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May 31, 2022

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. RR22-_-000
Report of Comparisons of Budgeted to Actual Costs for 2021
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 2021 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

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Attachment 8: Metrics Concerning Administrative Costs in 2021 NERC and Regional Entity Budgets and Actual Costs

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2021 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, 2021, 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, 2021.
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2021 budgets and actual results.

This filing includes the following attachments:

Attachment 1: 2021 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

Attachment 2: 2021 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 3: 2021 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

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: 2021 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 5: 2021 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 6: 2021 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 7: 2021 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

Attachment 8: Metrics Concerning Administrative Costs in 2021 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, 2021 – 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 2021 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, 2021, 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 2021 budget, 2021 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 2021, 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 2021 budget, 2021 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 2021 budget, 2021 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 functions⁶ (indirect costs). 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 2021 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 2021.

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 2021 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2021); the impact of the entity's 2021 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 2021.

NERC has provided additional information in its 2021 report in **Attachment 1**, including: (1) actual cost to budget variances for Contracts and Consultant expense, by department, (2) analysis of the sources of changes in its Operating Reserves for 2021, and (3) actual cost to budget variances for Net Financing Activity. The table on page 4 of **Attachment 1** shows the actual cost to budget variances for Contracts and Consultants expense for 2021 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 areas. The analysis of changes in Operating Reserves is provided on page 9 of **Attachment 1**, including a table which shows the changes in each category of Operating Reserves due to 2021 budgeted operations and uses of reserves. The Statements of Activities in **Attachment 1** show budget, actual and variance amounts for Net Financing Activity and explanations are provided for significant variances. In addition, on page 7 of **Attachment 1**, NERC has provided an actual cost-to budget comparison for 2021 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).

⁷ The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" for the 2021 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 2021; a negative "Change in Working Capital" means the entity's total actual funding was less than its total actual expenditures for the year.

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 2021 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 2021.

- All entities⁸ were impacted by the global Covid-19 pandemic, commencing in March 2020 and continuing through 2021, particularly with respect to Meetings and Travel expenses. The pandemic resulted in the cancellation of all or a significant amount of 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 well 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. Other entities' Office Costs, and in some cases Computer and Software CapEx, were over budget due to unplanned purchases of hardware, software, and supplies for use by staff members to facilitate working efficiently from home or in other remote environments.
- Some entities were under budget in Workshop and Seminar attendance fees, due to the cancellation of scheduled in-person workshops, seminars, and other meetings.
- Correspondingly, entities incurred lower Meetings expenses than budgeted due to the cancellation of in-person workshops, seminars, board or trustee meetings, and meetings of members, 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.)
- 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 reflected in the labor vacancy rates assumed in their budgets.⁹ Additionally, some

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

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.

entities added unbudgeted staff during 2021 to meet specific emergent needs. 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 educational or training program 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 transferred one or more employees (either fully or as a proportional allocation of the employee's time) from one program area to another during 2021. Such employee transfers or reallocations of employee time resulted in actual cost-to-budget variances in Personnel Expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- 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. As entities have increased their staffing and expertise over time, thereby increasing in-house capabilities, entities have seen less need to use outside services. 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 cancelled or deferred due to the pandemic, or delayed for other reasons. Other entities experienced higher than budgeted Consultants and Contracts expense due to acceleration of projects requiring consultant or contractor assistance, the need to conduct unplanned, emergent projects requiring consultant or contractor assistance, or delay to 2021 in completing projects that were anticipated to be completed in 2020.
- 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

of search firms than budgeted) to assist in locating candidates to fill vacant positions, including unexpected vacancies in senior management positions or in the entity's board of trustees or directors.

- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area but then recording the actual costs in another program area or areas responsible for incurring, or benefitting from, the cost.
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2021 budget were either (i) completed, or at least initiated, in late 2020, (ii) not carried out in 2021 (*e.g.*, delayed/deferred to 2022 or later), or (iii) started but not completed in 2021 (*i.e.*, the project was completed in 2022). 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 compared to the budget) in 2021 compared to budget. In other cases, projects that were planned and budgeted for execution and completion in 2020 were not fully completed in that year, resulting in unbudgeted or over-budget expenditures in 2021 to complete the projects.
- 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 (or lower) funding from Interest or Investment Income than budgeted due to higher-than-projected (or lower-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 2021, as well as year-to-date actual cost-to-budget experience for 2022, into account in

developing their business plans and budgets for 2023, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2022.

IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2021 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 2021 budgets and 2021 actual costs. In addition, **Attachment 8** provides a comparison of these metrics values for 2019, 2020 and 2021 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 2020.

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, 2021.

Respectfully submitted,

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ATTACHMENT 1

2021 ACTUAL COST-TO-BUDGET COMPARISON

AND

2021 AUDITED FINANCIAL REPORT

FOR

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

North American Electric Reliability Corporation 2021 Audited Results - Actual to Budget Variance Analysis

For the year ending December 31, 2021, NERC was \$391k (0.5%) over budget for total funding and was \$2.6M (3.1%) 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	\$ 81,546,393	\$ 81,155,550	\$ 390,842	0.5%
EXPENDITURES				
Personnel	\$ 48,039,705	\$ 48,189,435	\$ (149,729)	(0.3%)
Meetings and Travel	309,282	2,201,748	(1,892,466)	(86.0%)
Consultants and Contracts	12,732,485	12,691,813	40,672	0.3%
Office Rent	3,599,147	3,603,442	(4,295)	(0.1%)
Office Costs, Professional, and Misc. ^B	12,921,385	12,471,039	450,346	3.6%
Other Non-Operating	(264,668)	129,661	(394,329)	(304.1%)
Fixed Asset Additions ^B	3,076,021	2,751,500	324,521	11.8%
Net Financing Activity ^C	(97,872)	844,601	(942,473)	(111.6%)
TOTAL EXPENDITURES	\$ 80,315,486	\$ 82,883,240	\$ (2,567,754)	(3.1%)
RESERVE INCREASE (DECREASE)	\$ 1,230,907	\$ (1,727,689)	\$ 2,958,596	(171.2%)
FTEs	208.8	213.4	(4.6)	(2.2%)

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

Actual vs Budget – Excluding CRISP

	YTD Actual	YTD Budget	\$ Over (Under)	% Over (Under)
TOTAL FUNDING^A	\$ 72,788,154	\$ 72,959,344	\$ (171,190)	(0.2%)
EXPENDITURES				
Personnel	\$ 47,132,375	\$ 47,356,424	\$ (224,049)	(0.5%)
Meetings and Travel	281,708	2,172,809	(1,891,101)	(87.0%)
Consultants and Contracts	7,478,935	6,366,090	1,112,845	17.5%
Office Rent	3,599,147	3,603,442	(4,295)	(0.1%)
Office Costs, Professional, and Misc. ^B	12,251,231	12,224,061	27,170	0.2%
Other Non-Operating	(264,668)	129,661	(394,329)	(304.1%)
Fixed Asset Additions ^B	2,934,229	2,701,500	232,729	8.6%
Net Financing Activity ^C	(97,872)	844,601	(942,473)	(111.6%)
TOTAL EXPENDITURES	\$ 73,315,087	\$ 75,398,589	\$ (2,083,502)	(2.8%)
RESERVE INCREASE (DECREASE)	\$ (526,933)	\$ (2,439,245)	\$ 1,912,312	(78.4%)
FTEs	205.1	210.6	(5.4)	(2.6%)

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

Summary of Variances by Major Categories (including CRISP)

- Funding was over budget \$391k (0.5%) primarily attributable to CRISP third-party funding being higher than budget \$597k (8.4%) mainly as a result of unspent funds collected from the CRISP participants in 2021 being directed to the new CRISP Operating Reserve in 2021 rather than being returned to them¹. This above budget funding is partially offset by lower than budgeted investment income of \$213k (97.7%).
- Personnel expenses were under budget by \$150k (0.3%).
Under appropriate accounting guidance, certain labor costs that were budgeted as expenses were capitalized and reflected as costs associated with applicable software/tool projects. For 2021, \$511k was capitalized toward these projects and reflected in fixed asset additions. Before recognizing the capitalization of labor costs, the personnel expense category was over budget \$362k (\$0.7%) largely because of lower attrition in several departments and also because of gains 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). These amounts were partially offset by lower medical insurance premiums generally due to lower rates, lower parking and transportation benefits due to the pandemic, and lower relocation and training costs than budgeted.
- Meetings and Travel expenses were collectively under budget \$1.9M (86.0%). Meeting and conference call expenses were under budget \$673k (75.5%) and travel was under budget \$1.2M (93.1%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- Contracts and Consultants expenses were over budget \$41k (0.3%). See below for a brief description of the variances by department.

¹ On or before June 10, 2022, NERC will make a filing with the Federal Energy Regulatory Commission pursuant to Paragraph 7(b)(ii) of the Settlement Order and Agreement in Docket No. FA11-21-000 and the provisions of its Commission-approved Working Capital and Operating Reserve Policy (“WCOR Policy”) requesting Commission approval to (i) redirect underruns from the annual CRISP budget to the CRISP Operating Reserve rather than return the unspent funds to the participants; and (ii) redirect any remaining funds budgeted for CRISP Operational Technology pilot programs to the CRISP Special Projects Reserve, both of which have been agreed to by the CRISP participants.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	\$	%
			Over (Under)	Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 239,798	\$ 114,552	\$ 125,246	109.3%
Compliance Assurance	336,595	50,000	286,595	573.2%
Registration and Certification	41,760	39,552	2,208	5.6%
Compliance Enforcement	199,370	69,000	130,370	188.9%
BPS Security and Grid Transformation	24,064	-	24,064	100.0%
Reliability Assessment and Technical Committees	130,680	59,552	71,128	119.4%
Advanced System Analytics and Modeling & Power System Analysis	114,750	165,000	(50,250)	(30.5%)
Performance Analysis	138,105	178,651	(40,546)	(22.7%)
Situation Awareness	-	15,000	(15,000)	(100.0%)
Event Analysis	86,445	115,590	(29,145)	(25.2%)
E-ISAC	2,334,751	2,399,918	(65,167)	(2.7%)
Training, Education and Personnel Certification	491,791	558,650	(66,859)	(12.0%)
General and Administrative and Executive	50,514	-	50,514	100.0%
Legal and Regulatory	501,450	210,000	291,450	138.8%
External Affairs	36,660	20,000	16,660	83.3%
Information Technology	1,987,434	1,635,625	351,809	21.5%
Human Resources and Administration	655,841	610,000	45,841	7.5%
Finance and Accounting	108,927	125,000	(16,073)	(12.9%)
TOTAL (excluding CRISP)	\$ 7,478,935	\$ 6,366,090	\$ 1,112,845	17.5%
CRISP	5,253,550	6,325,723	(1,072,173)	(16.9%)
TOTAL (including CRISP)	\$ 12,732,485	\$ 12,691,813	\$ 40,672	0.3%

- Reliability Standards and Power Risk Issue Management was over budget mainly due to unbudgeted needs for Standards administrative support.
- Compliance Assurance was over budget largely because of training and contractor costs on the Align and ERO Secure Evidence Locker (SEL) projects that were budgeted in fixed assets but recorded in contracts and consultants expense, as well as an unbudgeted contractor to support the ERO SEL.
- Compliance Enforcement was over budget as a result of training and contractor costs on the Align and ERO SEL projects that were budgeted in fixed assets but recorded in contracts and consultants expense.
- BPS Security and Grid Transformation was over budget as a result of an unbudgeted contractor to support operational technology/industrial control system cyber security functions.
- Reliability Assessment and Technical Committees was over budget largely due to an unbudgeted co-funded resource adequacy project with the Electric Power Research Institute (EPRI).
- Advanced System Analytics and Modeling & Power System Analysis was under budget primarily because amounts budgeted for probabilistic analysis support were not used.
- Performance Analysis was under budget mainly attributable to lower than anticipated contractor needs for Generating Availability Data System (GADS) support.

- Situation Awareness was under budget as a result of amounts budgeted for software enhancements not being used.
 - Event Analysis was under budget primarily due to budgeted event analysis staff augmentation review support that was not needed.
 - Training, Education and Personnel Certification was under budget primarily due to lower support costs than budgeted for ERO Enterprise transformation consulting, partially offset by the unbudgeted consulting costs for a credential maintenance research project.
 - General and Administrative and Executive was over budget as a result of unbudgeted architect costs related to office relocation projects.
 - Legal and Regulatory was over budget primarily attributable to an increased need for internal audit and corporate risk management support.
 - External Affairs was over budget due to a contractor that was used in lieu of an FTE for regional and stakeholder relations for part of the year.
 - Information Technology was over budget mainly attributable to unbudgeted IT cybersecurity contractor support needed due to the rapidly changing security environment.
 - Finance and Accounting was under budget largely as a result of less support needed for general accounting matters than budgeted.
 - CRISP was under budget largely as a result of lower costs from the primary CRISP subcontractor, as well as money that had been budgeted for a pilot program but for which the funds were not spent in 2021.
- Office Rent expense was under budget \$4,300 (0.1%).
 - Office Costs, Professional Services, and Miscellaneous expenses were collectively \$450k (3.6%) over budget. Office costs were \$200k (2.0%) over budget. Professional services were \$302k (13.8%) over budget primarily as a result of fees for an additional trustee and increased costs for liability insurance. Miscellaneous expenses were \$52k (51.6%) under budget due to lower employee engagement and sponsorship expenses than budgeted.
 - Other Non-Operating expenses were under budget \$394k (304.1%) mainly because of gains 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 Purchases (excluding depreciation) were over budget \$325k (11.8%) mainly because of the higher than budgeted leased laptops, as well as the timing of expenditures for the ERO SEL project that were approved to be spent and financed in 2020, but were incurred and financed instead in 2021. This over budget amount is partially offset by lower than budgeted spending for IT equipment and servers.

