenses** – Under budget $76k (7.1%) due to reduced in-person meetings and partially offset by increased travel for outreach and engagement purposes.

- **Operating Expenses**
  - Contracts and Consultants expenses were under budget $139k (4.3%) due largely to HR strategically moving external training needs to internal staff and also because the costs associated with an anticipated technology implementation were not incurred. This was partially offset by the increased need for internal audit staff augmentation and also due to unbudgeted IT cybersecurity contractor support.
  - Office rent expense was under budget $219k (6.8%) primarily due to an adjustment to comply with the new lease accounting standard (ASC 842) for the audited financial statements.
  - Office costs were $274k (5.1%) over budget mainly due to audio visual costs that were budgeted in financing activity but recorded to office costs in accordance with accounting standards.

- Professional Services expenses were over budget $72k (3.2%) primarily as a result of unbudgeted trustee search fees and increased costs for liability insurance, partially offset by lower outside legal costs.
- Miscellaneous expenses were under budget $42k (35.1%) mostly because of lower rewards and recognition, employee engagement, and sponsorship expenses than budgeted.

- **Other Non-Operating Expenses** – Over budget in total by $662k (826.9%) mostly because of losses in the value of the non-qualified deferred compensation plans which are being equally offset by the decreases in Personnel expenses creating a net $0 overall budget impact.

- **Fixed Asset Additions** – The budget was $3.7M and the actuals were $2.7M, for an under budget variance of $1.0M (27.2%).
  - For Software, the budget was $100k and the actuals were $42k, for an under budget variance of $58k (57.6%), which was mainly the result of an internal audit software implementation being lower than budgeted.
  - For Office Furniture, the budget was $400k and the actuals were $548k, for an over budget variance of $148k (37.1%). The $548k was for office furniture for the new Washington, DC office that was paid for by the landlord (i.e., not funded by assessments) and was recorded as an asset for audited financial statement purposes.
  - For Equipment and Servers, the budget was $675k and the actuals were $601k, for an under budget variance of $74k (10.9%), which was due to lower equipment needs than had been budgeted.
  - For Capital Lease Assets, the budget was $21.M and the actuals were $1.5M, for an under budget variance of $616k (29.3%), which was primarily a result of budgeted A/V assets for the new Atlanta office that did not materialize.
  - For Leasehold Improvements, the budget was $400k and the actuals were $0, for an under budget amount of $400k (100%), which was because of the new Atlanta lease that did not materialize.

- **Financing Activity** – Was over budget $232k (15.7%) primarily due to lower borrowing on A/V equipment for the new Atlanta office that did not materialize, which was partially offset by lower lease payments for leases that did not commence at all or later in the year.

North American Electric Reliability Corporation

Financial Report
December 31, 2022

Contents

RSM

RSM US LLP

Independent Auditor's Report

Board of Trustees
North American Electric Reliability Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of North American Electric Reliability Corporation (the Corporation), which comprise the statement of financial position as of December 31, 2022, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on January 1, 2022, the Corporation adopted new accounting guidance for its leases under Financial Accounting Standards Board Accounting Standards Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

McLean, Virginia
May 25, 2023

North American Electric Reliability Corporation

Statement of Financial Position
December 31, 2022

Assets		
Current assets:		
Cash and cash equivalents	$	39,304,446
Cash—regulatory designated		3,256,000
Restricted cash		500,000
Accounts receivable		5,223,972
Prepaid expenses		5,453,740
Total current assets		53,738,158
Long-term assets:		
Property and equipment, net		11,757,539
Finance lease right-of-use assets, net		1,597,933
Operating lease right-of-use assets		14,985,789
Security deposits		114,050
Non-qualified deferred compensation plan assets		3,407,579
Total long-term assets		31,862,890
Total assets	$	85,601,048
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$	13,322,671
Accrued retirement liabilities		21,538
Deferred revenue		10,013,269
Current portion of long-term debt		413,924
Current portion of finance lease liabilities		400,434
Current portion of operating lease liabilities		2,098,967
Regional assessments collected in advance		10,103,216
Total current liabilities		36,374,019
Long-term liabilities:		
Accrued retirement liabilities		414,796
Deferred compensation		2,469,638
Insurance reserve		500,000
Long-term debt		969,301
Finance lease liabilities—non-current		1,206,241
Operating lease liabilities—non-current		16,205,463
Total long-term liabilities		21,765,439
Total liabilities		58,139,458
Net assets without donor restrictions		27,461,590
Total net assets		27,461,590
Total liabilities and net assets	$	85,601,048

See notes to financial statements.

North American Electric Reliability Corporation

Statement of Activities
Year Ended December 31, 2022

Revenues:	
NERC assessments	$ 78,387,280
Third-party funding	8,702,463
Testing/fees	1,895,874
Penalties	735,000
Interest	447,243
Workshops	168,780
Miscellaneous revenues	71,917
Services and software	46,000
Total revenues	90,454,557
Expenses:	
Salaries and other compensation	39,129,588
Professional services	16,565,841
Computer software and supplies	8,473,516
Employee benefit costs	7,854,269
Depreciation and amortization	4,353,345
Retirement and savings plans	3,906,299
Operating lease expense	2,920,722
Office costs	2,362,936
Travel and meetings	1,903,962
Property and other tax expense	110,260
Tenant expense	103,148
Miscellaneous expenses	87,119
Interest	58,499
Provision for bad debts	2,208
Total expenses	87,831,712
Change in net assets	2,622,845
Net assets:	
Beginning	24,838,745
Ending	$ 27,461,590

See notes to financial statements.

North American Electric Reliability Corporation

Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services								Supporting Activities	
	Reliability Standards Development	Compliance Enforcement	Organization Registration and Certification	Personnel Certification Program	Reliability Assessment and Performance Analysis	Training and Education	Situation Awareness and Infrastructure Security*	Total Program Services	Management and General	Total
Salaries and other compensation	$ 3,312,319	$ 4,610,541	$ 719,871	$ 421,727	$ 6,015,522	$ 303,835	$ 9,036,860	$ 24,420,675	$ 14,708,913	$ 39,129,588
Professional services	155,499	864,903	48,280	377,008	571,005	46,117	9,068,560	11,131,372	5,434,469	16,565,841
Computer software and supplies	10,317	1,211,542	-	64,522	417,381	79,015	2,783,990	4,566,767	3,906,749	8,473,516
Employee benefit costs	656,153	1,005,583	176,253	70,533	1,109,312	64,817	1,826,397	4,909,048	2,945,221	7,854,269
Depreciation and amortization	76,956	2,146,784	372,083	-	235,568	-	280,013	3,111,404	1,241,941	4,353,345
Retirement and savings plans	339,465	480,950	83,039	52,807	649,657	34,857	910,877	2,551,652	1,354,647	3,906,299
Operating lease expense	268,561	370,125	53,525	40,144	430,207	26,762	647,384	1,836,708	1,084,014	2,920,722
Office costs	65,352	78,235	6,611	115,376	142,804	3,997	207,741	620,116	1,742,820	2,362,936
Travel and meetings	113,201	103,415	6,859	49,597	119,206	-	510,284	902,562	1,001,400	1,903,962
Property and other tax expense	-	-	-	-	-	-	-	-	110,260	110,260
Tenant expense	9,484	13,071	1,890	1,418	15,193	945	22,863	64,864	38,284	103,148
Miscellaneous expenses	1,470	680	-	118	4,499	-	3,063	9,830	77,289	87,119
Interest	-	45,874	-	-	-	-	-	45,874	12,625	58,499
Provision for bad debts	-	-	-	-	-	-	-	-	2,208	2,208
Total expenses	$ 5,008,777	$ 10,931,703	$ 1,468,411	$ 1,193,250	$ 9,710,354	$ 560,345	$ 25,298,032	$ 54,170,872	$ 33,660,840	$ 87,831,712

* Situation Awareness & Infrastructure Security includes the Electric-Information Sharing and Analysis Center (E-ISAC) and Cyber Risk Information Sharing Program (CRISP).

See notes to financial statements.

North American Electric Reliability Corporation

Statement of Cash Flows
Year Ended December 31, 2022

Cash flows from operating activities:		
Change in net assets	$	2,622,845
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		4,353,345
Change in operating leases		713,062
Provision for bad debts		2,208
Non-qualified deferred compensation		(613,756)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable		(723,177)
Prepaid expenses		(76,914)
Security deposits		125,585
Deferred compensation plan assets		328,634
Increase (decrease) in:		
Accounts payable and accrued expenses		1,464,391
Deferred revenue		1,065,657
Insurance reserve		(12,821)
Regional assessments collected in advance		(1,179,465)
Accrued retirement liabilities		(125,017)
Net cash provided by operating activities		7,944,577
Cash flows from investing activities:		
Purchases of property and equipment		(1,784,401)
Net cash used in investing activities		(1,784,401)
Cash flows from financing activities:		
Principal payments on non-revolving credit facility		(390,067)
Payments on finance lease obligation		(239,656)
Net cash used in financing activities		(629,723)
Net increase in cash, cash equivalents, and restricted cash		5,530,453
Cash, cash equivalents, restricted cash, and regulatory designated cash:		
Beginning		37,529,993
Ending	$	43,060,446
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment purchases within accounts payable and accrued expenses	$	329,178
Finance lease obligation incurred for use of equipment	$	1,479,667
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	59,321

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: North American Electric Reliability Corporation (the Corporation or NERC) is an international, independent, nonprofit organization, whose mission is to assure the effective and efficient reduction of risks to the reliability and security 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 United States 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.

To achieve the Corporation's mission, it 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, Canada and a portion of Baja California, Norte, Mexico.

The Corporation is the successor to the 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. At the effective date of the merger, January 1, 2007, the separate corporate existence of the Council ceased, and the 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 activities of the Corporation are directed by an independent Board of Trustees.

The membership of the Corporation is unique. It is a nonprofit corporation whose members include users, owners and operators of the bulk power system, regional entities, large and small end-use customers, state and provincial governmental authorities and other interested parties.

The Corporation entered into separate delegation agreements, which were approved by FERC, with the following regional entities: Midwest Reliability Organization (MRO), Northeast Power Coordinating Council (NPCC), Reliability First Corporation (RFC), SERC Reliability Corporation (SERC), Texas Reliability Entity (TRE) and Western Electricity Coordinating Council (WECC) (collectively the Regional Entities). Through these agreements, the Corporation has delegated certain ERO responsibilities and functions to the Regional Entities.

The Corporation must annually approve the Regional Entities' budgets and submit them, along with its budget and schedule of Load Serving Entity (LSE) assessments, 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 statements of activities (see Note 7).

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

A summary of the significant accounting policies follows:

Basis of presentation: The accompanying financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this topic, the Corporation is required to report information regarding its financial position and activities within two net asset classes: net assets without donor restrictions and net assets with donor restrictions. Net assets and revenue are classified based on the existence of or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. NERC did not have any net assets with donor restrictions at December 31, 2022.

Cash and cash equivalents, including regulatory designated and restricted cash: 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 up to certain limits by the Federal Deposit Insurance Corporation. Balances in these accounts may exceed federally-insured limits from time to time. Regulatory designated cash of $3,256,000 represents penalty revenue collected as of December 31, 2022, but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures. Restricted cash of $500,000 as of December 31, 2022, has been set aside for an insurance reserve and is recorded in current assets and non-current liabilities and is restricted from use for any other purpose.

Accounts receivable: Accounts receivable are recorded at the 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 year they are deemed uncollectible. The ending accounts receivable balance at December 31, 2022, was $5,223,972, with no allowance for doubtful accounts.

Property and equipment: Purchased property and equipment are capitalized at cost. The Corporation's minimum capitalization policy is for additions $25,000 and greater. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Software	3-5 years
Furniture and equipment	3-7 years
Leasehold improvements	Term of lease or estimated useful life of the asset, whichever is shorter

Expenditures for maintenance and repairs are charged to change in net assets as incurred while renewals and betterments are capitalized.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue recognition and deferred revenue: The Corporation recognizes revenue in accordance with guidance issued under ASC Topic 606.

The Corporation generates revenues from the following principal activities:

- Assessments to LSEs
- Third-party funding
- Fees for services
- Penalty assessment

The majority of the Corporation's revenue is recognized over time, with performance obligations that are satisfied within the same year. The majority of the Corporation's contracts do not contain variable consideration and contract modifications are generally minimal.

The Corporation recognizes revenue upon completion of the following:

1. A customer agrees to the Corporation's terms and conditions through a contract that has commercial substance
2. The performance obligations in the contract are identified (typically, the Corporation has only one performance obligation which occurs within a short period of time)
3. The transaction price is determined (based on amounts determined at the time the transaction is initiated)
4. The transaction price is allocated to the various performance obligations (typically not required since only one performance obligation is involved)
5. The Corporation satisfies its performance obligations over time

Annually, the Board of Trustees approves an operating budget for the Corporation that includes a provision for working capital and operating reserves, which are recovered through assessments to LSEs. The determination of the annual working capital and operating reserve requirements and the authorization of management to access these funds is governed by the Corporation's Working Capital and Operating Reserve Policy. The Corporation assesses each LSE a proportional share of its annual operating budget based on net energy for load. During 2022, the assessments to LSEs made up approximately 86.7%, of the total funding for the Corporation.

Third-party funding relates to the Cybersecurity Risk Information Sharing Program (CRISP), which is a voluntary program to facilitate the exchange of detailed cybersecurity information. CRISP allows electrical power critical infrastructure operations to better protect their networks from sophisticated threat actors by providing participants tactical and strategic cybersecurity assessments of analyzed data. NERC invoices CRISP participants their share of NERC costs, as well as third-party subcontractor costs.

The Corporation recognizes third-party funding and assessment revenue billed on a pro-rata basis over the calendar year and control transfers to the participant and customer over time.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Corporation also generates funding from the collection of fees charged for various services. These services include management of some contracts associated with the Electricity Information Sharing and Analysis Center (E-ISAC), 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 various reliability matters. Fees generated for contract management, testing, certifications, services and software, workshops and other services are recognized when the test is taken, service rendered and/or workshops are completed. Control transfers to the customer at a point in time.

Deferred revenue represents assessments and fees billed 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.

Penalty income is derived from FERC's approval of assessment of penalties to registered entities regarding enforcement of NERC's Reliability Standards. The penalty income from a registered entity is recorded as penalty revenue following closure of the enforcement matter including exhaustion of appeals and is to be used to reduce future NERC assessments. Penalty revenues collected but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures are reflected in the statement of financial position as regulatory designated cash and net assets. Penalty income is considered NERC's only variable consideration and is estimated at the most likely amount that is expected to be earned at a point in time. There was $735,000 of penalty income during the year ended December 31, 2022.

The Corporation records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. When consideration is received and revenue has not yet been recognized, a contract liability (deferred revenue) also is recorded. The Corporation does not recognize revenue in advance of the right to invoice and therefore has not recorded a contract asset. Opening balances as of January 1, 2022, were as follows:

Accounts receivable	$4,503,003
Deferred revenue	$8,947,612

Expenses: The Corporation is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. NERC incurs expenses that directly relate to, and can be assigned to, a specific operational or administrative activity. NERC also conducts a number of activities which benefit both its program objectives as well as supporting activities (i.e. general and administrative, legal and regulatory, information technology, human resources, and finance and accounting activities) as defined by FERC. Costs not specifically attributable to a specific program or supporting activity are recorded as administrative program expenses.

Income taxes: NERC is organized as a New Jersey nonprofit corporation, and operates as a business league, exempt from income taxes under Internal Revenue Code (IRC) Section 501(c)(6). Annually, the Corporation is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Corporation is subject to income tax on net income that is derived from business activities that are unrelated to the Corporation's exempt purpose. The Corporation has determined that it's not subject to unrelated business income tax during the year ended December 31, 2022, and is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. Additionally, the Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2022.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Corporation recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. There were no positions recognized for the year ended December 31, 2022. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2019. Tax years 2019 through 2022 remain subject to examination by major tax jurisdictions.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 and expenses during the reporting period. Actual results could differ from those estimates.

Leases: In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Corporation adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Corporation has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Corporation's historical accounting treatment under ASC Topic 840, Leases.

The Corporation elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Corporation does not reassess: (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Corporation has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Corporation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Corporation obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Corporation also considers whether its service arrangements include the right to control the use of an asset.

The Corporation made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Corporation used the rate implicit in the lease, if that rate is readily determinable. If the rate is not readily determinable, the Corporation utilized their incremental borrowing rate.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred.

The Corporation has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, and equipment asset classes. The non-lease components typically represent additional services transferred to the Corporation, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Corporation’s finance leases of approximately $768,746 and $365,371, respectively, at January 1, 2022. Additionally, it results in the recording of ROU assets and lease liabilities related to the Corporation’s operating leases of approximately $6,429,817 and $8,422,775, respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Subsequent events: The Corporation has evaluated subsequent events through May 25, 2023, the date on which the financial statements were available to be issued.

Note 2. Accounts Receivable

Accounts receivable as of December 31, 2022 by each major revenue stream is as follows:

Accounts receivable by each major revenue stream:	
NERC assessments	$ 1,762,070
Third-party funding	413,084
Other non-major revenue streams	186,027
Other receivables (non-revenue)—regional assessments	2,862,791
Total accounts receivable	$ 5,223,972

Note 3. Property and Equipment

Property and equipment consist of the following at December 31, 2022:

Software	$ 25,902,143
Furniture and equipment	7,235,553
Leasehold improvements	796,288
	33,933,984
Accumulated depreciation and amortization	(22,176,445)
Property and equipment, net	$ 11,757,539

Depreciation and amortization expense for the year ended December 31, 2022, was $4,113,372.

Note 4. Leases

The Corporation leases real estate under operating lease agreements that have initial remaining terms at December 31, 2022, ranging from 2.84 to 12.25 years. Some leases include one or more options to renew, generally at the Corporation's sole discretion, with renewal terms that can extend the lease term. In addition, certain leases contain termination options, where the rights to terminate are held by either the Corporation, the lessor, or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Corporation will exercise that option.

The Corporation also leases certain equipment under finance lease agreements with initial terms ranging from three to five years and interest rates ranging from 0.0% to 6.21%.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	$ 2,920,722
Finance lease cost—amortization of right-of-use assets	239,973
Finance lease cost—interest on lease liabilities	14,775
Variable lease cost	22,119
Total lease cost	$ 3,197,589

Total rent expense for operating leases was $2,920,722 for the year ended December 31, 2022.

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows—payments on operating leases	$ 2,207,663
Operating cash outflows—payments on finance leases	14,775
Financing cash outflows—payments on finance leases	239,656
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	$ 17,428,723
Finance leases	1,479,666

North American Electric Reliability Corporation

Notes to Financial Statements

Note 4. Leases (Continued)

Supplemental balance sheet information related to leases is as follows as of December 31, 2022:

Operating leases:	
Operating lease right-of-use assets	$ 14,985,789
Current maturities of operating lease liabilities	$ 2,098,966
Operating lease liabilities, non-current	16,205,462
Total operating lease liabilities	$ 18,304,428
Finance leases:	
Office equipment leases (audio visual, computers, etc.)	$ 1,956,717
Accumulated depreciation	(358,784)
Finance lease right-of-use assets, net	$ 1,597,933
Current maturities of finance lease liabilities	$ 400,435
Finance lease liabilities, non-current	1,206,241
Total finance lease liabilities	$ 1,606,676
Weighted-average remaining lease term:	
Operating leases	8.9 years
Finance leases	4.2 years
Weighted-average discount rate:	
Operating leases	4.7%
Finance leases	4.3%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

Years ending:		
2023	$ 2,257,900	$ 459,413
2024	2,918,830	444,282
2025	3,503,341	358,910
2026	1,470,979	275,649
2027	1,507,855	221,779
Thereafter	12,122,186	-
Total lease payments	23,781,091	1,760,033
Less imputed interest	(5,476,663)	(153,357)
Total present value of lease liabilities	$ 18,304,428	$ 1,606,676

Note 5. Non-Revolving Credit Facility and Line of Credit

The Corporation secured a non-revolving credit facility on September 11, 2020, totaling $8,000,000 to finance certain capital expenditures or refinance existing lease obligations, as approved and authorized by the Board of Trustees and FERC. The borrowings on this facility made in 2020 were converted to a fixed rate of 2.50% in 2021, and borrowings made in 2021 had a floating interest rate of LIBOR plus 225 basis points, which yielded a rate of 2.75% for the first week of 2022 and then converted to a fixed rate of 3.26% for the remainder of the year. The borrowings extended under the $8,000,000 credit facility mature in 2026. The facility is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. In 2022, the available credit facility was reduced to $5,000,000 for general capital spending or equipment lease refinancing, but the facility was not utilized during the year. The availability under the $5,000,000 matures in September 2023.

Principal payments on the credit facility at December 31, 2022, are as follows:

Year ending December 31:	
2023	$ 413,924
2024	425,658
2025	437,796
2026	105,847
Total	$ 1,383,225

The Corporation has a line of credit with a bank that renews annually and currently expires in September 2023. 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 a rate per annum equal to daily Secured Overnight Financing Rate (SOFR) plus 275 basis points. The line of credit is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. There were no borrowings outstanding at December 31, 2022. At December 31, 2022, the available amount under the line of credit was reduced by open letters of credit totaling $109,798, which represent security deposits for the Corporation's office lease agreements.

Both loan agreements contain various positive and negative covenants.

Note 6. Deferred Revenue

Deferred revenue (contract liability) as of December 31, 2022, by each major revenue stream is as follows:

Deferred revenue by each major revenue stream:	
NERC assessments	$ 9,621,973
Testing/fees	52,650
Third-party funding	293,709
Other non-major revenue streams	44,937
Total deferred revenue	$ 10,013,269

Note 7. Regional Assessments Collected in Advance

In addition to the 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 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. Regional assessments billed and remitted for the year ended December 31, 2022 were as follows:

For the year ended December 31:	
Total regional assessments billed to WECC, ERCOT, individual LSE's, and designees	$ 122,693,670
Total regional assessments remitted to regional entities	(122,139,723)
Billings over remittances	$ 553,947

As of December 31, 2022, regional assessments collected in advance and not yet remitted to the Regional Entities based upon the remittance schedule set forth in the delegation agreements totaled $10,103,216.

Note 8. Deferred Compensation

Deferred compensation plan: The Corporation established a deferred compensation plan for certain employees in accordance with IRC Section 457(b). The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the IRC. In 2014, the plan was amended to allow the Corporation to make discretionary, non-elective contributions to the plan on behalf of the employee. While the Corporation has the discretion to make contributions to this plan, the balances are primarily comprised of funds contributed by the employees. The liability for this deferred compensation plan was $2,469,638 at December 31, 2022, and is included in deferred compensation non-current liabilities on the statement of financial position.

In 2015, the Corporation established a 457(f) nonqualified deferred compensation plan for certain key employees. The plan allows the Corporation to make discretionary, annual awards that vest over time. The vesting period of each award for each participant is specified in writing. When the award is made, the Corporation makes a contribution to the 457(f) plan and records the contribution as non-qualified deferred compensation plan assets on the statements of financial position. The Corporation records the expense of the award over time, based on the vesting schedule, on the statements of activities. The accrued expense liability is recorded in the long-term accrued retirement liabilities, and accounts payable and accrued expenses (for awards payable within 12 months) on the statements of financial position. As of December 31, 2022, the accrued liability for this deferred compensation plan was $592,005.

At December 31, 2022, the Corporation holds investments to fund future liabilities of the 457(b) and 457(f) non-qualified deferred compensation plans totaling $3,407,579. These investments are reported at fair market value and are included in the non-qualified deferred compensation plan assets on the statement of financial position. Investments are primarily held in mutual funds. Realized and unrealized losses on non-qualified deferred compensation plan assets totaling $616,421 in 2022, are added to deferred compensation expense, which is included in salaries and other compensation expense on the statements of activities.

Note 8. Deferred Compensation (Continued)

Fair value measurements—deferred compensation plan: The guidance for fair value measurements establishes the authoritative definition for fair value, sets out a framework for measuring fair value, and outlines the required disclosures regarding fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Deferred Compensation Plan (the DC Plan) uses a three-tier fair value hierarchy based upon observable and non-observable inputs as follows:

Level 1: Quoted prices (unadjusted) in active markets for identified assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs developed using the DC Plan's estimates and assumptions which reflect those that market participants would use.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022.

Mutual funds: Valued at the quoted market prices of shares held by the DC Plan at year-end and are considered Level 1 measurements.

The valuation methodologies described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the DC Plan believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Retiree medical benefits:
Effective September 1, 2007, the Board of Trustees approved and adopted a policy to provide medical coverage for a limited number of current and transitional retirees and their dependents up to a maximum monthly benefit of $550 paid directly to the applicable insurer.

Assumptions used in recording the retiree medical benefits included the 2017 Social Security Administration Actuarial Period Life Table, annual inflation rate of 6.5% and discount rate of 7.5%. At December 31, 2022, the total accrued retiree medical benefits liability was $134,219, and is included in current and non-current accrued retirement liabilities on the statement of financial position. The retiree medical expense related to this policy was $23,236 for the year ended December 31, 2022.

Note 9. Designated Net Assets

NERC's Working Capital and Operating Reserve Policy established a separate Future Obligation Reserve, System Operator Certification Reserve, and Operating Contingency Reserve. The purpose of these reserves is to spread the use of available operating surpluses over a number of years in order to avoid wide swings in annual member assessments and billings that could otherwise result from applying all of these funds as an offset to assessments and billings in a single year. The reserves are approved by NERC's Board of Trustees and FERC and are available to offset future assessments and billings.

The Future Obligation Reserve includes funding that has been received to satisfy future obligations under the office lease agreements to which the Corporation is a party. At December 31, 2022, $2,293,856 is designated in the Future Obligation Reserve.

The System Operator Certification Reserve supports the system operator certification and continuing education program and includes surplus funding from operator certification and continuing education fees that are above incurred expenses. At December 31, 2022, $964,284 is designated in the System Operator Certification Reserve.

The Operating Contingency Reserve includes reserves for contingencies that were not anticipated, assumed to be likely, or the timing of which was uncertain, at the time of preparation and approval of the Corporation's business plan and budget. The determination of the amount of the Operating Contingency Reserve shall take into consideration the projected costs and risks of ongoing operations, projected resource requirements associated with the significant ongoing or emerging reliability initiatives, capital-spending forecasts, and other factors that the Board, Finance and Audit and Committee, and management consider appropriate.

At December 31, 2022, $10,880,743 is designated in the Operating Contingency Reserve. Of the $10,880,743 reserve balance at December 31, 2022, $1,000,000 had been approved by NERC's Board of Trustees and FERC to be used in 2023 to reduce 2023 assessments, resulting in a balance of $9,880,743 unavailable for general expenditures within one year.

Penalty income from a registered entity is recorded as penalty revenue following closure of the enforcement matter, including exhaustion of appeals and is to be used to reduce future NERC assessments. Penalty revenues collected but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures are reflected in the statement of financial position as regulatory designated cash. At December 31, 2022, the regulatory designated net assets balance is $3,256,000.

The CRISP Operating Reserve is used to help ensure that NERC's costs for administering and operating CRISP, including contingencies, are sufficiently covered. It is to be used exclusively for CRISP and for no other purpose, unless agreed to by all CRISP participants. At December 31, 2022, $2,961,621 is designated in the CRISP Operating Reserve.

Note 10. Savings and Investment Plan

The Corporation sponsors an employee savings 401(k) plan (the Plan) whereby eligible employees may elect to contribute up to the IRS Code 402(g)(1) limit. The Corporation contributes a 75% match of the first 6% of a participant's elective contribution, which vests immediately to the employee. The Corporation also makes a discretionary contribution equal to a percentage of the eligible compensation of all qualifying participants, which vests to the employee over a five-year period. The additional discretionary contributions are determined annually by the Board of Trustees and are subject to the limitation imposed by the IRS Code 401(a)(17). The Corporation's expenses related to the Plan for the year ended December 31, 2022, were $3,906,229. No contributions are accrued as of December 31, 2022.

Note 11. 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 regions located throughout the United States, 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 LSEs located within 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 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 RFC. 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.

Note 12. Liquidity and Availability of Financial Assets

NERC is substantially supported by assessment revenue billed to the LSEs. NERC must maintain sufficient resources to meet those responsibilities. Therefore, certain financial assets reflected as regional assessments collected in advance and deferred revenue may not be available for general expenditures within one year. As part of NERC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, NERC invests cash in excess of daily requirements in short-term investments. The Board of Trustees and FERC also designate a portion of any operating surplus to its liquidity reserves as discussed in Note 9. This is a fund established by the governing board that may be drawn upon in the event of an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, NERC can also draw upon its available line of credit as further discussed in Note 5.

NERC's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets:	
Cash and cash equivalents	$ 39,304,446
Accounts receivable	5,223,972
Financial assets at December 31	44,528,418
Less assets unavailable for general expenditures within one year:	
Regional assessments collected in advance	10,103,216
Board-designated operating reserves—future obligation	2,293,856
Board-designated operating reserves—system operator certification	964,284
Board-designated operating reserves—operating contingency	9,880,743
CRISP participant-designated reserves—operating	2,961,621
Total financial assets unavailable for general expenditure within one year	26,203,720
Financial assets available to meet cash needs for general expenditures within one year	$ 18,324,698

Note 13. Revenues

The following table shows the Corporation's revenues disaggregated according to the timing of satisfaction of performance obligations for the year ended December 31, 2022:

Revenue recognized at a point in time:	
Testing/fees	$ 1,895,874
Workshops	168,780
Services and software	46,000
Total revenue recognized at a point in time	2,110,654
Revenue recognized over time:	
NERC assessments	78,387,280
Third-party funding	8,702,463
Penalties	735,000
Interest	447,243
Miscellaneous revenues	71,917
Total revenue recognized over time	88,343,903
Total revenues	$ 90,454,557

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Supplemental Information

North American Electric Reliability Corporation

Supplemental Schedule of Selected Expenses
Year Ended December 31, 2022

Employee benefit costs:	
Payroll taxes (FICA, SUI, FUI, Medicare)	$ 2,409,430
Employee benefits—health (medical, dental, vision)	4,440,908
Employee benefits—life and disability	414,644
Employee benefits—other	215,976
Insurance—workers' compensation	79,262
Educational	294,049
Total employee benefit costs	**$ 7,854,269**
Travel and meetings:	
Meetings	$ 453,578
Workshops	216,743
Travel	1,114,479
Online meetings	119,162
Total travel and meetings	**$ 1,903,962**
Professional services:	
Insurance—commercial	$ 636,855
Contract and consultants	13,766,498
Independent trustee fees	1,530,000
Search fees	118,554
Outside services	62,399
Accounting and auditing fees	154,116
Legal fees	297,419
Total professional services	**$ 16,565,841**
Office costs:	
Publications and subscriptions	$ 493,139
Dues	154,405
Postage	5,377
UPS, express mail, etc.	76,708
Telephone	397,851
Office and equipment repair/services	114,706
Copying	13,394
Audio visual and computer equipment	454,742
Office supplies	161,021
Bank charges	43,917
Credit card merchant fees	109,409
Sales and use tax	18,002
Internet expenses	320,265
Total office costs	**$ 2,362,936**

ATTACHMENT 2

2022 ACTUAL COST-TO-BUDGET COMPARISON

AND

2022 AUDITED FINANCIAL REPORT

FOR

MIDWEST RELIABILITY ORGANIZATION

2022 MRO Budget True-Up

May 1, 2023

Classification: Confidential

MIDWEST RELIABILITY ORGANIZATION

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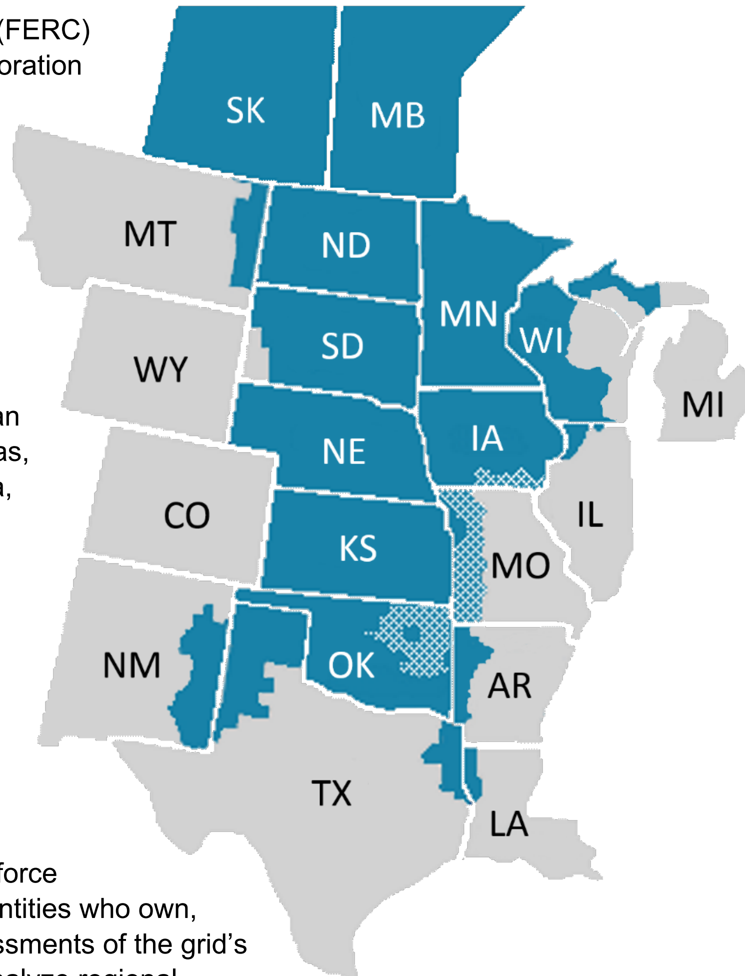
PREFACE

Midwest Reliability Organization (MRO) is dedicated to its vision of ***a highly reliable and secure North American bulk power system***. To ensure reliability of the bulk power system in the United States, Congress passed the Energy Policy Act of 2005, creating a new regulatory organization called the Electric Reliability Organization (ERO) to establish mandatory Reliability Standards and monitor and enforce compliance with those standards on those who own, operate or use the interconnected power grid.



In 2006, the Federal Energy Regulatory Commission (FERC) approved the North American Electric Reliability Corporation (NERC) as the ERO under section 215(e)(4) of the Federal Power Act. NERC delegates its authority to monitor and enforce compliance to Regional Entities established across North America, of which MRO is one. Recognizing the international nature of the grid, NERC as the ERO, along with MRO, established similar arrangements with provincial authorities in Canada.

The MRO region spans the provinces of Saskatchewan and Manitoba, and all or parts of the states of Arkansas, Illinois, Iowa, Kansas, Louisiana, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin. The region is comprised of more than 225 organizations that are involved in the production and delivery of electricity, including municipal utilities, cooperatives, investor-owned utilities, transmission system operators, federal power marketing agencies, Canadian Crown Corporations, and independent power producers.

MRO's primary responsibilities are to: monitor and enforce compliance with mandatory Reliability Standards by entities who own, operate, or use the bulk power system; conduct assessments of the grid's ability to meet electricity demand in the region; and analyze regional system events. Additionally, MRO creates an open forum for stakeholder experts in the region to discuss important topics related to addressing risk and improving reliable operations of the bulk power system.

2022 STATUTORY SUMMARY BUDGET VARIANCE

Midwest Reliability Organization
Statement of Activity
12/31/2022

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	17,832,414	17,832,414	$ -	
Penalty Sanctions	458,250	$ 458,250	$ -	
Total ERO Funding	**$ 18,290,664**	**$ 18,290,664**	**$ -**	
Interest Income	11,646		11,646	
Other Revenue	11,850		$ 11,850	
A. Total Funding	**$ 18,314,160**	**$ 18,290,664**	**$ 23,496**	
Expenses				
Personnel Expenses				
Salaries	11,808,251	11,416,561	391,690	
Payroll Taxes	652,766	744,166	(91,400)	
Employee Benefits	1,188,645	1,193,996	(5,351)	
Savings and Retirement	1,886,087	1,922,258	(36,171)	
Total Personnel Expenses	**$ 15,535,748**	**$ 15,276,981**	**$ 258,767**	**1.7%**
Meeting Expenses				
Meetings	109,913	178,877	(68,964)	
Travel - Staff Business	156,436	407,620	(251,184)	
Travel - Member Reimbursement	62,086	174,050	(111,964)	
Total Meeting Expenses	**$ 328,435**	**$ 760,547**	**$ (432,112)**	**-56.8%**
Operating Expenses				
Consultants	231,019	457,600	(226,581)	
Contract	864,640	747,200	117,440	
Building Rent and Facilities	1,051,505	1,132,100	(80,595)	
Office Costs	809,212	967,934	(158,722)	
Professional Services	454,522	567,000	(112,478)	
Total Operating Expenses	**$ 3,410,898**	**$ 3,871,834**	**$ (460,936)**	**-11.9%**
Total Direct Expenses	**$ 19,275,081**	**$ 19,909,362**	**$ (634,281)**	**-3.2%**
Indirect Expenses	**$ -**	**$ -**	**$ -**	
Other Non-Operating Expenses	**$ (369,568)**	**$ -**	**$ (369,568)**	
B. Total Expenses	**$ 18,905,513**	**$ 19,909,362**	**$ (1,003,849)**	
Net Funding less Expenses (A-B)	**$ (591,354)**	**$ (1,618,698)**	**$ 1,027,344**	
Fixed Assets				
Computer & Software CapEx	$ 539,151	$ 125,000	$ 414,151	
Furniture & Fixtures CapEx	$ -	$ -	$ -	
Equipment CapEx	$ -	$ -	$ -	
Leasehold Improvements	$ 44,923	$ -	$ 44,923	
C. Total Inc(Dec) in Fixed Assets	**$ 584,074**	**$ 125,000**	**$ 459,074**	**367.3%**
Total Budget (B+C)	**$ 19,489,587**	**$ 20,034,362**	**$ (544,775)**	**-2.7%**
Change in Working Capital (A-B-C)	**$ (1,175,428)**	**$ (1,743,698)**	**$ 568,270**	
FTEs	66.90	71.00	-4.10	-5.8%

SUMMARY OF FINANCIALS AND RESOURCES

MRO staff reports the audited final numbers for the 2022 budget are 2.7 percent under the approved budget amount of $20M. The budget underage is primarily due to a change in MRO's flexible workplace policies and impacts related to supply chains. Variances to budget include decreases in meeting, travel, consulting, office, and professional services costs.

Personnel expenses had an overage of 1.7 percent, primarily attributed to retention incentives and other staffing life cycle costs during the year that culminated in a net full time equivalent (FTE) count of 67. Payroll taxes were less than budgeted because FTEs were less than budgeted and year-end incentives were paid after FICA wage maximums were met. The annual actuarial adjustment of MRO's Retiree Medical Plan offset these increases with a 1.9 percent decrease to expenses. This adjustment is represented as a one-time non-operating cost.

Meetings and travel costs increased in 2022 when compared to 2021, but costs trended lower than budget due to MRO's continued approach of offering a virtual option for participation at meetings and events. Fewer individuals attended MRO's meetings and events in person than what was anticipated in the 2022 budget, resulting in much lower member travel reimbursements and staff travel costs.

Consultants and contract dollars were underspent, primarily due to MRO's hybrid work policy and a reduction in office costs and facility operations and maintenance. Additionally, MRO's IT staff completed a number of projects that were planned to be outsourced in 2022, reducing the need for external IT support. Fixed assets were over budget in this area because an AV replacement project planned in 2021 was completed in 2022 due to supply chain disruptions. To circumvent future supply chain challenges, MRO purchased IT network equipment in 2022 that was budgeted for 2023. Finally, an unbudgeted carpet replacement project was completed at year-end.

Professional services include costs for independent director travel expenses. Professional services were primarily underspent because 2022 travel expenses were less than budgeted.

In 2022, MRO met the principal responsibilities under its delegation agreement with NERC. Some highlights include:

- 14 audits were conducted, including 10 combined Critical Infrastructure Protection (CIP) and operations and planning (O&P) audits, 2 CIP only audits, and 1 O&P only audit. MRO also participated in 1 audit led by another Regional Entity and 1 CIP audit led by FERC
- MRO staff participated in 5 CIP spot checks, 1 led by MRO and 4 led by WECC
- 14 Compliance Oversight Plans (COPs) were developed
- 209 noncompliances and 19 dismissals were submitted to FERC or the applicable regulatory authority
- 12 new entities were registered and 17 functions were added to existing registered entity scopes; 5 functions were removed from scope, and 3 entities were deregistered
- MRO staff participated in 5 certification review activities
- 2 regional seasonal (winter and summer) assessments were completed and staff assisted with the development of NERC's Long-Term Reliability Assessment
- 27 regional system events were analyzed and staff assisted entities in completing mitigation recommendations and sharing lessons learned.

- Metrics based on data from event analysis and cause-coding efforts were developed, as well as for the performance of protection systems and situation awareness information provided by registered entities
- 4 hybrid workshops were completed, as well as several webinars and newsletter articles, to promote a reliable and secure regional bulk power system.

Budget variances greater than $10,000 and/or 10 percent are explained below, along with unbudgeted expenses.

Meeting and Travel Expenses (Variance of $432,112 (56.8%) under budget)
There was an increase in meetings and travel in 2022, but costs trended lower than budget due to a hybrid approach of conducting meetings that resulted in fewer in-person attendees.

Office Costs (Variance of $158,722 (16.4%) under budget)
Expanded remote work policies resulted in planned in-person employee training being conducted virtually, a reduction in equipment repairs, and fewer purchases of office and computer supplies.

Professional Services (Variance of $112,478 (19.8%) under budget)
MRO experienced lowered than budgeted professional services, such as outside legal expenses.

Fixed Assets (Variance of $459,074 (367.3%) over budget)
A budgeted AV project from 2021 was completed in 2022 due to supply chain delays. The purchase of IT network equipment budgeted for 2023 was advanced to 2022 in order to circumvent supply chain challenges. An unbudgeted carpet replacement was completed at year-end.

Other Budget Variance Comments
Personnel expenses were under the 10 percent variance threshold but experienced a $258K over spend as a result of turnover, retirements, retention pay, and other employee life cycle related costs.

MRO had no non-statutory activities in 2022; therefore, there were no allocations of costs between statutory and non-statutory activities and no statutory funds were used for non-statutory purposes.