- Net Financing Activity which is comprised of financing proceeds and principal payments, did not contemplate NERC receiving loan proceeds in 2021, but due to the timing of expenditures on the ERO SEL capital investment, NERC borrowed approximately \$683k in 2021 to fund costs of the project primarily carried over from 2020. Accordingly, debt principal payments in 2021 were lower than budgeted since the loan did not occur until later in the year.

Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were under budget \$73k (4.4%) mostly due to reduced meeting and travel expenses due to the pandemic and was partially offset by fees for an additional trustee.

	Actual	Budget	\$ Over (Under)	% Over (Under)
Meetings and Travel Expenses				
Quarterly Board Meetings	\$ 12,497	\$ 145,130	\$ (132,633)	(91.4%)
Trustee Travel	-	97,934	(97,934)	(100.0%)
Total	\$ 12,497	\$ 243,064	\$ (230,567)	(94.9%)
Professional Services				
Independent Trustee Fees	\$ 1,509,062	\$ 1,392,500	\$ 116,562	8.4%
Trustee Search Fees	90,600	50,000	40,600	81.2%
Total	\$ 1,599,662	\$ 1,442,500	\$ 157,162	10.9%
Total Board of Trustee Expenses	\$ 1,612,159	\$ 1,685,564	\$ (73,405)	(4.4%)

Allocation of Indirect Expenses, Fixed Asset Additions, and Net Financing Activities to Program Areas

Expenses, Fixed Asset Additions, and Net Financing Activity of the administrative programs are allocated to the direct (statutory) programs on the basis of numbers of FTEs in each direct program.

Total expenses (excluding fixed asset purchases and net financing activity) of the administrative programs were \$33.5M, which was \$949k (2.9%) over budget. The actual allocation of these indirect expenses (excluding fixed asset additions and net financing activity) per program area FTE (i.e., direct FTE) was \$256k, which was over budget by \$17k (7.0%) per FTE.

The \$949k over budget amount was driven primarily by several reasons. First, personnel expenses were over budget due primarily to the transfer of partial FTE from a program area to an administrative department to help support the Atlanta and Washington, DC office lease negotiations and also because of lower than budgeted attrition. Second, contracts and consultants costs were over budget largely because of the increased need for internal audit and corporate risk management support and also due to unbudgeted IT cybersecurity contractor support needed due to the rapidly changing security environment. These over budget amounts were partially offset by lower than budgeted meeting and travel costs due to the pandemic.

Total fixed asset additions for the administrative programs were \$231k, which was \$429k (64.9%) under budget largely due to unused budgeted funds for IT equipment. The actual allocation of fixed asset additions per program area FTE was \$1.8k, which was \$3.1k (63.6%) under budget.

Total net financing activity for the administrative programs was \$384k, which was \$86k (18.3%) under budget primarily due to the leasing of more assets than had been budgeted. The actual allocation of financing activity per program area FTE was \$3.0k, which was \$.5k (15.1%) under budget.

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.

Operating Reserves Analysis

Reserve Account	1/1/2021		Unbudgeted Funding/(Use)	Operating and Financing Activity Versus Budget ⁽²⁾	12/31/2021 Ending Balance
	Beginning Balance	Budgeted Funding/(Use) ⁽¹⁾			
NERC Operating Contingency	7,982,913	(1,800,000)	-	2,545,765	8,728,678
Future Obligations	1,657,901	(551,600)	275,542	-	1,381,843
Assessment Stabilization	2,521,000	-	-	-	2,521,000
System Operator	996,220	-	-	(81,137)	915,083
CRISP Defense Fund	500,000	-	12,821	-	512,821
CRISP Operating ^{(3) (5)}	-	-	-	1,596,902	1,596,902
CRISP Special Projects ^{(4) (5)}	1,049,549	-	-	(604,234)	445,316
Total Reserves	\$ 14,707,584	\$ (2,351,600)	\$ 288,363	\$ 3,457,296	\$ 16,101,643

NOTES:

(1) The 2021 Business Plan & Budget contained a budgeted use of Operating Contingency Reserves totaling \$1,800,000 to lower assessments for costs associated with the Compliance Monitoring and Enforcement Program Align project. The Future Obligations Reserve decrease of \$551,600 was a budgeted use of deferred rent reserves to fund a portion of office lease costs.

(2) 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.

(3) On November 17, 2021, an amendment to the CRISP master agreement was agreed to by the CRISP participants stipulating that any unspent funds collected from the CRISP participants would be directed to a new CRISP Operating Reserve category exclusively for CRISP use, starting with 2021 funds. The amendment was signed by all CRISP participants and became effective on January 1, 2022. Beginning in 2022, excess prior year funding received from CRISP participants above actual expenses is being redirected to a CRISP Operating Reserve to be used exclusively for CRISP purposes as agreed between NERC and the CRISP participants. This practice is a change from prior practice, which was to return unspent funds to the participants in the following budget year.

(4) The CRISP Special Projects Reserve was specifically created to fund the CRISP operational technology pilot projects. The money remaining in the CRISP Special Projects Reserve at the end of 2021 is from approximately \$1.0M of funding collected in and unable to be spent in 2020 that was expected to be spent on the same projects in 2021. However, due to other CRISP priorities and supply chain demands, the remainder was unable to be spent in 2021 and is anticipated to be spent in 2022 to complete the pilot.

(5) On or before June 10, 2022, NERC will make a filing with the Federal Energy Regulatory Commission pursuant to Paragraph 7(b)(ii) of the Settlement Order and Agreement in Docket No. FA11-21-000 and the provisions of its Commission-approved Working Capital and Operating Reserve Policy (“WCOR Policy”) requesting Commission approval to (i) redirect underruns from the annual CRISP budget to the CRISP Operating Reserve rather than return the unspent funds to the participants; and (ii) redirect any remaining funds budgeted for CRISP Operational Technology pilot programs to the CRISP Special Projects Reserve, both of which have been agreed to by the CRISP participants.

As of December 31, 2021 the balance in reserves was \$16.1M, \$5.3M more than the budget of \$10.8M. The Operating Contingency Reserve had a budgeted ending balance of \$5.8M, and the \$2.9M over budget amount is primarily driven by lower than budget meeting and travel spend due to the pandemic and lower net financing activity mainly due to the receipt of loan proceeds that had not been budgeted.

The balance in the newly created CRISP Operating Reserve at 12/31/2021 was \$1.6M, which was mainly comprised of \$600k that had been collected in 2021 for pilot projects costs but that was unable to be spent and also of costs from the primary CRISP subcontractor that were lower than budgeted. The balance remaining in the CRISP Special Projects Reserve was \$445k and consisted of unspent money collected in 2020 for OT pilot projects.

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 Management	\$ 3,973,654	\$ 3,627,620	\$ 346,034	9.5%
Compliance Assurance	6,087,203	6,508,460	(421,258)	(6.5%)
Organization Registration and Certification	1,138,195	1,248,210	(110,015)	(8.8%)
Compliance Enforcement	4,082,522	4,244,467	(161,946)	(3.8%)
BPS Security and Grid Transformation	320,643	428,239	(107,595)	(25.1%)
Reliability Assessment and Technical Committees	1,918,135	1,957,274	(39,139)	(2.0%)
Advanced System Analytics and Modeling & Power System Analysis	2,062,686	2,503,640	(440,954)	(17.6%)
Performance Analysis	1,357,031	1,665,414	(308,383)	(18.5%)
Situation Awareness	2,713,050	2,790,692	(77,641)	(2.8%)
Event Analysis	1,799,249	2,389,731	(590,481)	(24.7%)
E-ISAC	12,222,401	12,698,677	(476,276)	(3.8%)
Training, Education and Personnel Certification	1,504,426	1,635,119	(130,693)	(8.0%)
General and Administrative and Executive	8,822,279	8,445,444	376,835	4.5%
Legal and Regulatory	5,138,848	4,631,911	506,937	10.9%
External Affairs	2,874,638	2,859,325	15,313	0.5%
Information Technology	12,432,957	12,936,602	(503,645)	(3.9%)
Human Resources and Administration	2,773,750	2,775,720	(1,970)	(0.1%)
Finance and Accounting	2,093,418	2,052,043	41,375	2.0%
TOTAL (excluding CRISP)	\$ 73,315,087	\$ 75,398,589	\$ (2,083,502)	(2.8%)
CRISP	7,000,399	7,484,651	(484,252)	(6.5%)
TOTAL (including CRISP)	\$ 80,315,486	\$ 82,883,240	\$ (2,567,753)	(3.1%)

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)**

	Total YTD Actual*	Total YTD Budget	Total \$ Over/(Under)	Total % Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	72,011,373	72,011,373	-	0.0%
Penalties Released	-	-	-	-
Total NERC Funding	72,011,373	72,011,373	-	0.0%
Third-Party Funding (CRISP)	7,661,036	7,064,343	596,693	8.4%
Testing, Renewal, & Continuing Ed Fees	1,753,104	1,801,634	(48,530)	(2.7%)
Services & Software	53,000	60,000	(7,000)	(11.7%)
Miscellaneous Funding	62,855	-	62,855	-
Interest & Investment Income	5,024	218,200	(213,176)	(97.7%)
Total Funding (A)	81,546,392	81,155,550	390,842	0.5%
Expenses				
Personnel Expenses				
Salaries	37,147,603	36,636,628	510,975	1.4%
Payroll Taxes	2,280,372	2,122,568	157,804	7.4%
Benefits	4,980,673	5,703,799	(723,126)	(12.7%)
Retirement Costs	3,631,057	3,726,439	(95,382)	(2.6%)
Total Personnel Expenses	48,039,705	48,189,434	(149,729)	(0.3%)
Meetings and Travel Expenses				
Meetings & Conference Calls	218,202	890,751	(672,549)	(75.5%)
Travel	91,080	1,310,997	(1,219,917)	(93.1%)
Total Meetings and Travel Expenses	309,282	2,201,748	(1,892,466)	(86.0%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	12,732,485	12,691,813	40,672	0.3%
Office Rent	3,599,147	3,603,442	(4,295)	(0.1%)
Office Costs	10,385,388	10,185,788	199,600	2.0%
Professional Services	2,487,491	2,185,100	302,391	13.8%
Miscellaneous	48,505	100,151	(51,646)	(51.6%)
Total Operating Expenses, excluding Depreciation	29,253,016	28,766,294	486,722	1.7%
Total Direct Expenses	77,602,003	79,157,476	(1,555,473)	(2.0%)
Indirect Expenses	-	-	-	-
Other Non-Operating Expenses	(264,668)	129,661	(394,329)	(304.1%)
Total Expenses (B)	77,337,335	79,287,137	(1,949,802)	(2.5%)
Change in Net Assets (=A-B)	4,209,057	1,868,413	2,340,644	125.3%
Fixed Asset Additions, excluding Right of Use Assets (C)	3,076,022	2,751,500	324,522	11.8%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(864,106)	(100,000)	(764,106)	764.1%
Loan or Financing Lease - Principal Payments (+)	766,233	944,601	(178,368)	(18.9%)
Net Financing Activity (D)	(97,873)	844,601	(942,474)	(111.6%)
Total Budget (=B+C+D)	80,315,484	82,883,238	(2,567,754)	(3.1%)
Change in Working Capital (=A-B-C-D)	1,230,908	(1,727,688)	2,958,596	(171.2%)
FTEs	208.75	213.38	(4.63)	(2.2%)

* 12/31/2021 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 Management Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	7,833,694	7,833,694	(0)	(0.0%)
Penalties Released	-	-	-	-
Total NERC Funding	7,833,694	7,833,694	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	-
Testing, Renewal, & Continuing Ed Fees	-	-	-	-
Services & Software	-	-	-	-
Miscellaneous Funding	376	-	376	
Interest & Investment Income	493	22,947	(22,454)	(97.9%)
Total Funding (A)	7,834,563	7,856,641	(22,078)	(0.3%)
Expenses				
Personnel Expenses				
Salaries	2,792,584	2,468,752	323,833	13.1%
Payroll Taxes	172,297	155,276	17,021	11.0%
Benefits	370,663	415,057	(44,394)	(10.7%)
Retirement Costs	263,469	272,927	(9,458)	(3.5%)
Total Personnel Expenses	3,599,013	3,312,011	287,002	8.7%
Meetings and Travel Expenses				
Meetings & Conference Calls	150	37,860	(37,710)	(99.6%)
Travel	2,141	115,147	(113,006)	(98.1%)
Total Meetings and Travel Expenses	2,291	153,007	(150,716)	(98.5%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	239,798	114,552	125,246	109.3%
Office Rent	-	-	-	-
Office Costs	61,238	45,850	15,388	33.6%
Professional Services	-	-	-	-
Miscellaneous	651	2,200	(1,549)	(70.4%)
Total Operating Expenses, excluding Depreciation	301,687	162,602	139,085	85.5%
Total Direct Expenses	3,902,991	3,627,620	275,371	7.6%
Indirect Expenses	4,645,160	4,087,161	557,999	13.7%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	8,548,151	7,714,781	833,370	10.8%
Change in Net Assets (=A-B)	(713,588)	141,859	(855,448)	(603.0%)
Fixed Asset Additions, excluding Right of Use Assets (C)	102,724	82,885	19,838	23.9%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(25,087)	(12,558)	(12,528)	99.8%
Loan or Financing Lease - Principal Payments (+)	78,259	71,533	6,726	9.4%
Net Financing Activity (D)	53,172	58,974	(5,802)	(9.8%)
Total Budget (=B+C+D)	8,704,047	7,856,641	847,406	10.8%
Change in Working Capital (=A-B-C-D)	(869,484)	0	(869,484)	
FTEs	18.17	16.92	1.25	7.4%

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

- **Funding** – Investment and interest income was \$22k (97.9%) under budget due to lower interest rates than projected.
- **Personnel Expenses** – Over budget \$287k (8.7%) primarily due to the transfer of an FTE position from Advanced System Analytics and Modeling & Power System Analysis to this department and also lower attrition, partially offset by lower than budget medical premiums due to lower than budget rates, and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$151k (98.5%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$125k (109.3%) over budget mostly due to unbudgeted needs for Standards administrative support.
 - Office costs were \$15k (33.6%) greater than budget mainly attributable to higher than budgeted telephone expense.
- **Indirect Expenses** – Over budget \$558k (13.7%) primarily because the administrative departments' costs that get allocated to the program areas were higher than budgeted and also because the department's FTEs were higher than budgeted.
- **Fixed Asset Additions**
 - Software was over budget \$71k (100.0%) primarily due to capitalization of labor related to standards work for the Align program that was budgeted as expense.
 - The fixed asset additions allocation was under budget \$50k (61.3%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.
- **Financing Activity** – Financing activity proceeds has the effect of reducing the budget and financing activity principal payments has the effect of increasing the budget. The financing activity proceeds allocation from the administrative departments was greater than budgeted and the financing activity principal payments allocation was also higher than budgeted. The combination of the activity resulted in an expense lower than budgeted by \$6k (9.8%).

Compliance Assurance Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	11,226,425	11,226,425	(0)	(0.0%)
Penalties Released	-	-	-	
Total NERC Funding	11,226,425	11,226,425	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	350	-	350	
Interest & Investment Income	458	25,740	(25,282)	(98.2%)
Total Funding (A)	11,227,233	11,252,166	(24,933)	(0.2%)
Expenses				
Personnel Expenses				
Salaries	2,983,003	3,217,680	(234,677)	(7.3%)
Payroll Taxes	193,970	194,925	(954)	(0.5%)
Benefits	541,212	673,702	(132,489)	(19.7%)
Retirement Costs	294,401	357,281	(62,880)	(17.6%)
Total Personnel Expenses	4,012,587	4,443,587	(431,001)	(9.7%)
Meetings and Travel Expenses				
Meetings & Conference Calls	11,861	50,480	(38,619)	(76.5%)
Travel	1,460	207,736	(206,276)	(99.3%)
Total Meetings and Travel Expenses	13,321	258,216	(244,895)	(94.8%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	336,595	50,000	286,595	573.2%
Office Rent	-	-	-	
Office Costs	678,696	639,157	39,539	6.2%
Professional Services	-	-	-	
Miscellaneous	-	2,500	(2,500)	(100.0%)
Total Operating Expenses, excluding Depreciation	1,015,291	691,657	323,634	46.8%
Total Direct Expenses	5,041,198	5,393,460	(352,262)	(6.5%)
Indirect Expenses	4,315,372	4,584,579	(269,207)	(5.9%)
Other Non-Operating Expenses	16,266	27,500	(11,234)	(40.8%)
Total Expenses (B)	9,372,836	10,005,539	(632,703)	(6.3%)
Change in Net Assets (=A-B)	1,854,397	1,246,626	607,770	48.8%
Fixed Asset Additions, excluding Right of Use Assets (C)				
Fixed Asset Additions, excluding Right of Use Assets (C)	1,300,312	992,974	307,338	31.0%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(364,842)	(14,087)	(350,755)	2489.9%
Loan or Financing Lease - Principal Payments (+)	173,450	267,739	(94,290)	(35.2%)
Net Financing Activity (D)	(191,392)	253,653	(445,044)	(175.5%)
Total Budget (=B+C+D)	10,481,756	11,252,166	(770,409)	(6.8%)
Change in Working Capital (=A-B-C-D)	745,477	(0)	745,477	
FTEs	16.88	18.80	(1.92)	(10.2%)

Explanation of Variances by Category – Compliance Assurance

- **Funding** – Investment and interest income was \$25k (98.2%) under budget due to lower interest rates than budgeted.
- **Personnel Expenses** – Under budget \$431k (9.7%) primarily due to lower than budgeted FTEs, lower than budget medical premiums due to lower than budget rates, and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$245k (94.8%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$287k (573.2%) over budget primarily due to training and contractor costs on the Align and ERO Secure Evidence Locker (SEL) projects that were budgeted in fixed assets but recorded in contracts and consultants expense, as well as an unbudgeted contractor to support the ERO SEL.
- **Other Non-Operating Expenses** – Under budget \$11k (40.8%) because interest expense was lower than budgeted since the loan for the ERO SEL project occurred later in the year than had been budgeted.
- **Fixed Asset Additions**
 - Software was over budget \$342k (38.0%) mainly due to the timing of expenditures for the ERO SEL project that were approved to be spent and financed in 2020 but were incurred and financed instead in 2021.
 - The fixed asset additions allocation was under budget \$63k (68.0%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.
- **Financing Activity**
 - The Net Financing Activity budget, which is comprised of financing proceeds and principal payments, did not contemplate NERC receiving loan proceeds in 2021 for the ERO SEL project, but due to the timing of expenditures on the ERO SEL capital investment, NERC borrowed approximately \$683k (half allocated to Compliance Assurance and half allocated to Compliance Enforcement) in 2021 to fund costs of the project primarily carried over from 2020. Accordingly, debt principal payments in 2021 were lower than budgeted since the loan did not occur until later in the year. The total borrowing for the ERO SEL project in 2020 and 2021 was \$25k less than the \$2.0 million approved by the NERC Board of Trustees in 2020 for the project initial investment, and the total capital costs incurred in 2020 and 2021 were slightly under the approved budget of \$3.8M.

- Financing activity proceeds has the effect of reducing the budget and financing activity principal payments has the effect of increasing the budget. The financing activity proceeds allocation from the administrative departments was greater than budgeted and the financing activity principal payments allocation was also higher than budgeted. The combination of the activity resulted in an expense lower than budgeted by \$17k (25.3%).

Registration and Certification
Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	2,427,702	2,427,702	0	0.0%
Penalties Released	-	-	-	-
Total NERC Funding	2,427,702	2,427,702	0	0.0%
Third-Party Funding (CRISP)	-	-	-	-
Testing, Renewal, & Continuing Ed Fees	-	-	-	-
Services & Software	-	-	-	-
Miscellaneous Funding	87	-	87	-
Interest & Investment Income	114	6,435	(6,321)	(98.2%)
Total Funding (A)	2,427,903	2,434,137	(6,234)	(0.3%)
Expenses				
Personnel Expenses				
Salaries	832,332	821,111	11,222	1.4%
Payroll Taxes	47,219	49,494	(2,275)	(4.6%)
Benefits	125,807	150,809	(25,002)	(16.6%)
Retirement Costs	81,024	92,406	(11,382)	(12.3%)
Total Personnel Expenses	1,086,382	1,113,819	(27,437)	(2.5%)
Meetings and Travel Expenses				
Meetings & Conference Calls	-	1,262	(1,262)	(100.0%)
Travel	-	29,677	(29,677)	(100.0%)
Total Meetings and Travel Expenses	-	30,939	(30,939)	(100.0%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	41,760	39,552	2,208	5.6%
Office Rent	-	-	-	-
Office Costs	10,054	13,150	(3,096)	(23.5%)
Professional Services	-	-	-	-
Miscellaneous	-	750	(750)	(100.0%)
Total Operating Expenses, excluding Depreciation	51,814	53,452	(1,638)	(3.1%)
Total Direct Expenses	1,138,195	1,198,210	(60,015)	(5.0%)
Indirect Expenses	1,076,286	1,146,145	(69,858)	(6.1%)
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	2,214,482	2,344,355	(129,873)	(5.5%)
Change in Net Assets (=A-B)	213,421	89,782	123,640	137.7%
Fixed Asset Additions, excluding Right of Use Assets (C)	7,428	73,244	(65,815)	(89.9%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(5,813)	(3,522)	(2,291)	65.0%
Loan or Financing Lease - Principal Payments (+)	18,133	20,060	(1,927)	(9.6%)
Net Financing Activity (D)	12,320	16,538	(4,218)	(25.5%)
Total Budget (=B+C+D)	2,234,230	2,434,137	(199,906)	(8.2%)
Change in Working Capital (=A-B-C-D)	193,673	0	193,673	-
FTEs	4.21	4.70	(0.49)	(10.4%)

Explanation of Variances by Category – Registration and Certification

- **Personnel Expenses** – Under budget \$27k (2.5%) primarily due to lower than budget medical premiums due to lower than budget rates, and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$27k (2.5%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Fixed Asset Additions**
 - Software was under budget \$50k (100.0%) primarily due to budgeted enhancements and modifications for Entity Registration CORES that did not occur.
 - The fixed asset additions allocation was under budget \$16k (68.0%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Compliance Enforcement Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	7,311,144	7,311,144	0	0.0%
Penalties Released	-	-	-	
Total NERC Funding	7,311,144	7,311,144	0	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	244	-	244	
Interest & Investment Income	320	16,731	(16,411)	(98.1%)
Total Funding (A)	7,311,709	7,327,875	(16,167)	(0.2%)
Expenses				
Personnel Expenses				
Salaries	1,706,948	1,839,039	(132,091)	(7.2%)
Payroll Taxes	125,150	115,307	9,843	8.5%
Benefits	171,449	220,988	(49,539)	(22.4%)
Retirement Costs	183,287	196,667	(13,380)	(6.8%)
Total Personnel Expenses	2,186,834	2,372,000	(185,166)	(7.8%)
Meetings and Travel Expenses				
Meetings & Conference Calls	-	6,310	(6,310)	(100.0%)
Travel	56	32,645	(32,589)	(99.8%)
Total Meetings and Travel Expenses	56	38,955	(38,899)	(99.9%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	199,370	69,000	130,370	188.9%
Office Rent	-	-	-	
Office Costs	650,257	632,612	17,645	2.8%
Professional Services	-	15,000	(15,000)	(100.0%)
Miscellaneous	-	1,900	(1,900)	(100.0%)
Total Operating Expenses, excluding Depreciation	849,627	718,512	131,115	18.2%
Total Direct Expenses	3,036,517	3,129,467	(92,950)	(3.0%)
Indirect Expenses	3,016,670	2,979,976	36,694	1.2%
Other Non-Operating Expenses	16,266	27,500	(11,234)	(40.8%)
Total Expenses (B)	6,069,453	6,136,943	(67,490)	(1.1%)
Change in Net Assets (=A-B)	1,242,256	1,190,932	51,324	4.3%
Fixed Asset Additions, excluding Right of Use Assets (C)	1,291,348	960,433	330,915	34.5%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(357,828)	(9,157)	(348,671)	3807.9%
Loan or Financing Lease - Principal Payments (+)	151,570	239,656	(88,085)	(36.8%)
Net Financing Activity (D)	(206,258)	230,499	(436,757)	(189.5%)
Total Budget (=B+C+D)	7,154,543	7,327,875	(173,332)	(2.4%)
Change in Working Capital (=A-B-C-D)	157,165	(0)	157,165	
FTEs	11.80	12.22	(0.42)	(3.4%)

Explanation of Variances by Category – Compliance Enforcement

- **Funding** – Investment and interest income was \$16k (98.1%) under budget due to lower interest rates than budgeted.
- **Personnel Expenses** – Under budget \$185k (7.8%) primarily due to lower than budgeted FTEs.
- **Meetings and Travel Expenses** – Under budget \$39k (99.9%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$130k (188.9%) over budget primarily due to training and contractor costs on the Align and ERO SEL projects that were budgeted in fixed assets but recorded in contracts and consultants expense.
 - Professional services expenses were \$15k (100%) under budget because of costs budgeted for legal services that were not needed.
- **Other Non-Operating Expenses** – Under budget \$11k (40.8%) because interest expense was lower than budgeted since the loan for the ERO SEL project occurred later in the year than had been budgeted.
- **Fixed Asset Additions**
 - Software was over budget \$342k (38.0%) mainly due to the timing of expenditures for the ERO SEL project that were approved to be spent and financed in 2020 but were incurred and financed instead in 2021.
 - The fixed asset additions allocation was under budget \$40k (65.5%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.
- **Financing Activity**
 - The Net Financing Activity budget, which is comprised of financing proceeds and principal payments, did not contemplate NERC receiving loan proceeds in 2021 for the ERO SEL project, but due to the timing of expenditures on the ERO SEL capital investment, NERC borrowed approximately \$683k (half allocated to Compliance Assurance and half allocated to Compliance Enforcement) in 2021 to fund costs of the project primarily carried over from 2020. Accordingly, debt principal payments in 2021 were lower than budgeted since the loan did not occur until later in the year. The total borrowing for the ERO SEL project in 2020 and 2021 was \$25k less than the \$2.0 million approved by the NERC Board of Trustees in 2020 for the project initial investment, and the total capital costs incurred in 2020 and 2021 were slightly under the approved budget of \$3.8M.

- Financing activity proceeds has the effect of reducing the budget and financing activity principal payments has the effect of increasing the budget. The financing activity proceeds allocation from the administrative departments was greater than budgeted and the financing activity principal payments allocation was also higher than budgeted. The combination of the activity resulted in an expense lower than budgeted by \$8k (19.7%).