SECTION A — STATUTORY PROGRAMS

1. Reliability Standards, Organization Registration and Certification Program

RELIABILITY STANDARDS, ORGANIZATION REGISTRATION, AND CERTIFICATION	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	314,472	157,407	157,065	99.8%
Penalty Sanctions	8,081	4,045	4,036	
A. Total ERO Funding	**$ 322,553**	**$ 161,452**	**$ 161,102**	**99.8%**
Expenses				
Personnel Expenses				
Salaries	87,741	58,474	29,267	50.1%
Payroll Taxes	4,651	3,914	737	18.8%
Employee Benefits	11,428	7,319	4,109	56.1%
Savings and Retirement	20,061	10,839	9,222	85.1%
Total Personnel Expenses	**$ 123,880**	**$ 80,546**	**$ 43,334**	**53.8%**
Meeting Expenses				
Meetings	-	1,400	(1,400)	-100.0%
Travel - Staff Business	-	1,500	(1,500)	-100.0%
Travel - Member Reimbursement	-	5,000	(5,000)	-100.0%
Total Meeting Expenses	**$ -**	**$ 7,900**	**$ (7,900)**	**-100.0%**
Operating Expenses				
Consultants	-	-	-	
Contract	-	-	-	
Building Rent and Facilities	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Total Operating Expenses	**$ -**	**$ -**	**$ -**	
Indirect Expenses	**$ 135,075**	**$ 69,003**	**$ 66,072**	**95.8%**
Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses	**$ 258,955**	**$ 157,449**	**$ 101,506**	**64.5%**
Change in Assets (A-B)	**$ 63,598**	**$ 4,003**	**$ 59,595**	**1488.9%**
Fixed Assets				
Allocation of Fixed Assets	10,300	1,103	9,197	833.5%
C. Total Inc(Dec) in Fixed Assets	$ 10,300	$ 1,103	$ 9,197	833.5%
Total Budget (B+C)	**$ 269,255**	**$ 158,552**	**$ 110,703**	**69.8%**
Change in Working Capital (A-B-C)	**$ 53,298**	**$ 2,899**	**$ 50,399**	
FTEs	0.85	0.45	0.40	88.9%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Personnel Expenses
Personnel expenses in this program were higher than budgeted due to slightly higher FTE.

Indirect Expenses
As an allocation based on actual FTE counts, the indirect expenses for this program area were higher than budgeted due to higher FTE than budgeted.

2. Compliance Monitoring and Enforcement Program (CMEP)

COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM		2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	12,689,871	12,788,408	(98,537)	-0.8%
	Penalty Sanctions	326,099	328,631	(2,532)	
A. Total ERO Funding		**$ 13,015,970**	**$ 13,117,040**	**$ (101,069)**	**-0.8%**
Expenses					
	Personnel Expenses				
	Salaries	5,683,215	5,792,149	(108,934)	-1.9%
	Payroll Taxes	316,738	399,863	(83,125)	-20.8%
	Employee Benefits	643,846	613,758	30,088	4.9%
	Savings and Retirement	979,106	987,130	(8,024)	-0.8%
	Total Personnel Expenses	**$ 7,622,905**	**$ 7,792,900**	**$ (169,995)**	**-2.2%**
	Meeting Expenses				
	Meetings	2,501	11,500	(8,999)	-78.3%
	Travel - Staff Business	59,018	195,420	(136,402)	-69.8%
	Travel - Member Reimbursement	-	29,050	(29,050)	-100.0%
	Total Meeting Expenses	**$ 61,519**	**$ 235,970**	**$ (174,451)**	**-73.9%**
	Operating Expenses				
	Consultants	47,250	165,000	(117,750)	-71.4%
	Contract	223,257	218,382	4,875	2.2%
	Building Rent and Facilities	-	-	-	
	Office Costs	117,181	130,945	(13,764)	-10.5%
	Professional Services	-	-	-	
	Contingency	-	-	-	
	Total Operating Expenses	**$ 387,688**	**$ 514,327**	**$ (126,639)**	**-24.6%**
	Indirect Expenses	**$ 5,450,669**	**$ 5,606,110**	**$ (155,440)**	**-2.8%**
	Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses		**$ 13,522,782**	**$ 14,149,307**	**$ (626,525)**	**-4.4%**
Change in Assets (A-B)		**$ (506,812)**	**$ (1,032,267)**	**$ 525,455**	**-50.9%**
Fixed Assets					
	Allocation of Fixed Assets	415,638	89,643	325,995	363.7%
C. Total Inc(Dec) in Fixed Assets		$ 415,638	$ 89,643	$ 325,995	363.7%
Total Budget (B+C)		**$ 13,938,420**	**$ 14,238,950**	**$ (300,530)**	**-2.1%**
Change in Working Capital (A-B-C)		**$ (922,449)**	**$ (1,121,910)**	**$ 199,461**	
FTEs		34.30	36.56	(2.26)	-6.2%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Meeting Expenses
Most meetings were conducted using a hybrid format of both virtual and in-person participation. This resulted in lower travel costs as fewer people attended meetings in-person.

Operating Expenses
Consultants
Consultants were underspent due to internal staff being able to manage the workload.

Office Costs
Availability of virtual training allowed for lower in-person training costs.

Fixed Assets
As an allocation based on actual FTE counts, the allocation of fixed assets for this program area was higher than budgeted due to the over budget expenditures for AV, IT equipment, and carpet.

3. Reliability Assessment and Performance Analysis Program

RELIABILITY ASSESSMENT AND PERFORMANCE ANALYSIS	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	3,270,509	3,193,604	76,905	2.4%
Penalty Sanctions	84,044	82,068	1,976	
A. Total ERO Funding	**$ 3,354,553**	**$ 3,275,672**	**$ 78,881**	**2.4%**
Expenses				
Personnel Expenses				
Salaries	1,617,656	1,528,561	89,095	5.8%
Payroll Taxes	89,206	100,217	(11,011)	-11.0%
Employee Benefits	163,065	154,430	8,635	5.6%
Savings and Retirement	274,287	254,449	19,838	7.8%
Total Personnel Expenses	**$ 2,144,215**	**$ 2,037,657**	**$ 106,558**	**5.2%**
Meeting Expenses				
Meetings	4,231	9,000	(4,769)	-53.0%
Travel - Staff Business	43,444	77,600	(34,156)	-44.0%
Travel - Member Reimbursement	16,561	50,000	(33,439)	-66.9%
Total Meeting Expenses	**$ 64,237**	**$ 136,600**	**$ (72,363)**	**-53.0%**
Operating Expenses				
Consultants	-	-	-	
Contract	86,968	71,100	15,868	22.3%
Building Rent and Facilities	-	-	-	
Office Costs	26,876	25,000	1,876	7.5%
Professional Services	-	-	-	
Contingency	-	-	-	
Total Operating Expenses	**$ 113,844**	**$ 96,100**	**$ 17,744**	**18.5%**
Indirect Expenses	**$ 1,404,779**	**$ 1,399,994**	**$ 4,785**	**0.3%**
Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses	**$ 3,727,075**	**$ 3,670,351**	**$ 56,724**	**1.5%**
Change in Assets (A-B)	**$ (372,521)**	**$ (394,679)**	**$ 22,157**	**-5.6%**
Fixed Assets				
Allocation of Fixed Assets	107,121	22,386	84,734	378.5%
C. Total Inc(Dec) in Fixed Assets	$ 107,121	$ 22,386	$ 84,734	378.5%
Total Budget (B+C)	**$ 3,834,195**	**$ 3,692,737**	**$ 141,458**	**3.8%**
Change in Working Capital (A-B-C)	**$ (479,642)**	**$ (417,065)**	**$ (62,577)**	
FTEs	8.84	9.13	(0.29)	-3.2%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Meeting Expenses
Most meetings were conducted using a hybrid format of both virtual and in-person participation. This resulted in lower travel costs as fewer people attended meetings in-person.

Operating Expenses
Contracts
There were increased costs for an upgraded version of the Power System Simulation (PSS) modeling application.

Fixed Assets
As an allocation based on actual FTE counts, the allocation of fixed assets for this program area was higher than budgeted due to the over budget expenditures for AV, IT equipment, and carpet.

4. Training, Education, and Operator Certification Program

TRAINING AND EDUCATION	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	784,330	661,108	123,223	18.6%
Penalty Sanctions	20,155	16,989	3,167	
A. Total ERO Funding	**$ 804,486**	**$ 678,096**	**$ 126,389**	**18.6%**
Expenses				
Personnel Expenses				
Salaries	346,977	319,838	27,139	8.5%
Payroll Taxes	20,402	20,073	329	1.6%
Employee Benefits	33,702	31,529	2,173	6.9%
Savings and Retirement	53,137	52,605	532	1.0%
Total Personnel Expenses	**$ 454,218**	**$ 424,045**	**$ 30,173**	**7.1%**
Meeting Expenses				
Meetings	61,398	90,000	(28,602)	-31.8%
Travel - Staff Business	4,441	45,500	(41,059)	-90.2%
Travel - Member Reimbursement	4,192	5,000	(808)	-16.2%
Total Meeting Expenses	**$ 70,031**	**$ 140,500**	**$ (70,469)**	**-50.2%**
Operating Expenses				
Consultants	-	-		
Contract	-	-		
Building Rent and Facilities	-	-		
Office Costs	1,080	-	1,080	0.0%
Professional Services	-	-		
Contingency	-	-		
Total Operating Expenses	**$ 1,080**	**$ -**	**$ 1,080**	**0.0%**
Indirect Expenses	**$ 336,893**	**$ 289,813**	**$ 47,080**	**16.2%**
Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses	**$ 862,222**	**$ 854,358**	**$ 7,864**	**0.9%**
Change in Assets (A-B)	**$ (57,736)**	**$ (176,261)**	**$ 118,525**	**-67.2%**
Fixed Assets				
Allocation of Fixed Assets	25,690	4,634	21,055	454.4%
C. Total Inc(Dec) in Fixed Assets	$ 25,690	$ 4,634	$ 21,055	454.4%
Total Budget (B+C)	**$ 887,912**	**$ 858,992**	**$ 28,920**	**3.4%**
Change in Working Capital (A-B-C)	**$ (83,426)**	**$ (180,895)**	**$ 97,469**	
FTEs	2.12	1.89	0.23	12.2%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Meeting Expenses
Most meetings were conducted using a hybrid method of both virtual and in-person participation. This resulted in lower travel costs as fewer people attended meetings in-person.

Operating Expenses
Office Costs
The unbudgeted costs were for employee cell phone and internet expenses, as well as training.

Indirect Expenses
As an allocation based on actual FTE, the indirect expenses for this program were higher than budgeted due to higher FTE than budgeted.

Fixed Assets
As an allocation based on actual FTE counts, the allocation of fixed assets for this program area was higher than budgeted due to the over budget expenditures for AV, IT equipment, and carpet.

5. Situation Awareness and Infrastructure Security Program

SITUATION AWARENESS AND INFRASTRUCTURE SECURITY	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	773,231	1,031,887	(258,656)	-25.1%
Penalty Sanctions	19,870	26,517	(6,647)	
A. Total ERO Funding	**$ 793,101**	**$ 1,058,404**	**$ (265,303)**	**-25.1%**
Expenses				
Personnel Expenses				
Salaries	430,456	426,796	3,660	0.9%
Payroll Taxes	25,267	28,902	(3,635)	-12.6%
Employee Benefits	38,782	48,790	(10,008)	-20.5%
Savings and Retirement	56,812	74,320	(17,508)	-23.6%
Total Personnel Expenses	**$ 551,317**	**$ 578,808**	**$ (27,491)**	**-4.7%**
Meeting Expenses				
Meetings	2,916	4,277	(1,361)	-31.8%
Travel - Staff Business	3,367	10,500	(7,133)	-67.9%
Travel - Member Reimbursement	7,676	20,000	(12,324)	-61.6%
Total Meeting Expenses	**$ 13,958**	**$ 34,777**	**$ (20,819)**	**-59.9%**
Operating Expenses				
Consultants	-	-	-	
Contract	-	-	-	
Building Rent and Facilities	-	-	-	
Office Costs	6,646	11,960	(5,314)	-44.4%
Professional Services	-	-	-	
Contingency	-	-	-	
Total Operating Expenses	**$ 6,646**	**$ 11,960**	**$ (5,314)**	**-44.4%**
Indirect Expenses	**$ 332,125**	**$ 452,353**	**$ (120,228)**	**-26.6%**
Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses	**$ 904,047**	**$ 1,077,898**	**$ (173,851)**	**-16.1%**
Change in Assets (A-B)	**$ (110,945)**	**$ (19,493)**	**$ (91,452)**	**469.1%**
Fixed Assets				
Allocation of Fixed Assets	25,326	7,233	18,093	250.1%
C. Total Inc(Dec) in Fixed Assets	$ 25,326	$ 7,233	$ 18,093	250.1%
Total Budget (B+C)	**$ 929,373**	**$ 1,085,131**	**$ (155,758)**	**-14.4%**
Change in Working Capital (A-B-C)	**$ (136,271)**	**$ (26,727)**	**$ (109,545)**	
FTEs	2.09	2.95	(0.86)	-29.2%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Meeting Expenses
Most meetings were conducted using a hybrid format of both virtual and in person participation. This resulted in lower travel costs as fewer people attended meetings in-person.

Indirect Expenses
As an allocation based on actual FTE, the indirect expenses for this program were lower than budgeted due to lower FTE than budgeted.

Fixed Assets
As an allocation based on actual FTE counts, the allocation of fixed assets for this program area was higher than budgeted due to the over budget expenditures for AV, IT equipment, and carpet.

6. Administrative Services

Methodology for Allocation of Administrative Services Expenses to Programs

All expenses for the Administrative Services programs, referred to as indirect expenses, are allocated to the delegated program areas based on the respective number of FTEs.

6a. General and Administrative

GENERAL AND ADMINISTRATIVE SERVICES		2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding					
Other Funding					
	Interest Income	11,646	-	11,646	0.0%
	Other Revenue	11,850	-	11,850	0.0%
A. Total Funding		**$ 23,496**	**$ -**	**$ 23,496**	**0.0%**
Expenses					
	Personnel Expenses				
	Salaries	1,027,351	936,453	90,898	9.7%
	Payroll Taxes	55,295	34,547	20,748	60.1%
	Employee Benefits	59,649	45,829	13,820	30.2%
	Savings and Retirement	140,557	116,820	23,737	20.3%
	Total Personnel Expenses	**$ 1,282,852**	**$ 1,133,649**	**$ 149,203**	**13.2%**
	Meeting Expenses				
	Meetings	37,673	60,000	(22,327)	-37.2%
	Travel - Staff Business	26,334	45,300	(18,966)	-41.9%
	Travel - Member Reimbursement	33,657	65,000	(31,343)	-48.2%
	Total Meeting Expenses	**$ 97,663**	**$ 170,300**	**$ (72,637)**	**-42.7%**
	Operating Expenses				
	Consultants	11,000	65,000	(54,000)	-83.1%
	Contract				
	Building Rent and Facilities				
	Office Costs	122,107	133,000	(10,893)	-8.2%
	Professional Services	356,344	360,500	(4,156)	-1.2%
	Contingency	-	-		
	Total Operating Expenses	**$ 489,452**	**$ 558,500**	**$ (69,048)**	**-12.4%**
	Indirect Expenses	**$ (1,869,967)**	**$ (1,862,449)**	**$ (7,518)**	**0.4%**
	Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses		**$ -**	**$ -**	**$ -**	
Change in Assets (A-B)		**$ 23,496**	**$ -**	**$ 23,496**	
Fixed Assets					
	Allocation of Fixed Assets	-	-	-	
C. Total Inc(Dec) in Fixed Assets		$ -	$ -	$ -	
Total Budget (B+C)		**$ -**	**$ -**	**$ -**	
Change in Working Capital (A-B-C)		**$ 23,496**	**$ -**	**$ 23,496**	
FTEs		3.59	2.75	0.84	30.5%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Personnel Expenses
Personnel expenses in this program were higher than budgeted due to an increase in FTEs.

Meeting Expenses
Most meetings were conducted using a hybrid format of both virtual and in person participation. This resulted in lower travel costs as fewer people attended meetings in-person.

Operating Expenses
Consultants
Consultants were underspent, as an independent director search for expiring seats was not required.

6b. Legal and Regulatory

LEGAL AND REGULATORY	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
A. Total ERO Funding	**$ -**	**$ -**	**$ -**	**0.0%**
Expenses				
Personnel Expenses				
Salaries	822,964	552,889	270,075	48.8%
Payroll Taxes	38,987	33,056	5,931	17.9%
Employee Benefits	53,678	47,452	6,226	13.1%
Savings and Retirement	87,941	85,019	2,922	3.4%
Total Personnel Expenses	**$ 1,003,569**	**$ 718,416**	**$ 285,153**	**39.7%**
Meeting Expenses				
Meetings	558	500	58	11.6%
Travel - Staff Business	8,460	19,800	(11,340)	-57.3%
Travel - Member Reimbursement				
Total Meeting Expenses	**$ 9,018**	**$ 20,300**	**$ (11,282)**	**-55.6%**
Operating Expenses				
Consultants	32,750	54,900	(22,150)	-40.3%
Contract				
Building Rent and Facilities				
Office Costs	33,114	35,804	(2,690)	-7.5%
Professional Services	39,178	147,500	(108,322)	-73.4%
Contingency	-	-		
Total Operating Expenses	**$ 105,042**	**$ 238,204**	**$ (133,162)**	**-55.9%**
Indirect Expenses	**$ (1,117,629)**	**$ (976,920)**	**$ (140,709)**	**14.4%**
Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses	**$ -**	**$ -**	**$ -**	
Change in Assets (A-B)	**$ -**	**$ -**	**$ -**	
Fixed Assets				
Allocation of Fixed Assets	-	-	-	
C. Total Inc(Dec) in Fixed Assets	$ -	$ -	$ -	
Total Budget (B+C)	**$ -**	**$ -**	**$ -**	
Change in Working Capital (A-B-C)	**$ -**	**$ -**	**$ -**	
FTEs	2.33	2.79	(0.46)	-16.5%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Personnel Expenses
Higher salary costs are related to staff turnover and associated life cycle costs.

Meeting Expenses
Most meetings were conducted using a hybrid format of both virtual and in person participation. This resulted in lower travel costs as fewer people attended meetings in-person.

Operating Expenses
Consulting
Consulting was under spent as actual costs were lower than budgeted. In addition, some consulting projects were pushed into 2023.

Professional Services
Professional services such as outside legal are difficult to budget because these costs are incurred in response to unique situations. There was a lower than anticipated need for professional services during 2022.

Indirect Expenses
Total budget costs for this program are reflected as indirect expenses. The costs under this program increased over the prior year. These costs are allocated to the other statutory program areas based on the number of FTEs in each statutory program area.

6c. Information Technology

INFORMATION TECHNOLOGY	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
A. Total ERO Funding	**$ -**	**$ -**	**$ -**	**0.0%**
Expenses				
Personnel Expenses				
Salaries	921,407	921,491	(84)	0.0%
Payroll Taxes	53,335	67,927	(14,592)	-21.5%
Employee Benefits	94,082	135,988	(41,906)	-30.8%
Savings and Retirement	131,105	179,140	(48,035)	-26.8%
Total Personnel Expenses	**$ 1,199,929**	**$ 1,304,546**	**$ (104,617)**	**-8.0%**
Meeting Expenses				
Meetings	314	1,200	(886)	-73.8%
Travel - Staff Business	1,223	5,000	(3,777)	-75.5%
Travel - Member Reimbursement				
Total Meeting Expenses	**$ 1,537**	**$ 6,200**	**$ (4,663)**	**-75.2%**
Operating Expenses				
Consultants	131,802	165,200	(33,398)	-20.2%
Contract	415,510	384,368	31,142	8.1%
Building Rent and Facilities				
Office Costs	190,215	313,350	(123,135)	-39.3%
Professional Services				
Contingency				
Total Operating Expenses	**$ 737,527**	**$ 862,918**	**$ (125,391)**	**-14.5%**
Indirect Expenses	**$ (1,938,992)**	**$ (2,173,664)**	**$ 234,672**	**-10.8%**
Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses	**$ -**	**$ -**	**$ -**	
Change in Assets (A-B)	**$ -**	**$ -**	**$ -**	
Fixed Assets				
Computer & Software CapEx	539,151	125,000	414,151	331.3%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	44,923	-	44,923	
Inc(Dec) in Fixed Assets	**$ 584,074**	**$ 125,000**	**$ 459,074**	**367.3%**
Allocation of Fixed Assets	(584,074)	(125,000)	(459,074)	367.3%
C. Total Inc(Dec) in Fixed Assets	$ -	$ -	$ -	
Total Budget (B+C)	**$ -**	**$ -**	**$ -**	
Change in Working Capital (A-B-C)	**$ -**	**$ -**	**$ -**	
FTEs	7.87	7.98	(0.11)	-1.4%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Operating Expenses

Consultants

Consultants were underspent due to internal staff being able to manage the workload.

Office Costs

Office costs were underspent in computer maintenance and supplies, as cost was lower than budgeted.

Fixed Assets

Purchases in computer and furniture assets resulted in a variance of $459,074 over budget. A budgeted AV project from 2021 was completed in 2022 due to supply chain delays. The purchase of IT network equipment budgeted for 2023 was also advanced to 2022 in order to circumvent supply chain challenges. An unbudgeted carpet replacement was completed at year-end.

Indirect Expenses

Total budget costs for this program is reflected as indirect expenses. The costs under this program decreased over the prior year. These costs are allocated to the other statutory program areas based on the number of FTEs in each statutory program area.

6d. Human Resources

HUMAN RESOURCES	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
A. Total ERO Funding	**$ -**	**$ -**	**$ -**	**0.0%**
Expenses				
Personnel Expenses				
Salaries	294,273	273,690	20,583	7.5%
Payroll Taxes	15,435	18,244	(2,809)	-15.4%
Employee Benefits	20,680	34,323	(13,643)	-39.7%
Savings and Retirement	35,442	50,353	(14,911)	-29.6%
Total Personnel Expenses	**$ 365,831**	**$ 376,610**	**$ (10,779)**	**-2.9%**
Meeting Expenses				
Meetings	54	-	54	0.0%
Travel - Staff Business	1,146	2,000	(854)	-42.7%
Travel - Member Reimbursement				
Total Meeting Expenses	**$ 1,200**	**$ 2,000**	**$ (800)**	**-40.0%**
Operating Expenses				
Consultants	10,642	-	10,642	0.0%
Contract	92,175	27,000	65,175	241.4%
Building Rent and Facilities				
Office Costs	155,263	68,675	86,588	126.1%
Professional Services				
Contingency				
Total Operating Expenses	**$ 258,081**	**$ 95,675**	**$ 162,406**	**169.7%**
Indirect Expenses	**$ (625,111)**	**$ (474,285)**	**$ (150,826)**	**31.8%**
Other Non-Operating Expenses	$ -	$ -	$ -	
B. Total Expenses	**$ -**	**$ -**	**$ -**	
Change in Assets (A-B)	**$ -**	**$ -**	**$ -**	
Fixed Assets				
Allocation of Fixed Assets	-	-	-	
C. Total Inc(Dec) in Fixed Assets	$ -	$ -	$ -	
Total Budget (B+C)	**$ -**	**$ -**	**$ -**	
Change in Working Capital (A-B-C)	**$ -**	**$ -**	**$ -**	
FTEs	1.38	2.15	(0.77)	-35.8%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Operating Expenses

Consultants

Consulting dollars were over spent due to unbudgeted compensation studies conducted for new positions.

Contracts

Contracts was over spent due to increased spending in recruitment costs for new FTEs.

Office Costs

Office costs were higher than budgeted due to increased spending on staff retention-related expenses.

Indirect Expenses

Total budget costs for this program is reflected as indirect expenses. The costs under this program increased over the prior year. These costs are allocated to the other statutory program areas based on the number of FTEs in each statutory program area.

6e. Finance and Accounting

FINANCE AND ACCOUNTING	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
A. Total ERO Funding	**$ -**	**$ -**	**$ -**	**0.0%**
Expenses				
Personnel Expenses				
Salaries	576,209	606,220	(30,011)	-5.0%
Payroll Taxes	33,451	37,423	(3,972)	-10.6%
Employee Benefits	69,733	74,578	(4,845)	-6.5%
Savings and Retirement	107,638	111,583	(3,945)	-3.5%
Total Personnel Expenses	**$ 787,031**	**$ 829,804**	**$ (42,773)**	**-5.2%**
Meeting Expenses				
Meetings	269	1,000	(731)	0.0%
Travel - Staff Business	9,003	5,000	4,003	80.1%
Travel - Member Reimbursement				
Total Meeting Expenses	**$ 9,272**	**$ 6,000**	**$ 3,272**	**54.5%**
Operating Expenses				
Consultants	(2,425)	7,500	(9,925)	0.0%
Contract	46,730	46,350	380	0.8%
Building Rent and Facilities	1,051,505	1,132,100	(80,595)	-7.1%
Office Costs	156,728	249,200	(92,472)	-37.1%
Professional Services	59,000	59,000	0	0.0%
Contingency				
Total Operating Expenses	**$ 1,311,538**	**$ 1,494,150**	**$ (182,612)**	**-12.2%**
Indirect Expenses	**$ (2,107,841)**	**$ (2,329,954)**	**$ 222,113**	**-9.5%**
Other Non-Operating Expenses	$ (369,568)	$ -	$ (369,568)	
B. Total Expenses	**$ (369,568)**	**$ -**	**$ (369,568)**	
Change in Assets (A-B)	**$ 369,568**	**$ -**	**$ 369,568**	
Fixed Assets				
Allocation of Fixed Assets	-	-	-	
C. Total Inc(Dec) in Fixed Assets	$ -	$ -	$ -	
Total Budget (B+C)	**$ (369,568)**	**$ -**	**$ (369,568)**	
Change in Working Capital (A-B-C)	**$ 369,568**	**$ -**	**$ 369,568**	
FTEs	3.53	4.35	(0.82)	-18.9%

Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:

Operating Expenses
Office Costs
Virtual training capabilities allowed for lower training costs overall.

Other Non-Operating Expenses
There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2022 adjustment resulted in a decrease in the deferred liability, primarily because the benefit discount rate increased.

SECTION B — SUPPLEMENTAL FINANCIAL INFORMATION

		Functions in Delegation Agreement										
Statement of Activities and Capital Expenditures by Program 2022 Business Plan and Budget	**Statutory Total**	**Reliability Standards and Organization Registration and Certification (Section 300 & 500)**	**Compliance (Section 400)**	**Reliability Assessment and Performance Analysis (Section 800)**	**Training and Education (Section 600&900)**	**Situation Awareness and Infrastructure Security (Section 1000)**	**Committee and Member Forums**	**General and Administrative**	**Legal and Regulatory**	**Information Technology**	**Human Resources**	**Accounting and Finance**
Funding												
ERO Funding												
NERC Assessments	17,832,414	314,472	12,689,871	3,270,509	784,330	773,231						
Assessment Stabilization Adjustment	453,960	8,006	323,046	83,257	19,967	19,684						
Membership Dues	-											
Testing Fees	-											
Services & Software	-											
Workshops & Miscellaneous Revenue	-							-				
Interest & Investment Income	23,496							23,496				
Total Funding (A)	**18,309,870**	**322,478**	**13,012,918**	**3,353,767**	**804,297**	**792,915**	**-**	**23,496**	**-**	**-**	**-**	**-**
Expenses												
Personnel Expenses												
Salaries	11,808,251	87,741	5,683,215	1,617,656	346,977	430,456	-	1,027,351	822,964	921,407	294,273	576,209
Payroll Taxes	652,766	4,651	316,738	89,206	20,402	25,267	-	55,295	38,987	53,335	15,435	33,451
Benefits	1,188,645	11,428	643,846	163,065	33,702	38,782	-	59,649	53,678	94,082	20,680	69,733
Retirement Costs	1,886,087	20,061	979,106	274,287	53,137	56,812	-	140,557	87,941	131,105	35,442	107,638
Total Personnel Expenses	15,535,748	123,880	7,622,905	2,144,215	454,218	551,317	-	1,282,852	1,003,569	1,199,929	365,831	787,031
Meeting Expenses												
Meetings	109,913	-	2,501	4,231	61,398	2,916		37,673	558	314	54	269
Travel	218,522	-	59,018	60,006	8,633	11,043		59,990	8,460	1,223	1,146	9,003
Total Meeting Expenses	328,435	-	61,519	64,237	70,031	13,958	-	97,663	9,018	1,537	1,200	9,272
Operating Expenses												
Consultants & Contracts	1,095,659	-	270,507	86,968	-	-	-	11,000	32,750	547,312	102,817	44,305
Office Rent	1,051,505	-	-	-	-	-	-	-	-	-	-	1,051,505
Office Costs	809,211	-	117,181	26,876	1,080	6,646	-	122,107	33,114	190,215	155,263	156,728
Professional Services	454,522	-	-	-	-	-	-	356,344	39,178	-	-	59,000
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	3,410,897	-	387,688	113,844	1,080	6,646	-	489,452	105,042	737,527	258,081	1,311,538
Total Direct Expenses	**19,275,081**	**123,880**	**8,072,113**	**2,322,296**	**525,329**	**571,921**	**-**	**1,869,967**	**1,117,629**	**1,938,992**	**625,111**	**2,107,841**
Indirect Expenses	-	135,075	5,450,669	1,404,779	336,893	332,125	-	(1,869,967)	(1,117,629)	(1,938,992)	(625,111)	(2,107,841)
Other Non-Operating Expenses	**(369,568)**						-		-	-	-	(369,568)
Total Expenses (B)	**18,905,513**	**258,955**	**13,522,782**	**3,727,075**	**862,222**	**904,047**	**-**	**-**	**-**	**-**	**-**	**(369,568)**
Change in Net Assets	**(965,211)**	**63,522**	**(509,864)**	**(373,308)**	**(57,925)**	**(111,131)**	**-**	**23,496**	**-**	**-**	**-**	**369,568**
Fixed Assets												
Computer & Software CapEx	539,151									539,151		
Furniture & Fixtures CapEx	-									-		
Equipment CapEx	-									-		
Leasehold Improvements	44,923									44,923	-	-
Allocation of Fixed Assets	0	10,300	415,638	107,121	25,690	25,326		-	-	(584,074)	-	-
Inc(Dec) in Fixed Assets (C)	**584,074**	**10,300**	**415,638**	**107,121**	**25,690**	**25,326**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL BUDGET (Total Expenses plus Fixed Asset Additions =B +	**19,489,587**	**269,255**	**13,938,420**	**3,834,195**	**887,912**	**929,373**	**-**	**-**	**-**	**-**	**-**	**(369,568)**
TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)	**(1,179,717)**	**53,222**	**(925,502)**	**(480,429)**	**(83,615)**	**(136,457)**	**-**	**23,496**	**-**	**-**	**-**	**369,568**
FTEs	**66.90**	**0.85**	**34.30**	**8.84**	**2.12**	**2.09**		3.59	2.33	7.87	1.38	3.53

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Midwest Reliability Organization

Financial Statements

December 31, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of
Midwest Reliability Organization

Opinion

We have audited the financial statements of Midwest Reliability Organization (the Organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, effective January 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842),* and all related amendments using the modified retrospective approach. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Minneapolis, Minnesota
April 13, 2023

Midwest Reliability Organization

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 5,336,561	$ 6,535,807
Restricted cash	332,347	458,250
Prepaid expenses	472,240	610,428
Total current assets	6,141,148	7,604,485
Property, Improvements and Equipment, Net	2,679,184	2,696,007
Other Assets		
Restricted cash, noncurrent	4,746,594	4,166,731
Security deposit, noncurrent	39,858	39,858
Right of use asset	4,579,556	-
Investments	202,853	207,789
Capitalized software costs, net of accumulated amortization of $504,076 and $501,264 respectively	6,387	7,000
Total assets	$ 18,395,580	$ 14,721,870
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, trade	$ 364,814	$ 215,757
Accrued liabilities	2,402,325	2,285,101
Retirement plan contribution	947,573	863,658
Lease liability	486,891	-
Total current liabilities	4,201,603	3,364,516
Other Liabilities		
Postretirement medical benefit obligation	311,214	311,796
Lease liability, net of current portion	5,279,772	-
Deferred rent and lease incentives, net of current portion	-	1,240,477
Other retirement plan liability	202,853	207,789
Total liabilities	9,995,442	5,124,578
Net Assets (Without Donor Restrictions)	8,400,138	9,597,292
Total liabilities and net assets	$ 18,395,580	$ 14,721,870

See notes to financial statements

Midwest Reliability Organization

Statements of Activities
December 31, 2022 and 2021

	2022	2021
Revenue		
Assessments	$ 17,832,414	$ 16,983,251
Penalty sanctions	465,606	517,497
Other	11,850	4,382
Total revenue	18,309,870	17,505,130
Expenses		
Personnel expenses:		
Salaries	11,808,251	10,457,578
Payroll taxes	652,765	682,432
Employee benefits	1,188,645	998,942
Retirement benefits	1,886,088	1,768,892
Total personnel expenses	15,535,749	13,907,844
Meeting expenses:		
Meetings and conference calls	109,913	3,088
Travel	218,522	2,816
Total meeting expenses	328,435	5,904
Operating expenses:		
Building rent and facilities	1,051,505	991,646
Consulting	1,095,659	817,104
Office costs	1,410,722	1,239,215
Professional services	454,522	429,248
Total operating expenses	4,012,408	3,477,213
Total expenses	19,876,592	17,390,961
Change in net assets without donor restrictions before postretirement benefit related changes	(1,566,722)	114,169
Postretirement Benefit Related Changes		
Postretirement medical benefit obligation changes other than net periodic cost	(283,452)	(528,667)
Other components of net periodic pension cost	(86,116)	(50,260)
	(369,568)	(578,927)
Change in net assets without donor restrictions	(1,197,154)	693,096
Net Assets Without Donor Restrictions, Beginning	9,597,292	8,904,196
Net Assets Without Donor Restrictions, Ending	$ 8,400,138	$ 9,597,292

See notes to financial statements

Midwest Reliability Organization

Statements of Cash Flows
December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	$ (1,197,154)	$ 693,096
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	600,897	497,440
Software amortization	613	7,583
Unrealized loss on investments	36,325	-
Non-cash lease expense	(53,370)	-
Change in assets and liabilities:		
Prepaid expenses	138,188	(234,164)
Accounts payable, trade	137,571	12,785
Accrued liabilities	117,223	376,149
Retirement plan contribution	83,915	129,983
Deferred rent and lease incentives	-	793,560
Accrued retirement plan obligations	(5,517)	(256,220)
Net cash flows from operating activities	(141,309)	2,020,212
Cash Flows From Investing Activities		
Purchases of investments	(31,389)	(41,581)
Purchases of property, improvements and equipment and software	(572,588)	(2,080,057)
Net cash flows from investing activities	(603,977)	(2,121,638)
Net change in cash and cash equivalents	(745,286)	(101,426)
Cash, Cash Equivalents and Restricted Cash, Beginning	11,160,788	11,262,214
Cash, Cash Equivalents and Restricted Cash, Ending	$ 10,415,502	$ 11,160,788
Supplemental Cash Flow Disclosure		
Property, improvements and equipment additions included in accounts payable	$ 18,239	$ 6,753
Acquisition of right of use asset in exchange for lease liability	$ 6,232,182	$ -

See notes to financial statements

1. Significant Accounting Policies

Services

Midwest Reliability Organization (or the Organization) is a nonprofit organization dedicated to ensuring the reliability of the bulk power system in the central part of North America. The Organization is a Regional Entity under the Energy Policy Act of 2005 (United States) and operates under delegated authority from the Federal Energy Regulatory Commission (FERC) via a delegation agreement with the North American Electric Reliability Corporation (NERC). Additionally, the Organization operates in the provinces of Saskatchewan and Manitoba through other agreements. The primary focus of the Organization is ensuring compliance with reliability standards utilizing open, fair processes in the public interest and providing assessments on bulk power system reliability. In addition to the Board of Directors, the board has established three technical organizational groups comprised of stakeholders: Security Advisory Council, Compliance Monitoring and Enforcement Program Advisory Council and the Reliability Advisory Council. The Board of Directors has three committees: Finance and Audit Committee, Governance and Personnel Committee and Organizational Group Oversight Committee.

Financial Statement Presentation

As a 501(c)(3) nonprofit organization, net assets, support and revenue are classified based upon the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the Organization and/or passage of time. The Organization has no net assets with donor restrictions as of December 31, 2022 and 2021.

Cash, Cash Equivalents and Restricted Cash

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are held by one financial institution, Wells Fargo, in three accounts. Restricted cash consists of amounts received from penalties assessed and collected from registered entities regarding enforcement of NERC's reliability standards, which are segregated in a separate account as such amounts are required by FERC to be used to reduce future assessments. Restricted cash, noncurrent consists of long-term board-designated assessment stabilization reserves in the amount of $4,746,594 and $4,166,731 as of December 31, 2022 and 2021, which have been set aside to be used to mitigate year-to-year variations in assessments. Cash on deposit in excess of federally insured limits are subject to the usual banking risks of funds in excess of those limits. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the statement of cash flows as follows:

	2022	2021
Cash and cash equivalents	$ 5,336,561	$ 6,535,807
Restricted cash equivalents	332,347	458,250
Restricted cash equivalents, noncurrent	4,746,594	4,166,731
Total cash, cash equivalents and restricted cash	$ 10,415,502	$ 11,160,788

Cash equivalents and restricted cash equivalents totaling $10,408,960 as of December 31, 2022 consist of investments in government money market funds, and are classified within Level 1 of the fair value hierarchy based upon the availability of quoted market prices in active markets for the mutual funds.

Property, Improvements and Equipment

Property, improvements and equipment are stated at cost less accumulated depreciation and amortization. Significant additions or improvements exceeding $3,000 are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term. The cost and related accumulated depreciation of assets sold or disposed of are removed from the accounts, and the resulting gain or loss is included in operations.

Capitalized Software Costs

The Organization capitalizes software development costs incurred and purchased software in upgrading computer software used internally to serve its members. The Organization begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over its estimated useful life of three years. Amortization expense totaled $613 and $7,583 for the years ended December 31, 2022 and 2021, respectively.

Tax Status

The Internal Revenue Service (IRS) has determined that the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state income taxes under applicable state provisions. However, any unrelated business income may be subject to taxation.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2022 and 2021. The Organization's tax returns are subject to review and examination by federal and state authorities.

Revenue and Assessments

The Organization performs various services under its delegation agreement with NERC and similar agreements with other regulatory authorities to ensure compliance with mandatory reliability standards promulgated in the Energy Policy Act of 2005 (the Act) by entities who own, operate, or use the interconnected, international bulk power system. Services provided by the Organization consist of outreach and engagement, oversight and risk management, and measuring the reliability and performance of the bulk power system.

The Organization's assessment revenues are derived from NERC charges of all load-serving entities within the Organization's delegated geographical area. The assessments are based on the Organization's budgeted costs of operations, which are subject to review and approval by the Organization's board of directors, the NERC Board of Trustees, and the FERC. Once approved, the assessment is allocated to all load-serving entities within the Organization's delegated geographical area based on a net energy-to-load allocation formula prescribed under the Act in the United States, and similar arrangements in Saskatchewan and Manitoba. Since the services performed by the Organization constitute a continuous series of activities which are substantially the same, the Organization accounts for the services it performs under its delegation authority as a single performance obligation. Assessment revenues are therefore recognized over time on a straight-line basis. Assessments are billed and collected from load-serving entities by NERC. In turn, NERC remits assessments to the Organization on a quarterly basis.

Penalty sanctions are considered a form of variable consideration and are derived from the Organization's compliance and enforcement activities. Revenue resulting from penalty sanctions is recognized at the point in time when the regulatory body, FERC, has issued an order of settlement. Penalties are typically collected within 30 days of receipt of the order of settlement.

There are no sales or other taxes collected by the Organization concurrent with revenue-producing activities, and the Organization has no significant financing components contained in its delegation agreements with NERC or other regulatory authorities.

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 and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

Effective January 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842),* and all related amendments using the modified retrospective approach. The Organization's 2021 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. At the date of adoption, the Organization recorded an operating lease right-of-use asset and lease liability of $4,991,703 and $6,232,182, respectively.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected to apply the package of practical expedients permitted under the transition guidance which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs. In addition, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of the lease liability for its operating lease.

Additional required disclosures for Topic 842 are contained in Note 4.

Subsequent Events

The Organization has evaluated subsequent events through April 13, 2023 which is the date that the financial statements were approved and available to be issued.

2. Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the statement of financial position date for general expenditure such as operating expenses as of December 31, are as follows:

	2022	2021
Cash and cash equivalents	$ 5,336,561	$ 6,535,807
Restricted cash equivalents, current	332,347	458,250
Total	$ 5,668,908	$ 6,994,057

The Organization's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 30 days of operating expense coverage at any point in time.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The Organization also has an unsecured $2 million line of credit. No funds have been drawn from this line since its inception.

3. NERC Transactions

The Organization has entered into a delegation agreement with NERC to enforce the Reliability Standards as set by NERC within a designated region. In connection with the current delegation agreement, the Organization has the ability to propose Reliability Standards and Regional Variances. The Organization has the authority to enforce the Reliability Standards as set by NERC and approved by regulatory authorities within the geographic boundaries. The Organization is subject to oversight from NERC and applicable regulations in the United States, Manitoba, and Saskatchewan.

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted assessment revenues (exclusive of penalty sanctions revenue described previously) were $17,832,414 and $16,983,251 for each of the years ended December 31, 2022 and 2021, which were equal to the amounts received from NERC.

4. Lease Commitments

The Organization has an operating lease for office space in St. Paul, Minnesota. On June 30, 2020, the Organization amended the lease to expand the square footage and to extend the term through October 31, 2032. In addition to base rent, the Organization is responsible for its allocated share of common area maintenance and other operating costs. As part of the amendment to the lease, the lessor agreed to provide a construction allowance for tenant improvements in the amount of $834,800, which was received in full during the year ended December 31, 2021.

Prior to January 1, 2022

Rent expense was $963,872 for the year ended December 31, 2021. The amount of the construction allowance is included in deferred rent and lease incentives in the accompanying statement of financial position as of December 31, 2021. Deferred rent and lease incentives are being amortized as a reduction of rent expense over the term of the lease.

January 1, 2022 and After

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term. Upon adoption of the new lease standard, unamortized lease incentives and deferred rent were reclassified against the right of use asset. Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Organization's lease includes an option to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Organization includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization elected to use a risk-free rate based on U.S. Treasury notes or bond rates for a similar term.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of December 31, 2022:

Operating lease right-of-use assets	$ 4,579,556
Operating lease liabilities:	
Current	$ 486,891
Long-term	5,279,772
Total operating lease liabilities	$ 5,766,663

Operating lease expense was $1,020,561 for the year ended December 31, 2022.

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 3.00 percent. As of December 31, 2022, the weighted average remaining lease term was 9.8 years.

The table below summarizes the Company's scheduled future minimum lease payments for years ending after December 31, 2022:

Years ending December 31:	
2023	$ 574,891
2024	587,939
2025	601,046
2026	614,439
2027	628,178
Thereafter	3,241,600
Total lease payments	6,248,093
Less present value discount	(481,430)
Total lease liabilities	5,766,663
Less current portion	(486,891)
Long-term lease liabilities	$ 5,279,772

The following table includes supplemental cash flow and noncash information related to the leases for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 562,187
Operating lease right-of-use assets obtained in exchange for lease liabilities	6,232,182

5. Property, Improvements and Equipment

The following is a schedule of property, improvements and equipment as of December 31:

	2022	2021
Equipment	$ 3,524,397	$ 2,985,246
Furniture	817,208	817,208
Leasehold improvements	2,602,211	2,557,288
	6,493,816	6,359,742
Less accumulated depreciation	(4,264,632)	(3,663,735)
Net property, improvements and equipment	$ 2,679,184	$ 2,696,007

6. Line of Credit

The Organization has a revolving line of credit from National Cooperative Service Corporation (NCSC) with an established credit limit of $2,000,000. The interest rate is equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the Wall Street Journal on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization, and expires on February 26, 2026. There were no outstanding balances at December 31, 2022 or 2021.

7. Retirement Plans

Postretirement Health Plan

The Organization has a defined benefit postretirement health plan available to eligible current and future retirees and eligible spouses and dependents. The Midwest Reliability Organization Retiree Medical Trust is the sole source of funding for the plan benefits. Under the terms of the postretirement health plan, Midwest Reliability Organization has no obligation to make any contributions to the trust. Information regarding the plan as of December 31 was as follows:

	2022	2021
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 2,506,906	$ 2,614,660
Service cost	368,734	374,829
Interest cost	69,932	64,785
Actuarial loss (gain)	(812,753) *	(512,772) **
Benefits paid	(33,173)	(34,596)
Benefit obligation at end of year	2,099,646	2,506,906
Change in plan assets:		
Fair value of plan assets at beginning of year	2,195,110	2,005,063
Actual return on plan assets	(373,505)	130,940
Employer contribution	-	93,703
Benefits paid	(33,173)	(34,596)
Fair value of plan assets at end of year	1,788,432	2,195,110
Unfunded status recognized as a noncurrent liability	$ (311,214)	$ (311,796)
Weighted average assumptions used to calculate the benefit obligation-discount rate	5.02 %	2.81 %

* Primary sources of the actuarial gain in 2022 are: 1) An increase in discount rate from 2.81 percent as of December 31, 2021 to 5.02 percent as of December 31, 2022 and 2) Pre-65 monthly premium increases.

** Primary sources of the actuarial gain in 2021 are: 1) An increase in discount rate from 2.50 percent as of December 31, 2020 to 2.81 percent as of December 31, 2021 and 2) Pre-65 monthly premium increases.

Net periodic postretirement benefit expense for the years ending December 31 is comprised of the following:

	2022	2021
Components of net periodic benefit cost:		
Service cost	$ 368,734	$ 374,829
Interest cost	69,932	64,785
Expected return on plan assets	(122,211)	(111,576)
Amortization of net gain	(33,837)	-
Amortization of prior service credit	-	(3,469)
Net periodic benefit cost	$ 282,618	$ 324,569
Weighted-average assumptions used to calculate the net periodic benefit cost:		
Discount rate	2.81 %	2.5 %
Expected return on plan assets	5.50	5.50
Rate of compensation increases	N/A	N/A

The mortality assumptions for the plan were based on Pri-2012 headcount weighted mortality tables under scale MP-2021 during the years ended December 31, 2022 and 2021.

The expected rates of return on plan assets are based on the weighting of the Organization's asset allocations, the 30-year rolling historical average returns, and recent historical average return.

Assumed health care cost trend rates used to determine the benefit obligation at December 31 consist of the following:

	2022	2021
Health care cost trend rate assumed for next year	7.4 %	6.0 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0 %	5.0 %
Year that the rate reaches the ultimate trend rate	2032	2032

Plan related changes other than net periodic cost included in retirement benefit expense consist of the following:

	2022	2021
Actuarial loss (gain) arising during the year	$ (283,452)	$ (532,136)
Amortization of prior year service cost	-	3,469
Total	$ (283,452)	$ (528,667)

The Organization employs a total return investment approach for plan assets with a mix of equity and debt investments used to maximize the long-term appreciation of plan assets for a prudent level of risk. The Organization's plan assets are invested in various funds, which consist of both stocks and bonds. The equity component includes investment in companies of various sizes, with an emphasis on large cap stocks, and represents several investment styles. The equity portion also includes an allocation to international stocks. Investments in bonds are diversified into three portfolios that invest mainly in U.S. treasuries, high quality corporate issues and mortgage securities.

Percentage of fair value by investment category at December 31, are as follows:

	2022	2021
Equity securities	51 %	57 %
Debt securities	48	42
Other	1	1

The fair values of the Organization's postretirement health plan assets at December 31, by asset category, are as follows:

	2022 Quoted Prices in Active Markets for Identical Assets (Level 1)	2021 Quoted Prices in Active Markets for Identical Assets (Level 1)
Asset category:		
Cash equivalents	$ 25,301	$ 24,279
Mutual funds, bonds	858,740	918,339
Mutual funds, equities	904,391	1,252,492
Total	$ 1,788,432	$ 2,195,110

Cash Equivalents - Investments in cash equivalents consist of money market funds and are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Mutual Funds - Investments in mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

There have been no changes in the fair market valuation techniques and inputs as of December 31, 2022 and 2021.

While the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2022 are as follows:

Years ending December 31:	
2023	$ 82,170
2024	84,379
2025	81,034
2026	85,064
2027	63,710
2028-2032	549,409
Total	$ 945,766

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material effect on the financial statements.

The Organization expects to contribute $253,609 to the plan in 2023.

Defined Contribution Retirement Plan

The Organization sponsors a thrift savings plan for the benefit of its employees. The plan provides for employee elective salary deferrals and employer matching and discretionary profit-sharing contributions. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50 percent matching contribution from the Organization. Employees are eligible to receive discretionary profit-sharing contributions, which vest over a period of three years, if they have worked 1,000 hours during the plan year. The Organization matched $569,780 and $528,670 of employee deferrals during the years ended December 31, 2022 and 2021, respectively. In addition, the Organization elected to make profit-sharing contributions in the amounts of $879,970 and $782,734 for the years ended December 31, 2022 and 2021, respectively.

As noted above, the Organization maintains a thrift savings plan and discretionary age-weighted contributions may be made by MRO. MRO also has a 457B plan. The 457B plan is approved by the President and CEO, as well as the Organization's Board of Directors. To the extent the discretionary age-weighted contribution is in excess of the IRS limitations as specified by the 457B plan, and the employee is an eligible participant in the 457B plan, the excess discretionary age-weighted contribution is credited in the 457B plan. For eligible participants, MRO contributed a total nonelective amount to the 457B plan of $23,015 and $29,567 for the years ended December 31, 2022 and 2021, respectively. The fair values of the Organization's 457B plan assets at December 31, 2022 and 2021 are $202,853 and $207,789, respectively. The plan assets consist of money market funds and mutual funds, which are Level 1 investments for which quoted prices are readily available.

8. Functional Expenses

The financial statements report certain categories of expenses that are attributable to the Organization's program and supporting functions and thus require allocation. Expenses relating to building rent and facilities and depreciation have been allocated based on square footage estimates relating to office space used for program purposes versus office space used for supporting functions. Salaries, payroll taxes and employee benefits expense allocations are based on estimates of time and effort of the related employees. Additionally, information technology, meeting expenses and office costs have been allocated based on employee productivity estimates used from data in the Organization's time reporting system. Total functional expenses for the years ended December 31, are as follows:

	2022		
	Program Service Expenses	**Management and General Expenses**	**Total Expenses**
Description:			
Salaries	$ 10,310,396	$ 1,497,855	$ 11,808,251
Payroll taxes and employee benefits	3,254,672	472,826	3,727,498
Meetings and travel	233,458	94,977	328,435
Building rent and facilities	844,474	207,031	1,051,505
Consulting	777,614	318,045	1,095,659
Office costs	575,205	234,007	809,212
Professional services	281,145	173,377	454,522
Depreciation and amortization	483,079	118,431	601,510
Total	$ 16,760,043	$ 3,116,549	$ 19,876,592

	2021		
	Program Service Expenses	**Management and General Expenses**	**Total Expenses**
Description:			
Salaries	$ 8,349,679	$ 2,107,899	$ 10,457,578
Payroll taxes and employee benefits	2,754,886	695,380	3,450,266
Meetings and travel	4,254	1,650	5,904
Building rent and facilities	796,400	195,246	991,646
Consulting	590,609	226,495	817,104
Office costs	529,010	205,182	734,192
Professional services	267,497	161,751	429,248
Depreciation and amortization	405,589	99,434	505,023
Total	$ 13,697,924	$ 3,693,037	$ 17,390,961

ATTACHMENT 3

2022 ACTUAL COST-TO-BUDGET COMPARISON

AND

2022 AUDITED FINANCIAL REPORT

FOR

NORTHEAST POWER COORDINATING COUNCIL, INC.

May 1, 2023

North American Electric Reliability Corporation
3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326
Attention: Mr. Andy Sharp, Vice President and Chief Financial Officer

Subject: NPCC 2022 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2022 Financial Statements

Dear Andy:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2022 NPCC actual vs. budget variances. NPCC's independent audit performed by Baker Tilly, LLP was concluded on April 6, 2023, and forwarded to NERC for its information and provision to FERC.

As you know, NPCC provides Regional Entity functions and services through its regional entity (RE) division. The establishment of Regionally-specific criteria, and monitoring and enforcement of compliance with such criteria are provided through the criteria services (CS) division of NPCC. The CS division is funded by assessments to the Independent System Operators/Balancing Authority Areas within the Region based on their respective Net Energy for Load.

No Regional Entity division assessments were used to fund CS division activities. Allocation between the RE division and CS division represents a 95/5 split for 2022 based upon direct program area FTEs. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC reports interest and investment income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses and fixed asset expenditures for NPCC's RE division for 2022 were $15,174,200 which is $2,195,390 or 12.57% under the 2022 operating budget of $17,465,134. Actual total expenses and fixed asset expenditures for NPCC's CS division for 2022 were $716,667 which is $232,708 or 24.56% under the 2022 operating budget of $947,611. In the aggregate, actual total expenses, and fixed asset expenditures for the NPCC RE and CS divisions were $15,890,867 which is $2,428,097 or 13.19% under the 2022 total corporate expense budget of $18,412,744. Indirect expenses are allocated to the direct programs based on FTE ratio.

Variances from budget in total for NPCC, total non-statutory, total statutory and total by statutory program area are reported using the template provided by NERC which presents actual and budgeted costs in a program-by-program format. A single consolidated budget versus actual cost comparison is presented for Administrative Services in order to be consistent with the presentation in NPCC's 2022 Business Plan and Budget.

Explanations of significant expense variances are provided for the Regional Entity division in total and by program area where the explanation differs from that for the Regional Entity total.

Although there were multiple open positions over varying periods throughout the year staff was reallocated to continue to meet NPCC's responsibilities under its Regional Delegation Agreement (RDA), agreements and memorandums of understanding respecting Canadian Provinces, and the NPCC Bylaws.

Should you have any questions please do not hesitate to contact me via email at jhala@npcc.org or via telephone at (646) 632-7071.

Sincerely,

Jessica Hala

Jessica Hala
Vice President, Finance and Treasurer

Enclosures

cc: Mr. Charles Dickerson – NPCC President and CEO

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	15,912,313	15,912,313	-	0.00%
Penalty Sanctions	201,131	201,131	-	0.00%
Total ERO Funding	**16,113,444**	**16,113,444**	**-**	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	636,745	636,745	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	20,250	33,750	(13,500)	-40.00%
Interest & Investment Income	79,429	30,000	49,429	164.76%
Miscellaneous	-	-	-	
Total Funding	**16,849,868**	**16,813,939**	**35,929**	0.21%
Expenses				
Personnel Expenses				
Salaries	8,804,088	9,421,448	(617,360)	-6.55%
Payroll Taxes	614,062	620,872	(6,810)	-1.10%
Employee Benefits	1,846,868	2,300,990	(454,122)	-19.74%
Savings & Retirement	874,251	1,078,932	(204,681)	-18.97%
Total Personnel Expenses	**12,139,269**	**13,422,241**	**(1,282,972)**	-9.56%
Meeting Expenses				
Meetings & Conference Calls	97,602	239,000	(141,398)	-59.16%
Travel	202,659	539,652	(336,993)	-62.45%
Total Meeting Expenses	**300,261**	**778,652**	**(478,391)**	-61.44%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	440,087	895,650	(455,563)	-50.86%
Rent & Improvements	742,674	906,141	(163,467)	-18.04%
Office Costs	978,054	1,221,059	(243,005)	-19.90%
Professional Services	1,022,771	1,017,000	5,771	0.57%
Miscellaneous	28,395	55,000	(26,605)	-48.37%
Total Operating Expenses	**3,211,981**	**4,094,850**	**(882,869)**	-21.56%
Indirect Expenses	**-**	**-**	**-**	
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses	**15,651,511**	**18,295,744**	**(2,644,233)**	-14.45%
Change in Net Assets	**1,198,357**	**(1,481,805)**	**2,680,162**	-180.87%
Fixed Asset Additions, excluding Right of Use Assets	**239,356**	**117,000**	**216,137**	184.73%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	**15,890,867**	**18,412,744**	**(2,428,097)**	**-13.19%**
Change in Working Capital (Total Funding less Total Budget)	**959,001**	**(1,598,805)**	**2,464,025**	-154.12%
FTE's	**45.17**	**52.00**	**(6.83)**	

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary

TOTAL STATUTORY	**2022 Actual**	**2022 Budget**	**2022 Variance from Budget Over(Under)**	
Funding				
ERO Funding				
Assessments	15,912,313	15,912,312	-	0.00%
Penalty Sanctions	201,131	201,131	-	0.00%
Total ERO Funding	16,113,444	16,113,444	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	20,250	33,750	(13,500)	-40.00%
Interest & Investment Income	75,431	28,465	46,966	164.99%
Miscellaneous	-	-	-	
Total Funding	16,209,125	16,175,659	33,466	0.21%
Expenses				
Personnel Expenses				
Salaries	8,483,739	9,072,407	(588,668)	-6.49%
Payroll Taxes	592,081	595,815	(3,734)	-0.63%
Employee Benefits	1,802,147	2,234,738	(432,591)	-19.36%
Savings & Retirement	841,410	1,041,405	(199,995)	-19.20%
Total Personnel Expenses	11,719,377	12,944,365	(1,224,988)	-9.46%
Meeting Expenses				
Meetings & Conference Calls	97,338	230,600	(133,262)	-57.79%
Travel	190,551	505,572	(315,021)	-62.31%
Total Meeting Expenses	287,889	736,172	(448,283)	-60.89%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	440,087	839,650	(399,563)	-47.59%
Rent & Improvements	742,674	906,141	(163,467)	-18.04%
Office Costs	975,680	1,218,070	(242,390)	-19.90%
Professional Services	1,022,771	1,017,000	5,771	0.57%
Miscellaneous	27,986	51,000	(23,014)	-45.13%
Total Operating Expenses	3,209,198	4,031,861	(822,663)	-20.40%
Indirect Expense Allocation	(271,371)	(358,416)	87,045	-24.29%
Other Non-Operating Expenses	-	-	-	
Total Expenses	14,945,093	17,353,983	(2,408,890)	-13.88%
Change in Net Assets	1,264,032	(1,178,324)	2,442,355	-207.27%
Fixed Asset Additions, excluding Right of Use Assets	229,107	111,151	213,501	192.08%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	**15,174,200**	**17,465,134**	**(2,195,389)**	**-12.57%**
Change in Working Capital (Total Funding less Total Budget)	**1,034,924**	**(1,289,475)**	**2,228,855**	-172.85%
FTE's	**44.07**	**49.90**	**(5.83)**	**-11.68%**

TOTAL STATUTORY
Variances > +/- $10,000 and 10%

Workshop Fees
NPCC hosted one in-person workshop in the fall of 2022. The workshop was offered in a hybrid format with in-person and virtual participation options available. Workshop fees are lower than budgeted due to some virtual participation. Fees are only charged for in-person attendance at workshops in order to offset the associated expenses. There are no fees collected for virtual attendance.

Interest & Investment Income
Interest & investment income earned from the investment of excess operating cash into a 100% U.S. Treasury Securities money market fund was higher than budgeted based on actual yields.

Personnel Expenses
Although there were multiple open positions over varying periods throughout the year staff was reallocated to continue to meet NPCC's responsibilities under its Regional Delegation Agreement (RDA), agreements and memorandums of understanding respecting Canadian Provinces, and the NPCC Bylaws. In response to the COVID-19 pandemic, NPCC also successfully adjusted recruiting and hiring procedures, conducting teleconference, WebEx and video conference interviews with candidates and remote onboarding. Benefits expenses were under budget as a result of lower than budgeted increases in medical insurance premiums.

Meeting Expenses
Continued in-person meeting and travel limitations through mid-year due to the Covid-19 pandemic resulted in under-budget variances in all program areas.

Consultants & Contracts
Under budget variance resulted from less reliability assessments and studies required in 2022 than planned for when the budget was completed in 2021.

Rent & Improvements
Lower than budgeted landlord operating costs are offset by one-time costs associated with the early termination of the current office lease, which would otherwise terminate in June 2024. NPCC executed a new lease for a smaller office space to accommodate the hybrid work environment while realizing long term occupancy cost savings beginning in 2023.

Office Costs
Under budget variance is due to several IT software contracts and license renewals negotiated lower than budgeted. Under budget IT costs are partially offset by over budget increase in fixed assets related to equipment purchases and software development projects previously planned for 2023 being advanced into 2022.

Miscellaneous
Under budget variance is related to remote working due to the COVID-19 pandemic. Miscellaneous expenses typically include services and items related to working on-site such as document destruction services and carpet cleaning.

Fixed Assets
Over budget variance is due to equipment purchases and software development projects, which include website enhancements and the implementation of an enterprise risk management system. The overage is partially offset by lower than budgeted IT office costs.

Compliance Hearings
No funds were budgeted in association with NPCC conducting compliance hearings and no hearings have been initiated to date in NPCC.

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary

RELIABILITY STANDARDS	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	957,270	957,270	-	0.00%
Penalty Sanctions	9,553	9,553		0.00%
Total ERO Funding	966,823	966,823	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	966,823	966,823	-	0.00%
Expenses				
Personnel Expenses				
Salaries	186,122	398,873	(212,751)	-53.34%
Payroll Taxes	15,103	23,836	(8,733)	-36.64%
Employee Benefits	54,231	100,793	(46,562)	-46.20%
Savings & Retirement	19,333	42,512	(23,179)	-54.52%
Total Personnel Expenses	274,789	566,014	(291,225)	-51.45%
Meeting Expenses				
Meetings & Conference Calls	110	3,000	(2,890)	-96.33%
Travel	2,792	54,540	(51,748)	-94.88%
Total Meeting Expenses	2,902	57,540	(54,638)	-94.96%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	11,475	20,000	(8,525)	-42.63%
Rent & Improvements	-	-	-	
Office Costs	1,232	2,242	(1,010)	-45.04%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	12,707	22,242	(9,535)	-42.87%
Indirect Expense Allocation	169,532	315,748	(146,216)	-46.31%
Other Non-Operating Expenses	-	-	-	
Total Expenses	459,930	961,544	(501,614)	-52.17%
Change in Net Assets	506,893	5,279	501,614	9501.58%
Fixed Asset Additions, excluding Right of Use Assets	6,733	5,279	1,453	27.53%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	**466,663**	**966,823**	**(500,161)**	**-51.73%**
Change in Working Capital (Total Funding less Total Budget)	**500,161**	**-**	**500,161**	
FTE's	**1.00**	**1.85**	**(0.85)**	**-45.95%**

RELIABILITY STANDARDS
Variances > +/- $10,000 and 10%

Personnel Expenses
Staff vacancies during the year resulted in lower than budgeted personnel expenses in this program area.

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary

COMPLIANCE ENFORCEMENT and ORGANIZATION REGISTRATION	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	9,196,118	9,196,118	-	0.00%
Penalty Sanctions	128,838	128,838	-	0.00%
Total ERO Funding	9,324,956	9,324,956	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	9,324,956	9,324,956	-	0.00%
Expenses				
Personnel Expenses				
Salaries	3,750,640	3,863,613	(112,973)	-2.92%
Payroll Taxes	286,023	286,998	(975)	-0.34%
Employee Benefits	820,122	1,001,839	(181,717)	-18.14%
Savings & Retirement	361,671	422,710	(61,039)	-14.44%
Total Personnel Expenses	5,218,456	5,575,160	(356,704)	-6.40%
Meeting Expenses				
Meetings & Conference Calls	4,430	4,000	430	10.75%
Travel	59,114	161,472	(102,358)	-63.39%
Total Meeting Expenses	63,544	165,472	(101,928)	-61.60%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	19,969	32,000	(12,031)	-37.60%
Rent & Improvements	-	-	-	
Office Costs	21,645	17,434	4,211	24.15%
Professional Services	-	-	-	
Miscellaneous	1,847	-	1,847	
Total Operating Expenses	43,461	49,434	(5,973)	-12.08%
Indirect Expense Allocation	3,770,392	4,258,335	(487,943)	-11.46%
Other Non-Operating Expenses	-	-	-	
Total Expenses	9,095,853	10,048,401	(952,548)	-9.48%
Change in Net Assets	229,103	(723,445)	952,548	-131.67%
Fixed Asset Additions, excluding Right of Use Assets	150,337	71,199	79,138	111.15%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	**9,246,190**	**10,119,600**	**(873,410)**	**-8.63%**
Change in Working Capital (Total Funding less Total Budget)	**78,766**	**(794,644)**	**873,410**	-109.91%
FTE's	**22.33**	**24.95**	**(2.62)**	**-10.50%**

COMPLIANCE ENFORCEMENT and ORGANIZATION REGISTRATION
Variances > +/- $10,000 and 10%

Total Expenses
Despite the under budget variance in total expenses and travel restrictions due to the COVID-19 pandemic, NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification program area was able to carry out all of its RDA duties which included the following Compliance Monitoring activities:
Compliance Monitoring Activities:

- Completed 5 hybrid on-site O&P audits Completed 4 hybrid on-site CIP audits
- Completed 25 off-site O&P audits
- Completed 2 off-site CIP audits
- Completed 1 off-site O&P spot-check
- Completed 1 off-site CIP spot-check
- Completed 2 O&P self-certifications
- Completed 2 CIP self-Certifications
- Started 2 hybrid on-site O&P audits
- Started 2 hybrid on-site CIP audits
- Started 6 O&P off-site audits
- Started 1 off-site CIP audit
- Started 15 O&P self-certifications
- Started 5 CIP self-certifications
- Participated in 4 MRRE audits

In addition to the listed Compliance Monitoring activities, NPCC also:

- Completed 1 Certification Review for a replacement Energy Management System
- Performed 30 Inherent Risk Assessments (IRA)
- Developed 25 Compliance Oversight Plans (COP)
- Developed and sent 15 IRA Update requests to entities on the 2023 Audit Schedule
- Developed 16 ICATs (Internal Controls Assessment Template) for Auditor field use on 2022 Audits
- Processed 11 new Technical Feasibility Exception (TFE) submittals
- Closed 138 instances of non-compliance with NERC Reliability Standards
- Performed a Preliminary Screen on 318 incoming non-compliances
- Registered 13 new entities, delisted 9 entities, and processed 2 entity name changes
- Conducted 5 on-site walkdowns for Generators Owner awareness and preparation for winter weather
- Conducted 3 compliance educational events that were attended by a total of 630 stakeholders online and 95 stakeholders in-person
- Participated on multiple working groups in support of NERC and the other five Regions in the development of all four Releases of the Align/SEL tool

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	3,710,864	3,710,864	-	0.00%
Penalty Sanctions	33,307	33,307		0.00%
Total ERO Funding	3,744,171	3,744,171	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	3,744,171	3,744,171	-	0.00%
Expenses				
Personnel Expenses				
Salaries	1,294,365	1,232,794	61,571	4.99%
Payroll Taxes	87,456	79,765	7,691	9.64%
Employee Benefits	304,126	332,187	(28,061)	-8.45%
Savings & Retirement	132,822	133,166	(344)	-0.26%
Total Personnel Expenses	1,818,769	1,777,912	40,857	2.30%
Meeting Expenses				
Meetings & Conference Calls	6,729	17,250	(10,521)	-60.99%
Travel	79,036	129,720	(50,684)	-39.07%
Total Meeting Expenses	85,765	146,970	(61,205)	-41.64%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	325,025	692,000	(366,975)	-53.03%
Rent & Improvements	-	-	-	
Office Costs	13,167	8,030	5,137	63.97%
Professional Services	-	-	-	
Miscellaneous	5	-	5	
Total Operating Expenses	338,197	700,030	(361,833)	-51.69%
Indirect Expense Allocation	1,068,533	1,100,852	(32,319)	-2.94%
Other Non-Operating Expenses	-	-	-	
Total Expenses	3,311,264	3,725,764	(414,500)	-11.13%
Change in Net Assets	432,907	18,407	414,500	2251.86%
Fixed Asset Additions, excluding Right of Use Assets	42,415	18,407	24,009	130.43%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	**3,353,679**	**3,744,171**	**(390,491)**	**-10.43%**
Change in Working Capital (Total Funding less Total Budget)	**390,492**	**-**	**390,491**	
FTE's	**6.30**	**6.45**	**(0.15)**	**-2.33%**

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS
Variances > +/- $10,000 and 10%

Consultants & Contracts
Under budget variance resulted from less reliability assessments and studies required in 2022 than planned for when the budget was completed in 2021.

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	138,664	138,664	-	0.00%
Penalty Sanctions	516	516		0.00%
Total ERO Funding	139,181	139,181	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	20,250	33,750	(13,500)	-40.00%
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	159,431	172,931	(13,500)	-7.81%
Expenses				
Personnel Expenses				
Salaries	22,978	23,642	(664)	-2.81%
Payroll Taxes	1,405	1,471	(66)	-4.46%
Employee Benefits	4,639	6,283	(1,644)	-26.17%
Savings & Retirement	2,163	2,434	(271)	-11.13%
Total Personnel Expenses	31,185	33,830	(2,645)	-7.82%
Meeting Expenses				
Meetings & Conference Calls	65,791	112,400	(46,609)	-41.47%
Travel	1,265	9,000	(7,735)	-85.94%
Total Meeting Expenses	67,056	121,400	(54,344)	-44.76%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	107	348	(241)	-69.25%
Professional Services	-	-	-	
Miscellaneous	6	-	6	
Total Operating Expenses	113	348	(235)	-67.53%
Indirect Expense Allocation	16,853	17,067	(214)	-1.26%
Other Non-Operating Expenses	-	-	-	
Total Expenses	115,207	172,645	(57,438)	-33.27%
Change in Net Assets	44,224	286	43,938	15386.99%
Fixed Asset Additions, excluding Right of Use Assets	673	286	388	135.77%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	**115,880**	**172,931**	**(57,050)**	**-32.99%**
Change in Working Capital (Total Funding less Total Budget)	**43,550**	**-**	**43,550**	
FTE's	**0.10**	**0.10**	**-**	**0.00%**

TRAINING, EDUCATION and OPERATOR CERTIFICATION
Variances > +/- $10,000 and 10%

Workshop Fees
NPCC hosted one in-person workshop in the fall of 2022. The workshop was offered in a hybrid format with in-person and virtual participation options available. Workshop fees are lower than budgeted due to some virtual participation. Fees are only charged for in-person attendance at workshops in order to offset the associated expenses. There are no fees collected for virtual attendance.

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	2,432,690	2,432,690	-	0.00%
Penalty Sanctions	28,918	28,918		0.00%
Total ERO Funding	2,461,608	2,461,608	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	2,461,608	2,461,608	-	0.00%
Expenses				
Personnel Expenses				
Salaries	823,423	1,009,298	(185,875)	-18.42%
Payroll Taxes	62,603	68,007	(5,404)	-7.95%
Employee Benefits	156,338	202,785	(46,447)	-22.90%
Savings & Retirement	80,995	110,066	(29,071)	-26.41%
Total Personnel Expenses	1,123,359	1,390,155	(266,796)	-19.19%
Meeting Expenses				
Meetings & Conference Calls	5,774	4,800	974	20.29%
Travel	27,636	56,580	(28,944)	-51.16%
Total Meeting Expenses	33,410	61,380	(27,970)	-45.57%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	30,000	30,000	-	0.00%
Rent & Improvements	-	-	-	
Office Costs	3,342	8,313	(4,971)	-59.80%
Professional Services	-	-	-	
Miscellaneous	118	-	118	
Total Operating Expenses	33,460	38,313	(4,853)	-12.67%
Indirect Expense Allocation	772,609	955,779	(183,170)	-19.16%
Other Non-Operating Expenses	-	-	-	
Total Expenses	1,962,838	2,445,627	(482,789)	-19.74%
Change in Net Assets	498,770	15,980	482,789	3021.12%
Fixed Asset Additions, excluding Right of Use Assets	28,950	15,980	12,969	81.16%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	**1,991,788**	**2,461,608**	**(469,820)**	**-19.09%**
Change in Working Capital (Total Funding less Total Budget)	**469,819**	**-**	**469,820**	
FTE's	**4.30**	**5.60**	**(1.30)**	**-23.21%**

SITUATION AWARENESS and INFRASTRUCTURE SECURITY
Variances > +/- $10,000 and 10%

Personnel Expenses

Staff vacancies during the year resulted in lower than budgeted personnel expenses in this program area.

Northeast Power Coordinating Council, Inc.
2022 Statement of Activities Summary

ADMINISTRATIVE SERVICES	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(523,294)	(523,294)	-	0.00%
Penalty Sanctions	-	-		
Total ERO Funding	(523,294)	(523,294)	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	75,431	28,465	46,966	164.99%
Miscellaneous	-	-	-	
Total Funding	(447,863)	(494,829)	46,966	-9.49%
Expenses				
Personnel Expenses				
Salaries	2,406,211	2,544,187	(137,976)	-5.42%
Payroll Taxes	139,491	135,739	3,752	2.76%
Employee Benefits	462,691	590,851	(128,160)	-21.69%
Savings & Retirement	244,426	330,517	(86,091)	-26.05%
Total Personnel Expenses	3,252,819	3,601,294	(348,475)	-9.68%
Meeting Expenses				
Meetings & Conference Calls	14,504	89,150	(74,646)	-83.73%
Travel	20,708	94,260	(73,552)	-78.03%
Total Meeting Expenses	35,212	183,410	(148,198)	-80.80%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	53,618	65,650	(12,032)	-18.33%
Rent & Improvements	742,674	906,141	(163,467)	-18.04%
Office Costs	936,187	1,181,703	(245,516)	-20.78%
Professional Services	1,022,771	1,017,000	5,771	0.57%
Miscellaneous	26,010	51,000	(24,990)	-49.00%
Total Operating Expenses	2,781,260	3,221,494	(440,234)	-13.67%
Indirect Expense Allocation	(6,069,290)	(7,006,199)	936,909	-13.37%
Other Non-Operating Expenses	-	-	-	
Total Expenses	-	-	-	
Change in Net Assets	(447,863)	(494,829)	46,966	-9.49%
Fixed Asset Additions, excluding Right of Use Assets	-	-	-	
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	-	-	-	
Change in Working Capital (Total Funding less Total Budget)	**(447,863)**	**(494,829)**	**46,966**	-9.49%
FTE's	**10.04**	**10.95**	**(0.91)**	**-8.31%**

ADMINISTRATIVE SERVICES
Variances > +/- $10,000 and 10%

Personnel Expenses
Staff vacancies during the year resulted in lower than budgeted personnel expenses in this program area.

Consultants and Contracts
Under budget variance resulted from advancing a compensation study into 2021 that was budgeted to take pace in 2022.

NPCC
Penalty Sanctions

				Year to Recognize as Revenue for Business Plan & Budget														
Date Invoiced	Date Received	Entity	Penalty Amount	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 and Future Years
12/14/2009	12/17/2009		$ 10,000.00	$ 10,000.00														
12/14/2009	12/17/2009		10,000.00	10,000.00														
12/14/2009	12/17/2009		10,000.00	10,000.00														
12/14/2009	12/17/2009		10,000.00	10,000.00														
3/8/2010	3/19/2010		250,000.00	250,000.00														
4/12/2010	4/20/2010		5,000.00	5,000.00														
6/1/2010	6/9/2010		13,500.00	13,500.00														
8/9/2010	8/26/2010		40,000.00		40,000.00													
11/1/2010	11/30/2010		5,000.00		5,000.00													
12/9/2010	12/21/2010		450,000.00		450,000.00													
12/9/2010	12/21/2010		7,500.00		7,500.00													
		Subtotal - 2010	$ 811,000.00															
3/28/2011	4/7/2011		$ 30,000.00		30,000.00													
3/28/2011	4/12/2011		10,000.00		10,000.00													
4/7/2011	4/21/2011		2,500.00		2,500.00													
4/7/2011	4/15/2011		5,000.00		5,000.00													
4/7/2011	4/18/2011		7,500.00		7,500.00													
5/17/2011	5/26/2011		2,500.00		2,500.00													
5/17/2011	5/31/2011		35,000.00		35,000.00													
6/14/2011	6/20/2011		4,000.00		4,000.00													
6/2/2011	6/10/2011		2,500.00		2,500.00													
6/2/2011	6/13/2011		2,500.00		2,500.00													
6/2/2011	6/30/2011		7,500.00		7,500.00													
6/2/2011	6/30/2011		2,500.00		2,500.00													
6/27/2011	7/13/2011		15,000.00			15,000.00												
7/27/2011	8/10/2011		3,500.00			3,500.00												
7/27/2011	8/10/2011		5,000.00			5,000.00												
7/27/2011	8/10/2011		5,000.00			5,000.00												
7/27/2011	9/6/2011		15,000.00			15,000.00												
8/18/2011	9/13/2011		80,000.00			80,000.00												
9/6/2011	9/23/2011		2,500.00			2,500.00												
9/9/2011	9/19/2011		5,000.00			5,000.00												
9/6/2011	9/23/2011		50,000.00			50,000.00												
9/14/2011	9/26/2011		4,000.00			4,000.00												
9/9/2011	9/30/2011		7,500.00			7,500.00												
9/6/2011	10/3/2011		5,000.00			5,000.00												
10/4/2011	10/12/2011		6,000.00			6,000.00												
10/4/2011	10/14/2011		3,500.00			3,500.00												
10/4/2011	10/17/2011		5,000.00			5,000.00												
		Subtotal - 2011	$ 323,500.00															
2/22/2012	3/8/2012		$ 15,000.00			15,000.00												
2/22/2012	3/8/2012		5,000.00			5,000.00												
2/23/2012	3/12/2012		17,500.00			17,500.00												
2/22/2012	3/21/2012		25,000.00			25,000.00												
4/3/2012	5/1/2012		5,000.00			5,000.00												
4/2/2012	5/1/2012		3,800.00			3,800.00												
4/3/2012	5/2/2012		4,000.00			4,000.00												
5/10/2012	6/5/2012		10,000.00			10,000.00												
6/22/2012	7/3/2012		8,000.00				8,000.00											
6/22/2012	7/18/2012		25,000.00				25,000.00											
9/5/2012	10/2/2012		15,000.00				15,000.00											
12/4/2012	1/3/2013		30,000.00				30,000.00											
12/18/2012	1/10/2013		40,000.00				40,000.00											
		Subtotal - 2012	$ 203,300.00															
4/30/2013	5/30/2013		6,000.00				6,000.00											
4/30/2013	5/30/2013		5,000.00				5,000.00											
4/30/2013	5/30/2013		6,000.00				6,000.00											
4/30/2013	5/30/2013		6,000.00				6,000.00											
4/30/2013	5/30/2013		6,000.00				6,000.00											
4/30/2013	5/30/2013		6,000.00				6,000.00											
6/6/2013	7/5/2013		50,000.00					50,000.00										
6/6/2013	7/5/2013		10,000.00					10,000.00										
6/6/2013	7/5/2013		30,000.00					30,000.00										
6/6/2013	7/5/2013		25,000.00					25,000.00										
8/5/2013	9/4/2013		7,000.00					7,000.00										
10/3/2013	10/16/2013		25,000.00					25,000.00										
10/31/2013	11/1/2013		5,000.00					5,000.00										
1/2/2014	1/8/2014		25,000.00					25,000.00										
		Subtotal - 2013	$ 212,000.00															
3/4/2014	3/6/2014		14,000.00					14,000.00										
4/3/2014	4/30/2014		90,000.00					90,000.00										
6/5/2014	6/18/2014		9,500.00					9,500.00										

NPCC
Penalty Sanctions

				Year to Recognize as Revenue for Business Plan & Budget														
Date Invoiced	**Date Received**	**Entity**	**Penalty Amount**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and Future Years**
11/6/2014	11/14/2014		5,000.00						5,000.00									
11/6/2014	11/24/2014		20,000.00						20,000.00									
11/6/2014	11/20/2014		12,000.00						12,000.00									
11/6/2014	12/1/2014		20,000.00						20,000.00									
		Subtotal - 2014	**$ 170,500.00**															
2/20/2015	3/5/2015		$ 10,000.00						$ 10,000.00									
		Subtotal - 2015	**$ 10,000.00**															
12/12/2016	12/16/2016		$ 75,000.00								$ 75,000.00							
		Subtotal - 2016	**$ 75,000.00**															
			$ -															
		Subtotal - 2017	**$ -**															
7/2/2018	7/16/2018		$ 120,000.00										$ 120,000.00					
		Subtotal - 2018	**$ 120,000.00**															
9/3/2019	9/16/2019		$ 50,000.00											$ 16,666.67	$ 16,666.67	$ 16,666.67		
9/3/2019	9/10/2019		$ 20,000.00											$ 6,666.67	$ 6,666.67	$ 6,666.67		
12/11/2019	12/24/2019		$ 84,000.00											$ 28,000.00	$ 28,000.00	$ 28,000.00		
		Subtotal - 2019	**$ 154,000.00**															
	1/17/2020		$ 450,000.00											$ 149,798.67	$ 149,798.67	$ 150,402.66		
	8/17/2020		$ 120,000.00													$ 40,000.00	$ 80,000.00	
	8/18/2020		$ 45,068.71													$ 15,022.90	$ 30,045.81	
		Subtotal - 2020	**$ 615,068.71**															
	8/3/2021		$ 360,000.00													$ 43,241.10	$ 120,000.00	$ 196,758.90
	7/19/2021		$ 100,000.00														$ 33,333.33	$ 66,666.67
		Subtotal - 2021	**$ 460,000.00**															
	3/3/2022		$ 10,080.00														$ 3,360.00	$ 6,720.00
	12/2/2022		$ 23,018.00														$ 7,672.67	$ 15,345.33
	12/23/2022		$ 512,000.00														$ 125,588.20	$ 386,411.80
		Subtotal - 2022	**$ 545,098.00**															
			$ 3,699,466.71	**$ 308,500.00**	**$ 614,000.00**	**$ 297,300.00**	**$ 153,000.00**	**$ 290,500.00**	**$ 67,000.00**	**$ -**	**$ 75,000.00**	**$ -**	**$ 120,000.00**	**$ 201,132.00**	**$ 201,132.00**	**$ 300,000.00**	**$ 400,000.00**	**$ 671,902.70**

Penalties Reconciliation	**12/31/2022**	**12/31/2021**	**Change in 2022**
Total Cumulative Penalties - GAAP/Audited FS	$ 3,699,466.71	$ 3,154,368.71	$ 545,098.00
Total Cumulative Penalties - True Up Report/BP&B	2,327,564.01	2,126,432.00	201,132.00
NERC Unrecognized Penalties[1]	**$ 1,371,902.70**	**$ 1,027,936.71**	**$ 343,966.00**

[1] NPCC's audited financial statements include penalties recorded as earned revenue at the time of invoicing, in accordance with GAAP. NPCC's true up report includes only those penalties included in the approved budget for the calendar year, resulting in the difference detailed above.

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Northeast Power Coordinating Council, Inc.

Financial Statements

December 31, 2022 and 2021

Northeast Power Coordinating Council, Inc.

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December 31, 2022 and 2021

Independent Auditors' Report

To the Board of Directors of
Northeast Power Coordinating Council, Inc.

Opinion

We have audited the financial statements of Northeast Power Coordinating Council, Inc. (the Company), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Other Matter - Auditors' Report on the 2021 Financial Statements

The 2021 financial statements of the Company were audited by other auditors whose report dated April 29, 2022, expressed an unmodified opinion on those financial statements.

Baker Tilly US, LLP

New York, New York
April 6, 2023

Northeast Power Coordinating Council, Inc.

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash	$ 2,525,176	$ 9,821,202
Restricted cash	1,522,163	1,178,427
Investments	8,117,712	41,997
Investments held for specific purposes	378,672	676,306
Prepaid expenses	516,694	627,413
Other assets	7,494	603,785
Operating leases, right-of-use assets	319,666	-
Equipment and leasehold improvements, net	436,959	531,391
Total assets	$ 13,824,536	$ 13,480,521
Liabilities and Net Assets		
Accrued expenses and other liabilities	$ 3,197,764	$ 4,038,332
Operating leases liabilities	205,054	-
Deferred compensation	378,672	676,306
Deferred revenue	567,659	261,888
Deferred rent	-	237,143
Total liabilities	4,349,149	5,213,669
Net assets without donor restrictions available for operations	9,475,387	8,266,852
Total liabilities and net assets	$ 13,824,536	$ 13,480,521

The accompanying notes are an integral part of these financial statements.

Northeast Power Coordinating Council, Inc.

Statements of Activities

Years Ended December 31, 2022 and 2021

	2022	2021
Revenue		
Criteria Services assessments	$ 636,744	$ 671,754
Regional Entity assessments	15,912,312	15,154,584
Penalty sanctions	545,098	460,000
Workshops	20,250	-
Total revenue	17,114,404	16,286,338
Expenses		
Salaries and employee benefits	12,231,484	11,745,340
Administrative and consultant fees	851,000	1,368,779
Professional fees	578,053	758,736
Meetings and travel	294,282	13,997
Telephone and telecommunications	187,563	182,365
Office supplies and expense	899,304	773,270
Lease expense	639,840	684,923
Insurance expense	64,285	44,930
Miscellaneous	28,395	40,519
Depreciation and amortization	333,787	210,034
Total expenses	16,107,993	15,822,893
Change in net assets from operating activities without donor restrictions	1,006,411	463,445
Non-Operating Income		
Interest and dividend income	62,713	2,787
Unrealized gain on investments	16,715	-
Other components of net periodic benefit costs	122,696	29,107
Change in net assets without donor restrictions	1,208,535	495,339
Net Assets		
Beginning of year	8,266,852	7,771,513
End of year	$ 9,475,387	$ 8,266,852

The accompanying notes are an integral part of these financial statements.

Northeast Power Coordinating Council, Inc.

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets without donor restrictions	$ 1,208,535	$ 495,339
Depreciation and amortization	333,787	210,034
Unrealized gain on investments	(16,715)	-
Decrease (increase) in prepaid expenses	50,705	(148,236)
Decrease (increase) in other assets	596,291	(295,528)
(Decrease) increase in accrued expenses and other liabilities	(840,568)	236,940
(Decrease) increase in deferred compensation	(297,634)	411,114
Increase (decrease) in deferred revenue	305,771	(52,993)
(Decrease) in deferred rent	-	(101,644)
Net change in operating lease right-of-use assets and liabilities	(291,741)	-
Net cash provided by operating activities	1,048,431	755,026
Cash Flows From Investing Activities		
Purchases of equipment and leasehold improvements	(239,355)	(187,634)
Sales of investments	351,316	9,200,000
Purchases of investments	(8,112,682)	(3,058,245)
Net cash (used in) provided by investing activities	(8,000,721)	5,954,121
Net (decrease) increase in cash and restricted cash	(6,952,290)	6,709,147
Cash and Restricted Cash		
Beginning of year	10,999,629	4,290,482
End of year	$ 4,047,339	$ 10,999,629
Reconciliation of Cash and Restricted Cash Reported in the Statements of Financial Position		
Cash	$ 2,525,176	$ 9,821,202
Restricted cash	1,522,163	1,178,427
Total cash and restricted cash	$ 4,047,339	$ 10,999,629
Supplemental Disclosure of Cash Flow Information		
Cash paid for the amounts included in the measurement of lease liabilities	$ 812,844	$ -

The accompanying notes are an integral part of these financial statements.