BPS Security and Grid Transformation Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	841,393	841,393	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	841,393	841,393	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	21	-	21	
Interest & Investment Income	27	11,583	(11,556)	(99.8%)
Total Funding (A)	841,441	852,977	(11,535)	(1.4%)
Expenses				
Personnel Expenses				
Salaries	206,230	307,690	(101,461)	(33.0%)
Payroll Taxes	12,505	18,563	(6,058)	(32.6%)
Benefits	33,227	43,169	(9,942)	(23.0%)
Retirement Costs	22,871	33,149	(10,279)	(31.0%)
Total Personnel Expenses	274,832	402,572	(127,740)	(31.7%)
Meetings and Travel Expenses				
Meetings & Conference Calls	-	-	-	
Travel	(298)	21,367	(21,665)	(101.4%)
Total Meetings and Travel Expenses	(298)	21,367	(21,665)	(101.4%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	24,064	-	24,064	
Office Rent	-	-	-	
Office Costs	22,045	3,500	18,545	529.9%
Professional Services	-	-	-	
Miscellaneous	-	800	(800)	(100.0%)
Total Operating Expenses, excluding Depreciation	46,109	4,300	41,809	972.3%
Total Direct Expenses	320,643	428,239	(107,595)	(25.1%)
Indirect Expenses	255,650	410,894	(155,244)	(37.8%)
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	576,293	839,132	(262,839)	(31.3%)
Change in Net Assets (=A-B)	265,148	13,844	251,304	1815.2%
Fixed Asset Additions, excluding Right of Use Assets (C)	1,764	8,089	(6,324)	(78.2%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(1,381)	(1,226)	(155)	12.7%
Loan or Financing Lease - Principal Payments (+)	4,307	6,981	(2,674)	(38.3%)
Net Financing Activity (D)	2,926	5,755	(2,829)	(49.2%)
Total Budget (=B+C+D)	580,984	852,977	(271,992)	(31.9%)
Change in Working Capital (=A-B-C-D)	260,457	(0)	260,457	
FTEs	1.00	2.82	(1.82)	(64.5%)

Explanation of Variances by Category – BPS Security and Grid Transformation

- **Funding** – Investment and interest income was \$12k (99.8%) under budget due to lower interest rates than budgeted.
- **Personnel Expenses** – Under budget \$128k (31.7%) primarily due to FTEs that were budgeted to start later in the year but that were not hired.
- **Meetings and Travel Expenses** – Under budget \$22k (101.4%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$24k over budget primarily as a result of an unbudgeted contractor to support operational technology/industrial control system cyber security functions.
 - Office Costs were \$19k (529.9%) greater than budget mainly due to unbudgeted software license and support costs.
- **Indirect Expenses** – Under budget \$155k (37.8%) primarily because the department's FTEs were lower than budgeted.

Reliability Assessments and Technical Committees Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	3,844,460	3,844,460	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	3,844,460	3,844,460	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	166	-	166	
Interest & Investment Income	217	10,296	(10,079)	(97.9%)
Total Funding (A)	3,844,842	3,854,756	(9,913)	(0.3%)
Expenses				
Personnel Expenses				
Salaries	1,336,682	1,224,612	112,070	9.2%
Payroll Taxes	81,924	74,564	7,359	9.9%
Benefits	156,219	200,499	(44,280)	(22.1%)
Retirement Costs	141,416	136,174	5,242	3.8%
Total Personnel Expenses	1,716,241	1,635,850	80,391	4.9%
Meetings and Travel Expenses				
Meetings & Conference Calls	25	135,413	(135,388)	(100.0%)
Travel	1,522	56,386	(54,864)	(97.3%)
Total Meetings and Travel Expenses	1,547	191,799	(190,252)	(99.2%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	130,680	59,552	71,128	119.4%
Office Rent	-	-	-	
Office Costs	69,068	68,773	295	0.4%
Professional Services	-	-	-	
Miscellaneous	600	1,300	(700)	(53.9%)
Total Operating Expenses, excluding Depreciation	200,347	129,625	70,722	54.6%
Total Direct Expenses	1,918,135	1,957,274	(39,139)	(2.0%)
Indirect Expenses	2,045,200	1,833,832	211,368	11.5%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	3,963,335	3,791,106	172,229	4.5%
Change in Net Assets (=A-B)	(118,492)	63,650	(182,143)	(286.2%)
Fixed Asset Additions, excluding Right of Use Assets (C)	14,116	37,190	(23,074)	(62.0%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(11,045)	(5,635)	(5,411)	96.0%
Loan or Financing Lease - Principal Payments (+)	34,456	32,096	2,361	7.4%
Net Financing Activity (D)	23,411	26,461	(3,050)	(11.5%)
Total Budget (=B+C+D)	4,000,862	3,854,756	146,106	3.8%
Change in Working Capital (=A-B-C-D)	(156,019)	(0)	(156,019)	
FTEs	8.00	7.52	0.48	6.4%

Explanation of Variances by Category – Reliability Assessments and Technical Committees

- **Funding** – Investment and interest income was \$10k (97.9%) under budget due to lower interest rates than budgeted.
- **Personnel Expenses** – Over budget \$80k (4.9%) primarily due to higher than budgeted FTEs, partially offset by lower than budget medical premiums due to lower than budget rates and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$190k (99.2%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$71k (119.4%) over budget primarily due to the unbudgeted co-funded resource adequacy project with the Electric Power Research Institute (EPRI).
- **Indirect Expenses** – Over budget \$211k (11.5%) primarily because the administrative departments' costs that get allocated to the program areas were higher than budgeted and also because the department's FTEs were higher than budgeted.
- **Fixed Asset Additions** – Under budget \$23k (62.0%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

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

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	4,629,517	4,629,517	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	4,629,517	4,629,517	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	161	-	161	
Interest & Investment Income	211	8,790	(8,579)	(97.6%)
Total Funding (A)	4,629,889	4,638,307	(8,418)	(0.2%)
Expenses				
Personnel Expenses				
Salaries	1,331,927	1,433,133	(101,207)	(7.1%)
Payroll Taxes	86,019	89,592	(3,572)	(4.0%)
Benefits	177,313	242,287	(64,974)	(26.8%)
Retirement Costs	148,579	160,034	(11,455)	(7.2%)
Total Personnel Expenses	1,743,838	1,925,046	(181,208)	(9.4%)
Meetings and Travel Expenses				
Meetings & Conference Calls	-	22,085	(22,085)	(100.0%)
Travel	1,573	97,934	(96,361)	(98.4%)
Total Meetings and Travel Expenses	1,573	120,019	(118,447)	(98.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	114,750	165,000	(50,250)	(30.5%)
Office Rent	-	-	-	
Office Costs	202,467	292,175	(89,708)	(30.7%)
Professional Services	-	-	-	
Miscellaneous	58	1,400	(1,342)	(95.9%)
Total Operating Expenses, excluding Depreciation	317,275	458,575	(141,300)	(30.8%)
Total Direct Expenses	2,062,686	2,503,640	(440,954)	(17.6%)
Indirect Expenses	1,988,957	2,063,060	(74,104)	(3.6%)
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	4,051,643	4,566,700	(515,058)	(11.3%)
Change in Net Assets (=A-B)	578,247	71,607	506,640	707.5%
Fixed Asset Additions, excluding Right of Use Assets (C)				
	13,728	41,838	(28,111)	(67.2%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(10,742)	(6,339)	(4,403)	69.4%
Loan or Financing Lease - Principal Payments (+)	33,509	36,108	(2,599)	(7.2%)
Net Financing Activity (D)	22,767	29,769	(7,001)	(23.5%)
Total Budget (=B+C+D)	4,088,137	4,638,307	(550,170)	(11.9%)
Change in Working Capital (=A-B-C-D)	541,752	(0)	541,752	
FTEs	7.78	8.46	(0.68)	(8.0%)

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

- **Personnel Expenses** – Under budget \$181k (9.4%) primarily due to the transfer of an FTE position from this department to the Reliability Standards and Power Risk Issue Management department and also because of lower than budget medical premiums due to lower than budget rates and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$118k (98.7%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$50k (30.5%) under budget primarily due to money budgeted for probabilistic analysis support that was not used.
 - Office cost expenses were \$90k (30.7%) under budget mainly because of software that was budgeted but not needed.
- **Fixed Asset Additions** – Under budget \$28k (67.2%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Performance Analysis Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	3,223,158	3,223,158	0	0.0%
Penalties Released	-	-	-	
Total NERC Funding	3,223,158	3,223,158	0	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	53,000	60,000	(7,000)	(11.7%)
Miscellaneous Funding	109	-	109	
Interest & Investment Income	142	2,239	(2,096)	(93.6%)
Total Funding (A)	3,276,409	3,285,397	(8,988)	(0.3%)
Expenses				
Personnel Expenses				
Salaries	708,547	865,023	(156,476)	(18.1%)
Payroll Taxes	51,538	61,693	(10,156)	(16.5%)
Benefits	81,607	136,511	(54,904)	(40.2%)
Retirement Costs	73,811	95,834	(22,023)	(23.0%)
Total Personnel Expenses	915,502	1,159,061	(243,559)	(21.0%)
Meetings and Travel Expenses				
Meetings & Conference Calls	-	11,358	(11,358)	(100.0%)
Travel	763	23,742	(22,979)	(96.8%)
Total Meetings and Travel Expenses	763	35,100	(34,337)	(97.8%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	138,105	178,651	(40,546)	(22.7%)
Office Rent	-	-	-	
Office Costs	302,662	291,502	11,160	3.8%
Professional Services	-	-	-	
Miscellaneous	-	1,100	(1,100)	(100.0%)
Total Operating Expenses, excluding Depreciation	440,767	471,253	(30,486)	(6.5%)
Total Direct Expenses	1,357,031	1,665,414	(308,383)	(18.5%)
Indirect Expenses	1,342,162	1,565,643	(223,480)	(14.3%)
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,699,194	3,231,057	(531,863)	(16.5%)
Change in Net Assets (=A-B)	577,215	54,340	522,875	962.2%
Fixed Asset Additions, excluding Right of Use Assets (C)				
	9,264	31,750	(22,486)	(70.8%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(7,249)	(4,811)	(2,438)	50.7%
Loan or Financing Lease - Principal Payments (+)	22,612	27,401	(4,789)	(17.5%)
Net Financing Activity (D)	15,363	22,590	(7,227)	(32.0%)
Total Budget (=B+C+D)	2,723,821	3,285,396	(561,576)	(17.1%)
Change in Working Capital (=A-B-C-D)	552,588	0	552,588	
FTEs	5.25	6.58	(1.33)	(20.2%)

Explanation of Variances by Category – Performance Analysis

- **Personnel expenses** – Under budget \$244k (21.0%) due to lower than budgeted FTEs.
- **Meetings and Travel Expenses** – Under budget \$34k (97.8%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$41k (22.7%) under budget primarily due to lower than anticipated contractor needs for Generating Availability Data System (GADS) support.
- **Indirect Expenses** – Under budget \$223k (14.3%) primarily because the department’s FTEs were lower than budgeted.
- **Fixed Asset Additions** – Under budget \$22k (70.8%) largely because the administrative departments’ fixed asset additions allocated to the program areas were lower than budgeted.

Situation Awareness
Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	4,441,980	4,441,980	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	4,441,980	4,441,980	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	145	-	145	
Interest & Investment Income	190	9,009	(8,819)	(97.9%)
Total Funding (A)	4,442,314	4,450,989	(8,675)	(0.2%)
Expenses				
Personnel Expenses				
Salaries	1,114,160	993,129	121,031	12.2%
Payroll Taxes	71,483	65,048	6,435	9.9%
Benefits	214,897	268,930	(54,033)	(20.1%)
Retirement Costs	102,376	111,336	(8,960)	(8.0%)
Total Personnel Expenses	1,502,916	1,438,443	64,473	4.5%
Meetings and Travel Expenses				
Meetings & Conference Calls	33,537	66,310	(32,773)	(49.4%)
Travel	309	20,774	(20,465)	(98.5%)
Total Meetings and Travel Expenses	33,846	87,084	(53,238)	(61.1%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	-	15,000	(15,000)	(100.0%)
Office Rent	-	-	-	
Office Costs	1,176,236	1,133,065	43,171	3.8%
Professional Services	-	-	-	
Miscellaneous	53	1,100	(1,047)	(95.2%)
Total Operating Expenses, excluding Depreciation	1,176,289	1,149,165	27,124	2.4%
Total Direct Expenses	2,713,050	2,674,692	38,359	1.4%
Indirect Expenses	1,786,993	1,604,603	182,391	11.4%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	4,500,044	4,279,294	220,749	5.2%
Change in Net Assets (=A-B)	(57,730)	171,694	(229,424)	(133.6%)
Fixed Asset Additions, excluding Right of Use Assets (C)				
	12,334	148,541	(136,207)	(91.7%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(9,651)	(4,930)	(4,720)	95.7%
Loan or Financing Lease - Principal Payments (+)	30,106	28,084	2,022	7.2%
Net Financing Activity (D)	20,455	23,153	(2,698)	(11.7%)
Total Budget (=B+C+D)	4,532,833	4,450,989	81,844	1.8%
Change in Working Capital (=A-B-C-D)	(90,519)	(0)	(90,519)	-
FTEs	6.99	6.58	0.41	6.2%