1. Description of Organization and Summary of Significant Accounting Policies

Nature of Operations

Northeast Power Coordinating Council, Inc. (NPCC or the Company) is a New York State not-for-profit corporation whose purpose is to promote and enhance the reliable and efficient operation of the international, interconnected bulk power system in Northeastern North America through its Regional Entity and Criteria Services divisions. The Company's Regional Entity division is responsible for the development of regional reliability standards and compliance assessment and enforcement of continent-wide and regional reliability standards, coordination of system planning, design and operations, and assessment of reliability. These responsibilities are pursuant to an agreement with the North American Electric Reliability Corporation (NERC), an Electric Reliability Organization (ERO) under authority of the U.S. Federal Energy Regulatory Commission (FERC), and by Memoranda of Understanding with applicable Canadian Provincial regulatory and/or governmental authorities. The Company's Criteria Services division establishes regionally-specific criteria, and monitors and enforces compliance with such criteria.

The Company is primarily funded through the NERC based on the Regional Entity division annual business plan and budget submitted to and approved by the NERC and the FERC. The Company's Criteria Services division is funded by regional independent system operators or balancing authority areas based upon a "Net Energy for Load" formula.

Basis of Accounting

The Company uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

The Company reports information regarding its financial position and change in net assets in accordance with Accounting Standards Codification (ASC) 958, *Presentation of Financial Statements of Not-for-Profit Entities*.

Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. NPCC did not have any net assets with donor restrictions as of December 31, 2022 and 2021.

Cash

The Company's cash balance consists of its operating checking account, as well as a savings account. At times, cash balances may be in excess of depository insurance limits.

Restricted Cash

Restricted cash represents amounts in deposit accounts funded with penalties levied and received for noncompliance within Northeastern U.S., which are required to be used for statutory activities in years subsequent to which the penalty was received, and amounts in deposit accounts for collateralizing a letter of credit as security for NPCC's office lease. At times, cash balances may be in excess of depository insurance limits.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of furniture and computer equipment is computed on the straight-line basis over the estimated useful lives of the applicable assets. Amortization of leasehold improvements is computed on the straight-line basis over the estimated useful lives of the applicable assets, or over the remaining term of the related lease, whichever is less.

Income Taxes

The Company has been classified as exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code.

The Company follows standards in ASC 740, *Income Taxes*, in establishing and classifying any tax provisions for uncertain tax positions and in recognizing any interest and penalties.

Revenue Recognition

The Company recognizes revenue consistent with *Revenue From Contracts With Customers (Topic 606)*.

The majority of the Company's revenue is recognized over time, with performance obligations that are satisfied within the same fiscal year. The majority of the Company's contracts do not contain variable consideration and contract modifications are generally minimal.

For the Criteria Services division, membership in the Company is on a calendar year basis. There are no fees assessed to full members other than those members that are Independent System Operators or Balancing Authority Areas. Criteria Services assessments received are recorded as income in the year to which the membership applies irrespective of when billed or collected. Criteria Services assessments collected prior to the membership year are recorded as deferred revenue. For the Regional Entity division, membership in the Company is on a calendar year basis. There are no fees assessed to general members. Funding mechanisms provided through U.S. regulatory and Canadian governmental and/or regulatory agreements provide for quarterly remittances through the North American Electric Reliability Corporation. Regional Entity assessments received are recorded as income in the year to which they were applied within the NPCC Business Plan and Budget irrespective of when billed or collected. The Company recognizes revenue as the performance obligations for Criteria Services and Regional Entity are satisfied throughout a membership year. The amount of revenue recognized reflects the consideration the Company expects to receive from members in connection with the Company's activities. The Company uses the input method to recognize revenue on the basis of the Company's efforts to satisfy the performance obligations evenly throughout the membership year. The Company recognizes revenue as the performance obligations for penalty sanctions are met which is when the penalty sanctions have been levied and the appeals process has been waived or is concluded.

Use of Estimates

The Company uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could vary from the estimates that are used.

Recent Accounting Pronouncements

Effective January 1, 2022, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Company's 2021 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At the date of adoption, the Company recorded operating lease right-of-use (ROU) assets and operating lease liabilities of $1,580,782 and $1,757,911, respectively.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Company elected to apply the package of practical expedients permitted under the transition guidance which does not require the Company to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs. The Company also elected to exclude leases that, at inception, have a term of 12 months or less from recognition on the statements of financial position. The related rent payments on these leases are expensed as incurred. In addition, the Company elected to use a risk-free discount rate for the initial and subsequent measurement of the lease liability for its operating leases. Additional required disclosures for Topic 842 are contained in Note 5.

Reclassifications

Certain reclassifications have been made to amounts previously reported in the financial statements to conform to the current year's presentation. Such reclassifications had no effect on the changes in net assets.

2. Liquidity and Availability

NPCC regularly monitors liquidity required to meet its operating needs. NPCC is substantially supported by assessment revenue from the Regional Entity and the Criteria Services divisions. As part of NPCC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NPCC's financial assets available to meet cash needs for general expenditures within one year as of December 31, are as follows:

	2022	2021
Financial assets:		
Cash	$ 2,525,176	$ 9,821,202
Restricted cash	300,000	201,132
Investments	8,117,712	41,997
Financial assets available to meet cash needs for general expenditures within one year	$ 10,942,888	$ 10,064,331

3. Investments and Fair Value Measurement

Investments are reported at fair value based upon quoted market values. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as follows:

Level 1 - Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2 - Valuations based on observable inputs other that Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3 - Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The Company's primary banking relationship is with JP Morgan Chase. Regional Entity and Criteria Services revenues are invested from time-to-time in a JPMorgan 100% U.S. Treasury Securities Money Market Fund (the Fund). The Fund aims to provide current income while maintaining liquidity and safety of principal. The Fund invests primarily in debt securities of the U.S. Treasury, but is not insured or guaranteed. The Fund has historically maintained a net asset value of $1.00 per share. Management has determined that the likelihood of sustaining losses from the Fund to be remote. In 2022 and 2021, the Fund earned average yields of less than 1%. Investment income earned on the Fund is reinvested into units of the Fund on a monthly basis. The fair value of the assets in this Fund as of December 31, 2022 and 2021 are classified as Level 1 in the table below.

On October 20, 2022, the Company purchased a U.S. Treasury bill with a maturity date of April 20, 2023 at a cost of $1,998,662. The fair value of this Treasury bill of $2,015,377 as of December 31, 2022 is classified as Level 1 in the table below. Accordingly, an unrealized gain of $16,715 is included in the statement of activities for the year ended December 31, 2022.

	2022	2021
Investments:		
U.S. Treasury Securities (Level 1)	$ 6,102,335	$ 41,997
U.S. Treasury bill (Level 1)	2,015,377	-
Total investments at fair value	$ 8,117,712	$ 41,997

The Company has entered into fixed annuity contracts with Metropolitan Life Insurance Company (MetLife) in connection with deferred compensation plans for former officers of the Company. The annuity contracts are included in the statements of financial position at contract value as reported by MetLife, which approximates fair value. The fair value of the assets of the annuity contracts as of December 31, 2022 and 2021 are classified as Level 2 in the table below.

The Company has established deferred compensation plans for its current President and CEO with Lincoln Financial Group. Both plans consist of investments in a JP Morgan target date mutual fund. The fair value of these investments as of December 31 are classified as Level 1 in the table below.

	2022	2021
Investments held for specific purposes:		
MetLife annuity contracts (Level 2)	$ 348,044	$ 676,306
JP Morgan target date mutual fund (Level 1)	30,628	-
Total	$ 378,672	$ 676,306

4. Equipment and Leasehold Improvements

Equipment and leasehold improvements as of December 31 consist of the following:

	Useful Lives	2022	2021
Furniture	10 years	$ 204,968	$ 204,968
Computer equipment	3 years	789,236	623,626
Website	3 years	232,000	232,000
Software	3 years	1,467,068	1,247,844
Leasehold improvements (Note 1)	Lease term	974,691	974,691
Total		3,667,963	3,283,129
Less accumulated depreciation and amortization		(3,231,004)	(2,907,629)
Assets not yet in service		-	155,891
		$ 436,959	$ 531,391

5. Lease Commitments

The Company has a limited number of operating leases. The Company's most significant lease is the operating lease for office space, which commenced in 2009 and was set to expire on April 30, 2024. This lease was modified in December 2022 with a new termination date of March 31, 2023. The lease termination included an early termination fee of $88,460 which was paid in December of 2022. The lease liability and corresponding right-of-use asset were remeasured in December 2022 on the effective date of the lease modification. As a result of the remeasurement, the right-of-use asset and the lease liability were reduced by $750,587. Other operating leases include various computer and equipment leases with expiration dates though 2024.

The Company includes fixed rent, predetermined rent escalations, rent-free periods, and deferred rent as lease components. Lease expense is recognized on a straight-line basis over the life of the lease. Some of these leases require variable payments for taxes and operating expenses, which are expensed as incurred.

The lease liabilities are initially and subsequently measured at the present value of the remaining lease payments. The right-of-use assets are initially recognized at the amount of the lease liabilities initially recognized less lease incentives received, less deferred rent, plus prepaid lease payments, plus any early termination fee. Since the Company's lease agreements do not have readily determinable discount rates implicit in the leases, the Company has elected the practical expedient to use a risk-free discount rate to determine the present value of the lease payments. The Company has also elected a practical expedient to allow the lease and nonlease components not to be separated where the lease agreement contains both.

Upon the adoption of ASC 842 on January 1, 2022, the right-of-use assets and lease liabilities were $1,580,782 and $1,757,911, respectively. The right-of-use assets and operating lease liabilities as of December 31, 2022 as presented in the statements of financial position were $319,666 and $205,054, respectively.

The components of lease costs, lease term and discount rate for the year ended December 31, 2022 are as follows:

Lease costs:	
Operating lease costs, fixed	$ 609,561
Operating lease costs, variable	30,279
Total lease costs	$ 639,840
Weighted-average remaining:	
Lease term (years)	0.54
Weighted-average discount rate	3.52%

Operating lease expense for office facilities and equipment totaled $684,923 for the year ended December 31, 2021, under Topic 840. Rent expense was recognized on a straight-line basis over the lease term. The difference between the rent expense charged to operations during the year and the amount payable under the lease during that year was recorded as "deferred rent" on the statement of financial position as of December 31, 2021. Deferred rent also included the landlord's contribution toward the cost of leasehold improvements, which were being amortized over the lease term. The unamortized balance of the landlord's contribution as of December 31, 2021 was approximately $84,000.

The following table reconciles the future undiscounted cash flows expected to be paid to the lease liability recorded on the statement of financial position for operating leases existing as of December 31, 2022:

Years ending December 31:	
2023	$ 194,531
2024	11,746
Total undiscounted cash flows	206,277
Less imputed interest	(1,223)
Present value of lease liabilities	$ 205,054

As of December 31, 2021, prior to the adoption of ASC 842, the minimum aggregate lease commitments under operating leases were as follows:

	Office Space	Other Leases	Total
Years ending December 31:			
2022	$ 720,392	$ 76,311	$ 796,703
2023	720,392	32,173	752,565
2024	240,131	6,365	246,496
	$ 1,680,915	$ 114,849	$ 1,795,764

In December of 2022, the Company entered into a lease agreement for new office space commencing on April 1, 2023. The new lease has a term of 13 years and will expire on March 31, 2036. The total fixed minimum payments due under this lease are approximately $4,200,000.

The existing office lease provides for security in the form of a collateralized letter of credit in the amount of $150,000.

6. Savings and Supplemental Plans

The Company maintains a 401(k) plan which provides for safe harbor matching contributions. All employees are immediately eligible for the plan upon hire. Within this plan, an employee can contribute 2% or greater of his or her qualified compensation up to the Internal Revenue Service (IRS) limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her qualified compensation, and 50% of his or her contribution for the next 2% of qualified compensation. Company contributions to the 401(k) plan were $279,169 and $273,719 for 2022 and 2021, respectively. Additionally, upon completion of a full calendar year of service, the Company's employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. The discretionary contribution for 2022 and 2021 was 8% of base compensation and totaled $524,600 and $538,256, respectively. The matching and discretionary contributions are included in "salaries and employee benefits" in the statements of activities.

The Company also maintains a deferred compensation 457(b) plan for employees who were not eligible to receive the same percentage level of retirement benefits as other employees under the 401(k) plan due to IRS annual compensation limits. The assets of the plan are held in trust for the participants and consist of fixed interest annuity contracts and target date mutual funds, as described in Note 3. The fair value of the annuity contracts' assets were $348,044 and $676,306 as of December 31, 2022 and 2021, respectively. In February of 2022, distributions totaling $339,506 were paid to two plan participants whose employment with the Company ended in 2021 and the remaining annuity contracts' assets will be distributed in full to these two participants in early 2023 in accordance with the plan. The fair value of the target date mutual fund assets was $15,723 as of December 31, 2022. The Company contributed $19,500 and $58,500 to this deferred compensation plan for 2022 and 2021, respectively.

Additionally, the Company established a 457(f) plan in 2021 for its incoming President and CEO. The assets of the plan are held for the participant and consist of a target date mutual fund, as described in Note 3. The fair value of the assets was $14,905 as of December 31, 2022. The Company contributed $20,500 to this plan for each of the years 2022 and 2021.

The deferred compensation accounts are shown as both assets and liabilities on the statements of financial position and the assets are available to creditors in the event of the Company's liquidation.

7. Postretirement Benefits Other Than Pension

The Company sponsors a retiree medical plan (RMP) for the benefit of eligible employees. An employee, hired prior to February 6, 2007, is eligible to participate in the plan, at the same cost as an active employee, if he or she has completed at least 30 years of service with the Company and has attained age 55 at the time of retirement. Employees hired after February 6, 2007 are not eligible. Once a covered retiree attains age 65, only reimbursement of supplemental medical coverage will be provided. The reimbursement consists of an annual stipend of up to $3,000 per year, increased annually by the national cost of living adjustment. Supplemental retiree coverage ends at age 80 for most of the participants and at age 85 for certain participants. The accumulated postretirement benefit obligation related to the RMP was $280,206 and $428,129 as of December 31, 2022 and 2021, respectively. These liabilities are included in "accrued expenses and other liabilities" in the statements of financial position.

The funded status of the plan as of December 31 was as follows:

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 428,129	$ 483,149
Service cost	5,475	5,545
Interest cost	8,764	7,849
Actuarial gain	(131,460)	(36,956)
Benefits paid	(30,702)	(31,458)
Benefit obligation at end of year	280,206	428,129
Funded status	$ (280,206)	$ (428,129)

The components of net periodic benefit cost for the years ended December 31 were as follows:

	2022	2021
Service cost	$ 5,475	$ 5,545
Interest cost	8,764	7,849
Benefits paid	(30,702)	(31,458)
Recognized actuarial gain	(131,460)	(36,956)
Net periodic benefit cost	$ (147,923)	$ (55,020)

Other changes in plan assets and benefit obligations recognized in the change in net assets without donor restrictions for the years ended December 31 were as follows:

	2022	2021
Actuarial gain	$ (131,460)	$ (36,956)
Benefits paid	30,702	31,458
Amortization of gain	131,460	36,956
Total recognized in change in net assets without donor restrictions	$ 30,702	$ 31,458
Total recognized in net periodic pension cost and change in net assets without donor restrictions	$ (117,221)	$ (23,562)

The key assumptions to determine the benefit obligation and net periodic benefit cost as of and for the years ended December 31 were as follows:

	2022	2021
Discount rate used for net periodic benefit cost	2.22 %	1.74 %
Discount rate used for benefit obligations	4.79	2.22
Health care cost trend rate, immediate	7.75	7.50
Health care cost trend rate, ultimate	4.50	4.50
Mortality table used, Society of Actuaries PRI-2012 White-Collar Headcount-Weighted Mortality for Employees, Retirees, Disabled Retirees, and Contingent Survivors, Scale MP-2021	-	-

The following schedule of benefit payments (net of expected participant contributions), which reflects expected future services, as appropriate, are expected to be paid in each of the next five years and in the aggregate thereafter:

Years ending December 31:	
2023	$ 39,000
2024	43,000
2025	13,000
2026	13,000
2027	13,000
2028-2032	145,000

The Company's policy is to recognize actuarial gains and losses related to the postretirement benefits immediately.

8. Salaries and Employee Benefits

During 2022 and 2021, salaries and employee benefits consist of the following:

	2022	2021
President, senior management and technical staff	$ 8,677,694	$ 8,398,891
Administrative support	117,769	102,100
Payroll taxes, insurance, educational assistance, savings and supplemental plans	3,436,021	3,244,349
Total salaries and employee benefits	$ 12,231,484	$ 11,745,340

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to $1,429,053 and $2,127,515 in 2022 and 2021, respectively, and consist of the following:

	2022	2021
Consultants	$ 380,433	$ 545,470
Accounting, legal and other services	1,018,139	1,553,063
Savings and supplemental plan administration	30,481	28,982
Total administrative, consultant and professional fees	$ 1,429,053	$ 2,127,515

These costs are reflected in "administrative and consultant fees" and "professional fees" in the statements of activities.

10. Functional Classification

The Company is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. NPCC incurs expenses that directly relate to, and can be assigned to, a specific operational or administrative activity. NPCC also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. general and administrative, legal and regulatory, information technology, human resources, and finance and accounting activities). The following tables summarize operational and administrative programs on a functional basis for the years ended December 31, 2022 and 2021:

	2022			
	Programs		Supporting Services	
	Regional Entity	Criteria Services	Management and General	Total
Salaries and employee benefits	$ 8,466,557	$ 419,893	$ 3,345,034	$ 12,231,484
Administrative and consultant fees	664,184	11,413	175,403	851,000
Professional fees	421,978	17,342	138,733	578,053
Meetings and travel	252,677	12,370	29,235	294,282
Telephone and telecommunications	136,921	5,627	45,015	187,563
Office supplies and expense	656,492	26,979	215,833	899,304
Lease expense	467,083	19,195	153,562	639,840
Insurance expense	46,928	1,929	15,428	64,285
Miscellaneous	20,728	852	6,815	28,395
Depreciation and amortization	243,664	10,014	80,109	333,787
Total expenses	$ 11,377,212	$ 525,614	$ 4,205,167	$ 16,107,993

	2021			
	Programs		Supporting Services	
	Regional Entity	Criteria Services	Management and General	Total
Salaries and employee benefits	$ 7,900,572	$ 446,187	$ 3,398,581	$ 11,745,340
Administrative and consultant fees	931,839	-	436,940	1,368,779
Professional fees	527,422	44,740	186,574	758,736
Meetings and travel	11,926	289	1,782	13,997
Telephone and telecommunications	127,655	10,942	43,768	182,365
Office supplies and expense	541,625	46,329	185,316	773,270
Lease expense	479,445	41,096	164,382	684,923
Insurance expense	31,451	2,696	10,783	44,930
Miscellaneous	35,863	931	3,725	40,519
Depreciation and amortization	147,024	12,602	50,408	210,034
Total expenses	$ 10,734,822	$ 605,812	$ 4,482,259	$ 15,822,893

11. Revenues

The following table shows the Company's revenues disaggregated according to the timing of satisfaction of performance obligations for the years ended December 31, 2022 and 2021:

	2022	2021
Revenue recognized at a point in time:		
Penalty sanctions	$ 545,098	$ 460,000
Workshops	20,250	-
Total revenue recognized at a point in time	565,348	460,000
Revenue recognized over time:		
Criteria Services assessments	636,744	671,754
Regional Entity assessments	15,912,312	15,154,584
Total revenue recognized over time	16,549,056	15,826,338
Total revenues	$ 17,114,404	$ 16,286,338

12. Related-Party Transactions

The NERC, through agreements with the FERC in the U.S. and Canadian Provincial regulatory and/or governmental agreements within Canada, delegates enforcement authority to six Regional Entities. NPCC is the cross-border Regional Entity for Northeastern North America. NERC was certified as the "Electric Reliability Organization" by the FERC on July 20, 2006. As of June 18, 2007, the U.S. FERC granted NERC the legal authority to enforce reliability standards with all U.S. users, owners and operators of the bulk power system, and made compliance with those standards mandatory and enforceable. NERC relies on the diverse and collective expertise of industry participants to improve the reliability of the bulk power system. These entities account for virtually all the electricity supplied in the United States, Canada and a portion of Baja California Norte, Mexico. NERC is subject to audit by the U.S. FERC and governmental and/or regulatory authorities in Canada. NERC funded the Regional Entities based upon Business Plans and Budgets submitted to and approved by FERC in the U.S. and Canadian regulatory and/or governmental authorities.

NPCC's Criteria Services division was fully funded by Regional independent system operator or balancing authority areas and operated on Criteria Services assessments to and funded from these six entities. Dues were based upon a "Net Energy for Load" funding formula. During 2022 and 2021, total Criteria Services assessments billed amounted to $636,744 and $671,754, respectively.

	2022		2021	
	Amount	Percent	Amount	Percent
Hydro-Quebec TransEnergie	$ 190,882	29.98 %	$ 200,393	29.83 %
Independent Electricity System Operator	139,013	21.83	146,222	21.77
ISO-New England, Inc.	122,875	19.30	129,052	19.21
New Brunswick System Operator	14,636	2.30	15,401	2.29
New York Independent System Operator	157,909	24.80	168,659	25.11
Nova Scotia Power, Inc.	11,429	1.79	12,027	1.79
Total Criteria Services assessments	$ 636,744	100.00 %	$ 671,754	100.00 %

13. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through April 6, 2023, the date the financial statements were available to be issued.

ATTACHMENT 4

2022 ACTUAL COST-TO-BUDGET COMPARISON

AND

2022 AUDITED FINANCIAL REPORT

FOR

RELIABILITY*FIRST* CORPORATION

RELIABILITY FIRST

Carol Baskey
Treasurer and Manager – Finance and Accounting
3 Summit Park, Suite 600
Cleveland Drive, OH 44131
Office: 216.503.0600
Carol.Baskey@rfirst.org

May 3, 2023

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

ReliabilityFirst's 2022 Actual Cost-To-Budget Comparison

Dear Mr. Andy Sharp:

As requested, ReliabilityFirst Corporation (ReliabilityFirst, or RF) is providing NERC the end of year 2022 Actual Cost-To-Budget Comparison. A summary of significant variances are explained in the Introduction Section, while more detailed explanations of variances are provided by program area.

For more information, please contact me at 216.503.0657 or carol.baskey@rfirst.org

Very truly yours,

RELIABILITYFIRST CORPORATION

Carol Baskey

Carol Baskey
Treasurer and Manager, Finance and Accounting

Introduction

This Actual Cost-To-Budget Comparison includes a summary of significant variances, followed by more detailed analyses by program area. In 2022, ReliabilityFirst performed only statutory activities, and therefore all funding and expenses shown are for those functions delegated to ReliabilityFirst by the Electric Reliability Organization (ERO). The financial information included in this comparison is based on the results of ReliabilityFirst's 2022 independent audit that was performed by RSM US LLP and completed on April 27, 2023. For the year ending December 31, 2022, ReliabilityFirst was $244K (0.9%) under budget.

Cost Allocation

ReliabilityFirst records all direct costs to the appropriate program areas. Costs related to the Administrative Services programs (Indirect Expenses) are allocated proportionately based on Full Time Equivalents (FTEs) count to the direct programs.

- Direct Programs include:
  - Reliability Assurance and Compliance Monitoring
  - Enforcement Management
  - Reliability Assessment and Performance Analysis
  - Training and Education
  - Situation Awareness and Infrastructure Security
- Administrative Services Programs include:
  - General and Administrative
  - Legal and Regulatory Affairs
  - Information Technology
  - Human Resources
  - Finance and Accounting

Funding

The variance in Investment Income under budget was the result of a decrease in the market value of the company’s investment portfolio, primarily as the result of unrealized losses. This variance was allocated proportionately to each direct program based on FTE count.

The variance in Miscellaneous Income was due to revenues from a credit card rebate program. This variance was allocated proportionately to each direct program based on FTE count.

Budget Expenses

Personnel Expenses

Salaries were over budget primarily as the result of board approved inflation related salary adjustments that occurred in the fourth quarter, offset partially by personnel count that was below the approved staffing levels during the first half of the year.

Employee Benefits were under budget mainly due to variances in training and medical benefits. Training was under budget primarily as the result of employees utilizing more virtual training options than were anticipated in the budget, in addition to lower than budgeted personnel count in the first half of the year. Medical benefits were under budget due to personnel count that was below the approved staffing levels in the first half of the year, along with employees selecting medical plans that differed from what was budgeted.

Savings and Retirement Costs were under budget primarily due to a lower than budgeted personnel count in the first half of the year and differences in employee’s actual deferral percentages compared to budgeted deferrals.

Meeting Expenses

Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.

Operating Expenses

Contracts and Consultants expense was over budget primarily due to greater than anticipated data analytics support and placement fees for an open VP position.

Rent & Utilities were over budget primarily due to an unbudgeted 5th floor office expansion and lease extension.

Office Costs and Computer Hardware & Software were over budget primarily due to a laptop replacement program impacting all employees in 2022, instead of half of the employees per budget to address possible supply chain delays, in addition to unbudgeted security software upgrades.

Professional Services was over budget due to fees for an additional independent director approved by the board in May 2021 not included in the budget.

Fixed Assets

Fixed assets were under budget primarily due to lower than anticipated software costs.

Allocation of Fixed Assets

Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs.

Cash Reserves

Working Capital Reserve

ReliabilityFirst Working Capital Reserve of $6,743,577 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in future years' assessments.

Operating Reserve

ReliabilityFirst's Operating Reserve of $1,000,000, which is designated each year with the intention of providing for unbudgeted and unexpected expenditures, was not utilized in 2022.

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2022 - December 31, 2022
ReliabilityFirst Corporation

	2022 Actual	2022 Budget	2022 Variance Over/(Under)	% Variance
Funding				
Reliability*First* Funding				
ERO Assessments	$ 23,447,945	$ 23,447,945	$ -	0.0%
Penalty Sanctions	3,488,681	3,488,681	-	0.0%
Total Reliability*First* Funding	**$ 26,936,626**	**$ 26,936,626**	**$ -**	**0.0%**
Membership Dues	$ -	$ -	$ -	-
Investment	(365,300)	50,000	(415,300)	-830.6%
Miscellaneous	3,474	-	3,474	-
Total Funding (A)	**$ 26,574,800**	**$ 26,986,626**	**$ (411,826)**	**-1.5%**
Expenses				
Personnel Expenses				
Salaries	$ 16,375,081	$ 16,274,246	$ 100,835	0.6%
Payroll Taxes	996,925	992,281	4,644	0.5%
Employee Benefits	2,236,168	2,412,806	(176,638)	-7.3%
Retirement Costs	2,402,022	2,602,105	(200,083)	-7.7%
Total Personnel Expenses	**$ 22,010,196**	**$ 22,281,438**	**$ (271,242)**	**-1.2%**
Meeting Expenses				
Meetings & Conference Calls	$ 159,661	$ 379,635	$ (219,974)	-57.9%
Travel	312,168	601,000	(288,832)	-48.1%
Total Meeting Expenses	**$ 471,829**	**$ 980,635**	**$ (508,806)**	**-51.9%**
Operating Expenses				
Contracts & Consultants	$ 639,180	$ 448,874	$ 190,306	42.4%
Office Rent	722,010	598,092	123,918	20.7%
Office Costs	1,261,920	1,110,388	151,532	13.6%
Professional Services	723,207	631,765	91,442	14.5%
Miscellaneous	49,454	48,735	719	1.5%
Total Operating Expenses	**$ 3,395,771**	**$ 2,837,854**	**$ 557,917**	**19.7%**
Total Direct Expenses	**$ 25,877,796**	**$ 26,099,927**	**$ (222,131)**	**-0.9%**
Indirect Expenses	**$ -**	**$ -**	**$ -**	**-**
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	**$ 25,877,796**	**$ 26,099,927**	**$ (222,131)**	**-0.9%**
Change in Net Assets (A-B)	**$ 697,004**	**$ 886,699**	**$ (189,695)**	**-21.4%**
Fixed Asset Additions, excluding Right of Use Assets (C)	98,259	120,000	(21,741)	-18.1%
Allocation of Fixed Assets	-	-	$ -	-
Inc/(Dec) in Fixed Assets	**$ 98,259**	**$ 120,000**	**$ (21,741)**	**-18.1%**
Total Budget	**$ 25,976,055**	**$ 26,219,927**	**$ (243,872)**	**-0.9%**
Total Change in Working Capital	**$ 598,745**	**$ 766,699**	**$ (167,954)**	**-21.9%**
WC - 12/31/2021	$ 91,767	(608,625)	700,392	
Less: Adjustment for future liabilities	(146,231)	-	(146,231)	
Available Working Capital	(54,464)	(608,625)	554,161	
Change in reserves from current year operations	598,745	766,699	(167,954)	
Other Adjustments to Reserves	(279,787)	(158,074)	(121,713)	
Total Working Capital	**264,494**	**-**	**264,494**	
Working Capital Reserve	6,743,577	6,743,577	-	
Operating Reserve	1,000,000	1,000,000	-	
Total Working Capital and Operating Reserve	**8,008,071**	**7,743,577**	**264,494**	
FTEs	**86.88**	**88.60**	**(1.72)**	**-1.9%**

Major Accomplishments

All statutory objectives were satisfied, including these major accomplishments:

- Completed the 2023-2027 Strategic Plan which will guide the efforts to ensure reliability, security, and resilience.
- RF continuously reviews compliance and enforcement data to identify risks, trends, and lessons learned. Throughout 2022, RF shared this data and information through multiple forums, including webinars, newsletter articles, and Board meetings to bring transparency and clarity to the Compliance Monitoring and Enforcement (CMEP) processes and share lessons learned so entities can implement best practices and mitigate risks.
- In 2022, RF's CMEP group performed a review of all activities during the pandemic, and identified a few lessons learned and focus areas going forward.
- In 2022, entities continued to utilize our suite of resilience tools. RF also cohosted a national security and resilience conference and organized the Ohio Security Tabletop, a statewide security tabletop exercise.
- In October, RF co-hosted GridSecCon 2022 with NERC and the E-ISAC. The event included training, panel discussions, and breakout sessions on various security and resilience topics, and featured speakers from the U.S. Department of Homeland Security, FBI, FERC, Idaho National Laboratory, and experts from electric utilities across the country.
- In 2022, RF and the ERO Enterprise continued to focus on key risk areas with a combination of outreach and monitoring.
- The extreme cold weather events from 2021's Winter Storm Uri and 2022's Winter Storm Elliott underscore the importance of cold weather preparedness to the reliability of the grid and the overall safety and well-being of our country. RF and the wider ERO Enterprise conduct annual activities to help address the risks posed by extreme weather, and these efforts expanded in 2022.
- Misoperations can worsen the severity of BPS disturbances, and the ERO Enterprise has engaged in a multi-year effort working with entities to help drive down the number of misoperations across North America. For the eighth consecutive year, the number of misoperations in the RF footprint decreased in 2022, showing that ERO Enterprise and industry efforts are reducing this risk.
- In 2022, RF continued state outreach efforts, interacting with the states to provide independent expertise on reliability related topics such as the changing generation mix and transmission planning, resource adequacy, cyber and physical security, resilience, and transmission and distribution system interdependencies.

For more information on these major accomplishments see 2022 Annual Report

Explanation of Variances - Reliability Standards

Resources and expenses associated with the Reliability Standards Program are included in the Reliability Assurance and Compliance Monitoring Program as a result of decreased activity in the Standards Program and the need to deploy resources to advance the Reliability Assurance Program.

Reliability Assurance and Compliance Monitoring

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2022 - December 31, 2022
Reliability Assurance and Compliance Monitoring

	2022 Actual	2022 Budget	2022 Variance Over/(Under)	% Variance
Funding				
Reliability*First* Funding				
ERO Assessments	$ 13,777,162	$ 13,777,162	$ -	0.0%
Penalty Sanctions	2,219,131	2,219,131	-	0.0%
Total Reliability*First* Funding	**$ 15,996,294**	**$ 15,996,294**	**$ -**	**0.0%**
Membership Dues	$ -	$ -	$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(232,366)	31,805	(264,171)	-830.6%
Miscellaneous	2,210	-	2,210	-
Total Funding (A)	**$ 15,766,138**	**$ 16,028,098**	**$ (261,961)**	**-1.6%**
Expenses				
Personnel Expenses				
Salaries	$ 7,896,804	$ 7,986,634	$ (89,830)	-1.1%
Payroll Taxes	$ 485,989	$ 501,750	(15,761)	-3.1%
Employee Benefits	$ 994,144	$ 1,121,544	(127,400)	-11.4%
Retirement Costs	$ 1,173,843	$ 1,240,276	(66,433)	-5.4%
Total Personnel Expenses	**$ 10,550,780**	**$ 10,850,204**	**$ (299,424)**	**-2.8%**
Meeting Expenses				
Meetings & Conference Calls	$ 332	$ 18,780	$ (18,448)	-98.2%
Travel	187,823	$ 358,000	(170,177)	-47.5%
Total Meeting Expenses	**$ 188,155**	**$ 376,780**	**$ (188,625)**	**-50.1%**
Operating Expenses				
Contracts & Consultants	$ 127,802	$ 20,000	$ 107,802	539.0%
Office Rent	-	$ -	-	-
Office Costs	334,420	$ 363,713	(29,293)	-8.1%
Professional Services	-	$ -	-	-
Miscellaneous	7,538	$ 7,400	138	1.9%
Total Operating Expenses	**$ 469,760**	**$ 391,113**	**$ 78,647**	**20.1%**
Total Direct Expenses	**$ 11,208,695**	**$ 11,618,097**	**$ (409,402)**	**-3.5%**
Indirect Expenses	**$ 5,208,771**	**$ 4,861,128**	**$ 347,643**	**7.2%**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	**-**
Total Expenses (B)	**$ 16,417,466**	**$ 16,479,225**	**$ (61,759)**	**-0.4%**
Change in Net Assets (A-B)	**$ (651,328)**	**$ (451,127)**	**$ (200,201)**	**44.4%**
Fixed Asset Additions, excluding Right of Use Assets (C)	-	-	-	-
Allocation of Fixed Assets	$ 62,502	$ 76,332	$ (13,830)	-18.1%
Inc/(Dec) in Fixed Assets	**$ 62,502**	**$ 76,332**	**$ (13,830)**	**-18.1%**
Total Budget	**$ 16,479,968**	**$ 16,555,557**	**$ (75,589)**	**-0.5%**
Total Change in Working Capital	**$ (713,830)**	**$ (527,459)**	**$ (186,371)**	
FTEs	**43.88**	**43.00**	**0.88**	**2.0%**

Explanation of Variances – Reliability Assurance and Compliance Monitoring

Personnel Expenses

Employee Benefits were under budget mainly due to variances in training and medical benefits. Training was under budget primarily as the result of employees utilizing more virtual training options than were anticipated in the budget, in addition to lower than budgeted personnel count in the first half of the year.

Meeting Expenses

Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.

Operating Expenses

Contracts and Consultants expense was over budget primarily due to greater than anticipated data analytics support.

Enforcement Management

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2022- December 31, 2022
Enforcement Management

	2022 Actual	2022 Budget	2022 Variance Over/(Under)	% Variance
Funding				
Reliability*First* Funding				
ERO Assessments	$ 3,203,992	$ 3,203,992	$ -	0.0%
Penalty Sanctions	516,077	516,077	-	0.0%
Total Reliability*First* Funding	**$ 3,720,068**	**$ 3,720,068**	**$ -**	**0.0%**
Membership Dues	$ -	$ -	$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(54,038)	7,396	(61,434)	-830.6%
Miscellaneous	514	-	514	-
Total Funding (A)	**$ 3,666,544**	**$ 3,727,465**	**$ (60,920)**	**-1.6%**
Expenses				
Personnel Expenses				
Salaries	$ 1,674,766	$ 1,498,435	$ 176,331	11.8%
Payroll Taxes	$ 105,424	$ 98,236	7,188	7.3%
Employee Benefits	$ 190,708	$ 202,590	(11,882)	-5.9%
Retirement Costs	$ 233,793	$ 218,887	14,906	6.8%
Total Personnel Expenses	**$ 2,204,691**	**$ 2,018,148**	**$ 186,543**	**9.2%**
Meeting Expenses				
Meetings & Conference Calls	$ 2,156	$ 1,025	$ 1,131	110.3%
Travel	9,873	20,000	(10,127)	-50.6%
Total Meeting Expenses	**$ 12,029**	**$ 21,025**	**$ (8,996)**	**-42.8%**
Operating Expenses				
Contracts & Consultants	$ -	$ -	$ -	-
Office Rent	-	-	-	-
Office Costs	7,845	12,590	(4,745)	-37.7%
Professional Services	35	-	35	-
Miscellaneous	-	-	-	-
Total Operating Expenses	**$ 7,880**	**$ 12,590**	**$ (4,710)**	**-37.4%**
Total Direct Expenses	**$ 2,224,600**	**$ 2,051,763**	**$ 172,837**	**8.4%**
Indirect Expenses	**$ 1,211,342**	**$ 1,130,495**	**$ 80,847**	**7.2%**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	**-**
Total Expenses (B)	**$ 3,435,942**	**$ 3,182,258**	**$ 253,684**	**8.0%**
Change in Net Assets (A-B)	**$ 230,602**	**$ 545,207**	**$ (314,605)**	**-57.7%**
Fixed Asset Additions, excluding Right of Use Asset	-	-	-	-
Allocation of Fixed Assets	$ 14,535	$ 17,751	$ (3,216)	-18.1%
Inc/(Dec) in Fixed Assets	**$ 14,535**	**$ 17,751**	**$ (3,216)**	**-18.1%**
Total Budget	**$ 3,450,477**	**$ 3,200,009**	**$ 250,468**	**7.8%**
Total Change in Working Capital	**$ 216,067**	**$ 527,456**	**$ (311,389)**	
FTEs	**9.96**	**10.00**	**(0.04)**	**-0.4%**

Explanation of Variances – Enforcement Management

Personnel Expenses

Salaries were over budget primarily as the result of a board approved inflation related salary adjustments that occurred in the fourth quarter, offset partially by personnel count that was below the approved staffing levels during the first half of the year.

Meeting Expenses

Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.

Reliability Assessment and Performance Analysis

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2022 - December 31, 2022
Reliability Assessment and Performance Analysis

	2022 Actual	2022 Budget	2022 Variance Over/(Under)	% Variance
Funding				
Reliability*First* Funding				
ERO Assessments	$ 2,547,315	$ 2,547,315	$ -	0.0%
Penalty Sanctions	340,611	340,611	-	0.0%
Total Reliability*First* Funding	**$ 2,887,926**	**$ 2,887,926**	**$ -**	**0.0%**
Membership Dues	$ -	$ -	$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(35,665)	4,882	(40,547)	-830.5%
Miscellaneous	339	-	339	-
Total Funding (A)	**$ 2,852,600**	**$ 2,892,808**	**$ (40,208)**	**-1.4%**
Expenses				
Personnel Expenses				
Salaries	$ 1,447,075	$ 1,399,167	$ 47,908	3.4%
Payroll Taxes	$ 82,786	$ 82,229	557	0.7%
Employee Benefits	$ 160,064	$ 145,186	14,878	10.2%
Retirement Costs	$ 224,660	$ 221,857	2,803	1.3%
Total Personnel Expenses	**$ 1,914,585**	**$ 1,848,439**	**$ 66,146**	**3.6%**
Meeting Expenses				
Meetings & Conference Calls	$ 2,089	$ 8,250	$ (6,161)	-74.7%
Travel	$ 35,685	$ 95,000	(59,315)	-62.4%
Total Meeting Expenses	**$ 37,774**	**$ 103,250**	**$ (65,476)**	**-63.4%**
Operating Expenses				
Contracts & Consultants	$ 84,568	$ 130,624	$ (46,056)	-35.3%
Office Rent	-	-	-	-
Office Costs	41,371	52,652	(11,281)	-21.4%
Professional Services	-	-	-	-
Miscellaneous	241	-	241	-
Total Operating Expenses	**$ 126,180**	**$ 183,276**	**$ (57,096)**	**-31.2%**
Total Direct Expenses	**$ 2,078,539**	**$ 2,134,965**	**$ (56,426)**	**-2.6%**
Indirect Expenses	**$ 799,486**	**$ 746,127**	**$ 53,359**	**7.2%**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	**-**
Total Expenses (B)	**$ 2,878,025**	**$ 2,881,092**	**$ (3,067)**	**-0.1%**
Change in Net Assets (A-B)	**$ (25,425)**	**$ 11,716**	**$ (37,141)**	**-317.0%**
Fixed Asset Additions, excluding Right of Use Asset	-	-	-	-
Allocation of Fixed Assets	$ 9,593	$ 11,716	$ (2,123)	-18.1%
Inc/(Dec) in Fixed Assets	**$ 9,593**	**$ 11,716**	**$ (2,123)**	**-18.1%**
Total Budget	**$ 2,887,618**	**$ 2,892,808**	**$ (5,190)**	**-0.2%**
Total Change in Working Capital	**$ (35,018)**	**$ 0**	**$ (35,018)**	**-12214048.1%**
FTEs	**6.83**	**6.60**	**0.23**	**3.5%**

Explanation of Variances - Reliability Assessment and Performance Analysis

Personnel Expenses

Employee benefits were over budget primarily as the result of employees selecting medical plans that differed from what was budgeted.

Meeting Expenses

Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.

Operating Expenses

Contracts & Consultants were under budget due to lower than budgeted Powertech Study expenses.

Office costs were lower than budget as the result of lower than anticipated costs for computer software and maintenance.

Training and Education

Statement of Activities, Fixed Assets and Change in Working Capita2
January 1, 2022 - December 31, 2022
Training and Education

	2022 Actual	2022 Budget	2022 Variance Over/(Under)	% Variance
Funding				
Reliability*First* Funding				
ERO Assessments	$ 1,474,865	$ 1,474,865	$ -	0.0%
Penalty Sanctions	154,823	154,823	-	0.0%
Total Reliability*First* Funding	**$ 1,629,688**	**$ 1,629,688**	**$ -**	**0.0%**
Membership Dues	$ -	$ -	$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(16,212)	2,219	(18,431)	-830.6%
Miscellaneous	154	-	154	-
Total Funding (A)	**$ 1,613,630**	**$ 1,631,907**	**$ (18,277)**	**-1.1%**
Expenses				
Personnel Expenses				
Salaries	$ 613,916	$ 697,612	$ (83,696)	-12.0%
Payroll Taxes	$ 36,889	$ 37,514	(625)	-1.7%
Employee Benefits	$ 83,161	$ 121,026	(37,865)	-31.3%
Retirement Costs	$ 50,476	$ 105,849	(55,373)	-52.3%
Total Personnel Expenses	**$ 784,443**	**$ 962,000**	**$ (177,558)**	**-18.5%**
Meeting Expenses				
Meetings & Conference Calls	$ 38,212	$ 207,230	$ (169,018)	-81.6%
Travel	8,244	$ 18,000	(9,756)	-54.2%
Total Meeting Expenses	**$ 46,456**	**$ 225,230**	**$ (178,774)**	**-79.4%**
Operating Expenses				
Contracts & Consultants	$ 50,126	$ 80,000	$ (29,874)	-37.3%
Office Rent	-	-	-	-
Office Costs	2,354	19,703	(17,349)	-88.1%
Professional Services	-	-	-	-
Miscellaneous	938	500	438	87.6%
Total Operating Expenses	**$ 53,418**	**$ 100,203**	**$ (46,785)**	**-46.7%**
Total Direct Expenses	**$ 884,317**	**$ 1,287,433**	**$ (403,117)**	**-31.3%**
Indirect Expenses	**$ 363,403**	**$ 339,149**	**$ 24,254**	**7.2%**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	**-**
Total Expenses (B)	**$ 1,247,720**	**$ 1,626,582**	**$ (378,863)**	**-23.3%**
Change in Net Assets (A-B)	**$ 365,910**	**$ 5,325**	**$ 360,586**	**6772.2%**
Fixed Asset Additions, excluding Right of Use Asset	-	-	-	-
Allocation of Fixed Assets	$ 4,361	$ 5,325	$ (964)	-18.1%
Inc/(Dec) in Fixed Assets	**$ 4,361**	**$ 5,325**	**$ (964)**	**-18.1%**
Total Budget	**$ 1,252,081**	**$ 1,631,906**	**$ (379,827)**	**-23.3%**
Total Change in Working Capital	**$ 361,549**	**$ 2**	**$ 361,550**	**24096202.0%**
FTEs	**1.96**	**3.00**	**(1.04)**	**-34.7%**

Explanation of Variances – Training and Education

Personnel Expenses

Salaries, payroll taxes, employee benefits and retirement costs were primarily affected by a lower than budgeted FTE counts during the year.