Explanation of Variances by Category – Situation Awareness

- **Personnel Expenses** – Over budget \$64k (4.5%) primarily due to higher than budgeted FTEs, partially offset by lower than budget medical premiums due to lower than budget rates and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$53k (61.1%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses** – Contract and consultant expenses were \$15k (100.0%) under budget primarily due to money budgeted for software enhancement support that was not used.
- **Indirect Expenses** – Over budget \$182k (11.4%) primarily because the administrative departments' costs that get allocated to the program areas were higher than budgeted and also because the department's FTEs were higher than budgeted.
- **Fixed Asset Additions**
 - Software was under budget \$116k (100.0%) since that amount had been budgeted for potential SAFNR v3 enhancements and RCIS replacement development support that was not used.
 - The fixed asset additions allocation was under budget \$20k (62.1%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Event Analysis
Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	4,276,917	4,276,917	(0)	(0.0%)
Penalties Released	-	-	-	
Total NERC Funding	4,276,917	4,276,917	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	134	-	134	
Interest & Investment Income	176	10,296	(10,120)	(98.3%)
Total Funding (A)	4,277,227	4,287,213	(9,986)	(0.2%)
Expenses				
Personnel Expenses				
Salaries	1,272,975	1,630,745	(357,771)	(21.9%)
Payroll Taxes	83,424	85,892	(2,469)	(2.9%)
Benefits	170,257	218,265	(48,008)	(22.0%)
Retirement Costs	141,412	179,177	(37,765)	(21.1%)
Total Personnel Expenses	1,668,068	2,114,080	(446,012)	(21.1%)
Meetings and Travel Expenses				
Meetings & Conference Calls	2,500	18,930	(16,430)	(86.8%)
Travel	(38)	89,031	(89,069)	(100.0%)
Total Meetings and Travel Expenses	2,462	107,961	(105,499)	(97.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	86,445	115,590	(29,145)	(25.2%)
Office Rent	-	-	-	
Office Costs	42,217	50,500	(8,283)	(16.4%)
Professional Services	-	-	-	
Miscellaneous	57	1,600	(1,543)	(96.4%)
Total Operating Expenses, excluding Depreciation	128,719	167,690	(38,971)	(23.2%)
Total Direct Expenses	1,799,249	2,389,731	(590,481)	(24.7%)
Indirect Expenses	1,656,612	1,833,832	(177,220)	(9.7%)
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	3,455,861	4,223,562	(767,701)	(18.2%)
Change in Net Assets (=A-B)	821,365	63,650	757,715	1190.4%
Fixed Asset Additions, excluding Right of Use Assets (C)				
	11,434	37,190	(25,756)	(69.3%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(8,947)	(5,635)	(3,312)	58.8%
Loan or Financing Lease - Principal Payments (+)	27,910	32,096	(4,186)	(13.0%)
Net Financing Activity (D)	18,963	26,461	(7,498)	(28.3%)
Total Budget (=B+C+D)	3,486,258	4,287,213	(800,955)	(18.7%)
Change in Working Capital (=A-B-C-D)	790,969	(0)	790,969	
FTEs	6.48	7.52	(1.04)	(13.8%)

Explanation of Variances by Category – Event Analysis

- **Funding** – Investment and interest income was \$10k (98.3%) under budget due to lower interest rates than budgeted.
- **Personnel Expenses** – Under budget \$446k (21.1%) primarily due to lower salary and retirement costs due to lower attrition, including the vacancy of a senior management position, which was partially used to offset a resource need in the Situation Awareness department. Also contributing to the variance were lower than budget training expenses and parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$105k (97.7%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$29k (25.2%) under budget primarily because of budgeted event analysis staff augmentation review support that was not needed.
- **Fixed Asset Additions**
 - The fixed asset additions allocation was under budget \$26k (69.3%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

E-ISAC (excluding CRISP) Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	21,577,172	21,577,172	0	0.0%
Penalties Released	-	-	-	
Total NERC Funding	21,577,172	21,577,172	0	0.0%
Third-Party Funding (CRISP)				
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	60,744	-	60,744	
Interest & Investment Income	975	48,360	(47,385)	(98.0%)
Total Funding (A)	21,638,891	21,625,531	13,359	0.1%
Expenses				
Personnel Expenses				
Salaries	6,495,286	6,608,091	(112,805)	(1.7%)
Payroll Taxes	451,851	384,291	67,560	17.6%
Benefits	787,842	912,362	(124,521)	(13.6%)
Retirement Costs	682,810	726,065	(43,255)	(6.0%)
Total Personnel Expenses	8,417,788	8,630,809	(213,020)	(2.5%)
Meetings and Travel Expenses				
Meetings & Conference Calls	14,815	75,240	(60,425)	(80.3%)
Travel	19,322	192,901	(173,579)	(90.0%)
Total Meetings and Travel Expenses	34,137	268,141	(234,004)	(87.3%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	2,334,751	2,399,918	(65,167)	(2.7%)
Office Rent	-	-	-	
Office Costs	1,340,463	1,357,910	(17,447)	(1.3%)
Professional Services	-	-	-	
Miscellaneous	4,110	8,900	(4,790)	(53.8%)
Total Operating Expenses, excluding Depreciation	3,679,324	3,766,728	(87,404)	(2.3%)
Total Direct Expenses	12,131,249	12,665,677	(534,429)	(4.2%)
Indirect Expenses	9,188,060	8,627,890	560,171	6.5%
Other Non-Operating Expenses				
Total Expenses (B)	21,319,309	21,293,567	25,742	0.1%
Change in Net Assets (=A-B)	319,582	331,965	(12,383)	(3.7%)
Fixed Asset Additions, excluding Right of Use Assets (C)				
	154,568	207,678	(53,110)	(25.6%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(49,621)	(26,466)	(23,155)	87.5%
Loan or Financing Lease - Principal Payments (+)	154,795	150,753	4,042	2.7%
Net Financing Activity (D)	105,174	124,286	(19,113)	(15.4%)
Total Budget (=B+C+D)	21,579,051	21,625,531	(46,480)	(0.2%)
Change in Working Capital (=A-B-C-D)	59,840	0	59,840	
FTEs	35.94	36.66	(0.72)	(2.0%)

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

- **Funding**
 - Miscellaneous funding was \$61k (100.0%) over budget due to the receipt of unbudgeted revenue related to the E-ISAC's partnership with the Downstream Natural Gas Information Sharing and Analysis Center.
 - Investment and interest income was \$47k (98.0%) under budget due to lower interest rates than budgeted.
- **Personnel Expenses** – Under budget \$213k (2.5%) primarily because of the transfer of personnel costs to the CRISP department for E-ISAC staff time worked in CRISP.
- **Meetings and Travel Expenses** – Under budget \$234k (87.3%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Indirect Expenses** – Under budget \$2.2M (22.9%) primarily because the administrative departments' costs that get allocated to the program areas were lower than budgeted and also because the department's FTEs were lower than budgeted.
- **Fixed Asset Additions**
 - Software was over budget \$58k (176.2%) mainly due because of 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 \$111k (63.7%) largely because the administrative departments' fixed asset additions that get allocated to the program areas were lower than budgeted.
- **Financing Activity** – Financing activity proceeds has the effect of reducing the budget and financing activity principal payments has the effect of increasing the budget. The financing activity proceeds allocation from the administrative departments was greater than budgeted and the financing activity principal payments allocation was also higher than budgeted. The combination of the activity resulted in an expense lower than budgeted by \$19k (15.4%).

CRISP Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	1,095,863	1,095,863	0	0.0%
Penalties Released	-	-	-	
Total NERC Funding	1,095,863	1,095,863	0	0.0%
Third-Party Funding (CRISP)	7,661,036	7,064,343	596,693	8.4%
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	75	-	75	
Interest & Investment Income	1,264	36,000	(34,736)	(96.5%)
Total Funding (A)	8,758,239	8,196,207	562,032	6.9%
Expenses				
Personnel Expenses				
Salaries	724,638	675,511	49,127	7.3%
Payroll Taxes	29,047	28,917	130	0.4%
Benefits	111,926	77,660	34,266	44.1%
Retirement Costs	41,720	50,923	(9,203)	(18.1%)
Total Personnel Expenses	907,331	833,011	74,320	8.9%
Meetings and Travel Expenses				
Meetings & Conference Calls	22,453	7,572	14,881	196.5%
Travel	5,120	21,367	(16,247)	(76.0%)
Total Meetings and Travel Expenses	27,574	28,939	(1,365)	(4.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	5,253,550	6,325,723	(1,072,173)	(16.9%)
Office Rent	-	-	-	
Office Costs	483,648	111,528	372,120	333.7%
Professional Services	186,476	135,000	51,476	38.1%
Miscellaneous	30	450	(420)	(93.3%)
Total Operating Expenses, excluding Depreciation	5,923,703	6,572,701	(648,998)	(9.9%)
Total Direct Expenses	6,858,607	7,434,651	(576,043)	(7.7%)
Indirect Expenses	925,453	687,687	237,766	34.6%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	7,784,060	8,122,338	(338,277)	(4.2%)
Change in Net Assets (=A-B)	974,178	73,869	900,309	1218.8%
Fixed Asset Additions, excluding Right of Use Assets (C)	148,179	63,946	84,233	131.7%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(4,998)	(2,113)	(2,885)	136.5%
Loan or Financing Lease - Principal Payments (+)	15,591	12,036	3,556	29.5%
Net Financing Activity (D)	10,593	9,923	671	6.8%
Total Budget (=B+C+D)	7,942,833	8,196,207	(253,374)	(3.1%)
Change in Working Capital (=A-B-C-D)	815,406	(0)	815,406	
FTEs	3.62	2.82	0.80	28.4%

Explanation of Variances by Category – CRISP

- **Funding**
 - Third-Party Funding, which represents funding of CRISP expenses by CRISP participants, was over budget \$597k (8.4%) a result of unspent funds collected from the CRISP participants in 2021 being directed to a the CRISP Operating Reserve in 2021 rather than returned to the CRISP members.
 - Investment and interest income was \$35k (96.5%) under budget due to lower interest rates than budgeted.
- **Personnel Expenses**
 - Benefits were \$34k (44.1%) over budget because of plan selections made by employees that differed from budget and also because of higher than budgeted reimbursement for education expenses.
- **Meetings and Travel Expenses**
 - Meetings & Conference Calls expenses were \$15k (196.5%) higher than budget mainly due to the costs of promotional materials for CRISP meetings and conferences.
 - Travel expenses were \$16kk (76.0%) under budget because of lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$1.1M (16.9%) under budget largely because \$600k that had been collected in 2021 for pilot projects costs was unable to be spent. At the request of the CRISP participants, these funds have been placed in the CRISP Operating Reserve. Additionally, the costs for the primary CRISP subcontractor were lower than budgeted.
 - Office Costs were \$372k (333.7%) higher than budget mainly due to a portion of the software costs related to the CRISP OT pilot project that were budgeted but unspent in 2020 and were spent in 2021 instead (using funding from the CRISP Special Projects Reserve). Additionally, there were other software license and support needs spent on the CRISP program that were not budgeted for.
 - Professional services were \$51k (38.1) over budget primarily because of increased costs for liability insurance.
- **Indirect Expenses** – Over budget \$238k (34.6%) primarily because the administrative departments' costs that get allocated to the program areas were higher than budgeted and also because the department's FTEs were higher than budgeted.
- **Fixed Asset Additions**
 - Computers were under budget \$50k (100.0%) because the budgeted purchases were not needed.

- Software was over budget \$37k (100.0%) due to capitalization of labor related to the OT pilot project that was budgeted as expense.
- Equipment was over budget \$105k (100.0%) as a result of equipment costs for the OT pilot project that had been budgeted but unspent in 2020 and were spent in 2021 instead (using funding from the CRISP Special Projects Reserve).
- The fixed asset additions allocation was under budget \$8k (54.2%) largely because the administrative departments' fixed asset additions that get allocated to the program areas were lower than budgeted.

**Training, Education and Personnel Certification
Statement of Activities**

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	1,081,949	1,081,949	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	1,081,949	1,081,949	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	1,753,104	1,801,634	(48,530)	(2.7%)
Services & Software	-	-	-	
Miscellaneous Funding	244	-	244	
Interest & Investment Income	436	9,774	(9,338)	(95.5%)
Total Funding (A)	2,835,733	2,893,357	(57,624)	(2.0%)
Expenses				
Personnel Expenses				
Salaries	577,192	530,944	46,248	8.7%
Payroll Taxes	42,426	40,673	1,754	4.3%
Benefits	85,186	108,210	(23,024)	(21.3%)
Retirement Costs	64,337	59,136	5,201	8.8%
Total Personnel Expenses	769,141	738,963	30,179	4.1%
Meetings and Travel Expenses				
Meetings & Conference Calls	-	21,454	(21,454)	(100.0%)
Travel	(20)	16,487	(16,507)	(100.1%)
Total Meetings and Travel Expenses	(20)	37,941	(37,961)	(100.1%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	491,791	558,650	(66,859)	(12.0%)
Office Rent	-	-	-	
Office Costs	243,514	256,065	(12,551)	(4.9%)
Professional Services	-	-	-	
Miscellaneous	-	1,000	(1,000)	(100.0%)
Total Operating Expenses, excluding Depreciation	735,304	815,715	(80,411)	(9.9%)
Total Direct Expenses	1,504,426	1,592,619	(88,193)	(5.5%)
Indirect Expenses	1,278,250	1,146,145	132,105	11.5%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	2,782,676	2,738,764	43,913	1.6%
Change in Net Assets (=A-B)	53,057	154,593	(101,537)	(65.7%)
Fixed Asset Additions, excluding Right of Use Assets (C)	8,822	65,744	(56,921)	(86.6%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(6,903)	(3,522)	(3,382)	96.0%
Loan or Financing Lease - Principal Payments (+)	21,535	20,060	1,475	7.4%
Net Financing Activity (D)	14,632	16,538	(1,906)	(11.5%)
Total Budget (=B+C+D)	2,806,130	2,821,045	(14,915)	(0.5%)
Change in Working Capital (=A-B-C-D)	29,603	72,312	(42,709)	(59.1%)
FTEs	5.00	4.70	0.30	6.4%

Explanation of Variances by Category – Training, Education and Personnel Certification

- **Funding** – Testing, renewal, and continuing education fees were \$49k (2.7%) under budget mainly due to lower than budgeted system operator certificate renewal income.
- **Personnel expenses** – Over budget \$30k (4.1%) due to salaries being over budget due to higher FTEs than budgeted, partially offset by lower medical insurance premiums due to lower rates.
- **Meetings and Travel Expenses** – Under budget \$38k (100.1%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$67k (12.0%) under budget largely because of lower support costs than budgeted for ERO Enterprise transformation consulting, partially offset by the unbudgeted consulting costs for a credential maintenance research project.
- **Indirect Expenses** – Over budget \$132k (11.5%) primarily because the administrative departments' costs that get allocated to the program areas were higher than budgeted and also because the department's FTEs were higher than budgeted.
- **Fixed Asset Additions**
 - Software was under budget \$43k (100.0%) since that amount had been budgeted for potential enhancements to the credential maintenance system that were not made.
 - The fixed asset additions allocation was under budget \$14k (62.0%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Administrative Services Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	(1,800,000)	(1,800,000)	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	(1,800,000)	(1,800,000)	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	-	-	-	
Interest & Investment Income	-	-	-	
Total Funding (A)	(1,800,000)	(1,800,000)	-	0.0%
Expenses				
Personnel Expenses				
Salaries	15,065,100	14,021,169	1,043,931	7.4%
Payroll Taxes	831,520	758,335	73,185	9.7%
Benefits	1,953,068	2,035,351	(82,283)	(4.0%)
Retirement Costs	1,389,545	1,255,330	134,215	10.7%
Total Personnel Expenses	19,239,233	18,070,184	1,169,048	6.5%
Meetings and Travel Expenses				
Meetings & Conference Calls	132,861	436,477	(303,616)	(69.6%)
Travel	59,170	385,803	(326,633)	(84.7%)
Total Meetings and Travel Expenses	192,031	822,280	(630,249)	(76.6%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	3,340,827	2,600,625	740,202	28.5%
Office Rent	3,599,147	3,603,442	(4,295)	(0.1%)
Office Costs	5,102,826	5,290,002	(187,176)	(3.5%)
Professional Services	2,301,016	2,035,100	265,915	13.1%
Miscellaneous	42,947	75,150	(32,203)	(42.9%)
Total Operating Expenses, excluding Depreciation	14,386,763	13,604,319	782,444	5.8%
Total Direct Expenses	33,818,026	32,496,784	1,321,243	4.1%
Indirect Expenses	(33,520,826)	(32,571,444)	(949,382)	2.9%
Other Non-Operating Expenses	(297,200)	74,661	(371,861)	(498.1%)
Total Expenses (B)	0	0	(0)	(100.0%)
Change in Net Assets (=A-B)	(1,800,000)	(1,800,000)	0	(0.0%)
Fixed Asset Additions, excluding Right of Use Assets (C)				
	-	-	-	
Financing Activity				
Loan or Financing Lease - Borrowing (-)	-	-	-	
Loan or Financing Lease - Principal Payments (+)	-	-	0	
Net Financing Activity (D)	-	-	0	
Total Budget (=B+C+D)	0	0	(0)	(100.0%)
Change in Working Capital (=A-B-C-D)	(1,800,000)	(1,800,000)	0	(0.0%)
FTEs	77.6	77.1	0.55	0.7%

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		
	2021 Actual	2021 Budget	Over (Under)	2021 Actual	2021 Budget	Over (Under)
			Budget			Budget
General and Administrative	\$ 11,696,917	\$ 11,304,770	\$ 392,148	18.2	17.9	0.4
Legal and Regulatory	5,138,848	4,631,911	506,937	15.4	16.0	(0.6)
Information Technology	12,432,957	12,936,602	(503,645)	26.2	26.3	(0.1)
Human Resources	2,773,750	2,775,720	(1,970)	10.2	9.4	0.8
Finance and Accounting	2,093,418	2,052,043	41,375	7.6	7.5	0.1
Total Administrative Services	\$ 34,135,891	\$ 33,701,045	\$ 434,846	77.6	77.1	0.5

Explanation of Variances by Category – All Administrative Services Programs

- **Personnel Expenses** – Over budget \$1.2M (6.5%) due primarily to 1) lower attrition in the administrative departments and the transfer of a partial FTE from a program area to an administrative department to help support the Atlanta and Washington, DC office lease negotiations and also 2) gains 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** – Under budget \$630k (76.6%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and Consultant expenses were over budget \$740k (28.5%) primarily due to the increased need for internal audit and corporate risk management support and also due to unbudgeted IT cybersecurity contractor support needed due to the rapidly changing security environment.
 - Professional Services expenses were over budget \$266k (13.1%) primarily as a result of fees for an additional trustee and increased costs for liability insurance.
 - Miscellaneous expenses were under budget \$32k (42.9%) mostly because of lower employee engagement and sponsorship expenses than budgeted.
- **Other Non-Operating Expenses** – Under budget in total by \$372k (498.1%) largely because of gains 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**
 - For Equipment and Servers purchases, the budget was \$660k and the actuals were \$50k, for an under budget variance of \$610k (92.4%), which was due to lower equipment needs than had been budgeted.
 - For Capital Lease Asset purchases, the budget was \$0 and the actuals were \$181k, for an over budget variance of \$181k, which was because leased laptops should have been budgeted in both Capital Lease Asset purchases and Financing Lease Proceeds but were not included in Capital Lease Asset purchases.
- **Financing Activity** – For Financing Lease Proceeds, the budget was \$100k and the actuals were \$181k, for an over budget amount of \$81k (81.0%) because more laptops were financed than had been budgeted. For Financing Lease Payments, the budget was \$570k and the actuals were \$565k, for an under budget amount of \$5k.

North American Electric Reliability Corporation

Financial Report
December 31, 2021

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RSM US LLP

Independent Auditor's Report

Board of Trustees
North American Electric Reliability Corporation

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, 2021, 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, 2021, 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.

Other Matter

The financial statements of the Corporation, as of and for the year ended December 31, 2020, were audited by other auditors, whose report, dated May 13, 2021, expressed an unmodified opinion on those statements.

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 of and for the year ended December 31, 2021, 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 for the year ended December 31, 2021, 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 for the year ended December 31, 2021 is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information for the year ended December 31, 2020, was audited by other auditors, whose report, dated May 13, 2021, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

RSM US LLP

McLean, Virginia
May 19, 2022

North American Electric Reliability Corporation

Statements of Financial Position December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,496,172	\$ 35,472,052
Cash—regulatory designated	2,521,000	2,521,000
Restricted cash	512,821	500,000
Accounts receivable	4,503,003	5,760,870
Prepaid expenses	5,376,826	5,627,726
Total current assets	47,409,822	49,881,648
Long-term assets:		
Property and equipment, net	13,841,665	15,214,603
Security deposits	239,635	125,585
Non-qualified deferred compensation plan assets	3,736,213	3,001,854
Total long-term assets	17,817,513	18,342,042
Total assets	\$ 65,227,335	\$ 68,223,690
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 11,858,280	\$ 14,024,812
Accrued retirement liabilities	24,115	24,022
Deferred revenue	8,947,612	10,217,634
Deferred rent	190,813	551,600
Current portion of long-term debt	390,068	201,494
Capital lease obligations, net	173,228	550,523
Regional assessments collected in advance	11,282,681	11,275,227
Total current liabilities	32,866,797	36,845,312
Long-term liabilities:		
Accrued retirement liabilities	537,236	409,712
Deferred rent	1,802,154	1,673,680
Deferred compensation	3,083,394	2,416,743
Insurance reserve	512,821	500,000
Long-term debt	1,383,224	1,090,220
Capital lease obligations, net	202,964	209,374
Total long-term liabilities	7,521,793	6,299,729
Total liabilities	40,388,590	43,145,041
Commitments and contingencies (Note 8)		
Net assets without donor restrictions	24,838,745	25,078,649
Total net assets	24,838,745	25,078,649
Total liabilities and net assets	\$ 65,227,335	\$ 68,223,690

See notes to financial statements.

North American Electric Reliability Corporation

Statements of Activities

Years Ended December 31, 2021 and 2020

	2021	2020
Revenues:		
NERC assessments	\$ 72,011,373	\$ 72,011,373
Third-party funding	7,661,037	7,427,974
Testing/fees	1,753,104	1,751,310
Workshops	236,510	-
Miscellaneous revenues	62,856	61,132
Services and software	53,000	53,000
Interest	5,023	97,130
Total revenues	81,782,903	81,401,919
Expenses:		
Salaries and other compensation	36,754,832	34,447,835
Professional services	15,219,976	13,813,652
Computer software and supplies	8,346,731	7,382,679
Employee benefit costs	7,261,045	6,753,566
Depreciation and amortization	4,448,960	3,660,172
Retirement and savings plans	3,631,057	3,337,311
Rent and tenant expense	3,599,148	3,650,315
Office costs	2,038,657	1,898,022
Travel and meetings	545,792	1,087,997
Property and other tax expense	78,614	36,665
Interest	49,489	26,547
Miscellaneous expenses	48,506	48,562
Provision for bad debts (recovery)	-	(10,386)
Gain on disposal of fixed assets	-	(150)
Total expenses	82,022,807	76,132,787
Change in net assets	(239,904)	5,269,132
Net assets:		
Beginning	25,078,649	19,809,517
Ending	\$ 24,838,745	\$ 25,078,649

See notes to financial statements.

North American Electric Reliability Corporation

Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services							Supporting	Total	
	Reliability Standards Development	Compliance Enforcement	Organization Registration & Certification	Personnel Certification Program	Reliability Assessment & Performance Analysis	Training & Education	Situation Awareness & Infrastructure Security*	Total Program Services		Management & General
Salaries and other compensation	\$ 2,792,584	\$ 4,689,951	\$ 832,332	\$ 330,290	\$ 4,856,360	\$ 246,902	\$ 8,334,084	\$22,082,503	\$14,672,329	\$36,754,832
Professional services	239,798	535,965	41,760	456,736	494,044	35,055	7,774,777	9,578,135	5,641,841	15,219,976
Computer software and supplies	2,875	1,248,362	-	62,634	432,492	77,011	2,803,188	4,626,562	3,720,169	8,346,731
Employee benefit costs	542,959	1,031,781	173,025	60,724	934,033	66,889	1,667,045	4,476,456	2,784,589	7,261,045
Depreciation and amortization	44,207	1,342,243	390,695	-	374,023	-	261,409	2,412,577	2,036,383	4,448,960
Retirement and savings plans	263,469	477,688	81,024	36,894	528,089	27,444	826,905	2,241,513	1,389,544	3,631,057
Rent and tenant expense	-	-	-	-	-	-	-	-	3,599,148	3,599,148
Office costs	58,363	80,591	10,054	100,772	205,967	3,096	197,159	656,002	1,382,655	2,038,657
Travel and meetings	2,291	13,376	-	(20)	6,046	-	332,066	353,759	192,033	545,792
Property and other tax expense	-	-	-	-	-	-	-	-	78,614	78,614
Interest	-	32,533	-	-	-	-	-	32,533	16,956	49,489
Miscellaneous expenses	651	-	-	-	715	-	4,193	5,559	42,947	48,506
Total expenses	\$ 3,947,197	\$ 9,452,490	\$ 1,528,890	\$ 1,048,030	\$ 7,831,769	\$ 456,397	\$22,200,826	\$46,465,599	\$35,557,208	\$82,022,807

* 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 Functional Expenses Year Ended December 31, 2020

	Program Services							Supporting Services		
	Reliability Standards Development	Compliance Enforcement	Organization Registration & Certification	Personnel Certification Program	Reliability Assessment & Performance Analysis	Training & Education	Situation Awareness & Infrastructure Security*	Total Program Services	Management & General	Total
Salaries and other compensation	\$ 2,505,151	\$ 4,921,139	\$ 856,741	\$ 355,913	\$ 5,553,939	\$ 235,552	\$ 7,621,822	\$22,050,257	\$12,397,578	\$34,447,835
Professional services	180,180	241,028	38,964	188,304	446,426	136,471	8,096,347	9,327,720	4,485,932	13,813,652
Computer software and supplies	7,149	819,935	279	62,528	469,542	69,773	2,225,863	3,655,069	3,727,610	7,382,679
Employee benefit costs	504,131	1,046,233	188,996	69,463	1,011,218	71,477	1,391,009	4,282,527	2,471,039	6,753,566
Depreciation and amortization	47,837	105,014	390,695	-	496,691	-	283,971	1,324,208	2,335,964	3,660,172
Retirement and savings plans	246,127	490,272	94,024	34,484	583,803	26,491	722,052	2,197,253	1,140,058	3,337,311
Rent and tenant expense	-	-	-	-	-	-	-	-	3,650,315	3,650,315
Office costs	56,447	75,718	9,668	101,062	129,382	3,038	157,098	532,413	1,365,609	1,898,022
Travel and meetings	58,827	52,125	15,654	16,557	202,357	801	408,053	754,374	333,623	1,087,997
Property and other tax expense	-	-	-	-	-	-	-	-	36,665	36,665
Interest	-	-	-	-	-	-	-	-	26,547	26,547
Miscellaneous expenses	655	2,300	-	15	1,784	-	1,155	5,909	42,653	48,562
Provision for bad debts (recovery)	-	-	-	-	-	-	(10,467)	(10,467)	81	(10,386)
Gain on disposal of fixed assets	-	-	-	-	-	-	-	-	(150)	(150)
Total expenses	\$ 3,606,504	\$ 7,753,764	\$ 1,595,021	\$ 828,326	\$ 8,895,142	\$ 543,603	\$20,896,903	\$44,119,263	\$32,013,524	\$76,132,787

* 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

Statements of Cash Flows Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in total net assets	\$ (239,904)	\$ 5,269,132
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,448,960	3,660,172
Straight-line rent accrual	(232,313)	(292,986)
Gain on disposal of fixed assets	-	(150)
Provision for bad debts	-	(10,386)
Non-qualified deferred compensation	666,651	467,908
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,257,867	(1,895,037)
Prepaid expenses	250,900	(2,024,827)
Security deposits	(114,050)	-
Deferred compensation plan assets	(734,359)	(627,607)
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,166,532)	3,707,910
Deferred revenue	(1,270,022)	(6,153,696)
Insurance reserve	12,821	-
Regional assessments collected in advance	7,454	(3,891,942)
Accrued retirement liabilities	127,617	72,806
Net cash provided by (used in) operating activities	2,015,090	(1,718,703)
Cash flows from investing activities:		
Purchases of property and equipment	(2,894,988)	(6,903,028)
Proceeds from sales of property and equipment	-	150
Net cash used in investing activities	(2,894,988)	(6,902,878)
Cash flows from financing activities:		
Proceeds from non-revolving credit facility	683,072	1,457,770
Principal payments on non-revolving credit facility	(201,494)	-
Payments on capital lease obligation	(564,739)	(548,118)
Net cash (used in) provided by financing activities	(83,161)	909,652
Net decrease in cash, cash equivalents, and restricted cash	(963,059)	(7,711,929)
Cash, cash equivalents, restricted cash, and regulatory designated cash:		
Beginning	38,493,052	46,204,981
Ending	\$ 37,529,993	\$ 38,493,052
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment purchases within accounts payable and accrued expenses	\$ 186,398	\$ 2,481,535
Capital lease obligation incurred for use of equipment	\$ 181,034	\$ -
Supplemental disclosure of cash flow information:		
Interest	\$ 47,885	\$ 25,529

See notes to financial statements.