Meeting Expenses

Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and prosponement of planned contract support.

Office costs were lower than budget as the result of lower than anticipated costs for computer software and maintenance.

Situation Awareness and Infrastructure Security

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2022 - December 31, 2022
Situation Awareness and Infrastructure Security

	2022 Actual	2022 Budget	2022 Variance Over/(Under)	% Variance
Funding				
Reliability*First* Funding				
ERO Assessments	$ 1,677,911	$ 1,677,911		-
Penalty Sanctions	258,039	258,039	-	0.0%
Total Reliability*First* Funding	**$ 1,935,950**	**$ 1,935,950**	**$ -**	**0.0%**
Membership Dues	$ -	$ -	$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(27,019)	3,698	(30,717)	-830.6%
Miscellaneous	257	-	257	-
Total Funding (A)	**$ 1,909,188**	**$ 1,939,648**	**$ (30,460)**	**-1.6%**
Expenses				
Personnel Expenses				
Salaries	$ 904,020	$ 873,055	$ 30,965	3.5%
Payroll Taxes	$ 55,143	$ 54,875	268	0.5%
Employee Benefits	$ 141,697	$ 161,887	(20,190)	-12.5%
Retirement Costs	$ 141,005	$ 138,102	2,903	2.1%
Total Personnel Expenses	**$ 1,241,865**	**$ 1,227,919**	**$ 13,946**	**1.1%**
Meeting Expenses				
Meetings & Conference Calls	$ 426	$ 500	$ (74)	-14.8%
Travel	$ 12,559	50,000	(37,441)	-74.9%
Total Meeting Expenses	**$ 12,985**	**$ 50,500**	**$ (37,515)**	**-74.3%**
Operating Expenses				
Contracts & Consultants	-	20,000	$ (20,000)	-100.0%
Office Rent	-	-	-	-
Office Costs	37,901	67,105	(29,204)	-43.5%
Professional Services	-	-	-	-
Miscellaneous	222	-	222	-
Total Operating Expenses	**$ 38,123**	**$ 87,105**	**$ (48,982)**	**-56.2%**
Total Direct Expenses	**$ 1,292,973**	**$ 1,365,524**	**$ (72,551)**	**-5.3%**
Indirect Expenses	**$ 605,671**	**$ 565,248**	**$ 40,423**	**7.2%**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	**-**
Total Expenses (B)	**$ 1,898,644**	**$ 1,930,772**	**$ (32,128)**	**-1.7%**
Change in Net Assets (A-B)	**$ 10,544**	**$ 8,876**	**$ 1,668**	**18.8%**
Fixed Asset Additions, excluding Right of Use Asset	-	-	-	-
Allocation of Fixed Assets	$ 7,268	$ 8,876	$ (1,608)	-18.1%
Inc/(Dec) in Fixed Assets	**$ 7,268**	**$ 8,876**	**$ (1,608)**	**-18.1%**
Total Budget	**$ 1,905,912**	**$ 1,939,648**	**$ (33,736)**	**-1.7%**
Total Change in Working Capital	**$ 3,276**	**$ (0)**	**$ 3,276**	**-972480.9%**
FTEs	**5.00**	**5.00**	**0.00**	**0.0%**

Explanation of Variances - Situation Awareness and Infrastructure Security

Personnel Expenses

Employee Benefits were under budget mainly due to variances in training. Training was under budget primarily as the result of employees utilizing more virtual training options than were anticipated in the budget.

Meeting Expenses

Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and prosponement of planned contract support.

Office costs were lower than budget as the result of lower than anticipated costs for computer software and maintenance.

Administrative Services

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2022 - December 31, 2022
Administrative Services

	2022 Actual	2022 Budget	2022 Variance Over/(Under)	% Variance
Funding				
Reliability*First* Funding				
ERO Assessments	$ 766,700	$ 766,700	$ -	0.0%
Penalty Sanctions	-	-	-	-
Total Reliability*First* Funding	**$ 766,700**	**$ 766,700**	**$ -**	**0.0%**
Membership Dues	$ -	$ -	$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	**$ 766,700**	**$ 766,700**	**$ -**	**0.0%**
Expenses				
Personnel Expenses				
Salaries	$ 3,838,500	$ 3,819,343	$ 19,157	0.5%
Payroll Taxes	$ 230,694	217,678	13,016	6.0%
Employee Benefits	$ 666,394	660,573	5,821	0.9%
Retirement Costs	$ 578,245	677,136	(98,891)	-14.6%
Total Personnel Expenses	**$ 5,313,833**	**$ 5,374,730**	**$ (60,897)**	**-1.1%**
Meeting Expenses				
Meetings & Conference Calls	$ 116,446	$ 143,850	$ (27,404)	-19.1%
Travel	57,984	60,000	(2,016)	-3.4%
Total Meeting Expenses	**$ 174,430**	**$ 203,850**	**$ (29,420)**	**-14.4%**
Operating Expenses				
Contracts & Consultants	$ 376,684	$ 198,250	$ 178,434	90.0%
Office Rent	722,010	598,092	123,918	20.7%
Office Costs	838,029	594,625	243,404	40.9%
Professional Services	723,172	631,765	91,407	14.5%
Miscellaneous	40,515	40,835	(320)	-0.8%
Total Operating Expenses	**$ 2,700,410**	**$ 2,063,567**	**$ 636,843**	**30.9%**
Total Direct Expenses	**$ 8,188,673**	**$ 7,642,147**	**$ 546,526**	**7.2%**
Indirect Expenses	**$ (8,188,673)**	**$ (7,642,147)**	**$ (546,526)**	**7.2%**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	**-**
Total Expenses (B)	**$ -**	**$ -**	**$ -**	**-**
Change in Net Assets (A-B)	**$ 766,700**	**$ 766,700**	**$ -**	**0.0%**
Fixed Asset Additions, excluding Right of U	98,259	120,000	(21,741)	-18.1%
Allocation of Fixed Assets	$ (98,259)	$ (120,000)	$ 21,741	-18.1%
Inc/(Dec) in Fixed Assets	**$ -**	**$ -**	**$ -**	**-**
Total Budget	**$ -**	**$ -**	**$ -**	**-**
Total Change in Working Capital	**$ 766,700**	**$ 766,700**	**$ -**	**0.0%**
FTEs	**19.25**	**21.00**	**(1.75)**	**-8.3%**

Explanation of Variances – Administrative Services

Personnel Expenses

Savings and retirement costs were under budget primarily due to a lower than budgeted personnel count in the first half of the year and differences in employee’s actual deferral percentages compared to budgeted deferrals.

Meeting Expenses

Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.

Operating Expense

Contracts & Consultants were over budget primarily due to placement fees for an open VP position.

Rent & Utilities were over budget primarily due to an unbudgeted 5th floor office expansion and lease extension.

Office Costs and Computer Hardware & Software were over budget primarily due to a laptop replacement program impacting all employees in 2022, instead of half of the employees per budget to address possible supply chain delays, in addition to unbudgeted security software upgrades.

Professional Services was over budget due to fees for an additional independent director approved by the board in May 2021 not included in the budget.

Fixed Assets

Fixed assets were under budget primarily due to lower than anticipated software costs.

ReliabilityFirst Corporation

Financial Report
December 31, 2022

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
ReliabilityFirst Corporation

Opinion
We have audited the financial statements of ReliabilityFirst Corporation, which comprise the statements of financial position as of December 31, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ReliabilityFirst Corporation as of December 31, 2022 and 2021, 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.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the ReliabilityFirst Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter
As discussed in Note 5 of the financials statements, the Corporation adopted Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases (Topic 842)*, as amended, in 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ReliabilityFirst Corporation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ReliabilityFirst Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the ReliabilityFirst Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Chicago, Illinois
March 28, 2023

ReliabilityFirst Corporation

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash	$ 1,934,546	$ 2,365,145
Cash—regulatory designated	5,226,502	3,488,681
Investments	9,844,133	10,209,432
Accounts receivable	15,903	181,095
Prepaid expenses	292,639	362,706
Total current assets	17,313,723	16,607,059
Noncurrent assets:		
Cash—regulatory designated (net of current portion)	774,568	1,773,200
Deferred compensation plan assets	329,204	356,098
Operating lease right-of-use assets	4,193,201	-
Total noncurrent assets	5,296,973	2,129,298
Fixed assets:		
Furniture and equipment	416,028	410,579
Leasehold improvements	2,110,357	2,086,939
Computer software and hardware	3,775,791	3,553,877
Construction in progress	-	152,521
	6,302,176	6,203,916
Less accumulated depreciation and amortization	5,069,041	4,699,664
	1,233,135	1,504,252
Total noncurrent assets	6,530,108	3,633,550
Total assets	$ 23,843,831	$ 20,240,609
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 147,576	$ 275,426
Accrued expenses (current portion)	5,329,053	5,103,695
Deferred rent (current portion)	-	142,569
Operating lease obligations (current portion)	729,233	-
Total current liabilities	6,205,862	5,521,690
Long-term liabilities:		
Deferred revenue	350,000	350,000
Accrued expenses (net of current portion)	250,792	122,536
Deferred rent (net of current portion)	-	1,174,014
Deferred compensation	329,204	356,098
Operating lease obligations (net of current portion)	4,661,619	-
	5,591,615	2,002,648
Total liabilities	11,797,477	7,524,338
Net assets:		
Without donor restrictions:		
Undesignated	4,652,966	5,549,856
Operating reserve fund	1,000,000	1,000,000
Working capital reserve fund	2,128,720	904,534
Regulatory designated funds	4,264,668	5,261,881
Total net assets	12,046,354	12,716,271
Total liabilities and net assets	$ 23,843,831	$ 20,240,609

See notes to financial statements.

ReliabilityFirst Corporation

Statements of Activities
Years Ended December 31, 2022 and 2021

	2022	2021
Net assets without donor restrictions or regulatory designations:		
Revenues:		
Quarterly assessments	**$ 23,447,945**	$ 22,764,995
Investment loss	**(365,300)**	(103,090)
Penalty sanctions released from regulatory designations	**3,488,681**	4,540,000
Miscellaneous	**3,473**	3,958
Total revenues	**26,574,799**	27,205,863
Expenses:		
Program:		
Reliability assurance and compliance monitoring	**11,208,695**	10,610,982
Enforcement	**2,224,600**	1,811,626
Assessment	**2,078,539**	2,093,711
Training and education	**884,316**	951,482
Situational awareness	**1,292,973**	1,185,663
Total program expenses	**17,689,123**	16,653,464
General and administrative	**8,558,380**	7,415,016
Total expenses	**26,247,503**	24,068,480
Increase in net assets without regulatory designations	**327,296**	3,137,383
Net assets with regulatory designations:		
Penalty sanctions subject to regulatory designations, received in the current year	**2,491,468**	3,371,950
Penalty sanctions released from regulatory designations	**(3,488,681)**	(4,540,000)
Decrease in net assets with regulatory designations	**(997,213)**	(1,168,050)
(Decrease) increase in net assets	**(669,917)**	1,969,333
Net assets at beginning of year	**12,716,271**	10,746,938
Net assets at end of year	**$ 12,046,354**	$ 12,716,271

See notes to financial statements.

ReliabilityFirst Corporation

Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services							
	Reliability Assurance and Compliance Monitoring	Enforcement	Assessment	Training and Education	Situational Awareness	Total Programs	General and Administrative	Total
Personnel expenses:								
Salaries	$ 7,896,804	$ 1,674,766	$ 1,447,075	$ 613,916	$ 904,020	$ 12,536,581	$ 3,838,500	$ 16,375,081
Payroll taxes	485,989	105,424	82,786	36,889	55,143	766,231	230,694	996,925
Employee benefits	994,144	190,708	160,064	83,161	141,697	1,569,774	666,394	2,236,168
Savings and retirement	1,173,843	233,793	224,660	50,476	141,005	1,823,777	578,245	2,402,022
Total personnel expenses	10,550,780	2,204,691	1,914,585	784,442	1,241,865	16,696,363	5,313,833	22,010,196
Meeting expenses:								
Meetings	332	2,156	2,089	38,212	426	43,215	105,466	148,681
Travel	187,823	9,873	35,685	8,244	12,559	254,184	57,984	312,168
Conference calls	-	-	-	-	-	-	10,980	10,980
Total meeting expenses	188,155	12,029	37,774	46,456	12,985	297,399	174,430	471,829
Operating expenses:								
Rent and improvements	-	-	-	-	-	-	722,010	722,010
Contracts	127,802	-	84,568	50,126	-	262,496	376,684	639,180
Office costs	56,275	7,845	5,246	2,354	3,903	75,623	134,365	209,988
Professional services	-	35	-	-	-	35	723,172	723,207
Computer purchase and maintenance	278,145	-	36,125	-	33,998	348,268	696,738	1,045,006
Furniture	-	-	-	-	-	-	6,926	6,926
Miscellaneous	7,538	-	241	938	222	8,939	40,845	49,784
Depreciation and amortization	-	-	-	-	-	-	369,377	369,377
Total operating expenses	469,760	7,880	126,180	53,418	38,123	695,361	3,070,117	3,765,478
Total	$ 11,208,695	$ 2,224,600	$ 2,078,539	$ 884,316	$ 1,292,973	$ 17,689,123	$ 8,558,380	$ 26,247,503

See notes to financial statements.

ReliabilityFirst Corporation

Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services							
	Reliability Assurance and Compliance Monitoring	Enforcement	Assessment	Training and Education	Situational Awareness	Total Programs	General and Administrative	Total
Personnel expenses:								
Salaries	$ 7,601,344	$ 1,347,461	$ 1,497,849	$ 658,660	$ 846,328	$ 11,951,642	$ 3,399,211	$ 15,350,853
Payroll taxes	484,099	89,580	90,048	34,749	53,920	752,396	203,179	955,575
Employee benefits	968,481	160,456	140,364	76,549	133,792	1,479,642	559,637	2,039,279
Savings and retirement	1,173,397	195,692	237,471	112,402	133,515	1,852,477	634,814	2,487,291
Total personnel expenses	10,227,321	1,793,189	1,965,732	882,360	1,167,555	16,036,157	4,796,841	20,832,998
Meeting expenses:								
Meetings	1,811	75	202	18,470	-	20,558	29,706	50,264
Travel	6,652	-	(578)	(87)	221	6,208	1,980	8,188
Conference calls	-	-	-	-	-	-	14,640	14,640
Total meeting expenses	8,463	75	(376)	18,383	221	26,766	46,326	73,092
Operating expenses:								
Rent and improvements	-	-	-	-	-	-	632,523	632,523
Contracts	1,719	-	84,294	28,815	6,000	120,828	190,084	310,912
Office costs	55,590	18,362	8,251	21,324	5,176	108,703	109,751	218,454
Professional services	-	-	-	-	-	-	692,343	692,343
Computer purchase and maintenance	317,541	-	35,810	-	4,581	357,932	393,960	751,892
Furniture	-	-	-	-	-	-	110,621	110,621
Miscellaneous	348	-	-	600	-	948	33,630	34,578
Depreciation and amortization	-	-	-	-	2,130	2,130	408,937	411,067
Total operating expenses	375,198	18,362	128,355	50,739	17,887	590,541	2,571,849	3,162,390
Total	$ 10,610,982	$ 1,811,626	$ 2,093,711	$ 951,482	$ 1,185,663	$ 16,653,464	$ 7,415,016	$ 24,068,480

See notes to financial statements.

ReliabilityFirst Corporation

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
(Decrease) increase in net assets	**$ (669,917)**	$ 1,969,333
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**369,377**	411,067
Unrealized loss on investments	**497,813**	224,126
Realized loss (gain) on investments	**11,834**	(10,942)
Changes in assets and liabilities:		
Accounts receivable	**165,192**	(33,715)
Prepaid expenses	**70,067**	32,774
Accounts payable	**(127,850)**	240,324
Accrued expenses	**353,614**	175,118
Deferred rent	**-**	(164,832)
Amortization of operating lease right-of-use assets	**675,273**	-
Cash paid for operating leases	**(794,205)**	-
Net cash provided by operating activities	**551,198**	2,843,253
Cash flows from investing activities:		
Purchase of investments	**(1,794,348)**	(7,163,379)
Sale of investments	**1,650,000**	3,324,049
Purchases of fixed assets	**(98,260)**	(291,709)
Net cash used in investing activities	**(242,608)**	(4,131,039)
Net increase (decrease) in cash	**308,590**	(1,287,786)
Cash at beginning of year	**7,627,026**	8,914,812
Cash at end of year	**$ 7,935,616**	$ 7,627,026
Supplemental disclosure of noncash investing activities:		
Accrued acquisition of fixed assets	**$ -**	$ 45,676
Reconciliation of cash:		
Cash	**$ 1,934,546**	$ 2,963,391
Cash—regulatory designated	**5,226,502**	2,890,435
Cash—regulatory designated (net of current portion)	**774,568**	1,773,200
Total	**$ 7,935,616**	$ 7,627,026

See notes to financial statements.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization: ReliabilityFirst Corporation (the Corporation) is a nonprofit corporation whose mission is to preserve and enhance bulk power system (BPS) reliability and security for the interconnected electric systems within its territory. Located in Cleveland, Ohio, the Corporation's region includes all or portions of Delaware, New Jersey, Pennsylvania, Maryland, Virginia, Illinois, Wisconsin, Indiana, Ohio, Michigan, Kentucky, West Virginia, Tennessee, and the District of Columbia. The Corporation was approved by the North American Electric Reliability Corporation (NERC) to become one of six Regional Entities of NERC to perform aspects of the Electric Reliability Organization (ERO) functions described through delegation agreements. NERC is a not-for-profit entity organized under the New Jersey Nonprofit Corporation Act. The Federal Energy Regulatory Commission (FERC) certifies and has oversight of NERC as the ERO within the United States to establish and enforce NERC Reliability Standards for the U.S. portion of the BPS, pursuant to Section 215 of the Federal Power Act (FPA).

The Corporation receives its quarterly assessments from NERC. NERC's annual funding is provided primarily through assessments to load-serving entities. FPA Section 215 and FERC's regulations specify procedures for NERC's funding in the United States. On an annual basis, the Corporation submits a Business Plan and Budget (BP&B) to NERC. Once approved, the Corporation's BP&B is submitted, along with NERC's annual BP&B, to FERC for approval. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Corporation's activities.

As a regional entity of NERC, ReliabilityFirst may levy monetary penalties against owners, operators, and users of the Bulk Power System for violations of the Requirements of NERC Reliability Standards approved by the Federal Energy Regulatory Commission (FERC). ReliabilityFirst must follow the directives in The Sanction Guidelines of The North American Electric Reliability Corporation when determining penalties for a violation. The submission of the application is overseen by NERC and the final approval by FERC results in penalty sanctions that are commensurate to the reliability impact of the violation.

The following is a summary of the Corporation's significant accounting policies which conform to accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The Corporation currently derives its revenues primarily from quarterly assessments. Revenues from such assessments are recognized as unconditional contributions without donor restriction at the time they are received.

Penalty sanctions are recognized after the entire appeals process has been exhausted and a FERC order has been issued and is nonappealable. Penalty sanctions received on or prior to June 30 of each year shall be applied as a general offset to budget requirements for the subsequent fiscal year. Penalty sanctions received after June 30 of each year shall be applied as a general offset to budget requirements for the next subsequent fiscal year. Penalty sanctions are classified as regulatory designated funds until the fiscal year in which they are applied as a general offset to budget requirements.

Cash: The Corporation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk.

Note 1. Organization and Significant Accounting Policies (Continued)

Cash—regulatory designated: Cash received for penalty sanctions classified as regulatory designated funds are intended for specific use and presented separately on the statements of financial position. These cash receipts are maintained in a separate account from the Corporation's operating cash account.

Receivables: Accounts receivable are carried at actual billed amounts relating to penalty sanctions and subcontractor receivables. Receivables relate to assessments that have been billed but not yet collected.

Receivables are valued at management's estimate of the amount that will ultimately be collected. The allowance for doubtful accounts is based on specific identification of doubtful accounts and historical collection experience. Receivables are written off when deemed uncollectible. Management has determined that no allowance for doubtful accounts is necessary at December 31, 2022 and 2021.

Investments: Investments are carried at fair value. The fair values of marketable debt securities are based on quoted market prices. Realized investment gains and losses represent the difference between the proceeds on sales of investments and their carrying value. Investment income includes interest, dividends, and both realized and unrealized gains and losses. All realized and unrealized gains and losses on investments are reported as increases or decreases, respectively, to net assets without donor restrictions.

The Corporation invests in U.S. Treasury obligations, U.S. government agency securities and corporate bonds. Corporate bonds are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Fixed assets: Fixed assets are stated at cost. It is management's policy to capitalize those assets with a cost over $1,000. However, computer software and hardware purchases have a capitalization threshold of $3,000, due to the nature of their short useful life. Depreciation is computed on the straight-line method over the estimated useful lives (generally three to seven years) of the depreciable assets. Amortization for the leasehold improvements is computed on the lesser of the useful life or the lease term.

Leases: Prior to January 1, 2022, the Corporation followed the lease accounting guidance in FASB ASC Topic 840. Effective January 1, 2022, the Corporation follows the lease accounting guidance in FASB ASC Topic 842. The Corporation determines if an arrangement is a lease at inception of the contract. Under Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of identified property or equipment (i.e., an identified asset) for a period of time in exchange for consideration. The Corporation's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Corporation has the right to obtain substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term.

Leases are classified as either operating or financing. For operating leases, the Corporation has recognized a lease liability equal to the present value of the remaining lease payments, and a right-of-use asset equal to the lease liability, subject to certain adjustments, such as for deferred rent. The Corporation has elected to use the risk free rate as the discount rate for all leases.

The Corporation defines a short-term lease as any arrangement with a lease term of twelve months or less that does not include an option to purchase the underlying asset. The Corporation has made an accounting policy election not to recognize right-of-use assets and lease liabilities for short-term leases, as a result, short-term lease payments are recognized as expense over the lease term.

Note 1. Organization and Significant Accounting Policies (Continued)

Accrued expenses: Accrued expenses consist primarily of salaries and related payroll expenses incurred in the current fiscal year but not paid until after year-end.

Deferred revenue: Conditional contributions received by the Corporation prior to when the conditions are met, are recorded as deferred revenue.

Income taxes: The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and applicable state law, except for taxes pertaining to unrelated business income, if any.

In accordance with the accounting standard on accounting for uncertainty in income taxes, the Corporation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Corporation and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities during the period covered by these financial statements.

The Corporation currently files Form 990 in the U.S. federal jurisdiction. The Corporation also files the charitable registration annual report in the state of Ohio.

Net assets: An amount of $1,000,000 of the Corporation's net assets without donor restrictions at December 31, 2022 and 2021, is designated by the Board of Directors for the Corporation's operating reserve fund. The operating reserve fund is designated each year with the intention of providing for unbudgeted and unexpected expenditures. An additional $2,128,720 and $904,534 has been designated by the Board of Directors for the Corporation's working capital reserve fund at December 31, 2022 and 2021, respectively. The working capital reserve fund was established in 2016 in an effort to enhance day-to-day cash flow management of expenditures and provide capabilities to stabilize future assessments.

Net assets with regulatory designations result from the receipt of penalty sanctions, which are governed by stipulations from NERC as to when the funds can be used. Amounts of $3,488,681 and $4,540,000 were released from regulatory designations during 2022 and 2021, respectively. Net assets with regulatory designations at December 31, 2022 and 2021, were $4,239,688 and $5,261,881, respectively.

Functional allocation of expenses: The Corporation is required to provide information about expenses reported by their functional classification, which is a method of aggregating and reporting expenses according to the purpose for which they were incurred. The Corporation incurs expenses that directly relate to, and can be assigned to, a specific operational program or administrative function based on the employee incurring the expense. Expenses which cannot specifically be attributable to a specific operational program are recorded as part of general and administrative expenses on the statements of activities.

Note 1. Organization and Significant Accounting Policies (Continued)

Newly adopted accounting pronouncement: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases are required to be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities.

The Corporation adopted ASU 2016-02 on January 1, 2022, using the optional transition method to the modified retrospective approach. ASC Topic 842 includes practical expedient and policy election choices. The Corporation elected the package of practical expedients available in the standard and as a result, did not reassess the lease classification of existing contracts or leases or the initial direct costs associated with existing leases. The Corporation did elect the hindsight practical expedient, and so did re-evaluate the lease term for existing leases. The Corporation has lease agreements with lease and non-lease components and has elected to account for them separately. Refer to Note 5 for the Corporation's lease disclosure.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 28, 2023, the date these financial statements were available to be issued.

Note 2. Availability and Liquidity

The table below represents financial assets available for general expenditures within one-year of December 31, 2022 and 2021:

	2022	2021
Financial assets at year-end:		
Cash	$ 1,934,546	$ 2,365,145
Cash—regulatory designated	6,001,070	5,261,881
Investments	9,844,133	10,209,432
Accounts receivable	15,903	181,095
Total financial assets	17,795,652	18,017,553
Less amounts unavailable for general expenditures within one year, due to:		
Operating reserve fund	(1,000,000)	(1,000,000)
Working capital reserve fund	(2,128,720)	(904,534)
Regulatory imposed time restriction	(774,568)	(1,773,200)
Financial assets available to meet cash needs for general expenditures within one year	$ 13,892,364	$ 14,339,819

The Corporation has a goal to maintain financial assets to meet normal operating expenses, liabilities and other obligations as they come due. In addition, as part of its liquidity management, the Corporation invests cash in excess of normal operating expenses in various short-term investments, including U.S. Treasury obligations, U.S. government agency securities, and corporate bonds.

Note 3. Investments and Fair Value Measurements

The Corporation maintains an investment portfolio which consists of U.S. Treasury obligations, U.S. government agency securities and corporate bonds.

The Fair Value Measurements and Disclosures topic of the FASB Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This topic applies to all financial instruments that are being measured and reported on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2: Valuations other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value is determined through use of models or other valuation methodologies.

Level 3: Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs would be classified as Level 3.

Note 3. Investments and Fair Value Measurements (Continued)

The following tables present the Corporation's fair value hierarchy for its investments as of December 31, 2022 and 2021:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
U.S. government securities	$ 3,919,502	$ -	$ -	$ 3,919,502
U.S. Treasury obligations	3,119,214	-	-	3,119,214
Corporate bonds	-	2,657,986	-	2,657,986
	$ 7,038,716	$ 2,657,986	$ -	9,696,702
Cash and cash equivalents				147,431
				$ 9,844,133

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
U.S. government securities	$ 4,141,199	$ -	$ -	$ 4,141,199
U.S. Treasury obligations	2,961,809	-	-	2,961,809
Corporate bonds	-	2,984,889	-	2,984,889
	$ 7,103,008	$ 2,984,889	$ -	10,087,897
Cash and cash equivalents				121,535
				$ 10,209,432

The composition of investment income for 2022 and 2021 is as follows:

	2022	2021
Interest, net of investment fees	$ 144,347	$ 110,094
Realized (loss) gain	(11,834)	10,942
Unrealized loss	(497,813)	(224,126)
	$ (365,300)	$ (103,090)

Note 4. Line of Credit

The Corporation had a $500,000 line of credit with an expiration date of August 17, 2022. There were no borrowings during the year. The line has expired and was closed.

Note 5. Operating Leases

The Corporation leases an office from an unrelated third party that expires in February 2030. Rental expense for operating leases include lease of an office building, data center and some non-lease components related to minimum costs of utilities associated with rental of the office. As of December 31, 2022 the Corporation has right-of-use assets and liabilities as follows:

Operating leases:	
Operating lease right-of-use assets	$ 4,193,201
Operating lease liabilities, current	$ 729,233
Operating lease liabilities, non-current	4,661,619
Total operating lease liabilities	$ 5,390,852

Weighted averages for leases as of December 31, 2022 are as follows:

Weighted-average remaining lease term:	
Operating leases	7 years
Weighted-average discount rate:	
Operating leases - Office	1.6%
Operating leases - Non-lease component	1.6%
Operating leases - Data Center	1.0%

The future minimum lease payments for operating leases as of December 31, 2022 are as follows:

	Operating Leases
Years ending December 31:	
2023	$ 806,049
2024	818,246
2025	776,816
2026	771,020
2027	782,863
Thereafter	1,736,011
Total lease payments	5,691,005
Less imputed interest	(300,153)
Total present value of lease liabilities	$ 5,390,852

Note 6. Employee Retirement Plan

The Corporation has a salary deferral plan under Section 401(k) of the Code. All employees are eligible for a 100% match of their first 6% of voluntary salary deferral savings and the 3% Safe Harbor provision of the plan. Employees who have at least 1,000 hours during the year are eligible for a certain percentage discretionary provision of the plan (7% in 2022 and 2021). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16% of employees' eligible compensation in 2022 and 2021. The Corporation's contribution to the plan for 2022 and 2021 was $2,240,023 and $2,287,907, respectively.

The Corporation also offers a deferred compensation plan under Section 457(b) of the Code. Select employees of the Corporation are eligible for the plan which provides an employer credit to an investment account, controlled by the Corporation in an amount equal to the difference between the contributions made to the employees' 401(k) and the contribution that would have been made if not for the annual contribution limit imposed by Section 415(c)(1)(A) of the Code or the compensation limit imposed by Section 401(a)(17) of the Code. The plan had six participants as of December 31, 2022 and 2021, respectively. Employer credits to the investment accounts in 2022 and 2021 were $57,677 and $61,503, respectively. The balance of the investment accounts held by the Corporation for this plan are identified on the statements of financial position as "deferred compensation plan assets" with a matching liability to reflect the amount which is owed to the Corporation's employees.

Note 7. Conditional Grant From City of Independence, Ohio

In connection with the Corporation's office move in a previous year, the city of Independence, Ohio (the City) awarded a $350,000 grant to the Corporation. The grant agreement provides for the Corporation to meet minimum annual payroll tax requirements as well as a requirement that the Corporation will maintain its principal place of business within the City for a period of not less than 12 years. The Corporation moved its principal place of business into the City in 2014. If the 12-year requirement is not met by the Corporation, the full $350,000 will be required to be returned to the City upon default. The Corporation has received the $350,000 and has recorded it in deferred revenue due to the conditions of the grant not yet being met as of December 31, 2022 and 2021.

ATTACHMENT 5

2022 ACTUAL COST-TO-BUDGET COMPARISON

AND

2022 AUDITED FINANCIAL REPORT

FOR

SERC RELIABILITY CORPORATION

SERC RELIABILITY CORPORATION

April 10, 2023

Andy Sharp
Vice President and Interim Chief Financial Officer
North American Electric Reliability Corporation
3353 Peachtree Road, N.E.
Suite 600, North Tower
Atlanta, Georgia 30326

SERC 2022 Actual Cost vs. Budget Variance Analysis

Dear Mr. Andy Sharp:

Enclosed is SERC's response to your request for the end of year 2022 Actual Cost to Budget Comparison and audited year-end financials.

The report below provides a summary of significant variances at the aggregate statutory level in the Overview Section followed by detailed explanations of variances by program area.

Please reach out to me if you have any questions.

Sincerely,

George Krogstie

George Krogstie
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake, President/CEO

Overview

The Actual Cost to Budget Comparison provides a summary of significant variances (greater than $10,000 and 10 percent) at the aggregate statutory level followed by detailed explanations of variances by program area. SERC Reliability Corporation has no non-statutory activity, and therefore no statutory funding was used for non-statutory activities.

The financial information included in this comparison is based on the results of SERC's 2022 independent audit that was performed by GreerWalker LLP and completed on April 4, 2023. For the year ending December 31, 2022, SERC budgeted funding was over by $364,248 and incurred expenditures of $240,493 under its 2022 total budget. The net impact was a $620,451 favorable variance on SERC's Change in Working Capital vs. budget for the year.

In 2022, SERC conducted 94 monitoring activities. Operations and Planning (O&P) conducted 36 audits and 11 self-certifications. CIP conducted 18 audits, three spot checks, and 26 self-certifications.

In 2022, SERC's Registration Department processed 83 Registration Requests. Of those, 83 resulted in changes to the SERC Compliance Registry, and of those, 43 resulted in changes to the NERC Compliance Registry. In 2022, SERC's Certification Department conducted eight Certification engagements (five Certification Reviews, two Certification Evaluations, and one Entity Project/Event Review). SERC Certification supported two Cross Regional Certification Engagements.

SERC's Enforcement and Risk Assessment and Mitigation Teams received 308 new potential violations and processed 359 issues to closure. In doing so, SERC decreased the total inventory from 304 to 253, the lowest inventory SERC has seen in over six years. This led to SERC's average age of inventory dropping from 10.7 months to 6.5 months.

Additionally, in 2022, SERC processed 18 Settlements including 44 violations. This led to SERC's average age of inventory dropping from 10.7 months to 6.5 months. The few remaining active PNCs in the legacy CITS system were migrated into Align.

In other areas of focus, the teams shared lessons learned from their recently updated violation processing procedure with multiple Regional Entities and NERC during onsite engagements to support similar outcomes across the ERO Enterprise and to drive consistency in quicker identification of risk and mitigation strategies.

In 2022, the Outreach and Training department hosted nine events covering a variety of topics including but not limited to Extreme Weather, NERC Reliability Standards, Bulk Power System reliability, Compliance Monitoring and Enforcement Program, Critical Infrastructure Protection, Operation and Planning Best Practices, Supply Chain Security, Facility Rating, and Cold Weather. Six events were focused on targeted topics with the largest event being a Risk-Themed webinar which hosted over 250 attendees. The largest hybrid event was the SERC Fall Reliability and Security seminar which hosted 395 total attendees. The average attendance for all Outreach events decreased from 2021.

The Outreach and Training Assistance team completed 55 engagements in 2022 providing over

1400 hours of technical assistance to requesting entities. Additionally, the team provided 2062 hours of support to training and outreach efforts that support the Reliability of the BPS. Lastly, Registered Entity engagement increased from 16% to 23%.

SERC Training saw entity members complete over 700 e-learning module courses in 2022. This was fueled by adding five NEW e-learning modules throughout the year with the most popular module being the FAC-008 Facility Ratings module which accounted for over 188 of the total courses completed followed by Real-Time Assessment which accounted for 112.

Funding

Funding from investment income was higher due to a rebound in interest rates. In addition, workshop revenues were slightly lower than budget as certain planned in-person workshops were conducted remotely at no charge in response to COVID-19 travel restrictions.

Budget Expenses

Personnel

Budgeted personnel cost include a 5% vacancy factor which results in 99 funded FTEs vs. 104 approved FTEs. Salaries were over budget due to a combination of factors, including market driven compensation increases for critical talent, higher than expected liability for accrued but unused paid time off, and higher than expected incentive awarded by the Board of Directors for exceeding Corporate Strategic Initiatives and Key Performance Indicator goals. Employee Benefits were under budget as negotiated rates for health insurance were lower than budget, and there were fewer than expected employee relocations.

Meeting and Travel

Meeting and travel were significantly less than the budget due to decreased meeting and travel associated with COVID-19 related restrictions and cancelations.

Operating Expenses

Contracts and Consultants expense was under budget primarily due to certain software costs budgeted in Contracts more appropriately classified as software expense and recorded in Office Costs.

Office Costs exceeded budget as a result of expenses budgeted under Contracts and Consultants being more appropriately classified as software expense and therefore the expense was recorded in Office Costs.

SERC incurred fewer legal fees than expected, driving the under-budget variance in Professional Services.

Fixed Assets

Fixed Asset variance is due to acceleration of timeline for consolidation of multiple member portals.

Non-Statutory Program
SERC has no non-statutory activity, and therefore no statutory funding was used for non-statutory activities.

Cost Allocation

SERC records all direct costs to the appropriate program areas. Corporate services costs and capital expenditures are allocated as indirect costs to the program areas based on a full-time equivalent (FTE) ratio that is consistent with NERC's accounting methodology for allocation of overhead.

Direct Programs include:
- Reliability Standards
- Compliance Monitoring and Enforcement; Organization Registration and Certification Program
- Reliability Assessment and Performance Analysis
- Training, Education and Stakeholder Outreach
- Situation Awareness and Infrastructure Security

Corporate Services Programs include:
- Technical Committees and Member Forums
- General and Administrative
- Legal and Regulatory
- Analytics & Information Technology
- Human Resources
- Accounting and Finance

Audited Financial Statements

Revenue Recognition
The adoption of ASC 606 resulted in SERC recognizing revenue from penalty sanctions in the period the penalties are assessed versus deferral of penalty sanctions that would offset future member assessments.

Depreciation
SERC incurred $460k of depreciation in 2022. SERC's Statement of Activities excludes the adjustment for best consistency of presentation with the 2022 Business Plan and Budget and the NERC format.

SERC

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022

TOTAL STATUTORY

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	24,798,934	24,798,934	-
Penalty Sanctions	1,564,248	1,200,000	364,248
Total ERO Funding	**$26,363,182**	**$ 25,998,934**	**$ 364,248**
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	159,284	166,000	(6,716)
Interest	52,426	30,000	22,426
Miscellaneous	-	-	-
Total Funding (A)	**$26,574,892**	**$ 26,194,934**	**$ 379,958**
Expenses			
Personnel Expenses			
Salaries	16,506,786	16,239,814	266,972
Payroll Taxes	1,052,483	971,965	80,518
Employee Benefits	1,707,213	1,981,828	(274,615)
Savings & Retirement	2,089,255	2,061,442	27,813
Total Personnel Expenses	**21,355,737**	**21,255,049**	**100,688**
Meeting Expenses			
Meetings	273,504	427,203	(153,699)
Travel	598,541	855,340	(256,799)
Conference Calls	22,687	16,104	6,583
Total Meeting Expenses	**894,732**	**1,298,647**	**(403,915)**
Operating Expenses			
Consultants & Contracts	1,130,315	1,377,944	(247,629)
Rent & Improvements	831,005	840,067	(9,062)
Office Costs	1,356,215	1,171,193	185,022
Professional Services	441,872	501,360	(59,488)
Miscellaneous	-	-	-
Total Operating Expenses	**3,759,407**	**3,890,564**	**(131,157)**
Indirect Expenses	**-**	**-**	**-**
Other Non-Operating Expenses	**-**	**-**	**-**
Total Expenses (B)	**26,009,876**	**26,444,260**	**(434,384)**
Change in Assets (A - B)	**565,016**	**(249,326)**	**814,342**
Fixed Asset Additions (C)	**393,891**	**264,000**	**193,891**
TOTAL BUDGET (B + C)	**26,403,767**	**26,708,260**	**(240,493)**
Change in Working Capital (A-B-C)	**171,125**	**(513,326)**	**620,451**
FTE's	**98**	**104**	**(6)**

SERC

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022

RELIABILITY STANDARDS

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	207,816	207,642	174	0.08%
Penalty Sanctions	11,459	8,791	2,668	30.35%
Total ERO Funding	**$ 219,275**	**$ 216,433**	**$ 2,842**	**1.31%**
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	183	(183)	-100.00%
Interest	384	220	164	74.75%
Miscellaneous	-	-	-	
Total Funding (A)	**$ 219,660**	**$ 216,836**	**$ 2,824**	**1.30%**
Expenses				
Personnel Expenses				
Salaries	155,808	100,868	54,940	54.47%
Payroll Taxes	9,630	6,052	3,578	59.12%
Employee Benefits	12,694	10,043	2,651	26.40%
Savings & Retirement	13,349	12,694	655	5.16%
Total Personnel Expenses	**191,481**	**129,657**	**61,824**	**47.68%**
Meeting Expenses				
Meetings	-	-	-	
Travel	-	2,500	(2,500)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	**-**	**2,500**	**(2,500)**	**-100.00%**
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**-**	**-**	**-**	
Indirect Expenses	**143,590**	**86,994**	**56,596**	**65.06%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**335,071**	**219,151**	**115,920**	**52.90%**
Change in Assets (A - B)	**(115,411)**	**(2,315)**	**(113,096)**	**4885.36%**
Total Inc(Dec) in Fixed Assets (C)	**4,743**	**1,934**	**3,259**	**168.51%**
TOTAL BUDGET (B + C)	**339,814**	**221,085**	**119,179**	**53.91%**
Change in Working Capital (A-B-C)	**(120,154)**	**(4,249)**	**(116,355)**	**2738.41%**
FTE's	**0.8**	**0.5**	**0.3**	**50.00%**

Reliability Standards
Variance Explanations as of December 31, 2022
Variances > +/- $10,000 and 10%

Personnel Expenses (Actual $62k over budget)

- FTE allocation was higher than expected, resulting in salaries, taxes and retirement exceeding budgeted amounts. Salaries were over budget due to a combination of factors, including market driven compensation increases for critical talent and higher than expected incentive awarded by the Board of Directors for exceeding Corporate Strategic Initiatives and Key Performance Indicator goals.

Indirect Expenses (Actual $57k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs. Indirect expenses for this program were over budget due to its ratio of FTEs being higher than budgeted.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022
COMPLIANCE MONITORING & ENFORCEMENT; ORGANIZATION REGISTRATION AND CERTIFICATION

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	18,224,510	18,220,737	3,773	0.02%
Penalty Sanctions	1,156,284	887,034	269,250	30.35%
Total ERO Funding	**$ 19,380,794**	**$19,107,771**	**$ 273,023**	**1.43%**
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	29,480	(29,480)	-100.00%
Interest	38,753	22,176	16,577	74.75%
Miscellaneous	-	-	-	
Total Funding (A)	**$ 19,419,548**	**$19,159,427**	**$ 260,121**	**1.36%**
Expenses				
Personnel Expenses				
Salaries	7,340,038	7,811,906	(471,868)	-6.04%
Payroll Taxes	501,473	468,714	32,759	6.99%
Employee Benefits	678,212	825,332	(147,120)	-17.83%
Savings & Retirement	944,156	984,930	(40,774)	-4.14%
Total Personnel Expenses	**9,463,879**	**10,090,882**	**(627,003)**	**-6.21%**
Meeting Expenses				
Meetings	12,942	12,600	342	2.71%
Travel	406,103	419,975	(13,872)	-3.30%
Conference Calls	-	-	-	
Total Meeting Expenses	**419,045**	**432,575**	**(13,530)**	**-3.13%**
Operating Expenses				
Consultants & Contracts	36,337	-	36,337	
Rent & Improvements	-	-	-	
Office Costs	33,920	38,580	(4,660)	-12.08%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**70,257**	**38,580**	**31,677**	**82.11%**
Indirect Expenses	**8,383,716**	**8,777,698**	**(393,982)**	**-4.49%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**18,336,897**	**19,339,735**	**(1,002,838)**	**-5.19%**
Change in Assets (A - B)	**1,082,651**	**(180,308)**	**1,262,959**	**-700.45%**
Total Inc(Dec) in Fixed Assets (C)	**276,951**	**195,148**	**128,138**	**65.66%**
TOTAL BUDGET (B + C)	**18,613,848**	**19,534,883**	**(874,700)**	**-4.48%**
Change in Working Capital (A-B-C)	**805,700**	**(375,456)**	**1,134,821**	**-302.25%**
FTE's	**43.8**	**50.45**	**(6.7)**	**-13.20%**

Compliance Monitoring & Enforcement; Organization Registration and Certification
Variance Explanations as of December 31, 2022
Variances > +/- $10,000 and 10%

Personnel Expenses (Actual $627k under budget)

- FTE allocation was lower than expected due to open positions resulting in salaries, taxes and retirement being less than budgeted amounts.

Consultants and Contracts Expense (Actual $36k over budget)

- Contract SMEs were used to supplement O&P audit work due to several open positions during the second half of the year.

Indirect Expenses (Actual $394k under budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs. Indirect expenses for this program were under budget due to its ratio of FTEs being lower than budgeted.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	1,914,306	2,567,440	(653,134)	-25.44%
Penalty Sanctions	144,392	110,769	33,623	30.35%
Total ERO Funding	**$2,058,698**	**$ 2,678,209**	**$ (619,511)**	**-23.13%**
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	150,344	2,308	148,036	6414.04%
Interest	4,839	2,769	2,070	74.75%
Miscellaneous	-	-	-	
Total Funding (A)	**$2,213,881**	**$ 2,683,286**	**$ (469,405)**	**-17.49%**
Expenses				
Personnel Expenses				
Salaries	1,047,074	977,497	69,577	7.12%
Payroll Taxes	70,679	58,650	12,029	20.51%
Employee Benefits	110,888	103,741	7,147	6.89%
Savings & Retirement	145,462	123,207	22,255	18.06%
Total Personnel Expenses	**1,374,103**	**1,263,095**	**111,008**	**8.79%**
Meeting Expenses				
Meetings	139,301	42,000	97,301	231.67%
Travel	32,481	72,000	(39,519)	-54.89%
Conference Calls	-	-	-	
Total Meeting Expenses	**171,782**	**114,000**	**57,782**	**50.69%**
Operating Expenses				
Consultants & Contracts	154,022	212,500	(58,478)	-27.52%
Rent & Improvements	-	-	-	
Office Costs	65,817	25,780	40,037	155.30%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**219,839**	**238,280**	**(18,441)**	**-7.74%**
Indirect Expenses	**1,206,152**	**1,096,125**	**110,027**	**10.04%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**2,971,876**	**2,711,500**	**260,376**	**9.60%**
Change in Assets (A - B)	**(757,995)**	**(28,214)**	**(729,781)**	**2586.59%**
Total Inc(Dec) in Fixed Assets (C)	**39,844**	**24,369**	**21,150**	**86.79%**
TOTAL BUDGET (B + C)	**3,011,720**	**2,735,869**	**281,526**	**10.29%**
Change in Working Capital (A-B-C)	**(797,839)**	**(52,583)**	**(750,931)**	**1428.09%**
FTE's	**6.3**	**6.3**	**-**	**0.00%**

Reliability Assessments and Performance Analysis
Variance Explanations as of December 31, 2022
Variances > +/- $10,000 and 10%

Workshop Fees (Actual $148k over budget)

- Workshop oversight was moved from Training, Education and Outreach to RAPA to improve efficiencies and more closely align with staff responsibilities.

Personnel Expenses (Actual $111k over budget)

- Salaries were over budget due to a combination of factors, including market driven compensation increases for critical talent and higher than expected incentive awarded by the Board of Directors for exceeding Corporate Strategic Initiatives and Key Performance Indicator goals.

Meeting & Travel Expense (Actual $58k over budget)

- Meeting and travel exceeded budget as workshop oversight was moved from Training, Education and Outreach to RAPA to improve efficiencies and more closely align with staff responsibilities.

Consultants and Contracts Expense (Actual $59k under budget)

- Special studies planned for 2022 were modified in scope resulting in $158k less in expenses offset by $102k workshop facilitation expenses originally budgeted in Training, Education and Outreach and moved to RAPA to improve efficiencies and more closely align with staff responsibilities.

Office Cost Expense (Actual $40k over budget)

- Additional modeling software licenses were purchased to support staff efforts driving office costs over budget.

Indirect Expenses (Actual $110k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs. Indirect expenses for this program were over budget due to its ratio of FTEs being higher than budgeted.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022

TRAINING, EDUCATION and STAKEHOLDER OUTREACH

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	3,302,674	2,654,111	648,563	24.44%
Penalty Sanctions	183,355	140,659	42,696	30.35%
Total ERO Funding	**$ 3,486,029**	**$ 2,794,770**	**$ 691,259**	**24.73%**
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	132,930	(132,930)	-100.00%
Interest	6,144	3,516	2,628	74.75%
Miscellaneous	-	-	-	
Total Funding (A)	**$ 3,492,173**	**$ 2,931,216**	**$ 560,957**	**19.14%**
Expenses				
Personnel Expenses				
Salaries	1,107,092	980,346	126,746	12.93%
Payroll Taxes	70,116	58,821	11,295	19.20%
Employee Benefits	109,986	98,832	11,154	11.29%
Savings & Retirement	141,725	123,580	18,145	14.68%
Total Personnel Expenses	**1,428,919**	**1,261,579**	**167,340**	**13.26%**
Meeting Expenses				
Meetings	2,129	120,153	(118,024)	-98.23%
Travel	26,490	85,690	(59,200)	-69.09%
Conference Calls	-	-	-	
Total Meeting Expenses	**28,619**	**205,843**	**(177,224)**	**-86.10%**
Operating Expenses				
Consultants & Contracts	-	96,570	(96,570)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	2,810	1,817	993	54.65%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**2,810**	**98,387**	**(95,577)**	**-97.14%**
Indirect Expenses	**1,615,861**	**1,391,905**	**223,956**	**16.09%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**3,076,209**	**2,957,714**	**118,495**	**4.01%**
Change in Assets (A - B)	**415,964**	**(26,498)**	**442,462**	**-1669.79%**
Total Inc(Dec) in Fixed Assets (C)	**53,379**	**30,945**	**29,788**	**96.26%**
TOTAL BUDGET (B + C)	**3,129,588**	**2,988,659**	**148,283**	**4.96%**
Change in Working Capital (A-B-C)	**362,585**	**(57,443)**	**412,674**	**-718.41%**
FTE's	**8.4**	**8.0**	**0.5**	**6.16%**

Training, Education and Stakeholder Outreach
Variance Explanations as of December 31, 2022
Variances > +/- $10,000 and 10%

Workshop Fees (Actual $133k under budget)

- Workshop oversight was moved from Training, Education and Outreach to RAPA to improve efficiencies and more closely align with staff responsibilities.

Personnel Expenses (Actual $167k over budget)

- FTE allocation was higher than expected, resulting in salaries, taxes and retirement exceeding budgeted amounts. Salaries were over budget due to a combination of factors, including market driven compensation increases for critical talent and higher than expected incentive awarded by the Board of Directors for exceeding Corporate Strategic Initiatives and Key Performance Indicator goals.

Meeting & Travel Expense (Actual $177k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual $97k under budget)

- Conference and workshop support services budgeted in Training, Education and Outreach moved to RAPA to more closely align with staff responsibilities drove the budget variance.

Indirect Expenses (Actual $224k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs. Indirect expenses for this program were over budget due to its ratio of FTEs being higher than budgeted.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022
SITUATION AWARENESS and INFRASTRUCTURE SECURITY

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	1,149,628	1,149,004	624	0.05%
Penalty Sanctions	68,758	52,747	16,011	30.35%
Total ERO Funding	**$ 1,218,386**	**$ 1,201,751**	**$ 16,635**	**1.38%**
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	1,099	(1,099)	-100.00%
Interest	2,305	1,319	986	74.75%
Miscellaneous	-	-	-	
Total Funding (A)	**$ 1,220,691**	**$ 1,204,169**	**$ 16,522**	**1.37%**
Expen t				
Personnel Expenses				
Salaries	549,884	507,248	42,636	8.41%
Payroll Taxes	36,160	30,435	5,725	18.81%
Employee Benefits	41,155	49,258	(8,103)	-16.45%
Savings & Retirement	76,651	63,928	12,723	19.90%
Total Personnel Expenses	**703,850**	**650,869**	**52,981**	**8.14%**
Meeting Expenses				
Meetings	-	-	-	
Travel	10,048	42,500	(32,452)	-76.36%
Conference Calls	-	-	-	
Total Meeting Expenses	**10,048**	**42,500**	**(32,452)**	**-76.36%**
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	1,566	829	737	88.90%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**1,566**	**829**	**737**	**88.90%**
Indirect Expenses	**574,359**	**521,964**	**52,395**	**10.04%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**1,289,823**	**1,216,162**	**73,661**	**6.06%**
Change in Assets (A - B)	**(69,132)**	**(11,993)**	**(57,139)**	**476.44%**
Total Inc(Dec) in Fixed Assets (C)	**18,974**	**11,604**	**11,556**	**99.59%**
TOTAL BUDGET (B + C)	**1,308,797**	**1,227,766**	**85,217**	**6.94%**
Change in Working Capital (A-B-C)	**(88,106)**	**(23,597)**	**(68,695)**	**291.12%**
FTE's	**3.0**	**3.0**	**-**	**0.00%**

Situation Awareness and Infrastructure Security
Variance Explanations as of December 31, 2022
Variances > +/- $10,000 and 10%

Personnel Expenses (Actual $53k over budget)

- Salaries were over budget due to a combination of factors, including market driven compensation increases for critical talent and higher than expected incentive awarded by the Board of Directors for exceeding Corporate Strategic Initiatives and Key Performance Indicator goals.

Meeting & Travel Expense (Actual $32k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Indirect Expenses (Actual $52k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2022 based on the number of FTEs in those programs. Indirect expenses for Situational Awareness and Infrastructure Security were over budget because the department's ratio of FTEs was higher than budgeted.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022

TECHNICAL COMMITTEES AND MEMBER FORUMS

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	**$ -**	**$ -**	**$ -**	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	8,940	-	8,940	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	**$ 8,940**	**$ -**	**$ 8,940**	
Expenses				
Personnel Expenses				
Salaries	628,631	651,093	(22,462)	-3.45%
Payroll Taxes	38,687	39,066	(379)	-0.97%
Employee Benefits	59,744	63,935	(4,191)	-6.56%
Savings & Retirement	74,949	82,031	(7,082)	-8.63%
Total Personnel Expenses	**802,011**	**836,125**	**(34,114)**	**-4.08%**
Meeting Expenses				
Meetings	3,894	75,000	(71,106)	-94.81%
Travel	5,472	45,475	(40,003)	-87.97%
Conference Calls	-	-	-	
Total Meeting Expenses	**9,366**	**120,475**	**(111,109)**	**-92.23%**
Operating Expenses				
Consultants & Contracts	223,419	172,000	51,419	29.89%
Rent & Improvements	-	-	-	
Office Costs	2,480	1,120	1,360	121.43%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**225,899**	**173,120**	**52,779**	**30.49%**
Indirect Expenses	**(1,037,276)**	**(1,129,720)**	**92,444**	**-8.18%**
Other Non-Operating Expenses	**-**	**-**	**-**	
Total Expenses (B)	**-**	**-**	**-**	
Change in Assets (A - B)	**8,940**	**-**	**8,940**	
Total Inc(Dec) in Fixed Assets (C)	**-**	**-**	**-**	
TOTAL BUDGET (B + C)	**-**	**-**	**-**	
Change in Working Capital (A-B-C)	**8,940**	**-**	**8,940**	
FTE's	**3.4**	**3.9**	**(0.5)**	**-12.82%**

Technical Committees and Member Forums
Variance Explanations as of December 31, 2022
Variances > +/- $10,000 and 10%

Meeting & Travel Expense (Actual $111k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual $51k over budget)

- Conference and workshop support services budgeted in Training, Education and Outreach moved to Technical Committees to more closely align with staff responsibilities drove the budget variance.

- **Indirect Expenses (Actual $92k over budget)** Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2022 through 12/31/2022
CORPORATE SERVICES

	2022 Actual	2022 Budget	2022 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	$ -	$ -	$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	8,940	-	8,940	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	$ 8,940	$ -	$ 8,940	
Expenses				
Personnel Expenses				
Salaries	6,306,890	5,861,949	444,941	7.59%
Payroll Taxes	364,425	349,293	15,132	4.33%
Employee Benefits	754,278	894,622	(140,344)	-15.69%
Savings & Retirement	767,912	753,103	14,809	1.97%
Total Personnel Expenses	**8,193,505**	**7,858,967**	**334,538**	**4.26%**
Meeting Expenses				
Meetings	119,132	252,450	(133,318)	-52.81%
Travel	123,419	232,675	(109,256)	-46.96%
Conference Calls	22,687	16,104	6,583	40.88%
Total Meeting Expenses	**265,238**	**501,229**	**(235,991)**	**-47.08%**
Operating Expenses				
Consultants & Contracts	939,956	1,068,874	(128,918)	-12.06%
Rent & Improvements	831,005	840,067	(9,062)	-1.08%
Office Costs	1,252,102	1,104,187	147,915	13.40%
Professional Services	441,872	501,360	(59,488)	-11.87%
Miscellaneous	-	-	-	
Total Operating Expenses	**3,464,935**	**3,514,488**	**(49,553)**	**-1.41%**
Indirect Expenses	**(11,923,678)**	**(11,874,684)**	**(48,994)**	**0.41%**
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	**8,940**	-	**8,940**	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	**8,940**	-	**8,940**	
FTE's	**35.6**	**35.8**	**(0.2)**	**-0.45%**

Corporate Services
Variance Explanations as of December 31, 2022
Variances > +/- $10,000 and 10%

Personnel Expenses (Actual $335k over budget)

- Salaries were over budget due to a combination of factors, including market driven compensation increases for critical talent, higher than expected liability for accrued but unused paid time off, and higher than expected incentive awarded by the Board of Directors for exceeding Corporate Strategic Initiatives and Key Performance Indicator goals. Employee Benefits were under budget as negotiated rates for health insurance were lower than budget, and there were fewer than expected employee relocations.

Meeting & Travel Expense (Actual $236k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual $129k under budget)

- Consultant expenses associated with Corporate Strategic Initiatives (CSIs) were budgeted in Corporate Services, but the actual expenses were recorded to departments responsible for implementing the CSIs.
- IT software was budgeted in Contracting/Consulting but expensed to Office Cost.

Office Costs (Actual $148k over budget)

- Office Costs exceeded budget due to computer hardware and software purchase budgeted as consultants and contracts and fixed assets but more appropriately expensed in Office Costs.

Professional Services (Actual $59k under budget)

- Fewer legal fees associated with employment matters drove the budget variance for Professional Services.

SERC

Financial Statements for the
Years Ended December 31, 2022 and 2021
and Independent Auditors' Report

GreerWalker

GreerWalker

INDEPENDENT AUDITORS' REPORT

To the Finance and Audit Committee of SERC Reliability Corporation:

Opinion

We have audited the financial statements of SERC Reliability Corporation (the "Corporation"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021, and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with generally accepted auditing standards in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

GreerWalker LLP

Certified Public Accountants
April 4, 2023
Charlotte, NC

SERC RELIABILITY CORPORATION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,621,780	$ 5,695,065
Prepaid expenses and other assets	483,975	446,007
Total current assets	4,105,755	6,141,072
NON-CURRENT ASSETS:		
Property and equipment, net	2,337,443	2,443,079
Operating lease right-of-use assets, net	1,564,766	-
Investments	9,191,558	7,143,476
Investments - deferred compensation	509,106	513,474
Total non-current assets	13,602,873	10,100,029
TOTAL	$ 17,708,628	$ 16,241,101
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 18,478	$ 60,808
Accrued expenses	581,258	720,953
Accrued salaries and related benefits	4,169,905	3,961,717
Deferred revenue	11,530	45,253
Current portion of operating lease liabilities	847,534	-
Total current liabilities	5,628,705	4,788,731
NON-CURRENT LIABILITIES:		
Deferred compensation	509,106	513,474
Deferred rent	-	309,513
Operating lease liabilities, net of current portion	875,946	-
Total non-current liabilities	1,385,052	822,987
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Undesignated	2,337,443	2,443,079
Designated for assessment stabilization reserve	5,772,586	5,408,338
Designated for operating reserves	2,584,842	2,777,966
Total net assets	10,694,871	10,629,383
TOTAL	$ 17,708,628	$ 16,241,101

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
FUNDING:		
Member assessments	$ 24,798,932	$ 23,513,886
Penalty sanctions	1,564,248	2,043,338
Workshops	159,284	131,445
Investment income	52,426	1,633
Miscellaneous	-	610
Total	26,574,890	25,690,912
EXPENSES:		
Personnel expenses:		
Salaries	16,506,786	15,668,506
Payroll taxes	1,052,483	1,006,438
Employee benefits	1,707,214	1,454,649
Savings and retirement	2,089,258	2,003,822
Total personnel expenses	21,355,741	20,133,415
Meeting expenses:		
Meetings	273,504	42,919
Travel	598,540	20,528
Conference calls	22,687	16,104
Total meeting expenses	894,731	79,551
Operating expenses:		
Consultants and contracts	1,130,315	1,431,917
Rent and improvements	831,005	805,464
Office costs	1,356,212	1,242,748
Professional services	441,870	452,813
Depreciation and amortization	499,528	539,241
Total operating expenses	4,258,930	4,472,183
Total expenses	26,509,402	24,685,149
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	65,488	1,005,763
NET ASSETS, BEGINNING OF YEAR	10,629,383	9,623,620
NET ASSETS, END OF YEAR	$ 10,694,871	$ 10,629,383

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 65,488	$ 1,005,763
Adjustments to reconcile change in net assets		
to net cash from operating activities:		
Depreciation and amortization	499,528	539,241
Amortization of right-of-use assets	737,583	-
Unrealized losses on investments, net	59,379	14,145
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(106,547)	(93,528)
Accounts payable	(42,330)	60,500
Accrued expenses	(139,695)	312,925
Accrued salaries and related benefits	208,188	219,842
Deferred revenue	(33,723)	(50,757)
Deferred rent	-	(62,188)
Operating lease liabilities	(819,803)	-
Net cash provided by operating activities	428,068	1,945,943
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvestment of earnings	(2,107,461)	(14,843)
Purchase of property and equipment	(393,892)	(1,035,096)
Net cash applied to investing activities	(2,501,353)	(1,049,939)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,073,285)	896,004
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,695,065	4,799,061
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,621,780	$ 5,695,065

See notes to financial statements.

SERC RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations - SERC Reliability Corporation (the "Corporation") is a nonprofit corporation authorized by the Federal Energy Regulatory Commission (FERC) to operate as a Regional Entity and is funded through Load-Serving Entity (LSE) assessments authorized by FERC under Section 215 of the Federal Power Act. The Corporation's mission is to assure effective and efficient reduction of risks to the reliability and security of the bulk power system (BPS) in all or portions of 16 central and southeastern states.

The Corporation is governed by a balanced, hybrid Board consisting of 18 Directors comprised of a combination of stakeholder representatives from SERC member companies (i.e., Sector Directors) and independent representatives (i.e., Independent Directors) that add independent balance, perspective, and expertise. This combination of stakeholder and Independent Directors allows the Board to focus on the most important and significant risks to reliability in the SERC footprint.

The Corporation's members are companies from various ownership segments of the electricity supply industry, including Investor-Owned Utilities (IOU's), rural electric cooperatives, municipal utilities, independent power producers, power marketers, Regional Transmission Organizations (RTO's), Reliability Coordinators, and Independent System Operators (ISO's).

Basis of Accounting - The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The Corporation is required to report information regarding its financial position and activities according to two classes of net assets - net assets with donor restrictions and net assets without donor restrictions. The Corporation had only net assets without donor restrictions as of December 31, 2022 and 2021, including net assets that have been designated by the Board of Directors as assessment stabilization reserve and operating reserves.

Use of Accounting Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Adoption of New Accounting Standard - In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-02, Leases. The ASU and all subsequently issued clarifying ASUs (collectively, "ASC 842") replaced most existing lease guidance in GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing and uncertainty of leases and cash flows arising from leases.

The Corporation adopted the new standard effective January 1, 2022, using the modified retrospective method. Results for reporting periods beginning on or after January 1, 2022, are presented under ASC 842 while prior period amounts continue to be reported in accordance with previous guidance. The adoption of ASC 842 resulted in the recording of additional assets and liabilities related to the Corporation's operating leases of $2,543,283 on January 1, 2022. The adoption of the new standard did not materially impact net income or cash flows. Additionally, the cumulative effect of the initial application of ASC 842 did not result in a material adjustment to net assets on January 1, 2022.

The Corporation elected the "package of practical expedients" under the transition guidance within ASC 842 in which the Corporation does not reassess the historical lease classification for existing leases, whether any existing contracts at transition are or contain leases, or the initial direct costs for any existing leases.

Cash and Cash Equivalents - The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Corporation maintains cash deposits with financial institutions that, at times, may exceed federally insured limits.

Property and Equipment - Property and equipment with a cost of $5,000 or more and an estimated useful life greater than one year are capitalized at cost. Depreciation and amortization are computed using the straight-line method over the estimated economic useful lives of the assets ranging from 5-7 years for leasehold improvements (shorter of useful life of asset or remaining lease term) and 3 years for computer equipment and software. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed currently. The cost and accumulated depreciation/amortization of property and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets of the Corporation. Long-lived assets held and used by the Corporation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Investments - Investments are recorded at fair value with realized and unrealized gains and losses included in the statements of activities as increases or decreases in net assets without donor restrictions. The fair value of investments is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities.

Fair Value Measurement - GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 - quoted prices in active markets for identical assets
- Level 2 - other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.)
- Level 3 - significant unobservable inputs

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Deferred Revenue - Deferred revenue represented amounts collected from members for workshops and meetings in advance of the periods in which the events occur.

Revenue Recognition - The Corporation receives a significant portion of its funding directly from the North American Electric Reliability Corporation (NERC) based on the budget submitted by the Corporation and approved by NERC and FERC. Although the funding is received from NERC, the members of the Corporation are its customers as the members of the Corporation are entities to which the Corporation provides services. NERC assesses each member a share of its annual operating budget and funds SERC based on the approved budget noted above. The assessments are received from the members, via NERC, in four equal quarterly installments received at the beginning of each quarter. The Corporation also receives penalty sanctions directly from its members for penalties assessed by the Corporation as well as fees and miscellaneous revenue for workshops and other services performed.

A performance obligation is a promise to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Contracts may have a single performance obligation as the promise to transfer is not separately identifiable from other promises, and therefore, not distinct, while other contracts may have multiple performance obligations, most commonly due to the contract covering multiple deliverable arrangements.

For member assessments, there is one performance obligation to its members as each of its promises to transfer services is not separable or distinct from other promises under its agreement with NERC. These member assessments are recognized over time by the Corporation, over the course of the year's budget period with NERC. There is no variable consideration in the member assessments as these are determined and approved by NERC and FERC.

For penalty sanctions, the Corporation recognizes the revenue in the period the penalty is assessed. Workshops and miscellaneous revenue are each treated as individual performance obligations and the related revenue is recognized as the service is provided or at a point in time, based on the nature of the service. Payments for these revenue sources are due 30 days after they are invoiced. The timing of revenue recognition, billings and cash collections results in deferred revenue.

Beginning and ending balances of deferred revenue were as follows as of December 31, 2022 and 2021:

	2022	2021
Beginning of year	$ 45,253	$ 96,010
End of year	$ 11,530	$ 45,253

Income Taxes - The Corporation is a tax-exempt organization under Section 501(c)(6) of the Internal Revenue Code and, therefore, no provision for income taxes has been made in the accompanying financial statements.

The Corporation records liabilities for income tax positions taken or expected to be taken when those positions are deemed uncertain to be upheld in an examination by taxing authorities. No liabilities for uncertain income tax positions were recorded as of December 31, 2022 and 2021.

Leases - The Corporation assesses whether an arrangement is a lease, or contains a lease, upon inception of the contract. This assessment is based on: (1) whether the contract explicitly or implicitly involves the use of a distinct asset, (2) whether the Corporation obtains substantially all of the economic benefits from the use of that underlying asset during the term of the contract, and (3) whether the Corporation has the right to direct the use of the asset. The Corporation also considers whether its service arrangements include the right to control the use of an asset.

The Corporation recognizes most leases on its statements of financial position as a right-of-use ("ROU") asset representing the right to use an underlying asset and lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statement of activities. Lease expense for operating leases, consisting of lease payments, is recognized on a straight-line basis over the lease term and is included in operating expenses in the statements of activities.

The Corporation made an accounting policy election available under ASC 842 to not recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease or January 1, 2022, for existing leases upon the adoption of ASC 842. The ROU assets also include any initial direct costs incurred and lease payments made on or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Corporation uses the rate implicit in the lease. For leases where the implicit rate is not readily determinable, the Corporation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date or remaining term for leases existing upon the adoption of ASC 842.

Some of the Corporation's leases include one or more options to renew, generally at the Corporation's sole discretion. In addition, certain leases contain termination options, where the rights to terminate are held by either the Corporation, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms and future lease payments when it is reasonably certain that the Corporation will exercise that option.

Reclassifications - Certain amounts in the 2021 financial statements have been reclassified to conform with 2022 presentation. Such reclassifications had no effect on the previously reported change in net assets.

Subsequent Events - In preparing its financial statements, the Corporation has evaluated subsequent events through April 4, 2023, which is the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

The table below represents financial assets available for general expenditures within one year as of December 31, 2022 and 2021:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	$ 3,621,780	$ 5,695,065
Investments	9,191,558	7,143,476
Total financial assets	12,813,338	12,838,541
Financial assets available to meet general expenditures within one year	$ 12,813,338	$ 12,838,541

As part of the Corporation's liquidity management, it invests cash in excess of daily requirements in short-term investments, such as money market funds and fixed income securities. In addition to the above amounts, the Corporation has a line of credit for $1,500,000 as mentioned in Note 6.

3. INVESTMENTS

Investments included the following as of December 31, 2022 and 2021:

	2022		
	Fair Value	Cost	Unrealized Loss
Fixed income securities	$ 8,336,747	$ 8,396,126	$ (59,379)
Money market funds and other cash equivalents	854,811	854,811	-
Total	$ 9,191,558	$ 9,250,937	$ (59,379)

	2021		
	Fair Value	Cost	Unrealized Loss
Fixed income securities	$ 7,129,096	$ 7,143,241	$ (14,145)
Money market funds and other cash equivalents	14,380	14,380	-
Total	$ 7,143,476	$ 7,157,621	$ (14,145)

The money market funds and other cash equivalents are classified as Level 1 investments and the fixed income securities are classified as Level 2 investments under GAAP (see Note 1).

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Software	$ 1,492,593	$ 1,492,593
Leasehold improvements	1,292,158	1,292,158
Computer equipment	266,441	305,898
Equipment	793,972	525,773
Furniture and fixtures	396,986	385,291
Construction in progress	1,283,871	1,169,875
Subtotal	5,526,021	5,171,588
Less accumulated depreciation and amortization	3,188,578	2,728,509
Total, net	$ 2,337,443	$ 2,443,079

5. LEASES

The Corporation leases certain office space from unrelated third parties under agreements classified as operating leases with various terms. The Corporation's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease expense for the year ended December 31, 2022 totaled $759,404.

Total rent expense for operating leases was approximately $805,000 for the year ended December 31, 2021.

Supplemental cash flow information related to leases for the year ended December 31, 2022, is as follows:

Cash paid for amounts included in measurement of operating lease liabilities	$ 841,623
ROU assets obtained in exchange for new operating lease liabilities	$ 2,543,283

Supplemental statement of financial position information related to leases for the year ended December 31, 2022, is as follows:

Weighted-average remaining lease term	2.08 years
Weighted-average discount rate	1.04%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the statement of financial position as of December 31, 2022, are as follows:

Year ending December 31:	
2023	$ 860,680
2024	880,126
Total undiscounted cash flows	1,740,806
Less: present value discount	17,326
Total lease liabilities	$ 1,723,480

Future minimum lease payments under the operating leases as of December 31, 2021 were approximately as follows:

During the year ending December 31:	
2022	$ 844,000
2023	863,000
2024	879,000
2025	73,000
Total minimum lease payments	$ 2,659,000

6. LINE OF CREDIT

The Corporation has a line of credit with a bank that allows for borrowings up to a maximum of $1,500,000. Interest accrues at the US Prime Rate (7.50% as of December 31, 2022), with a floor of 5%. All accrued interest and principal are due in a single payment upon expiration of the line in May 2023. There were no outstanding borrowings under the line of credit as of December 31, 2022 and 2021.

7. RETIREMENT PLANS

401(k) plan - The Corporation sponsors a 401(k)-retirement plan covering all eligible employees, as defined. The Corporation makes matching contributions to the plan limited to 6% of each eligible employee's compensation. In addition, the plan provides that the Corporation may make additional discretionary non-elective contributions in an amount to be determined by the Board of Directors each year. The Corporation also makes safe harbor non-elective contributions to the plan equal to 3% of each eligible employee's compensation, as defined. During the years ended December 31, 2022 and 2021, contribution expense related to the plan totaled approximately $2,010,000 and $1,926,000, respectively.

Deferred compensation plan - The Corporation has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b) for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. All contributions are immediately vested in the plan. During the years ended December 31, 2022 and 2021, contribution expense related to the plan totaled $53,802 and $51,424, respectively. As part of the plan, the Corporation reports assets and liabilities of equal amounts attributable to the amount deferred and contributed and the related investment earnings. The Corporation's investments related to the deferred compensation consist of equity mutual funds and money market funds, which are classified as level 1 securities in accordance with the fair value measurement framework under GAAP (see Note 1). The balance in the deferred compensation plan is $509,106 and $513,474 at December 31, 2022 and 2021, respectively.

8. FUNCTIONAL EXPENSES

The following is an allocation of expenses by functional category for the years ended December 31, 2022 and 2021:

	December 31, 2022		
	Program	General and Administrative	Total
Personnel	$ 12,384,940	$ 8,970,801	$ 21,355,741
Meeting and travel	627,063	267,668	894,731
Consultants and contracts	190,359	939,956	1,130,315
Rent and improvements	-	831,005	831,005
Office costs	104,114	1,252,098	1,356,212
Professional services	-	441,870	441,870
Depreciation and amortization	-	499,528	499,528
	$ 13,306,476	$ 13,202,926	$ 26,509,402

	December 31, 2021		
	Program	General and Administrative	Total
Personnel	$ 12,760,137	$ 7,373,278	$ 20,133,415
Meeting and travel	26,745	52,806	79,551
Consultants and contracts	207,390	1,224,527	1,431,917
Rent and improvements	-	805,464	805,464
Office costs	42,570	1,200,178	1,242,748
Professional services	-	452,813	452,813
Depreciation and amortization	-	539,241	539,241
	$ 13,036,842	$ 11,648,307	$ 24,685,149

9. DISAGGREATION OF REVENUE

The following table disaggregates the Corporation's revenue for the years ended December 31, 2022 and 2021 based on the type of revenue:

	2022	2021
Revenue recognized over time:		
Member assessments	$ 24,798,932	$ 23,513,886
Investment income	52,426	1,633
Miscellaneous	-	610
Subtotal	24,851,358	23,516,129
Revenue recognized at a point in time:		
Penalty sanctions	1,564,248	2,043,338
Workshops and miscellaneous	159,284	131,445
Subtotal	1,723,532	2,174,783
Total	$ 26,574,890	$ 25,690,912

ATTACHMENT 6

2022 ACTUAL COST-TO-BUDGET COMPARISON

AND

2022 AUDITED FINANCIAL REPORT

FOR

TEXAS RELIABILITY ENTITY, INC.

TEXAS RE
Ensuring electric reliability for Texans

April 18, 2023

Mr. Andy Sharp
North American Electric Reliability Corporation
3343 Peachtree Road, NE Floor East Tower – Suite 400
Atlanta, GA 30326

Subject: Texas Reliability Entity (Texas RE) 2022 Actual Cost-to-Budget Comparison

Dear Mr. Sharp,

Texas Reliability Entity (Texas RE) has completed the 2022 True-Up Analysis. The budget comparisons are for the 2022 Texas RE budget, formally approved by FERC.

Texas RE did not have non-statutory activities in 2022.

Administrative Services costs are allocated as indirect costs to the programs based on actual FTE count.

The significant expense variances at the aggregate statutory level are explained below. The explanations for the expense variances by statutory program area are in the following pages.

INCOME

Total statutory income is equal to the budgeted amount in 2022 for assessments and penalty sanctions. Interest Income is $35,469 more than budget because interest rates were higher than projected. Texas RE's banking account is a Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. The interest income variance is reflected in the variances for each statutory program.

EXPENSES

The 2022 total statutory expenses and fixed asset activity are $2,031,576 (-11.8%) less than total budget.

Personnel Expenses are $1,583,782 (-12.4%) below budget. Salaries and payroll taxes are $714,863 (-7.8%) and $90,872 (-14.3%) below budget because of personnel vacancies, primarily in CMEP. Employee benefits are below budget by $572,853 (-34.9%) primarily because of personnel vacancies, medical insurance not increasing as projected, and unused education reimbursement and training funds. Savings and Retirement were under budget by $205,194 (-15.9%) because of personnel vacancies and using forfeitures, when applicable, to fund retirement plan contributions.

Travel and Meeting Expenses are $226,201 (-51.0%) less than budget. Meetings & Conference Calls are $13,141 (-18.3%) below budget because the annual meeting with stakeholders and directors was held onsite rather than offsite. In person meetings resumed in Q3, but still resulted in a budget under-run. Travel expenses are $213,060 (-57.3%) below budget. Travel did not resume to pre-COVID levels as quickly as projected when the 2022 budget was prepared.

Other Operating Expenses are $171,113 (-5.5%) less than budget. Consultants and Contracts are greater than budget by $58,691 (16.7%) because of an unbudgeted IT Leadership Cross Function consultant hired in Q4. Rent and Improvements are $439,549 (-30.1)% less than budget because utilities and maintenance in the new office space are less than anticipated. A new lease started in April 2022 and straight line expense was less than anticipated under the new lease accounting standard. Office costs are $323,738 (46.3%) over budget due to supplies, software, office equipment and furniture for the new office space, which did not meet the capitalization threshold. Challenges in the supply chain drove much of the cost to be higher than anticipated when the budget was prepared. Professional services are $113,993
(-18.8%) less than budget because of unused budgeted legal fees and an external IT audit that did not occur.

Other Non-Operating Expenses are for non-capitalized cost to relocate the office.

FIXED ASSETS
Texas RE purchased new furniture and computer equipment for the new offices. These expenses were $57,664 (-11.3%) less than anticipated.

Texas RE ended the year $2,031,576 (-11.8%) under budget. Texas RE completed its intended activities for 2022.

In 2022 Texas RE completed 23 audits (14 O&P and 9 a combination of O&P and CIP). Eight audits were MRRE audits (5 O&P and 3 combination O&P and CIP). Texas RE supported a spot check for an MRRE. In addition, Texas RE completed 87 Self Certifications (82 O&P and 5 a combination of O&P and CIP).

In 2022, Texas RE processed 17 technical feasibility exceptions (TFEs); 0 were terminated, 0 were disapproved, 0 required resubmission, 15 were processed as a material change and 2 were approved.

In 2022 Texas RE discovered 142 noncompliance matters. Additionally, there were 3 noncompliance matters that ultimately failed preliminary screening and were combined with already opened records. Texas RE disposed of 170 issues by either submitting to NERC via a disposition or dismissing the issue. Overall, the Texas RE Enforcement caseload (which includes issues submitted to NERC but not yet closed, but does not include issues which have failed preliminary screening), decreased from 273 to 230.

Texas RE verified the completion of Mitigation Plans or mitigating activities for 68 possible violations (62 mitigating activities; 6 Mitigation Plans).

In 2022, a total of 83 events were examined, as follows: 70 non-qualified events (below threshold for Categories 1-5), and 11 Category 1 events, and one in each Category 2 and 3 (Odessa loss of generation), along with separate reviews of grid performance during winter storms in early February and late December.

In 2022, the data collected for use in performance analysis and reporting included:

- 5,514 monthly reports by 471 conventional generators, 2,636 immediate forced outages;

- 2,851 monthly reports by 261 wind plants (representing 15,865 turbines);
- 419 momentary and sustained forced outages reported on 20,738 circuit miles of 345kV, and 430 sustained forced outages reported on 28,648 circuit miles of 138kV; and
- 146 misoperations reported for 1,990 protection system operations.

In 2022, Texas RE processed registration/function activation requests for 37 entities in 51 functions, deregistration/function deactivation requests for 9 entities in 12 functions, and registered entity name change requests for 4 entities in 7 functions, along with handling numerous changes in registered entity personnel and equipment.

In 2022, Texas RE had substantial progress on 1 TOP certification and worked with another lead Region for work on both a TOP certification an a TOP certification review.

If you have any questions on the report or the attached spreadsheet, please call me at the number below.

Thank you.

Donna Bjornson

Donna Bjornson, CPA
Vice President and Chief Financial Officer
Texas Reliability Entity, Inc.
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TEXAS RE
Ensuring electric reliability for Texans

Texas Reliability Entity, Inc.
2022 Statutory Statement of Activities and Fixed Assets
Audited

	2022 Actual	2022 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	$ 15,003,365	$ 15,003,365	$ -	0.0%
Penalty Sanctions	558,750	558,750	-	0.0%
Interest Revenue	50,470	15,000	35,469	236.5%
Total Revenues	$ 15,612,585	$ 15,577,115	$ 35,469	0.2%
Expenses				
Personnel Expenses				
Salaries	$ 8,484,469	$ 9,199,332	$ (714,863)	-7.8%
Payroll Taxes	544,954	635,827	(90,872)	-14.3%
Employee Benefits	1,068,867	1,641,720	(572,853)	-34.9%
Savings & Retirement	1,085,247	1,290,440	(205,194)	-15.9%
Total Personnel Expenses	**$ 11,183,537**	**$ 12,767,318**	**$ (1,583,782)**	**-12.4%**
Meeting & Travel Expenses				
Meetings & Conference Calls	$ 58,758	$ 71,900	$ (13,141)	-18.3%
Travel	158,625	371,685	(213,060)	-57.3%
Total Meeting & Travel Expenses	**$ 217,383**	**$ 443,585**	**$ (226,201)**	**-51.0%**
Operating Expenses				
Consultants & Contracts	$ 410,391	$ 351,700	$ 58,691	16.7%
Rent & Improvements	1,019,996	1,459,545	(439,549)	-30.1%
Office Costs	1,022,578	698,840	323,738	46.3%
Professional Services	493,633	607,625	(113,993)	-18.8%
Total Operating Expenses	**$ 2,946,598**	**$ 3,117,710**	**$ (171,113)**	**-5.5%**
Total Direct Expenses	$ 14,347,518	$ 16,328,613	$ (1,981,096)	-12.1%
Other Non-Operating Expenses	$ 327,183	$ 320,000	$ 7,183	2.2%
Indirect Expenses	$ -	$ -	$ -	0.0%
Total Expenses	**$ 14,674,701**	**$ 16,648,613**	**$ (1,973,913)**	**-11.9%**
Change in Assets	$ 937,884	$ (1,071,498)	$ 2,009,382	-187.5%
Fixed Asset Additions, excluding Right of Use Assets	**$ 454,336**	**$ 512,000**	**$ (57,664)**	**-11.3%**
TOTAL BUDGET	**$ 15,129,037**	**$ 17,160,613**	**$ (2,031,576)**	**-11.8%**
Change in Working Captial (Total Revenue less Total B	**$ 483,548**	**$ (1,583,498)**	**$ 2,067,046**	**-130.5%**
FTEs	59.00	66.00	(7.00)	

Texas Reliability Entity, Inc.
2022 Statement of Activities and Fixed Assets
Audited

Reliability Standards

	2022 Actual	2022 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	$ 365,936	$ 365,936	$ -	0.0%
Penalty Sanctions	13,628	13,628	-	0.0%
Interest & Memberships	1,400	366	1,034	282.5%
Total Revenues	$ 380,964	$ 379,930	$ 1,034	0.3%
Expenses				
Personnel Expenses				
Salaries	$ 130,104	$ 178,151	$ (48,047)	-27.0%
Payroll Taxes	9,742	12,875	(3,133)	-24.3%
Employee Benefits	24,814	41,405	(16,591)	-40.1%
Savings & Retirement	18,127	23,373	(5,246)	-22.4%
Total Personnel Expenses	**$ 182,787**	**$ 255,804**	**$ (73,017)**	**-28.5%**
Meeting & Travel Expenses				
Meetings & Conference Calls	$ -	$ -	$ -	0.0%
Travel	1,058	6,900	(5,842)	-84.7%
Total Meeting & Travel Expenses	**$ 1,058**	**$ 6,900**	**$ (5,842)**	**-100.0%**
Operating Expenses				
Consultants & Contracts	$ -	$ -	$ -	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	(33)	-	(33)	0.0%
Professional Services	-	-	-	0.0%
Total Operating Expenses	$ (33)	$ -	$ (33)	**0.0%**
Total Direct Expenses	$ 183,812	$ 262,704	$ (78,892)	-30.0%
Indirect Expenses	**$ 189,122**	**$ 175,389**	**$ 13,733**	7.8%
Other Non-Operating Expenses	$ 9,078	$ -	9,078	0.0%
Total Expenses	**$ 382,012**	**$ 438,092**	**$ (56,081)**	**-12.8%**
Change in Assets	$ (1,048)	$ (58,163)	$ 57,115	-98.2%
Fixed Asset Additions, excluding Right of Use Assets	**$ 12,606**	**$ 12,488**	**$ 118**	**0.9%**
TOTAL BUDGET	**$ 394,618**	**$ 450,580**	**$ (55,963)**	**-12.4%**
Change in Working Captial (Total Revenue less Total Budg	**$ (13,654)**	**$ (70,650)**	**$ 56,997**	**-80.7%**
FTE's	1.25	1.25		

TEXAS RE
Ensuring electric reliability for Texans

Reliability Standards
Variances > +/- $10,000 and 10%

Reliability Standards is $55,963 (12.4%) less than total budget.