North American Electric Reliability Corporation

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 6).

North American Electric Reliability Corporation

Notes to Financial Statements

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, 2021 and 2020.

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 \$2,521,000 represents penalty revenue collected as of December 31, 2021 and 2020, respectively, but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures. Restricted cash of \$512,821 and \$500,000 as of December 31, 2021 and 2020, respectively, 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 years they are deemed uncollectible. The ending accounts receivable balance at December 31, 2021 and 2020, was \$4,503,003 and \$5,760,870, respectively, 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 is 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.

North American Electric Reliability Corporation

Notes to Financial Statements

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 2021 and 2020, the assessments to LSEs made up approximately 88.1% and 88.5%, respectively, 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.

North American Electric Reliability Corporation

Notes to Financial Statements

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.

The ending balance of regional assessments collected in advance and not yet remitted to the Regional Entities based upon the remittance schedule set forth in the delegation agreements at December 31, 2021 and 2020, was \$11,282,681 and \$11,275,227, respectively.

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 services (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 years ended December 31, 2021 and 2020, 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 2021 or 2020.

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 years ended December 31, 2021 and 2020. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2018. Tax years 2018 through 2021 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.

Reclassifications: Certain items in the 2020 information have been reclassified to conform with current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

North American Electric Reliability Corporation

Notes to Financial Statements

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

Accounting standard issued but not yet adopted: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. In November 2019, the FASB issued ASU 2019-10, *Leases (Topic 842) Effective Dates*, which delayed the effective date of ASU 2016-02 an additional year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, further delaying the effective date on additional year, therefore, making ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. An entity may elect to adopt the new standard using either: (1) a modified retrospective approach with restated comparative period financial statements or (2) a prospective approach with a cumulative-effect adjustment recognized to the opening balance of retained earnings on the date of adoption. We are currently evaluating the impact of its pending adoption of the new standard on the Corporation's financial statements and anticipate adopting this standard on January 1, 2022.

Subsequent events: Management has evaluated subsequent events through May 19, 2022, which is the date the financial statements were available to be issued.

Note 2. Accounts Receivable

Accounts receivable as of December 31, 2021 and 2020, by each major revenue stream is as follows:

	2021	2020
Accounts receivable by each major revenue stream:		
NERC assessments	\$ 1,500,771	\$ 2,083,016
Third-party funding	370,831	137,312
Other non-major revenue streams	120,016	231,782
Other receivables (non-revenue)—regional assessments	2,511,385	3,308,760
Total accounts receivable	<u>\$ 4,503,003</u>	<u>\$ 5,760,870</u>

Note 3. Property and Equipment

Property and equipment consist of the following at December 31, 2021 and 2020:

	2021	2020
Software	\$ 25,022,549	\$ 22,820,227
Furniture and equipment	10,290,728	9,766,820
Leasehold improvements	1,296,443	1,296,443
	<u>36,609,720</u>	<u>33,883,490</u>
Accumulated depreciation and amortization	<u>(22,768,055)</u>	<u>(18,668,887)</u>
Property and equipment, net	<u>\$ 13,841,665</u>	<u>\$ 15,214,603</u>

Depreciation and amortization expense for the years ended December 31, 2021 and 2020, was \$4,448,960 and \$3,660,172, respectively.

North American Electric Reliability Corporation

Notes to Financial Statements

Note 4. 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% as of December 31, 2021. The credit facility matures April 2026. The facility is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. The credit facility was available for approved expenditures through December 5, 2021, and contains three categories of potential projects to be financed:

- ERO secure evidence locker (ERO SEL) project:** The credit facility allows for a borrowing capacity of \$3,800,000 for the ERO SEL project. Borrowings for up to \$2,000,000 were approved for the ERO SEL project by the Board of Trustees on May 14, 2020 and by FERC on June 22, 2020. As of December 31, 2021 and 2020, there were \$1,773,292 and \$1,291,714, respectively, of borrowings outstanding on this facility. The Corporation is making monthly principal and interest payments on the outstanding borrowings.
- ERO capital projects:** The credit facility allows for a borrowing capacity of \$2,900,000 for certain capital expenditures under the Capital Financing Program as approved during NERC's annual Business Plan and Budget filing. As of December 31, 2021 and 2020, there were no borrowings approved or outstanding on this facility.
- Technology lease refinance:** The credit facility allows for a borrowing capacity of \$1,300,000 for certain technology lease refinancing. As of December 31, 2021 and 2020, there were no borrowings approved or outstanding on this facility.

Principal payments on the credit facility at December 31, 2021 are as follows:

Year ending December 31:	
2022	\$ 390,068
2023	413,924
2024	425,657
2025	437,796
2026	105,847
Total	<u>\$ 1,773,292</u>

The Corporation has a line of credit with a bank that renews annually and currently expires in September 2022. 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 LIBOR 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, 2021 and 2020. At December 31, 2021 and 2020, 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.

North American Electric Reliability Corporation

Notes to Financial Statements

Note 5. Deferred Revenue

Deferred revenue (contract liability) as of December 31, 2021 and 2020, by each major revenue stream is as follows:

	2021	2020
Deferred revenue by each major revenue stream:		
NERC assessments	\$ 8,910,562	\$ 9,847,610
Testing/fees	37,050	39,650
Third-party funding	-	270,374
Other non-major revenue streams	-	60,000
Total deferred revenue	<u>\$ 8,947,612</u>	<u>\$ 10,217,634</u>

Note 6. 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 December 31, 2021 and 2020 were as follows:

	2021	2020
For the years ended December 31:		
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	\$ 117,746,416	\$ 116,712,162
Total regional assessments remitted to regional entities	(117,243,485)	(116,222,552)
Billings over remittances	<u>\$ 502,931</u>	<u>\$ 489,610</u>

As of December 31, 2021 and 2020, 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 \$11,282,681 and \$11,275,227, respectively.

Note 7. 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 \$3,083,394 and \$2,416,743 at December 31, 2021 and 2020, respectively, and is included in deferred compensation non-current liabilities on the statements of financial position.

North American Electric Reliability Corporation

Notes to Financial Statements

Note 7. Deferred Compensation (Continued)

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, 2021 and 2020, the accrued liability for this deferred compensation plan was \$562,829 and \$398,989, respectively.

At December 31, 2021 and 2020, the Corporation holds investments to fund future liabilities of the 457(b) and 457(f) non-qualified deferred compensation plans totaling \$3,736,213 and \$3,001,854, respectively. 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 gains on non-qualified deferred compensation plan assets totaling \$392,771 and \$403,163 in 2021 and 2020, respectively, are deducted from deferred compensation expense, which is included in salaries and other compensation expense on the statements of activities.

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, 2021 and 2020.

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.

North American Electric Reliability Corporation

Notes to Financial Statements

Note 7. Deferred Compensation (Continued)

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 7.0% and discount rate of 3.25%. At December 31, 2021 and 2020, the total accrued retiree medical benefits liability was \$184,780 and \$179,939, respectively, 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 \$27,224 and \$7,734 for the years ended December 31, 2021 and 2020, respectively.

Note 8. Commitments and Contingencies

Operating leases: The Corporation leases office space in Atlanta, Georgia and Washington, D.C. under non-cancellable lease agreements, with expiration dates in 2025 in Atlanta and 2022 and 2034 in Washington, D.C. In 2017, the Corporation entered into an agreement to expand the amount of leased space in Atlanta, Georgia and extend the term on existing and newly leased space until 2025. In 2021, the Corporation entered into an agreement with its Atlanta office landlord to waive its right to a one-time lease termination option in 2021 in exchange for a reduction in lease payments through November 2022. In 2015, the Corporation entered into an agreement to expand the amount of leased space in Washington, D.C. with an expiration date in 2022, which is coterminous with the term of the lease for the original premises. The Corporation will not renew its lease on existing Washington, D.C. space in 2022. In 2021, the Corporation entered into a new lease agreement for office space in Washington, D.C., with an anticipated occupancy and lease start of July 2022 and an expiration date in 2034.

Approximate future minimum payments on office lease space at December 31, 2021, are as follows:

Year ending December 31:	
2022	\$ 2,208,000
2023	2,588,000
2024	3,799,000
2025	3,524,000
2026	1,492,000
Thereafter	12,749,000
Future obligation	<u>\$ 26,360,000</u>

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The difference between rent expense calculated ratably over the lease term and actual payments under the agreements are recorded as a deferred rent obligation on the statement of financial position in the amount of \$1,992,967 and \$2,225,280 at December 31, 2021 and 2020, respectively. Office rent and tenant expense was \$3,599,148 and \$3,650,315 for the years ended December 31, 2021 and 2020, respectively.

Capital leases: The Corporation has entered into capital lease agreements for office equipment. Depreciation expense related to these capital leases was \$546,278 and \$542,874 for the years ended December 31, 2021 and 2020, respectively.

North American Electric Reliability Corporation

Notes to Financial Statements

Note 8. Commitments and Contingencies (Continued)

Assets leased by the Corporation under capital leases are included in property and equipment, net and capital lease obligation on the statement of financial position as of December 31, 2021 and 2020, consisted of the following:

	2021	2020
Office equipment leases (audio visual, computers, etc.)	\$2,431,289	\$ 2,474,467
Accumulated depreciation	<u>(2,063,524)</u>	<u>(1,741,458)</u>
Net book value	<u>\$ 367,765</u>	<u>\$ 733,009</u>

The following is a schedule of future minimum lease payments under these capital leases, together with the future obligation net of interest as of December 31, 2021:

Year ending December 31:		
2022		\$ 183,179
2023		97,941
2024		80,620
2025		<u>33,002</u>
Total minimum lease payment		394,742
Less amounts representing interest		<u>(18,550)</u>
Future obligations net of interest		<u>\$ 376,192</u>

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, 2021 and 2020, \$1,381,843 and \$1,657,901, respectively, is designated in the Future Obligation Reserve. Of the \$1,381,843 reserve balance at December 31, 2021, \$708,893 had been approved by NERC's Board of Trustees and FERC to be used for potential capital expenditures for new office space in Atlanta, but the new office space did not materialize, resulting in a balance of \$1,381,843 unavailable for expenditures within one year. Of the \$7,982,913 reserve balance at December 31, 2020, \$1,800,000 had been approved by NERC's Board of Trustees and FERC to be used in 2021 for capital project costs, resulting in a balance of \$6,182,913 unavailable for general expenditures within one year.

The System Operator Certification Reserve supports the system operator certification program and includes surplus funding from operator certification and testing fees that are above incurred expenses. At December 31, 2021 and 2020, \$915,083 and \$996,220, respectively, is designated in the System Operator Certification Reserve.

North American Electric Reliability Corporation

Notes to Financial Statements

Note 9. Designated Net Assets (Continued)

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, 2021 and 2020, \$8,728,678 and \$7,982,913, respectively, is designated in the Operating Contingency Reserve. Of the \$8,728,678 reserve balance at December 31, 2021, \$64,253 had been approved by NERC's Board of Trustees and FERC to be used in 2022 for potential capital expenditures for new office space in Atlanta, but the new office space did not materialize in 2022, resulting in a balance of \$8,728,678 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, 2021 and 2020, the regulatory designated net assets balance is \$2,521,000.

In 2020, the CRISP participants agreed to reserve \$1,049,549 that had been collected in 2020 and was intended to be spent during that year on special projects but was not. \$604,234 of those funds were spent during 2021, leaving \$445,316 to be spent in 2022. The amount of the unused funds in the CRISP Special Projects Reserve at December 31, 2021 and 2020, respectively, is \$445,316 and \$1,049,549. During 2021, the CRISP participants agreed that for 2021 and each year after, any excess participant funded amounts would be directed to a CRISP Operating Reserve to help ensure that the costs for administering and operating CRISP, including contingencies, are sufficiently covered. The CRISP Operating Reserve is to be used exclusively for CRISP and for no other purpose unless agreed to by all CRISP participants. At December 31, 2021 and 2020, \$1,596,902 and \$0, respectively, 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 years ended December 31, 2021 and 2020, were \$3,631,057 and \$3,337,311, respectively. No contributions are accrued as of December 31, 2021 and 2020.

North American Electric Reliability Corporation

Notes to Financial Statements

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 4.