Personnel Costs are $73,017 (-28.5%) less than budget. The VP and Chief Operating Officer direct personnel costs were moved from the program to G&A in the last quarter of 2021, which was after the 2022 budget was prepared. Employee Benefits are $16,591 (-40.1%) less than budget because health insurance benefits did not increase as projected.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

TEXAS RE
Ensuring electric reliability for Texans

Texas Reliability Entity, Inc.
2022 Statement of Activities and Fixed Assets
Audited

CMEP

	2022 Actual	2022 Budget	Variance from Budget	%
Revenue				
ERO Funding				
Assessments	$ 12,222,254	$ 12,222,254	$ -	0.0%
Penalty Sanctions	455,177	455,177	-	0.0%
Interest & Membership Dues	39,826	12,220	$ 27,606	225.9%
Total Revenue	$ 12,717,257	$ 12,689,651	$ 27,606	0.0%
Expenses				
Personnel Expenses				
Salaries	$ 4,483,386	$ 5,104,337	$ (620,951)	-12.2%
Payroll Taxes	324,835	391,088	(66,253)	-16.9%
Employee Benefits	575,555	992,629	(417,074)	-42.0%
Savings & Retirement	605,213	721,425	(116,212)	-16.1%
Total Personnel Expenses	**$ 5,988,989**	**$ 7,209,478**	**$ (1,220,490)**	**-16.9%**
Meeting & Travel Expenses				
Meetings and Conference Calls	$ -	$ -	$ -	0.0%
Travel	55,587	143,175	(87,588)	-61.2%
Total Meeting & Travel Expenses	**$ 55,587**	**$ 143,175**	**$ (87,588)**	**-61.2%**
Operating Expenses				
Consultants & Contracts	$ -	$ -	$ -	0.0%
Office Rent	-	-	-	0.0%
Office Costs	16,425	20,600	(4,175)	-20.3%
Professional Services	-	-		0.0%
Total Operating Expenses	$ 16,425	$ 20,600	$ (4,175)	**-20.3%**
Total Direct Expenses	$ 6,061,001	$ 7,373,253	(1,312,253)	-17.8%
Indirect Expenses	$ 5,378,635	$ 5,857,983	$ (479,348)	-8.2%
Other Non-Operating Expenses	**$ 258,188**	**$ -**	**$ 258,188**	100.0%
Total Expenses	**$ 11,697,824**	**$ 13,231,236**	**$ (1,533,412)**	**-11.6%**
Change in Assets	$ 1,019,433	$ (541,586)	$ 1,561,018	-288.2%
Fixed Asset Additions, excluding Right of Use Assets	**$ 358,527**	**$ 417,093**	**$ (58,566)**	**-14.0%**
TOTAL BUDGET	**$ 12,056,351**	**$ 13,648,328**	**$ (1,591,977)**	**-11.7%**
Change in Working Captial (Total Revenue less Total Budget	**$ 660,906**	**$ (958,678)**	**$ 1,619,584**	**-168.9%**
FTE's	35.55	41.75	(6.20)	

TEXAS RE
Ensuring electric reliability for Texans

CMEP
Variances > +/- $10,000 and 10%

CMEP is $1,591,977 (11.7%) less than budget for the year.

Personnel expenses for is CMEP $1,220,490 (-16.9%) less than budget. Salaries and related Payroll taxes are less than budget by $620,051 (-12.2%) and $66,253 (16.9%), repectively, because of vacancies in the department. Employee Benefits are $417,074 (-42%) less than budget. This reduction is related to personnel vacancies and health Insurance, which did not increase 8% as projected. Unspent money for employee training included in this category also contributes to the budget under-run. In addition to costs not incurred because of personnel vacancies, using forfeitures to fund retirement accounts contributed to the $116,212 (-16.1%) budget under-run for Savings and Retirement.

Meeting and Travel expense is $87,588 (-61.2%) less than budget because travel after COVID has not resumed as quickly as anticipated.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

TEXAS RE
Ensuring electric reliability for Texans

Texas Reliability Entity, Inc.
2022 Statement of Activities and Fixed Assets
Audited

RAPA

	2022 Actual	2022 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	$ 1,756,492	$ 1,756,492	$ -	0.0%
Penalty Sanctions	65,415	65,415	-	0.0%
Interest Revenue	6,722	1,756	$ 4,966	282.8%
Total Revenues	$ 1,828,629	$ 1,823,662	$ 4,967	0.0%
Expenses				
Personnel Expenses				
Salaries	$ 914,189	$ 962,540	$ (48,351)	-5.0%
Payroll Taxes	62,578	67,054	(4,476)	-6.7%
Employee Benefits	123,071	170,407	(47,336)	-27.8%
Savings & Retirement	122,693	138,774	(16,081)	-11.6%
Total Personnel Expenses	**$ 1,222,531**	**$ 1,338,775**	**$ (116,244)**	**-8.7%**
Meeting & Travel Expenses				
Meetings and Conference Calls	$ -	$ -	$ -	0.0%
Travel	16,038	87,500	(71,462)	-81.7%
Total Meeting & Travel Expenses	**$ 16,038**	**$ 87,500**	**$ (71,462)**	**-81.7%**
Operating Expenses				
Consultants & Contracts	$ -		$ -	0.0%
Office Rent	-		-	0.0%
Office Costs	9,984	10,140	(156)	-1.5%
Professional Services	-			0.0%
Total Operating Expenses	$ 9,984	$ 10,140	$ (156)	**-1.5%**
Total Direct Expenses	$ 1,248,553	$ 1,436,415	(187,862)	-13.1%
Indirect Expenses	$ 907,786	$ 841,866	$ 65,920	7.8%
Other Non-Operating Expenses	**$ 43,576**	**$ -**	**$ 43,576**	100.0%
Total Expenses	**$ 2,199,915**	**$ 2,278,281**	**$ (78,366)**	**-3.4%**
Change in Assets	$ (371,286)	$ (454,619)	$ 83,333	-18.3%
Fixed Asset Additions, excluding Right of Use Assets	**$ 60,511**	**$ 59,941**	**$ 570**	**1.0%**
TOTAL BUDGET	**$ 2,260,426**	**$ 2,338,222**	**$ (77,796)**	**-3.3%**
Change in Working Captial (Total Revenue less Total Budget)	**$ (431,797)**	**$ (514,560)**	**$ 82,763**	**-16.1%**
FTE's	**6.00**	**6.00**	-	

RAPA

Variances > +/- $10,000 and 10%

The RAPA department ended the year $77,796 (3.3%) less than budget.

Total Personnel Expenses are $116,244 (-8.7%) less than budget. Health Insurance, which is included in Employee Benefits, did not increase as projected, causing this category to be $47,336 (-27.8%) under budget. The reduction in salaries, along with using forfeitures to fund retirement contributions accounts for the $16,081 (-11.6%) budget under-run for Savings and Retirement.

Meeting and Travel expenses are $71,462 (-81.7%) less than budget. Travel after COVID has not resumed as quickly as anticipated.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

TEXAS RE
Ensuring electric reliability for Texans

Texas Reliability Entity, Inc.
2022 Statement of Activities and Fixed Assets
Audited

Training & Education

	2022 Actual	2022 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	$ 658,684	$ 658,684	$ -	0.0%
Penalty Sanctions	24,530	24,530	-	0.0%
Interest Revenue	2,521	659	1,862	282.5%
Total Revenues	$ 685,735	$ 683,873	$ 1,862	0.0%
Expenses				
Personnel Expenses				
Salaries	$ 249,903	$ 250,405	$ (502)	-0.2%
Payroll Taxes	17,301	17,963	(662)	-3.7%
Employee Benefits	28,852	34,339	(5,487)	-16.0%
Savings & Retirement	29,233	35,727	(6,494)	-18.2%
Total Personnel Expenses	**$ 325,289**	**$ 338,434**	**$ (13,145)**	**-3.9%**
Meeting & Travel Expenses				
Meetings & Conference Calls	$ 34,929	$ 34,500	$ 429	1.2%
Travel	2,203	3,030	(827)	-27.3%
Total Meeting & Travel Expenses	**$ 37,132**	**$ 37,530**	**$ (398)**	**-1.1%**
Operating Expenses				
Consultants & Contracts	$ -	$ -	$ -	0.0%
Office Costs	2,950	6,340	(3,390)	-53.5%
Office Rent	-	-	-	0.0%
Professional Services	-	3,000	(3,000)	-100.0%
Total Operating Expenses	$ 2,950	$ 9,340	$ (6,390)	**-68.4%**
Total Direct Expenses	$ 365,371	$ 385,304	$ (19,933)	-5.2%
Indirect Expenses	$ 340,420	$ 315,700	$ 24,720	7.8%
Other Non-Operating Expenses	**$ 16,341**	**$ -**	**$ 16,341**	100.0%
Total Expenses	**$ 722,132**	**$ 701,004**	**$ 21,128**	**3.0%**
Change in Assets	$ (36,397)	$ (17,132)	$ (19,266)	$ 1
Fixed Asset Additions, excluding Right of Use Assets	**$ 22,692**	**$ 22,478**	**$ 214**	**1.0%**
TOTAL BUDGET	**$ 744,824**	**$ 723,482**	**$ 21,342**	**2.9%**
Change in Working Captial (Total Revenue less Total Budget	**$ (59,089)**	**$ (39,609)**	**$ (19,480)**	**49.2%**
FTE's	**2.25**	**2.25**	-	

Training and Education

Variances > +/- $10,000 and 10%

The Training and Education department ended the year $21,342 (2.9%) over total budget.

Other Non-Operating Expenses are for non-capitalized cost to relocate the office and are allocated to departments based on FTE's. This expense accounts for $16,341 of the budget over-run in this department.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

TEXAS RE
Ensuring electric reliability for Texans

Texas Reliability Entity, Inc.
2022 Statement of Activities and Fixed Assets
Audited

Administrative Services

	2022 Actual	2022 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	$ -	$ -	$ -	0.0%
Penalty Sanctions	-	-	-	0.0%
Interest Revenue	-	-	$ -	0.0%
Total Revenues	$ -	$ -	$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	$ 2,706,886	$ 2,703,899	$ 2,987	0.1%
Payroll Taxes	130,499	146,847	(16,348)	-11.1%
Employee Benefits	316,576	402,940	(86,364)	-21.4%
Savings & Retirement	309,979	371,141	(61,162)	-16.5%
Total Personnel Expenses	**$ 3,463,940**	**$ 3,624,827**	**$ (160,887)**	**-4.4%**
Meeting & Travel Expenses				
Meetings & Conference Calls	$ 23,831	$ 37,400	$ (13,569)	-36.3%
Travel	83,740	131,080	(47,340)	-36.1%
Total Meeting & Travel Expenses	**$ 107,571**	**$ 168,480**	**$ (60,909)**	**-36.2%**
Operating Expenses				
Consultants & Contracts	$ 410,391	$ 351,700	$ 58,691	16.7%
Rent & Improvements	1,019,995	1,473,545	(453,550)	-30.8%
Office Costs	993,250	647,760	345,490	53.3%
Professional Services	493,633	604,625	(110,992)	-18.4%
Total Operating Expenses	**$ 2,917,269**	**$ 3,077,630**	**$ (160,361)**	**-5.2%**
Total Direct Expenses	$ 6,488,780	$ 6,870,937	$ (382,157)	-5.6%
Other Non-Operating Expenses	$ 327,183	$ 320,000	7,183	2.2%
Indirect Expenses	$ (6,815,963)	$ (7,190,937)	$ 374,974	-5.2%
Total Expenses	**$ -**	**$ -**	**$ -**	**0.0%**
Change in Assets	$ -	$ -	$ -	0.0%
Fixed Asset Additions, excluding Right of Use Assets	**$ -**	**$ -**	**$ -**	**0.0%**
TOTAL BUDGET	**$ -**	**$ -**	**$ -**	**0.0%**
Change in Working Captial (Total Revenue less Total Budget	**$ -**	**$ -**	**$ -**	**0.0%**
FTE's	14.75	14.75	-	

TEXAS RE
Ensuring electric reliability for Texans

Administrative Services
Variances > +/- $10,000 and 10%

Overall Administrative Services expenses are $374,974 (-5.2%) less than budget.

Total Personnel expenses are below budget $160,887 (-4.4%). Health insurance, which is included in Employee Benefits, did not increase as projected, accounting for the $86,364 (-21.4%) budget under-run. Employee benefits include training and possible relocation money that was not used. Forfeitures are used to fund the retirement contributions, when available, accounting for the $61,162 (-16.5%) budget under-run for Savings and Retirement.

Total Meeting and Travel expense is $60,909 (-36.2)% less than budget. Meeting and Conference Calls are $13,569 (-36.3%) less than budget because the annual meeting with stakeholders and directors was held onsite rather than offsite. Travel was also below budget by $47,340 (-36.1%) because travel did not restore to pre-COVID levels as quickly as projected.

Operating expenses are $160,361 (-5.2%) less than budget.

- Consultants and Contracts are $58,691 (16.7%) greater than budget because executive coaching was an expense not anticipated when the budget was prepared.

- Rent and Improvements are $453,550 (-30.8%) under budget because utilities and maintenance in the new office space are less than anticipated. A new lease started in April 2022 and straight line expense was less than anticipated under the new lease accounting standard.

- Office costs exceeded budget by $345,490 (53.3%) because of the purchase of supplies, software, office equipment and furniture for the new office space, which did not meet the capitalization threshold. Challenges in the supply chain drove much of the cost to be higher than anticipated when the budget was prepared.

- Professional Services are $110,992 (-18.4%) less than budget due to unused budgeted legal fees and an external IT audit that did not occur.

- All Administrative Services cost are allocated as indirect cost to statutory programs based on actual FTE count.

- Other Non-Operating Expenses are for non-capitalized costs to move the office location.

- Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

General and Administrative
Variances > +/- $10,000 and 10%

Personnel Expenses are $107,043 (-7.7%) less than budget . Although Salaries are only $39,480 (-4.8%) less than budget, Savings and Retirement expenses are $51,620 (-42.7%) less than budget. The budget under-run in Savings and Retirement is due to forfeitures being used, as available, to fund employer contributions to the retirement plan.

Meeting and Travel Expenses are $12,453 (-27.6%) less than budget. Travel has been slower to restore to pre-COVID levels than expected.

Operating Expenses are $409,376 (-24.1%) less than budget. Rent and Improvments are $439,550 (-30.1%) under budget because utilities and maintenance in the new office space are less than anticipated. A new lease started in April 2022 and straight line expense was less than anticipated under the new lease standard. Professional services are $15,424 (20%) greater than budget due to higher than anticipated risk insurance increases.

Legal and Regulatory
Variances > +/- $10,000 and 10%

Personnel Expenses are $43,990 (-7.5%) less than budget. Health insurance, which is included in Employee Benefits, did not increase as much as expected, resulting in a $14,803 (-21.7%) budget under-run. Forfeitures were used, as available, to fund the employer contributions to the retirement plan, resulting in Savings and Retirement expenses to be $14,347 (-23.1%) under budget.

Total Operating Expenses are $28,650 (-79.1%) less than budget. This is primarily because of unused budgeted legal fees.

Information Technology
Variances > +/- $10,000 and 10%

Personnel expenses are more than budget by $10,945 (1.3%). Although salaries increased by $41,132 (7%), this increase was offset by a $34,903 decrease (-24.5%) in Employee Benefits, which can be attributed to health insurance premiums, which did not increase 8% as expected.

Operating Expenses are $305,444 (36.9%) greater than budget. Consultants and Contracts are greater than budget by $33,951 (15.1%) because the budget for IT managed services was previously in the statutory program budgets; in 2022 these costs were charged to the IT department in General and Administrative Expenses. Office Costs are $326,494 (60.8%) higher due to IT equipment and computer supplies purchased for the new office space. An IT external audit was postponed, resulting in $55,001 (-84.6%) budget under-run for Professional Services.

<u>Human Resources</u>
Variances > +/- $10,000 and 10%

All Personnel expenses are included in G & A.

Total expenses are $16,778 (-5.1%) under budget. This is primarily due to Health insurance, included in Employee Benefits, not increasing 8% as expected. Employee benefits include training and budgeted employee relocation money that was not used.

<u>Accounting and Finance</u>
Variances > +/- $10,000 and 10%

Total expenses are $15,924 (-2.6%) under budget. This is primarily due to Health insurance, included in Employee Benefits, not increasing 8% as expected.

Texas Reliability Entity, Inc.
Penalty Sanctions
For the Year Ended December 31, 2022

Date Invoiced	Date Rec'd		Amount	Year to Recognize for BP&B 2014	2021	2022	2023	2024
		Subtotal 2011	**$ 1,225,830**					
		Subtotal 2012	**$ 447,833**					
		Subtotal 2013	**$ 635,000**					
		Subtotal 2014	**$ 315,250**					
		Subtotal 2015	**$ 102,000**					
		NO Fines & Penalty Monies received in 201	**$ -**					
		Subtotal 2017	**$ 389,449**					
		Subtotal 2018	**$ 710,000**					
11/20/2019	12/15/2019	Calpine Corp (MRO)	$ 169,195		$ 169,195			
		Subtotal 2019	**$ 169,195**					
9/1/2020	9/30/2020	Texas New Mexico Power	$ 36,750			$ 36,750		
		Subtotal 2020	**$ 36,750**					
1/6/2021	2/5/2021	Oncor Electrioc	$ 192,000			$ 192,000		
4/28/2021	5/28/2021	AEP (Co-ordinated through RF)	$ 330,000			$ 330,000		
10/18/2021	11/2/2021	Duke Energy	$ 51,188				$ 51,188	
		Subtotal 2021	**$ 573,188**					
1/7/2022	2/4/2022	Oncor Electrioc	$ 525,000				$ 525,000	
8/4/2022	9/7/2022	Bryan Texas Utilites	$ 39,000					$ 39,000
8/4/2022	9/21/2022	Denton Municipal Electric	$ 150,000					$ 150,000
10/11/2022	11/15/2022	Buffalo Gap Wind Farm	$ 105,000					$ 105,000
11/1/2022	11/29/2022	EDP Renewals North America	$ 32,912					$ 32,912
		Subtotal 2022	**$ 851,912**					
			$ 4,746,407	**$ 419,833**	**$ 169,195**	**$ 558,750**	**$ 576,188**	**$ 326,912**

Texas RE 2022 Penalties Reconciliation	**12/31/2022**	**12/31/2021**	**Change in 2022**
Total Cumulative Penalties - GAAP/Forvis Audit	$ 4,746,407	$ 3,894,495	$ 851,912
Total Cumulative Penalties - True Up Report	$ 5,112,057	$ 4,553,307	$ 558,750
	$ (365,650)	**$ (658,812)**	**$ 293,162**

Texas Reliability Entity, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2022

Texas Reliability Entity, Inc.
December 31, 2022

Contents

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Texas Reliability Entity, Inc. (Texas RE), which comprise the statement of financial position as of December 31, 2022, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Texas RE as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Texas RE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 5* to the financial statements, in 2022, Texas RE adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Texas RE's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Texas RE's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Texas RE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

FORVIS, LLP

Dallas, Texas
May 30, 2023

Texas Reliability Entity, Inc.

Statement of Financial Position

December 31, 2022

Assets	
Current Assets	
Cash and cash equivalents	$ 2,728,853
Assets limited to use – cash	903,382
	3,632,235
Accounts receivable	509,937
Prepaid expenses	536,727
Total current assets	4,678,899
Noncurrent Assets	
Property and equipment, net	4,331,916
Right-of-use assets – operating leases	5,800,246
Total assets	$ 14,811,061
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	$ 57,366
Accrued liabilities	1,573,421
Operating lease liabilities, due within one year	751,094
Total current liabilities	2,381,881
Noncurrent Liabilities	
Operating lease liabilities, less current portion	7,295,683
Total noncurrent liabilities	7,295,683
Total liabilities	9,677,564
Net Assets Without Donor Restrictions	
Undesignated	4,230,115
Designated	903,382
Total net assets without donor restrictions	5,133,497
Total liabilities and net assets	$ 14,811,061

Texas Reliability Entity, Inc.
Statement of Activities
Year Ended December 31, 2022

Revenues, Gains and Other Support	
Statutory revenue	
Assessments	$ 15,003,365
Penalty sanctions	851,912
Interest income	50,470
Total revenues, gains and other support	15,905,747
Expenses	
Salaries and related benefits	11,183,536
Facility and equipment costs	1,567,186
Outside services	904,024
Travel and meetings	217,383
Administrative and other	802,571
Depreciation and amortization	127,998
Total expenses	14,802,698
Change in Net Assets Without Donor Restrictions	1,103,049
Net Assets Without Donor Restrictions, Beginning of Year	4,030,448
Net Assets Without Donor Restrictions, End of Year	$ 5,133,497

Texas Reliability Entity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2022

	Statutory Program					Supporting Services						
	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	Total Program	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Total Supporting Services	Total Expenses
Expenses												
Salaries and related benefits												
Salaries	$ 130,104	$ 4,483,386	$ 914,189	$ 249,903	$ 5,777,582	$ 1,121,834	$ 419,644	$ 625,565	$ 145,728	$ 394,115	$ 2,706,886	$ 8,484,468
Payroll taxes	9,742	324,835	62,578	17,301	414,456	27,437	23,521	44,551	10,443	24,548	130,500	544,956
Employee benefits	24,814	575,555	123,071	28,852	752,292	72,158	53,524	107,416	33,419	50,058	316,575	1,068,867
Savings and retirement	18,126	605,212	122,693	29,234	775,265	69,296	47,668	84,832	55,522	52,662	309,980	1,085,245
Total personnel expenses	182,786	5,988,988	1,222,531	325,290	7,719,595	1,290,725	544,357	862,364	245,112	521,383	3,463,941	11,183,536
Meeting and travel expenses												
Meetings and conference calls	-	-	-	34,928	34,928	152	-	6,917	16,761	-	23,830	58,758
Travel	1,058	55,586	16,038	2,203	74,885	57,235	9,728	8,021	883	7,873	83,740	158,625
Total meeting and travel expenses	1,058	55,586	16,038	37,131	109,813	57,387	9,728	14,938	17,644	7,873	107,570	217,383
Operating expenses												
Consultants and contracts	-	-	-	-	-	105,732	2,139	258,951	43,569	-	410,391	410,391
Rent and improvements	-	-	-	-	-	1,019,996	-	-	-	-	1,019,996	1,019,996
Office costs	-	16,393	9,984	2,950	29,328	113,140	4,693	863,294	8,432	3,691	993,250	1,022,578
Professional services	-	-	-	-	-	430,174	748	9,999	-	52,712	493,633	493,633
Other Non-Operating Expenses	-	-	-	-	-	327,183	-	-	-	-	327,183	327,183
Depreciation and amortization	-	-	-	-	-	127,998	-	-	-	-	127,998	127,998
Total operating expenses	-	16,393	9,984	2,950	29,328	2,124,223	7,580	1,132,244	52,001	56,403	3,372,451	3,401,779
Total expenses	$ 183,844	$ 6,060,967	$ 1,248,553	$ 365,371	$ 7,858,736	$ 3,472,335	$ 561,665	$ 2,009,546	$ 314,757	$ 585,659	$ 6,943,962	$ 14,802,698

Texas Reliability Entity, Inc.

Statement of Cash Flows

Year Ended December 31, 2022

Operating Activities	
Change in net assets	$ 1,103,049
Item not requiring cash:	
Depreciation and amortization	127,998
Noncash operating lease expense	861,317
Changes in:	
Accounts receivable	(509,937)
Prepaid expenses	83,434
Accounts payable	2,213
Accrued liabilities	8,991
Deferred rent	(3,838)
Operating lease liabilities	(821,661)
Net cash provided by operating activities	851,566
Investing Activities	
Capital expenditures for property and equipment	(1,710,539)
Net cash used in investing activities	(1,710,539)
Net Decrease in Cash and Cash Equivalents	(858,973)
Cash and Cash Equivalents, Beginning of Year	4,491,208
Cash and Cash Equivalents, End of Year	$ 3,632,235
Supplemental Cash Flows Information	
Property and equipment in accrued liabilities	$ 408,738
ROU assets obtained in exchange for new operating lease liabilities	$ 8,326,746

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2022

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 (IRC). 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. The agreement was extended for another five-year term effective January 1, 2021.

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.

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.

- 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, 2022

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, 2022, cash equivalents consisted of a sweep account with a financial institution.

At December 31, 2022, Texas RE's cash accounts, excluding its sweep account that had a balance of $2,836,797, exceeded federally insured limits by approximately $719,000. 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 to reduce statutory assessments for the subsequent year. Assets limited to use (maintained in a financial institution) was $903,382 at December 31, 2022.

The Board of Texas RE considers the assets limited to use as designated net assets for future use.

Accounts Receivable

Accounts receivable represent the remaining amount of the tenant improvement allowance to be provided by the lessor in accordance with the building lease agreement. At December 31, 2022, there was no allowance for doubtful accounts recorded within the accompanying statement of financial position.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2022

Revenue Recognition

Revenue is recognized when control of the promised services is transferred under Texas RE's *Delegation Agreement* for statutory operations in an amount that reflects the consideration that it expects to be entitled to in exchange for those services. The amount and timing of revenue recognition varies based on the nature of the services provided and the terms and conditions of the *Delegation Agreement*. See *Note 5* for additional information about Texas RE's revenue.

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 $338,000 during 2022) 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 acquisitions over $5,000 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 operating lease obligations 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	10 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 it fair value. No asset impairment was recognized during the year ended December 31, 2022.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2022

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement 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 IRC 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.

Note 3: Property and Equipment

Property and equipment at December 31, 2022 consists of:

Equipment	$ 815,966
Computer hardware	754,361
Computer software	1,493,734
Furniture	802,859
Leasehold improvement	4,546,532
Total property and equipment	8,413,452
Less accumulated depreciation and amortization	4,081,536
Total property and equipment, net	$ 4,331,916

Note 4: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842)*: *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e., the comparatives under ASC 840 option.

Texas RE adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. Texas RE elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. Texas RE elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, Texas RE elected to keep short-term leases with an initial term of 12 months or less off the statement of financial position. Texas RE did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The most significant impact of adoption as of January 1, 2022, was the recognition of operating lease ROU assets and operating lease liabilities of $541,693 and $541,693 respectively. The standard did not significantly affect our statement of activities, functional expenses, or cash flows.

Accounting Policies

Texas RE determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. Texas RE determines lease classification as operating or finance at the lease commencement date.

Texas RE combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities for its office building.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Texas RE has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that Texas RE is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

Texas RE has elected not to record leases with an initial term of 12 months or less on the statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2022

Nature of Leases

Texas RE has entered into the following lease arrangements:

Operating Leases

Texas RE leases office space under noncancellable agreements recorded as operating leases. Texas RE entered into an office building lease on February 9, 2015. On March 27, 2019, Texas RE executed an extension of the lease agreement for the period October 1, 2020 through March 31, 2022. The lease agreement was not renewed and expired on March 31, 2022.

On September 17, 2020, Texas RE entered into a 10-year office building lease agreement beginning April 1, 2022 and expiring June 30, 2032. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

Texas RE leases computer equipment expiring June 2023, with no renewal option. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

All Leases

Texas RE has no material related-party leases.

Texas RE's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the year ended December 31, 2022, are:

Operating lease cost	$ 988,121
Total lease cost	$ 988,121
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	952,303
Right-of-use assets obtained in exchange for new operating leases	8,326,746
Weight average remaining term	
Operating leases	9.4
Weight average discount rate	
Operating leases	2.37%

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2022

Future minimum lease payments and reconciliation to the statement of financial position at December 31, 2022, are as follows:

2023	$ 948,491
2024	874,282
2025	896,096
2026	918,455
2027	941,371
2028-2032	4,425,157
Total future undiscounted lease payments	9,003,852
Less imputed interest	(957,075)
Lease liabilities	$ 8,046,777

Note 5: Revenue Recognition

Performance Obligations

Revenue is measured as the amount of consideration Texas RE expects to receive in exchange for providing services pursuant to the *Delegation Agreement* for statutory operations. Texas RE recognizes revenue when performance obligations under the terms of the agreements are satisfied.

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*. The performance obligations under the *Delegation Agreement* consists of providing compliance monitoring and enforcement and are recognized ratably over time, as the obligation is satisfied. The transaction price is determined by the statutory budgeted expenditures as approved by the Texas RE Board, when it approves Texas RE's annual business plan and budget.

Penalty sanctions are considered a form of variable consideration, which are derived from Texas RE's compliance and enforcement activities pursuant to the *Delegation Agreement*. Texas RE recognizes revenue related to fines and penalties in the period in which the performance obligation is met, after all appeals have been exhausted.

Texas RE has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Different payment methodologies under the respective agreements
- Texas RE's line of business that provides the service

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2022

Note 6: Employee Benefit Plan

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 was $1,048,420 in 2022.

Note 7: 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, 2022, comprise the following:

Cash and cash equivalents	$ 2,728,853
Accounts receivable	509,937
Financial assets available to meet cash needs for general expenditures within one year	$ 3,238,790

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 year ended December 31, 2022 the level of liquidity and reserves was managed within the policy requirements.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2022

Note 8: Subsequent Events

Subsequent events have been evaluated through May 30, 2023, which is the date the financial statements were available to be issued.

ATTACHMENT 7

2022 ACTUAL COST-TO-BUDGET COMPARISON

AND

2022 AUDITED FINANCIAL REPORT

FOR

WESTERN ELECTRICITY COORDINATING COUNCIL

WECC

2022 Audited Statement of Activities (SOA) and Variance Explanations

May 22, 2023

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Overview

The audited change in statutory working capital for the year ended December 31, 2022, is under budget by $621,000. The major drivers of the 2022 statutory underrun are:

- Interest income is over budget by $415,000 due to higher-than-anticipated returns on investment accounts.
- Employee Benefits are under budget by $445,000 due to lower-than-anticipated use of the Health Reimbursement Account (HRA), and changes in benefits enrollment levels.
- Travel is under budget by a net of $335,000 primarily due to the cancellation of most audit travel through May 2022, the cancellation of the Human Performance Workshop, and the move of the February and August Grid Fundamentals to a virtual format.
- Office Costs are over budget by $220,000 primarily due to unbudgeted PI Historian software funded by the Peak Reliability donation, unbudgeted webCDMS licensing fees due to delays with the Align project, and higher-than-anticipated increases in D&O insurance premiums.

This document provides a summary of significant overall variances (greater than $10,000 and 10%) and any other noteworthy variances. For significant program area line-item variances, see the detailed statements of activities for each program area.

WECC completed all stated goals and key deliverables as described in the 2022 BP&B, with the following exceptions:

- Process and complete organization registration request reviews, validations, and recommendations to NERC according to risk-based registration activities and initiatives.
    - WECC received over 100 inquiries for registration in 2022, and there were two instances where we completed deactivations outside the 50-day NERC Rules of Procedure timelines due to time management issues. Controls were subsequently put in place to mitigate the risk of this occurring in the future.
- Process all BES Exception submittals according to Appendix 5C.
    - There were zero BES exception submittals in 2022.
- Complete 19 audits with an on-site component, as required by the NERC Rules of Procedure and agreements with Canadian jurisdictions.
    - Due to pandemic-related travel restrictions in effect until May 2022 and subsequent NERC Rules of Procedure changes in requirements for on-site audits, eight on-site audits were performed.
- Conduct initial evaluation of any new noncompliance, and the resulting resolution of enforcement actions, in a timely manner using a reliability risk-based focus. Ensure enforcement discretion is consistent with NERC directives and FERC Orders, rules, and regulations.

  - Due to time management issues and inadequate process controls, nine mitigation plans were not reviewed according to NERC Rules of Procedure timelines. Controls were subsequently put in place to mitigate the risk of this occurring in the future.
- Improvements to the Multi-Area Variable Resource Integration Convolution (MAVRIC) resource adequacy assessment tool or procurement of an off-the-shelf probabilistic resource adequacy tool.
  - This project was delayed due to delays in the vendor contracting process and will be completed in 2023.
- Upgrade and refresh wecc.org.
  - The project launched in January 2022. Vendor selection occurred later in the year and the implementation will span 2022 and 2023. The updated and more secure site will be live in mid-2023.
- Migrate customer relationship management software to the cloud.
  - This project was delayed until 2023 due to competing priorities and higher-priority data security projects.
- Develop learning plans for employee training using computer-based training modules and classroom training in the NERC Learning Management System.
  - Human Resources determined that due to the wide array of skill sets, learning objectives, and learning styles, employees should work with their managers to determine the best training and development paths. Employees worked with managers to include targeted training and methods, based on individual need and interest, in their 2022 goals.

Allocation of Indirect Costs

Corporate Services costs are allocated to program activities based on an FTE ratio consistent with NERC’s accounting method for allocation of overhead.

Non-Statutory Program

WECC has one non-statutory activity, the Western Renewable Energy Generation Information System (WREGIS). WECC uses a fund-accounting system that allows costs to be segregated between statutory and non-statutory activities to ensure that no statutory funding is used for non-statutory activities.

In 2022, indirect costs were allocated to the non-statutory activity based on FTEs. Indirect costs include General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. The allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.

WECC completed all non-statutory stated goals and key deliverables as described in the 2022 BP&B, with the following exception:

- Perform six tabletop account holder audits split between Qualified Reporting Entities and Small-Scale Aggregate customers.
    - The audits were not completed because of the increased demand on staff time related to the WREGIS system upgrade. Some will be completed in 2023.

2022 Audited SOA—Statutory and Non-Statutory Activities

Western Electricity Coordinating Council
2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Statutory and Non-Statutory

	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ 25,000,000	$ 25,000,000	$ -	
Penalties Released[1]	5,298,000	5,298,000	-	
Total Statutory Funding	**$ 30,298,000**	**$ 30,298,000**	**$ -**	
Membership Fees	$ 2,525,746	$ 2,226,842	$ 298,904	13.42%
Services & Software	-	-	-	
Workshops & Miscellaneous	244,900	194,700	50,200	25.78%
Interest	546,754	181,500	365,254	201.24%
Total Revenue (A)	**$ 33,615,401**	**$ 32,901,042**	**$ 714,358**	**2.17%**
Expenses				
Personnel Expenses				
Salaries	$ 19,298,795	$ 18,986,905	$ 311,890	1.64%
Payroll Taxes	1,458,197	1,256,264	201,933	16.07%
Employee Benefits	2,239,948	2,700,445	(460,497)	-17.05%
Savings & Retirement	1,686,660	1,714,728	(28,069)	-1.64%
Total Personnel Expenses	**$ 24,683,600**	**$ 24,658,342**	**$ 25,257**	**0.10%**
Meeting Expenses				
Meetings & Conference Calls	$ 403,767	$ 459,529	$ (55,762)	-12.13%
Travel	451,159	782,629	(331,469)	-42.35%
Total Meeting Expenses	**$ 854,926**	**$ 1,242,158**	**$ (387,231)**	**-31.17%**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ 1,086,404	$ 1,004,600	$ 81,804	8.14%
Office Rent	1,313,226	1,306,912	6,314	0.48%
Office Costs	2,924,107	2,432,420	491,687	20.21%
Professional Services	1,176,033	1,045,000	131,033	12.54%
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 6,499,770**	**$ 5,788,932**	**$ 710,838**	**12.28%**
Total Direct Expenses	**$ 32,038,299**	**$ 31,689,432**	**$ 348,864**	**1.10%**
Indirect Expenses	**$ -**	**$ -**	**$ -**	
Other Non-Operating Expenses	**$ 40,840**	**$ -**	**$ 40,840**	
Total Expenses (B)	**$ 32,079,139**	**31,689,432**	**$ 389,704**	**1.23%**
Change in Assets (=A-B)	**$ 1,536,262**	**$ 1,211,611**	**$ 324,654**	**26.80%**
Fixed Assets, excluding Right of Use Assets (C)	**$ 2,124,121**	**$ 101,513**	**$ 2,022,608**	**1992.46%**
Total Budget (B+C)	**$ 34,203,260**	**$ 31,790,945**	**$ 2,412,312**	**7.59%**
Total Change in Working Capital (A-B-C)	**$ (587,859)**	**$ 1,110,097**	**$ (1,697,954)**	**-152.96%**
FTEs	154.5	158.8	(4.3)	
Headcount	156.0	159.0	(3.0)	

[1] Budgeted penalty sanctions represents the amount released from working capital reserves to offset U.S. assessments as approved by the NERC Board of Trustees and FERC. Actual penalties invoiced in the current reporting year is reported as income on the audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

2022 Audited SOA—Statutory Activities

Western Electricity Coordinating Council
2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Statutory Summary

	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ 25,000,000	$ 25,000,000	$ -	
Penalty Sanctions	5,298,000	5,298,000	-	
Total Statutory Funding	**$ 30,298,000**	**$ 30,298,000**	**$ -**	
Membership Fees	$ -	$ -	$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	244,900	194,700	50,200	25.8%
Interest	524,457	109,500	414,957	379.0%
Total Revenue (A)	**$ 31,067,357**	**$ 30,602,200**	**$ 465,157**	**1.5%**
Expenses				
Personnel Expenses				
Salaries	$ 18,585,674	$ 18,411,644	$ 174,030	0.9%
Payroll Taxes	1,401,148	1,217,684	183,464	15.1%
Employee Benefits	2,160,784	2,605,571	(444,787)	(17.1%)
Savings & Retirement	1,624,207	1,663,605	(39,398)	(2.4%)
Total Personnel Expenses	**$ 23,771,813**	**$ 23,898,504**	**$ (126,691)**	**(0.5%)**
Meeting Expenses				
Meetings & Conference Calls	$ 403,727	$ 458,044	$ (54,317)	(11.9%)
Travel	437,580	772,654	(335,074)	(43.4%)
Total Meeting Expenses	**$ 841,307**	**$ 1,230,698**	**$ (389,391)**	**(31.6%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ 1,078,456	$ 1,004,600	$ 73,856	7.4%
Office Rent	1,313,226	1,306,912	6,314	0.5%
Office Costs	2,063,847	1,844,335	219,512	11.9%
Professional Services	1,176,033	1,045,000	131,033	12.5%
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 5,631,562**	**$ 5,200,847**	**$ 430,715**	**8.3%**
Total Direct Expenses	**$ 30,244,682**	**$ 30,330,049**	**$ (85,367)**	**(0.3%)**
Indirect Expenses	**$ (759,606)**	**$ (695,066)**	**$ (64,540)**	**9.3%**
Other Non-Operating Expenses	**$ (24,160)**	**$ -**	**$ (24,160)**	
Total Expenses (B)	**$ 29,460,916**	**$ 29,634,983**	**$ (174,067)**	**(0.6%)**
Change in Assets (=A-B)	**$ 1,606,441**	**$ 967,217**	**$ 639,224**	**66.1%**
Fixed Assets, excluding Right of Use Assets (C)	**$ 116,463**	**$ 98,527**	**$ 17,936**	18.2%
Total Budget (B+C)	**$ 29,577,379**	**$ 29,733,510**	**$ (156,131)**	(0.5%)
Total Change in Working Capital (A-B-C)	**$ 1,489,978**	**$ 868,690**	**$ 621,288**	71.5%
FTEs	146.5	151.8	(5.3)	
Headcount	148.0	152.0	(4.0)	

Significant Variance Explanations—Statutory Activities

Revenue

- Workshops & Miscellaneous: $50,000 over budget due to higher-than-anticipated workshop revenue for the October Reliability & Security Workshop.
- Interest: $415,000 over budget due to higher-than-anticipated returns on investment accounts.

Personnel Expenses

- Payroll Taxes: $183,000 over budget due to budgeted labor float rate assumptions compared to actual vacancy rates and payroll tax rate assumptions.
- Employee Benefits: $445,000 under budget due to:
  - Lower-than-anticipated use of the HRA.
  - Changes in benefits enrollment levels.

Meeting Expenses

- Meeting & Conference Calls: $54,000 under budget due to:
  - The cancellation of most in-person meetings through May due to COVID-19.
  - The higher-than-anticipated cost of the October Reliability & Security Workshop.
  - The cancellation of the Human Performance Workshop (originally budgeted for $50,000 to co-host with NERC).
  - The move of the February and August Grid Fundamentals to a virtual format.
- Travel: $335,000 under budget primarily due to:
  - The cancellation of most in-person meetings and audit travel through May due to COVID-19.
  - The cancellation of the Human Performance Workshop.
  - The move of the February and August Grid Fundamentals to a virtual format.

Operating Expenses

- Office Costs: $220,000 over budget primarily due to the net of:
  - Unbudgeted PI Historian software (purchased using Peak Reliability Donation funds).
  - Unbudgeted webCDMS licensing fees due to delays with the Align project.
  - Higher-than-budgeted increases in D&O insurance premiums.
  - Unbudgeted Denison 360 reviews for the management team.

- Professional Services: $131,000 over budget primarily due to the net of:
    - Timing delays for information technology consulting budgeted throughout 2022 but likely to be spent in early 2023.
    - Unbudgeted CMEP contract labor for training on protection and control systems standards.
    - Higher-than-budgeted organizational development consulting.
    - Lower-than-budgeted use of Board training expenses.
    - Unbudgeted legal fees.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: $18,000 over budget due to higher-than-budgeted software and licensing costs.

Section A

Statutory Program

2022 Audited SOA and Variance Explanations

Reliability Standards

Western Electricity Coordinating Council 2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital Reliability Standards	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ 681,818	$ 681,818	$ -	
Penalty Sanctions	144,491	144,491	-	
Total Statutory Funding	**$ 826,309**	**$ 826,309**	**$ -**	
Membership Fees	$ -	$ -	$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	14,303	2,986	11,317	379.0%
Total Revenue (A)	**$ 840,612**	**$ 829,295**	**$ 11,317**	**1.4%**
Expenses				
Personnel Expenses				
Salaries	$ 468,363	$ 454,624	$ 13,739	3.0%
Payroll Taxes	33,502	30,150	3,352	11.1%
Employee Benefits	49,802	42,770	7,032	16.4%
Savings & Retirement	41,489	40,461	1,028	2.5%
Total Personnel Expenses	**$ 593,156**	**$ 568,005**	**$ 25,151**	**4.4%**
Meeting Expenses				
Meetings & Conference Calls	$ -	$ -	$ -	
Travel	7,205	13,065	(5,860)	(44.9%)
Total Meeting Expenses	**$ 7,205**	**$ 13,065**	**$ (5,860)**	**(44.9%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ -	$ -	$ -	
Office Rent	-	-	-	
Office Costs	3,559	3,540	19	0.5%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 3,559**	**$ 3,540**	**$ 19**	**0.5%**
Total Direct Expenses	**$ 603,920**	**$ 584,610**	**$ 19,310**	**3.3%**
Indirect Expenses	**$ 275,991**	**$ 299,375**	**$ (23,384)**	**(7.8%)**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	
Total Expenses (B)	**$ 879,911**	**$ 883,985**	**$ (4,074)**	**(0.5%)**
Change in Assets (=A-B)	**$ (39,299)**	**$ (54,690)**	**$ 15,391**	**(28.1%)**
Fixed Assets, excluding Right of Use Assets (C)	**$ 2,872**	**$ 2,775**	**$ 97**	3.5%
Total Budget (B+C)	**$ 882,783**	**$ 886,760**	**$ (3,977)**	(0.4%)
Total Change in Working Capital (A-B-C)	**$ (42,171)**	**$ (57,465)**	**$ 15,294**	(26.6%)
FTEs	3.0	3.0	-	
Headcount	3.0	3.0	-	

Significant Variance Explanations—Reliability Standards

Revenue

- Interest: $11,000 over budget due to higher-than-anticipated returns on investment accounts.

Personnel Expenses

- No significant variances.

Meeting Expenses

- No significant variances.

Operating Expenses

- No significant variances.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.

Compliance Monitoring and Enforcement

Western Electricity Coordinating Council
2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Compliance Monitoring and Enforcement and Organization Registration and Certification

	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ 14,545,455	$ 14,545,455	$ -	
Penalty Sanctions	3,082,473	3,082,473	-	
Total Statutory Funding	**$ 17,627,927**	**$ 17,627,927**	**$ -**	
Membership Fees	$ -	$ -	$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	305,139	63,709	241,430	379.0%
Total Revenue (A)	**$ 17,933,066**	**$ 17,691,636**	**$ 241,430**	**1.4%**
Expenses				
Personnel Expenses				
Salaries	$ 8,115,293	$ 8,152,114	$ (36,821)	(0.5%)
Payroll Taxes	627,771	550,760	77,011	14.0%
Employee Benefits	696,751	953,931	(257,180)	(27.0%)
Savings & Retirement	698,145	724,861	(26,716)	(3.7%)
Total Personnel Expenses	**$ 10,137,960**	**$ 10,381,666**	**$ (243,706)**	**(2.3%)**
Meeting Expenses				
Meetings & Conference Calls	$ 1,765	$ -	$ 1,765	
Travel	171,486	357,990	(186,504)	(52.1%)
Total Meeting Expenses	**$ 173,251**	**$ 357,990**	**$ (184,739)**	**(51.6%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ 147,961	$ -	$ 147,961	100.0%
Office Rent	-	-	-	
Office Costs	299,799	195,362	104,437	53.5%
Professional Services	5,040	-	5,040	100.0%
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 452,800**	**$ 195,362**	**$ 257,438**	**131.8%**
Total Direct Expenses	**$ 10,764,011**	**$ 10,935,018**	**$ (171,007)**	**(1.6%)**
Indirect Expenses	**$ 5,887,794**	**$ 6,386,669**	**$ (498,876)**	**(7.8%)**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	
Total Expenses (B)	**$ 16,651,805**	**$ 17,321,687**	**$ (669,883)**	**(3.9%)**
Change in Assets (=A-B)	**$ 1,281,261**	**$ 369,949**	**$ 911,312**	**246.3%**
Fixed Assets, excluding Right of Use Assets (C)	**$ 61,263**	**$ 58,025**	**$ 3,238**	5.6%
Total Budget (B+C)	**$ 16,713,068**	**$ 17,379,712**	**$ (666,645)**	(3.8%)
Total Change in Working Capital (A-B-C)	**$ 1,219,998**	**$ 311,924**	**$ 908,074**	291.1%
FTEs	64.0	67.0	(3.0)	
Headcount	64.0	67.0	(3.0)	

Significant Variance Explanations—Compliance Monitoring and Enforcement

Revenue

- Interest: $241,000 over budget due to higher-than-anticipated returns on investment accounts.

Personnel Expenses

- Payroll Taxes: $77,000 over budget due to budgeted labor float rate assumptions compared to actual vacancy rates and payroll tax rate assumptions.
- Employee Benefits: $257,000 under budget due to lower-than-budgeted employee benefit enrollments.

Meeting Expenses

- Travel: $187,000 under budget due to the cancellation of all on-site audits, meetings, and travel through May 2022 due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: $148,000 over budget due to unbudgeted Reliability and Security Oversight consulting for knowledge transfer efforts on protection and controls standards.
- Office Costs: $104,000 over budget due to unbudgeted webCDMS licensing fees resulting from delays with the Align project.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.

Reliability Assessment and Performance Analysis

Western Electricity Coordinating Council 2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital Reliability Assessment and Performance Analysis	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ 7,727,273	$ 7,727,273	$ -	
Penalty Sanctions	1,637,564	1,637,564	-	
Total Statutory Funding	**$ 9,364,836**	**$ 9,364,836**	**$ -**	
Membership Fees	$ -	$ -	$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	162,105	33,845	128,259	379.0%
Total Revenue (A)	**$ 9,526,941**	**$ 9,398,682**	**$ 128,259**	**1.4%**
Expenses				
Personnel Expenses				
Salaries	$ 4,469,665	$ 4,381,226	$ 88,439	2.0%
Payroll Taxes	342,390	292,557	49,833	17.0%
Employee Benefits	489,599	512,784	(23,185)	(4.5%)
Savings & Retirement	400,509	389,613	10,896	2.8%
Total Personnel Expenses	**$ 5,702,163**	**$ 5,576,180**	**$ 125,983**	**2.3%**
Meeting Expenses				
Meetings & Conference Calls	$ 11,038	$ 29,476	$ (18,438)	(62.6%)
Travel	90,437	148,062	(57,625)	(38.9%)
Total Meeting Expenses	**$ 101,475**	**$ 177,538**	**$ (76,063)**	**(42.8%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ 104,069	$ 208,100	$ (104,031)	(50.0%)
Office Rent	-	-	-	
Office Costs	420,314	249,525	170,789	68.4%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 524,383**	**$ 457,625**	**$ 66,758**	**14.6%**
Total Direct Expenses	**$ 6,328,021**	**$ 6,211,343**	**$ 116,678**	**1.9%**
Indirect Expenses	**$ 3,127,890**	**$ 3,392,918**	**$ (265,028)**	**(7.8%)**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	
Total Expenses (B)	**$ 9,455,911**	**$ 9,604,261**	**$ (148,350)**	**(1.5%)**
Change in Assets (=A-B)	**$ 71,030**	**$ (205,579)**	**$ 276,610**	**(134.6%)**
Fixed Assets, excluding Right of Use Assets (C)	**$ 43,713**	**$ 34,491**	**$ 9,222**	26.7%
Total Budget (B+C)	**$ 9,499,624**	**$ 9,638,752**	**$ (139,128)**	(1.4%)
Total Change in Working Capital (A-B-C)	**$ 27,317**	**$ (240,070)**	**$ 267,388**	(111.4%)
FTEs	34.0	35.8	(1.8)	
Headcount	34.0	36.0	(2.0)	

Significant Variance Explanations—Reliability Assessment and Performance Analysis

Revenue

- Interest: $128,000 over budget due to higher-than-anticipated returns on investment accounts.

Personnel Expenses

- Payroll Taxes: $50,000 over budget due to budgeted labor float rate assumptions compared to actual vacancy rates and payroll tax rate assumptions.

Meeting Expenses

- Meetings & Conference Calls: $18,000 under budget due to the cancellation of all in-person meetings through May 2022 due to the COVID-19 pandemic.
- Travel: $58,000 under budget due to the cancellation of all travel through May 2022 due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: $104,000 under budget due to the delay of MAVRIC project due to vendor and contracting issues.
- Office Costs: $171,000 over budget due to unbudgeted PI Historian software (purchased using Peak Reliability Donation funds).

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.

Training and Outreach

Western Electricity Coordinating Council 2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital Training and Outreach				
	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ 1,590,909	$ 1,590,909	$ -	
Penalty Sanctions	337,145	337,145	-	
Total Statutory Funding	**$ 1,928,055**	**$ 1,928,055**	**$ -**	
Membership Fees	$ -	$ -	$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	244,900	194,700	50,200	25.8%
Interest	33,375	6,968	26,406	379.0%
Total Revenue (A)	**$ 2,206,329**	**$ 2,129,723**	**$ 76,606**	**3.6%**
Expenses				
Personnel Expenses				
Salaries	$ 766,860	$ 235,668	$ 531,192	225.4%
Payroll Taxes	51,523	15,911	35,612	223.8%
Employee Benefits	73,749	30,201	43,548	144.2%
Savings & Retirement	64,400	20,974	43,426	207.0%
Total Personnel Expenses	**$ 956,532**	**$ 302,754**	**$ 653,778**	**215.9%**
Meeting Expenses				
Meetings & Conference Calls	$ 275,911	$ 277,146	$ (1,235)	(0.4%)
Travel	30,366	6,995	23,371	334.1%
Total Meeting Expenses	**$ 306,277**	**$ 284,141**	**$ 22,136**	**7.8%**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ 1,348	$ -	$ 1,348	
Office Rent	-	-	-	
Office Costs	52,919	25,398	27,521	108.4%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 54,267**	**$ 25,398**	**$ 28,869**	**113.7%**
Total Direct Expenses	**$ 1,317,076**	**$ 612,293**	**$ 704,783**	**115.1%**
Indirect Expenses	**$ 643,977**	**$ 698,542**	**$ (54,565)**	**(7.8%)**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	
Total Expenses (B)	**$ 1,961,053**	**$ 1,310,835**	**$ 650,218**	**49.6%**
Change in Assets (=A-B)	**$ 245,276**	**$ 818,888**	**$ (573,612)**	**(70.0%)**
Fixed Assets, excluding Right of Use Assets (C)	**$ 6,701**	**$ 1,387**	**$ 5,314**	383.1%
Total Budget (B+C)	**$ 1,967,754**	**$ 1,312,222**	**$ 655,532**	50.0%
Total Change in Working Capital (A-B-C)	**$ 238,575**	**$ 817,501**	**$ (578,926)**	(70.8%)
FTEs	7.0	6.0	1.0	
Headcount	7.0	5.0	2.0	

Significant Variance Explanations—Training and Outreach

Revenue

- Workshops & Miscellaneous: $50,000 over budget due to higher-than-anticipated workshop revenue for the October Reliability & Security Workshop.
- Interest: $26,000 over budget due to higher-than-anticipated returns on investment accounts.

Personnel Expenses

- Salaries: $531,000 over budget primarily due to the transfer of four FTEs budgeted in Corporate Services to Training and Outreach starting May 2022. The four FTEs were moved in the 2023 Business Plan and Budget.
- Payroll Taxes: $36,000 over budget for the same reason as Salaries.
- Employee Benefits: $44,000 over budget for the same reason as Salaries.
- Savings & Retirement: $43,000 over budget for the same reason as Salaries.

Meeting Expenses

- Travel: $23,000 over budget due to the higher-than-anticipated cost of the October Reliability & Security Workshop and increased FTEs.

Operating Expenses

- Office Costs: $28,000 over budget primarily due to subscription costs transferred from Corporate Services starting in May 2022.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.

Situation Awareness and Infrastructure Security

Western Electricity Coordinating Council 2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital Situation Awareness and Infrastructure Security	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ 454,545	$ 454,545	$ -	
Penalty Sanctions	96,327	96,327	-	0.0%
Total Statutory Funding	**$ 550,873**	**$ 550,873**	**$ -**	**0.0%**
Membership Fees	$ -	$ -	$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	9,536	1,991	7,545	379.0%
Total Revenue (A)	**$ 560,408**	**$ 552,864**	**$ 7,545**	**1.4%**
Expenses				
Personnel Expenses				
Salaries	$ 274,013	$ 238,519	$ 35,494	14.9%
Payroll Taxes	22,215	16,482	5,733	34.8%
Employee Benefits	27,836	28,447	(611)	(2.1%)
Savings & Retirement	24,596	21,228	3,368	15.9%
Total Personnel Expenses	**$ 348,660**	**$ 304,676**	**$ 43,984**	**14.4%**
Meeting Expenses				
Meetings & Conference Calls	$ -	$ -	$ -	
Travel	1,674	7,120	(5,446)	
Total Meeting Expenses	**$ 1,674**	**$ 7,120**	**$ (5,446)**	**(76.5%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ -	$ -	$ -	
Office Rent	-	-	-	
Office Costs	2,068	2,835	(767)	100.0%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 2,068**	**$ 2,835**	**$ (767)**	**(27.1%)**
Total Direct Expenses	**$ 352,402**	**$ 314,631**	**$ 37,771**	**12.0%**
Indirect Expenses	**$ 183,994**	**$ 199,583**	**$ (15,590)**	**(7.8%)**
Other Non-Operating Expenses	**$ -**	**$ -**	**$ -**	
Total Expenses (B)	**$ 536,396**	**$ 514,214**	**$ 22,181**	**4.3%**
Change in Assets (=A-B)	**$ 24,013**	**$ 38,649**	**$ (14,636)**	**(37.9%)**
Fixed Assets, excluding Right of Use Assets (C)	**$ 1,914**	**$ 1,849**	**$ 65**	3.5%
Total Budget (B+C)	**$ 538,310**	**$ 516,063**	**$ 22,246**	4.3%
Total Change in Working Capital (A-B-C)	**$ 22,099**	**$ 36,800**	**$ (14,701)**	(39.9%)
FTEs	2.0	2.0	-	
Headcount	2.0	2.0	-	

Significant Variance Explanations—Situation Awareness and Infrastructure Security

Revenue

- No significant variances.

Personnel Expenses

- Salaries: $35,000 over budget due to labor float assumptions and retention initiatives.

Meeting Expenses

- No significant variances.

Operating Expenses

- No significant variances.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.

Corporate Services

Western Electricity Coordinating Council 2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital Corporate Services	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ -	$ -	$ -	
Penalty Sanctions	-	-	-	
Total Statutory Funding	**$ -**	**$ -**	**$ -**	
Membership Fees	$ -	$ -	$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	-	-	-	
Total Revenue (A)	**$ -**	**$ -**	**$ -**	
Expenses				
Personnel Expenses				
Salaries	$ 4,491,480	$ 4,949,493	$ (458,013)	(9.3%)
Payroll Taxes	323,747	311,824	11,923	3.8%
Employee Benefits	823,047	1,037,438	(214,391)	(20.7%)
Savings & Retirement	395,068	466,468	(71,400)	(15.3%)
Total Personnel Expenses	**$ 6,033,342**	**$ 6,765,223**	**$ (731,881)**	**(10.8%)**
Meeting Expenses				
Meetings & Conference Calls	$ 115,013	$ 151,422	$ (36,409)	(24.0%)
Travel	136,412	239,422	(103,010)	(43.0%)
Total Meeting Expenses	**$ 251,425**	**$ 390,844**	**$ (139,419)**	**(35.7%)**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ 825,078	$ 796,500	$ 28,578	3.6%
Office Rent	1,313,226	1,306,912	6,314	0.5%
Office Costs	1,285,188	1,367,675	(82,487)	(6.0%)
Professional Services	1,170,993	1,045,000	125,993	12.1%
Miscellaneous	-	-	-	
Total Operating Expenses	**$ 4,594,485**	**$ 4,516,087**	**$ 78,398**	**1.7%**
Total Direct Expenses	**$ 10,879,252**	**$ 11,672,154**	**$ (817,062)**	**(7.0%)**
Indirect Expenses	**$ (10,879,252)**	**$ (11,672,154)**	**$ 792,902**	**(6.8%)**
Other Non-Operating Expenses	**$ (24,160)**	**$ -**	**$ (24,160)**	
Total Expenses (B)	**$ (24,160)**	**$ -**	**$ (48,320)**	
Change in Assets (=A-B)	**$ 24,160**	**$ -**	**$ 48,320**	
Fixed Assets, excluding Right of Use Assets (C)	**$ -**	**$ -**	**$ -**	
Total Budget (B+C)	**$ (24,160)**	**$ -**	**$ (48,320)**	
Total Change in Working Capital (A-B-C)	**$ 24,160**	**$ -**	**$ 48,320**	
FTEs	36.5	38.0	(1.5)	
Headcount	38.0	39.0	(1.0)	

Significant Variance Explanations—Corporate Services

Revenue

- No significant variances.

Personnel Expenses

- Employee Benefits: $214,000 under budget due to:
  - Lower-than-anticipated use of the HRA; and
  - Changes in benefits enrollment levels.
- Saving & Retirement: $71,000 under budget due to:
  - Higher than budgeted vacancy rates.
  - Changes in employee 401K elections which drive employer contributions.

Meeting Expenses

- Meetings & Conference Calls: $36,000 under budget due to the cancellation of all in-person meetings through May 2022 due to the COVID-19 pandemic.
- Travel: $103,000 under budget due to the cancellation of all in-person meetings through May 2022 due to the COVID-19 pandemic.

Operating Expenses

- Professional Services: $126,000 over budget due to the net of:
  - Unbudgeted legal fees primarily related to unanticipated regulatory activities.
  - Higher-than-budgeted increases in insurance premiums.
  - Timing delays for information technology consulting budgeted throughout 2022 which will be spent in 2023.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- Other Non-Operating Expenses: $24,000 under budget due to an unplanned insurance settlement refund.

Fixed Assets

- No significant variances.

Section B

Non-Statutory Program

2022 Audited SOA and Variance Explanations

WREGIS

Western Electricity Coordinating Council
2022 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Non-Statutory Summary

	2022 Actual	2022 Budget	2022 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	$ -	$ -	$ -	
Penalty Sanctions	-	-	-	
Total Statutory Funding	**$ -**	**$ -**	**$ -**	
Membership Fees	$ 2,525,746	$ 2,226,842	$ 298,904	13.4%
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	22,297	72,000	(49,703)	(69.0%)
Total Revenue (A)	**$ 2,548,043**	**$ 2,298,842**	**$ 249,201**	**10.8%**
Expenses				
Personnel Expenses				
Salaries	$ 713,121	$ 575,261	$ 137,860	24.0%
Payroll Taxes	57,049	38,580	18,469	47.9%
Employee Benefits	79,164	94,874	(15,710)	(16.6%)
Savings & Retirement	62,452	51,123	11,329	22.2%
Total Personnel Expenses	**$ 911,786**	**$ 759,838**	**$ 151,948**	**20.0%**
Meeting Expenses				
Meetings & Conference Calls	$ 40	$ 1,485	$ (1,445)	(97.3%)
Travel	13,580	9,975	3,605	36.1%
Total Meeting Expenses	**$ 13,620**	**$ 11,460**	**$ 2,160**	**18.8%**
Operating Expenses, excluding Depreciation				
Consultants & Contracts	$ 7,948	$ -	$ 7,948	100.0%
Office Rent	-	-	-	
Office Costs	860,260	588,085	272,175	46.3%
Professional Services	-	-	-	
Miscellaneous	-	-	-	100.0%
Total Operating Expenses	**$ 868,208**	**$ 588,085**	**$ 280,123**	**47.6%**
Total Direct Expenses	**$ 1,793,614**	**$ 1,359,383**	**$ 434,231**	**31.9%**
Indirect Expenses	**$ 759,606**	**$ 695,066**	**$ 64,540**	**9.3%**
Other Non-Operating Expenses	**$ 65,000**	**$ -**	**$ 65,000**	
Total Expenses (B)	**$ 2,618,220**	**$ 2,054,449**	**$ 563,771**	**27.4%**
Change in Assets (=A-B)	**$ (70,177)**	**$ 244,393**	**$ (314,570)**	**(128.7%)**
Fixed Assets, excluding Right of Use Assets (C)	**$ 2,007,658**	**$ 6,473**	**$ 2,004,672**	30,969.8%
Total Budget (B+C)	**$ 4,625,878**	**$ 2,060,922**	**$ 2,568,443**	124.6%
Total Change in Working Capital (A-B-C)	**$ (2,077,835)**	**$ 237,920**	**$ (2,319,242)**	(974.8%)
FTEs	8.0	7.0	1.0	
Headcount	8.0	7.0	1.0	

Significant Variance Explanations—WREGIS

Revenue

- Membership Fees: $299,000 over budget due to higher-than-anticipated certificate activity.
- Interest: $50,000 under budget due to lower-than-anticipated investment balances due to the large software expenditure during the year.

Personnel Expenses

- Salaries: $138,000 over budget due to the hiring of an unbudgeted program analyst (budgeted for in 2023) to address program growth and software administration needs and budgeted labor float assumptions compared to actual vacancy rates.
- Payroll Taxes: $18,000 over budget primarily due to the hiring of an unbudgeted program analyst.
- Employee Benefits: $16,000 under budget due to changes in benefits enrollment levels.
- Savings & Retirement: $11,000 over budget due to the hiring of an unbudgeted position and changes in employee 401K elections.

Meeting Expenses

- No significant variances.

Operating Expenses

- Office Costs: $272,000 over budget due to higher-than-anticipated software maintenance costs charged for the one-year renewal.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: $2,000,000 over budget due to the addition of unbudgeted M-RETS Platform software. The new software was initially budgeted as licensing fees before the decision was made to move to a different vendor and platform.

Appendix A—SOA Reconciliation to Audited Financial Statements

Reconciliation of SOA to Audited Financial Statements	Per Audit	Per SOA	Difference
Total Revenue	47,285,349	33,615,401	13,669,948
Plus: Recognized Penalty Sanctions	-	18,967,948	(18,967,948)
Less: Released Penalty Sanctions	-	(5,298,000)	5,298,000
Reconciliation of Revenue	**47,285,349**	**47,285,349**	**-**
Total Expenses	32,394,251	32,079,139	315,112
Plus: Depreciation	-	315,112	(315,112)
Reconciliation of Expenses	**32,394,251**	**32,394,251**	**-**

Financial Statements
December 31, 2022 and 2021

Western Electricity Coordinating Council (WECC)

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Western Electricity Coordinating Council (WECC)
Salt Lake City, Utah

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of WECC, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of WECC as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WECC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, WECC has adopted the provisions of FASB Accounting Standards Codification Topic 842, *Leases*, as of January 1, 2022, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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; and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about WECC's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 WECC's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about WECC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Bailly LLP

Salt Lake City, Utah
May 25, 2023

	2022	2021
Assets		
Cash and cash equivalents	$ 26,611,209	$ 29,222,064
Contractually restricted cash and cash equivalents	20,551,961	23,550,040
Certificates of deposit	3,855,337	5,175,616
Investments	8,664,427	4,744,772
Accounts receivable, net	1,438,745	2,447,528
Prepaid expenses and other assets	791,301	698,468
Property and equipment, net	2,549,772	757,052
Operating lease right-of-use asset	8,639,767	-
	$ 73,102,519	$ 66,595,540
Liabilities and Net Assets		
Accounts payable	$ 6,655,406	$ 5,511,043
Accrued expenses	3,534,379	3,325,921
Deferred revenue	10,136,029	28,709,103
Other liabilities	56,443	926,368
Operating lease liability	9,706,059	-
Total liabilities	30,088,316	38,472,435
Net Assets		
Without donor restrictions	43,014,203	28,123,105
	$ 73,102,519	$ 66,595,540

	2022	2021
Revenues		
Electric Reliability Organization funding	$ 43,967,948	$ 28,793,646
Western Renewable Energy Generation Information System (WREGIS)	2,525,746	2,466,978
Meetings and workshops	244,900	4,500
Net investment return	546,755	17,067
Total revenues	47,285,349	31,282,191
Expenses		
Program expenses		
Statutory	19,342,660	17,653,966
Non-statutory	1,969,725	1,332,603
Total program expenses	21,312,385	18,986,569
Supporting expenses		
Management and general	11,081,866	10,790,629
Total expenses	32,394,251	29,777,198
Change in Net Assets without Donor Restrictions	14,891,098	1,504,993
Net Assets without Donor Restrictions, Beginning of Year	28,123,105	26,618,112
Net Assets without Donor Restrictions, End of Year	$ 43,014,203	$ 28,123,105

WECC
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services			Management	
	Statutory	Non-Statutory	Total	and General	Total
Labor	$ 17,738,472	$ 911,786	$ 18,650,258	$ 6,033,344	$ 24,683,602
Office and equipment	778,660	860,260	1,638,920	2,540,053	4,178,973
Depreciation and amortization	1,389	111,111	112,500	202,612	315,112
Contract labor and consultants	253,377	7,948	261,325	825,078	1,086,403
Meetings	589,882	13,620	603,502	251,425	854,927
Professional services	5,040	-	5,040	1,170,993	1,176,033
Excise taxes	-	-	-	58,361	58,361
Other	(24,160)	65,000	40,840	-	40,840
Total expenses included in the statement of activities	$ 19,342,660	$ 1,969,725	$ 21,312,385	$ 11,081,866	$ 32,394,251

See Notes to Financial Statements

WECC
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services			Management	
	Statutory	Non-Statutory	Total	and General	Total
Labor	$ 16,673,395	$ 758,691	$ 17,432,086	$ 6,176,778	$ 23,608,864
Office and equipment	558,659	572,489	1,131,148	2,599,914	3,731,062
Depreciation and amortization	-	-	-	214,206	214,206
Contract labor and consultants	399,194	1,350	400,544	557,580	958,124
Meetings	18,855	73	18,928	58,096	77,024
Professional services	3,863	-	3,863	1,124,442	1,128,305
Excise taxes	-	-	-	59,613	59,613
Total expenses included in the statement of activities	$ 17,653,966	$ 1,332,603	$ 18,986,569	$ 10,790,629	$ 29,777,198

	2022	2021
Operating Activities		
Change in net assets	$ 14,891,098	$ 1,504,993
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation and amortization	315,112	214,206
Bad debt expense	65,000	-
Realized and unrealized loss on operating investments	59,727	18,238
Changes in assets and liabilities		
Accounts receivable	943,783	3,734,215
Prepaid expenses and other assets	(92,833)	116,662
Accounts payable	1,144,363	771,717
Accrued expenses	208,458	(380,620)
Deferred revenue	(18,573,074)	16,763,777
Other liabilities	(869,925)	266,183
Operating lease assets and liabilities	1,066,292	-
Net Cash from (used for) Operating Activities	(841,999)	23,009,371
Investing Activities		
Purchases of property and equipment	(2,107,832)	(244,506)
Purchases of investments and certificates of deposit	(20,100,382)	(9,800,913)
Proceeds from sale of investments and certificates of deposit	17,441,279	9,415,375
Net Cash used for Investing Activities	(4,766,935)	(630,044)
Net Change in Cash and Cash Equivalents	(5,608,934)	22,379,327
Cash and Cash Equivalents, Beginning of Year	52,772,104	30,392,777
Cash and Cash Equivalents, End of Year	$ 47,163,170	$ 52,772,104

Cash and Cash Equivalents are presented as follows on the statement of financial position:

	2022	2021
Cash and cash equivalents	$ 26,611,209	$ 29,222,064
Contractually restricted cash and cash equivalents	20,551,961	23,550,040
	$ 47,163,170	$ 52,772,104

Note 1 - Summary of Significant Accounting Policies

Organization

Western Electricity Coordinating Council (WECC) is a not-for-profit organization whose primary mission is to effectively and efficiently mitigate risks to the reliability and security of the Western Interconnection's Bulk Power System (Western Interconnection). The Western Interconnection extends from Canada to Mexico and includes the Canadian provinces of Alberta and British Columbia, the northern part of Baja California in Mexico, and all or part of the 14 Western states in between. WECC's revenues are generated through performance of statutory and non-statutory activities.

WECC performs statutory activities pursuant to the Delegation Agreement effective October 2007 and Amended and Restated Delegation Agreement effective January 2016 with the North American Electric Reliability Corporation (NERC). NERC is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC) to establish and enforce reliability standards for the bulk power system. Statutory activities authorize WECC to develop, monitor, assess, and enforce compliance with NERC reliability standards and regional standards within the United States portion of the geographic boundaries of the Western Interconnection. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to Load-Serving Entities (LSEs) within the Western Interconnection.

Non-statutory activities include oversight of the operations of a component of WECC "doing business as" Western Renewable Energy Generation Information System (WREGIS). WREGIS is an independent, renewable energy tracking system. WECC funds its non-statutory activities through annual and other activity-based fees.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consists of highly liquid investments with an original maturity of three months or less, including contractually restricted cash and cash equivalents.

Pursuant to the Delegation Agreement with NERC, contractually restricted cash and cash equivalents as of December 31, 2022 and 2021, were $20,551,961 and $23,550,040, respectively.

Certificates of Deposit

Certificates of deposit held by WECC that are not classified as debt securities have original maturities greater than three months. Certificates of deposit are reported at amortized cost.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for statutory funding and other fees receivable. WECC determines the allowance for uncollectable accounts receivable based on historical experience, credit risk, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2022 and 2021, the allowance was $79,914 and $15,589, respectively.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statements of financial position. Contract liabilities are reported as deferred revenue in the accompanying statements of financial position.

Property and Equipment

WECC records property and equipment additions over $5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years or, in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

WECC reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2022 and 2021.

Investments

Investment purchases are recorded at cost. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of December 31, 2022 and 2021, WECC did not have any net assets with donor restrictions.

Revenue Recognition

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. Statutory funding consists of annual assessments and penalty sanction revenue.

The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period and records them as assessments payable or as deferred revenue after payments have been remitted to NERC and returned to WECC. Assessments are recognized as revenue in the year they are intended to fund.

Penalty sanctions are assessed by WECC and approved by FERC for violations of the Reliability Standards. Once FERC has approved the penalty sanction, WECC has satisfied all performance obligations related to the penalty. Therefore, WECC recognizes penalty sanction revenue when it is approved by FERC.

Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

Deferred revenue consists of advance payments from customers, in the form of cash, for revenue to be recognized in the following years.

The beginning and ending balances for accounts receivable and deferred revenues were as follows for January 1, 2022 and 2021:

	January 1,	
	2022	2021
Accounts receivable, net	$ 2,447,528	$ 6,181,743
Deferred revenue	28,709,103	11,945,326

For the years ended December 31, 2022 and 2021, all revenue was recognized at a point in time.

Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met. WECC's agreements stipulated that a portion of donations received are conditional upon certain performance requirements. Consequently, at December 31, 2022 and 2021, conditional contributions approximating $300,000 have been recognized within accrued expenses in the accompanying financial statements.

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the statements of activities. WECC's expenses are classified as Statutory Expenses or Non-statutory Expenses as the majority of expenses incurred fulfill the purposes or mission for which WECC exists. Furthermore, the statutory expenses are classified according to the statutory functions WECC performs pursuant to the Delegation Agreement with NERC. All direct costs are charged to the functional area to which they pertain. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area.

Income Taxes

WECC is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(4). WECC is required to file an annual Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, WECC is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes.

WECC believes that it has appropriate support for any tax positions taken affecting its annual filing requirements and, as such, does not have any uncertain tax positions that are material to the financial statements. WECC would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Financial Instruments and Credit Risk

WECC maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2022, WECC had approximately $17,500,000 of cash, cash equivalents, and contractually restricted cash and cash equivalents, in excess of FDIC-insured limits. Additionally, at December 31, 2022, WECC has $29,400,379 held in short term United States insured securities.

WECC manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, WECC has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance and Audit Committee believe that the investment policies and guidelines are prudent for the long-term welfare of WECC. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts NERC has delegated WECC to collect through assessments to LSEs within the Western Interconnection. Investments are made by diversified investment managers whose performance is monitored by management and the Finance and Audit Committee of the Board of Directors.

Recent Accounting Guidance

Effective January 1, 2022, WECC adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). WECC elected to apply the guidance as of January 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. WECC has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, WECC accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, WECC recognized on January 1, 2022, the beginning of the adoption period, no cumulative effect adjustment to retained earnings, an operating lease liability of $10,243,874, and an operating right-of-use asset of $9,440,970. The operating lease right-of-use asset and liabilities were recorded as of January 1, 2022, at the carrying value under prior guidance. The adoption of the new standard did not materially impact WECC's Statements of Operations or Statements of Cash Flows. See Note 7 for further disclosure of WECC's lease contracts.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net assets.

Subsequent Events

WECC has evaluated subsequent events through May 25, 2023, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2022	2021
Cash and cash equivalents	$ 26,611,209	$ 29,222,064
Certificates of deposit	3,855,337	5,175,616
Investments	8,664,427	4,744,772
Accounts receivable, net	1,438,745	2,447,528
	$ 40,569,718	$ 41,589,980

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, certificates of deposit, and money market funds.

Note 3 - Fair Value Measurements and Disclosures

WECC reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the assessment of the quality, risk or liquidity profile of the asset or liability.

WECC invests in U.S. Government obligations that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at December 31, 2022:

		Fair Value Measurements at Report Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Government agency bonds	$ 5,410,293	$ -	$ 5,410,293	$ -
Mutual funds	3,254,134	-	3,254,134	-
	$ 8,664,427	$ -	$ 8,664,427	$ -

The following table presents assets measured at fair value on a recurring basis at December 31, 2021:

		Fair Value Measurements at Report Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Government agency bonds	$ 2,725,063	$ -	$ 2,725,063	$ -
Debt securities	2,019,709	-	2,019,709	-
	$ 4,744,772	$ -	$ 4,744,772	$ -

Note 4 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Operating investments		
Interest and dividends	$ 602,311	$ 33,874
Net realized and unrealized gain	(55,556)	(16,807)
	$ 546,755	$ 17,067

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2022 and 2021:

	2022	2021
Equipment	$ 1,045,436	$ 955,511
Software	2,344,943	327,036
Furniture and fixtures	272,649	272,649
Leasehold improvements	1,959,412	1,959,412
	5,622,440	3,514,608
Less accumulated depreciation	(3,072,668)	(2,757,556)
	$ 2,549,772	$ 757,052

Note 6 - Net Assets

WECC reports information regarding Statutory and Non-statutory earnings to the FERC in accordance with its Delegation Agreement with NERC dated October 16, 2007, as amended, and restated January 1, 2016. As of December 31, 2022 and 2021, the breakdown of such earnings included in net assets without donor restrictions consisted of the following:

	2022	2021
Non-statutory earnings	$ 8,185,732	$ 8,374,680
Statutory earnings	34,828,471	19,748,425
	$ 43,014,203	$ 28,123,105

Note 7 - Leases

WECC leases office space and equipment for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2031 and provide for renewal options ranging from five to fifteen years. WECC included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments. Also, the agreements generally require WECC to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease. WECC has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. WECC has applied the risk-free rate option to the building and office equipment classes of assets.

Total lease costs for the year ended December 31, 2022 were as follows:

	2022
Operating lease cost	$ 1,344,334

The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

	2022
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	
Operating cash flows from operating leases	$ 1,249,910

The following summarizes the weighted-average remaining lease term and weight-average discount rate:

	2022
Weighted-Average Remaining Lease Term	
Operating leases	8.2 Years
Weighted-Average Discount Rate	
Operating leases	4.00%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2022.

2023	$ 1,286,866
2024	1,324,943
2025	1,347,992
2026	1,386,917
2027	1,428,524
Thereafter	4,978,170
Total lease payments	11,753,412
Less interest	(2,047,353)
Present value of lease liabilities	$ 9,706,059

Future minimum payments determined under the guidance in Topic 840 are listed below as of December 31, 2021.

2022	$ 1,336,740
2023	1,376,313
2024	1,417,073
2025	1,442,908
2026	1,484,657
Thereafter	7,831,858
Total lease payments	$ 14,889,549

Note 8 - Employee Benefits

WECC sponsors a 401(k) Retirement Savings Plan (the Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. The Plan expense reflected in the accompanying statements of activities was $1,655,811 and $1,589,411 for the years ended December 31, 2022 and 2021, respectively. In 2006, WECC adopted an elective 457(b) deferred compensation plan to provide certain employees of WECC with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation for 2022 and 2021 was $19,500. The Plan is entirely funded by elective employee salary deferrals.

ATTACHMENT 8

METRICS CONCERNING ADMINISTRATIVE COSTS IN

2022 NERC AND REGIONAL ENTITY

BUDGETS AND ACTUAL COSTS

Analysis of Administrative (Indirect) Costs
2020, 2021, and 2022 Actual

2020 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 78,465,988	$ 47,484,226	$ 30,981,762	39.48%	$ 1.53
MRO	15,848,061	9,840,576	6,007,485	37.91%	1.64
NPCC	14,942,338	8,968,159	5,974,179	39.98%	1.50
RF	22,857,730	15,924,609	6,933,121	30.33%	2.30
SERC	23,172,445	13,348,138	9,824,307	42.40%	1.36
Texas RE	13,543,318	7,733,061	5,810,257	42.90%	1.33
WECC	27,190,111	17,215,337	9,974,774	36.69%	1.73
TOTAL/Average	$ 196,019,991	$ 120,514,106	$ 75,505,885	38.52%	$ 1.60

2021 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 80,315,484	$ 46,179,594	$ 34,135,890	42.50%	$ 1.35
MRO	17,106,315	10,655,313	6,451,002	37.71%	1.65
NPCC	15,029,736	8,906,330	6,123,406	40.74%	1.45
RF	23,952,060	16,651,335	7,300,725	30.48%	2.28
SERC	25,181,004	13,396,489	11,784,515	46.80%	1.14
Texas RE	14,354,641	8,207,078	6,147,563	42.83%	1.34
WECC	27,825,487	17,653,966	10,171,521	36.55%	1.74
TOTAL/Average	$ 203,764,727	$ 121,650,105	$ 82,114,622	40.30%	$ 1.48

2022 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 86,412,144	$ 49,167,225	$ 37,244,919	43.10%	$ 1.32
MRO	19,489,587	11,615,540	7,874,047	40.40%	1.48
NPCC	15,174,200	9,376,281	5,797,919	38.21%	1.62
RF	25,877,797	17,689,124	8,188,673	31.64%	2.16
SERC	26,403,767	14,086,198	12,317,569	46.65%	1.14
Texas RE	14,681,051	8,192,271	6,488,780	44.20%	1.26
WECC	29,577,379	19,481,893	10,095,486	34.13%	1.93
TOTAL/Average	$ 217,615,925	$ 129,608,532	$ 88,007,393	40.44%	$ 1.47
3-Year Average				39.78%	$ 1.51

2020 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	202.19	128.89	73.30	36.25%	1.76
MRO	60.23	47.77	12.46	20.69%	3.83
NPCC	37.95	28.24	9.71	25.59%	2.91
RF	82.80	65.09	17.71	21.39%	3.68
SERC	96.10	65.00	31.10	32.36%	2.09
Texas RE	60.20	45.45	14.75	24.50%	3.08
WECC	136.50	98.40	38.10	27.91%	2.58
TOTAL/Average	675.97	478.84	197.13	29.16%	2.43

2021 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	208.72	131.12	77.60	37.18%	1.69
MRO	65.54	47.68	17.86	27.25%	2.67
NPCC	44.40	34.30	10.10	22.75%	3.40
RF	82.06	63.98	18.08	22.03%	3.54
SERC	94.20	65.30	28.90	30.68%	2.26
Texas RE	59.80	45.05	14.75	24.67%	3.05
WECC	145.00	103.60	41.40	28.55%	2.50
TOTAL/Average	699.72	491.03	208.69	29.82%	2.35

2022 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	218.26	137.26	81.00	37.11%	1.69
MRO	66.90	48.20	18.70	27.95%	2.58
NPCC	44.07	34.03	10.04	22.78%	3.39
RF	86.88	67.63	19.25	22.16%	3.51
SERC	97.87	62.28	35.59	36.36%	1.75
Texas RE	59.80	45.05	14.75	24.67%	3.05
WECC	146.50	110.00	36.50	24.91%	3.01
TOTAL/Average	720.28	504.45	215.83	29.96%	2.34
3-Year Average				29.66%	2.37

2020 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 388,080	$ 368,409	$ 422,671	$ 153,231
MRO	263,126	205,999	482,142	99,742
NPCC	393,737	317,569	615,260	157,422
RF	276,060	244,655	391,481	83,733
SERC	241,128	205,356	315,894	102,230
Texas RE	224,972	170,144	393,916	96,516
WECC	199,195	174,953	261,805	73,075
TOTAL/Average	$ 289,983	$ 251,679	$ 383,026	$ 111,700

2021 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 384,800	$ 352,193	$ 439,895	$ 163,549
MRO	261,006	223,476	361,198	98,428
NPCC	338,508	259,660	606,278	137,915
RF	291,885	260,258	403,801	88,968
SERC	267,314	205,153	407,769	125,101
Texas RE	240,044	182,177	416,784	102,802
WECC	191,900	170,405	245,689	70,148
TOTAL/Average	$ 291,209	$ 247,745	$ 393,477	$ 117,354

2022 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 395,914	$ 358,205	$ 459,814	$ 170,645
MRO	291,324	240,986	421,072	117,699
NPCC	344,320	275,530	577,482	131,562
RF	297,857	261,557	425,386	94,253
SERC	269,784	226,175	346,096	125,856
Texas RE	245,503	181,848	439,917	108,508
WECC	201,893	177,108	276,589	68,911
TOTAL/Average	$ 302,127	$ 256,930	$ 407,763	$ 122,185
3-Year Average	$ 294,440	$ 252,118	$ 394,755	$ 117,080

2022 Actual versus 2022 Budget

2022 ACTUAL: Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect		2022 BUDGET: Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
$ 86,412,144	$ 49,167,225	$ 37,244,919	43.1%	$ 1.32	**NERC**	$ 88,828,284	$ 51,103,266	$ 37,725,018	42.5%	$ 1.35
19,489,587	11,615,540	7,874,047	40.4%	1.48	**MRO**	20,034,361	12,092,092	7,942,269	39.6%	1.52
15,174,200	9,376,281	5,797,919	38.2%	1.62	**NPCC**	17,465,134	10,817,352	6,647,782	38.1%	1.63
25,877,797	17,689,124	8,188,673	31.6%	2.16	**RF**	26,219,927	18,577,780	7,642,147	29.1%	2.43
26,403,767	14,086,198	12,317,569	46.7%	1.14	**SERC**	26,708,260	14,833,576	11,874,684	44.5%	1.25
14,681,051	8,192,271	6,488,780	44.2%	1.26	**Texas RE**	17,160,613	9,969,676	7,190,937	41.9%	1.39
29,577,379	19,481,893	10,095,486	34.1%	1.93	**WECC**	29,733,510	18,762,895	10,970,615	36.9%	1.71
$ 217,615,925	**$ 129,608,532**	**$ 88,007,393**	**40.4%**	**$ 1.47**	**TOTAL/AVERAGE**	**$ 226,150,089**	**$ 136,156,637**	**$ 89,993,452**	**39.8%**	**$ 1.51**

2022 ACTUAL FTEs: Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs		2022 BUDGETED FTEs: Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
218.26	137.26	81.00	37.1%	1.69	**NERC**	223.72	142.62	81.10	36.3%	1.76
66.90	48.20	18.70	28.0%	2.58	**MRO**	71.00	50.98	20.02	28.2%	2.55
44.07	34.03	10.04	22.8%	3.39	**NPCC**	49.90	38.95	10.95	21.9%	3.56
86.88	67.63	19.25	22.2%	3.51	**RF**	88.60	67.60	21.00	23.7%	3.22
97.87	62.28	35.59	36.4%	1.75	**SERC**	104.00	68.20	35.80	34.4%	1.91
59.80	45.05	14.75	24.7%	3.05	**Texas RE**	66.00	51.25	14.75	22.3%	3.47
146.50	110.00	36.50	24.9%	3.01	**WECC**	151.80	113.80	38.00	25.0%	2.99
720.28	**504.45**	**215.83**	**30.0%**	**2.34**	**AVERAGE**	**755.02**	**533.40**	**221.62**	**29.4%**	**2.41**

2022 ACTUAL SPEND per FTE: Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE		2022 BUDGETED SPEND per FTE: Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
$ 395,914	$ 358,205	$ 459,814	$ 170,645	**NERC**	$ 397,051	$ 358,318	$ 465,167	$ 168,626
291,324	240,986	421,072	117,699	**MRO**	282,174	237,193	396,717	111,863
344,320	275,530	577,482	131,562	**NPCC**	350,003	277,724	607,103	133,222
297,857	261,557	425,386	94,253	**RF**	295,936	274,819	363,912	86,254
269,784	226,175	346,096	125,856	**SERC**	256,810	217,501	331,695	114,180
245,503	181,848	439,917	108,508	**Texas RE**	260,009	194,530	487,521	108,954
201,893	177,108	276,589	68,911	**WECC**	195,873	164,876	288,700	72,270
$ 302,127	**$ 256,930**	**$ 407,763**	**$ 122,185**	**AVERAGE**	**$ 299,529**	**$ 255,262**	**$ 406,071**	**$ 119,193**

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