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

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 34,496,172	\$ 35,472,052
Accounts receivable	4,503,003	5,760,870
Financial assets at December 31, 2021	<u>38,999,175</u>	<u>41,232,922</u>
Less assets unavailable for general expenditures within one year:		
Regional assessments collected in advance	11,282,681	11,275,227
Board-designated operating reserves—operating contingency	8,728,678	6,182,913
Board-designated operating reserves—future obligation	1,381,843	1,657,901
Board-designated operating reserves—system operator certification	915,083	996,220
CRISP participant-designated reserves—operating	1,596,902	-
Total financial assets unavailable for general expenditure within one year	<u>23,905,187</u>	<u>20,112,261</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 15,093,988</u>	<u>\$ 21,120,661</u>

North American Electric Reliability Corporation

Notes to Financial Statements

Note 13. Revenues

The following table shows the Corporation's revenues disaggregated according to the timing of satisfaction of performance obligations for the years ended December 31, 2021 and 2020:

	2021	2020
Revenue recognized at a point in time:		
Testing/fees	\$ 1,753,104	\$ 1,751,310
Workshops	236,510	-
Services and software	53,000	53,000
Miscellaneous revenues	62,856	61,132
Total revenue recognized at a point in time	<u>2,105,470</u>	<u>1,865,442</u>
Revenue recognized over time:		
NERC assessments	72,011,373	72,011,373
Third-party funding	7,661,037	7,427,974
Interest	5,023	97,130
Total revenue recognized over time	<u>79,677,433</u>	<u>79,536,477</u>
Total revenues	<u>\$ 81,782,903</u>	<u>\$ 81,401,919</u>

Supplemental Information

North American Electric Reliability Corporation

**Supplemental Schedule of Selected Expenses
Years Ended December 31, 2021 and 2020**

	2021	2020
Employee benefit costs:		
Payroll taxes (FICA, SUI, FUI, Medicare)	\$ 2,280,372	\$ 2,154,925
Employee benefits—health (medical, dental, vision)	4,107,279	3,577,822
Employee benefits—life and disability	390,260	342,298
Employee benefits—other	101,576	418,720
Insurance—workers' compensation	56,536	49,785
Relocation expenses	-	23,191
Educational	325,022	186,825
	<hr/>	<hr/>
Total employee benefit costs	\$ 7,261,045	\$ 6,753,566
	<hr/> <hr/>	<hr/> <hr/>
Travel and meetings:		
Meetings	\$ 73,872	\$ 242,199
Workshops	203,083	250,000
Travel	91,080	395,790
Online meetings	177,757	200,008
	<hr/>	<hr/>
Total travel and meetings	\$ 545,792	\$ 1,087,997
	<hr/> <hr/>	<hr/> <hr/>
Professional services:		
Insurance—commercial	\$ 342,704	\$ 225,166
Contract and consultants	12,732,485	11,751,668
Independent trustee fees	1,509,062	1,281,250
Search fees	90,600	135,677
Outside services	12,043	49,672
Accounting and auditing fees	97,117	136,219
Legal fees	435,965	234,000
	<hr/>	<hr/>
Total professional services	\$ 15,219,976	\$ 13,813,652
	<hr/> <hr/>	<hr/> <hr/>
Office costs:		
Publications and subscriptions	\$ 432,354	\$ 327,828
Dues	148,385	96,557
Postage	5,705	3,780
UPS, express mail, etc.	60,679	35,383
Telephone	363,371	350,513
Office and equipment repair/services	137,288	152,579
Copying	24,384	21,998
Audio visual and computer equipment	267,776	274,844
Office supplies	110,605	187,129
Bank charges	23,561	39,776
Credit card merchant fees	95,975	95,428
Sales and use tax	39,267	9,123
Internet expenses	329,307	303,084
	<hr/>	<hr/>
Total office costs	\$ 2,038,657	\$ 1,898,022
	<hr/> <hr/>	<hr/> <hr/>

ATTACHMENT 2

2021 ACTUAL COST-TO-BUDGET COMPARISON

AND

2021 AUDITED FINANCIAL REPORT

FOR

MIDWEST RELIABILITY ORGANIZATION



Lam Chung, Corporate Treasurer

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May 2, 2022

Mr. Andy Sharp

North American Electric Reliability Corporation (NERC)

RE: 2021 Budget Variance Explanation Based on Audited Financials

Dear Mr. Sharp:

MRO staff reports the audited final numbers for the 2021 budget were 7.1 percent under budget.¹ Budget underage is primarily due to the global pandemic. Variances to budget include decreases in meeting, travel, consulting, office costs, and professional service costs.

Personnel expenses had an overage of 4.7 percent primarily attributed to internal promotions during the year. Other contributors include performance awards and the timing of hiring and turnovers that culminated in a net FTE of 65.54. The annual actuarial adjustment of MRO's Retiree Medical Plan resulted in an additional decrease to expenses. The adjustment is represented as a one-time non-operating cost. The budget minus this non-cash adjustment is a 4.2 percent under spend.

Staff travel and meeting expenses were under budget as MRO continued operating via virtual means using WebEx technology as a result of the ongoing pandemic.

Consultants and contracts was underspent as staff worked through remote capability and much of the cost to maintain onsite operations remained low. Internal IT staff maintained MRO's virtual environment, reducing the need for external IT support. Office costs were under budget due to postponed staff training and reduced office maintenance costs. Fixed assets were over budget as an unbudgeted office expansion completed in quarter one of 2021.

External professional services include costs for independent director retainage and travel expenses. Professional services were primarily underspent because no travel expenses were incurred.

MRO staff believes the principal responsibilities under the delegation agreement were met in 2021. Some highlights:

- Conducted 13 audits, including 7 combined CIP/operations and planning audits, 1 CIP audit, and 5 operations and planning audits; MRO also participated in 5 audits led by another Regional Entity, 1 combined CIP/operations and planning audit led by FERC
- Participated in 1 CIP spot check led by another Regional Entity
- Completed 24 Compliance Oversight Plans (COPs) with the new ERO process

¹ Adoption of a new accounting standard in 2019 resulted in a change in presentation of revenue for audited financial statements. This change is not presented on the statement of activities for this true-up report.



- Submitted 209 noncompliances and 4 dismissals with FERC or the Applicable Governmental Authority
- Registered 28 new entities, added functions to 38 entities, removed 10 functions, and deregistered 9 entities
- Participated in 3 certification reviews
- Completed 2 seasonal and long-term reliability assessments for MRO and 3 for NERC
- Completed 2021 Regional Summer and Winter Assessments
- Provided analysis of 14 events in the Region and worked with registered entities on the completion of reports, recommendations, lessons learned, and reliability assessments
- Developed metrics based on data from the events and causes, as well as for the performance of protection systems, and assessed situation awareness information provided by registered entities
- Completed workshops in support of regional reliability and security, in addition to other outreach activities

Budget variances greater than \$10,000 and 10 percent are explained below; expenses not budgeted are also explained.

Meeting and Travel Expenses (Variance of \$957,363 (99.4%) under budget)

Meetings and travel were severely impacted by COVID-19. All scheduled in-person conferences, board, and staff meetings were converted to virtual formats.

Consultants & Contracts (Variance of \$522,597 (39%) under budget)

Consultants and Contracts were underspent due to COVID-19. Internal IT staff maintained MRO's virtual environment, reducing the need for external IT support.

Rent and Facilities (Variance of \$177,054 (15.1%) under budget)

As a result of the pandemic leasing expenses were credited due to lower costs from leased building operations such as utilities, reduction in proportionate tax expense, and common area maintenance costs.

Office Costs (Variance of \$153,102 (17.3%) under budget)

The 2021 budget variance was primarily due to canceled in-person employee training, reduced equipment repairs and fewer purchases of office and computer supplies.

Professional Services (Variance of \$90,252 (17.4%) under budget)

External professional services experienced reduced costs due to cancelled travel for independent directors.

Fixed Assets (Variance of \$549,300 (219.7%) over budget)

Purchases in leasehold improvements, computer, and furniture assets are one-time purchases from an approved unbudgeted office expansion. Majority of these costs were offset by the underage experienced in other budget areas.

Personnel expenses was under the 10 percent variance threshold but experienced a \$624K over spend as a result of internal promotions, equity, and market adjustments that were made in addition to the budgeted 3 percent in merit.

MRO had no non-statutory activities in 2021; therefore, there were no allocations of costs between statutory and non-statutory activities and no statutory funds were used for non-statutory purposes.



If you have any questions regarding this report, please contact me. Thank you.

Lam Chung

Vice President and Engineer for Strategy, Innovation, and Finance

Cc: Sara Patrick, MRO President and CEO

2021 MRO Budget True-Up

May 2, 2022



**MIDWEST
RELIABILITY
ORGANIZATION**

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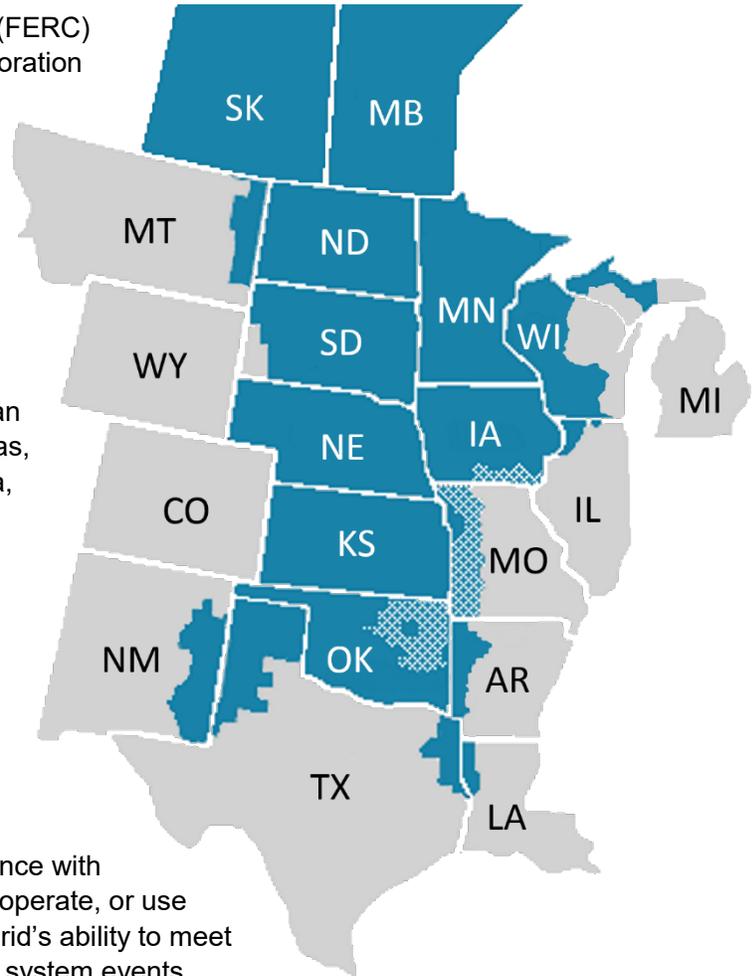


PREFACE

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.



MRO’s primary responsibilities are to: ensure 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.



2021 STATUTORY SUMMARY BUDGET VARIANCE

Midwest Reliability Organization Statement of Activity 12/31/2021

	2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	16,983,252	16,983,252	\$ (0)	
Penalty Sanctions	360,504	\$ 360,504	\$ -	
Total ERO Funding	\$ 17,343,756	\$ 17,343,756	\$ (0)	
Interest Income	419		419	
Other Revenue	4,382		4,382	
A. Total Funding	\$ 17,348,556	\$ 17,343,756	\$ 4,800	
Expenses				
Personnel Expenses				
Salaries	10,457,578	10,059,263	398,315	
Payroll Taxes	682,432	631,892	50,540	
Employee Benefits	998,942	1,064,374	(65,432)	
Savings and Retirement	1,768,892	1,528,208	240,684	
Total Personnel Expenses	\$ 13,907,844	\$ 13,283,737	\$ 624,107	4.7%
Meeting Expenses				
Meetings	3,088	204,900	(201,812)	
Travel - Staff Business	2,816	497,667	(494,851)	
Travel - Member Reimbursement		260,700	(260,700)	
Total Meeting Expenses	\$ 5,904	\$ 963,267	\$ (957,363)	-99.4%
Operating Expenses				
Consultants	246,677	666,700	(420,023)	
Contract	570,426	673,001	(102,575)	
Building Rent and Facilities	991,646	1,168,700	(177,054)	
Office Costs	734,195	887,297	(153,102)	
Professional Services	429,248	519,500	(90,252)	
Total Operating Expenses	\$ 2,972,193	\$ 3,915,198	\$ (943,005)	-24.1%
Total Direct Expenses	\$ 16,885,941	\$ 18,162,202	\$ (1,276,261)	-7.0%
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ (578,927)	\$ -	\$ (578,927)	
B. Total Expenses	\$ 16,307,014	\$ 18,162,202	\$ (1,855,188)	
Net Funding less Expenses (A-B)	\$ 1,041,542	\$ (818,446)	\$ 1,859,988	
Fixed Assets				
Computer & Software CapEx	\$ 363,042	\$ 250,000	\$ 113,042	
Furniture & Fixtures CapEx	\$ 267,027	\$ -	\$ 267,027	
Equipment CapEx	\$ -	\$ -	\$ -	
Leasehold Improvements	\$ 169,231	\$ -	\$ 169,231	
C. Total Inc(Dec) in Fixed Assets	\$ 799,300	\$ 250,000	\$ 549,300	219.7%
Total Budget (B+C)	\$ 17,106,314	\$ 18,412,202	\$ (1,305,888)	-7.1%
Change in Working Capital (A-B-C)	\$ 242,242	\$ (1,068,446)	\$ 1,310,688	
Headcount				
FTEs	65.54	66.00	-0.46	-0.7%



SUMMARY OF FINANCIALS AND RESOURCES

MRO staff reports the audited final numbers for the 2021 budget were 7.1 percent under budget.¹ Budget underage is primarily due to the global pandemic. Variances to budget include decreases in meeting, travel, consulting, office costs, and professional service costs.

Personnel expenses had an overage of 4.7 percent primarily attributed to internal promotions during the year. Other contributors include performance awards and the timing of hiring and turnovers that culminated in a net FTE of 65.54. The annual actuarial adjustment of MRO's Retiree Medical Plan resulted in an additional decrease to expenses. The adjustment is represented as a one-time non-operating cost. The budget minus this non-cash adjustment is a 4.2 percent under spend.

Staff travel and meeting expenses were under budget as MRO continued operating via virtual means using WebEx technology as a result of the ongoing pandemic.

Consultants and contracts was underspent as staff worked through remote capability and much of the cost to maintain onsite operations remained low. Internal IT staff maintained MRO's virtual environment, reducing the need for external IT support. Office costs were under budget due to postponed staff training and reduced office maintenance costs. Fixed assets were over budget as an unbudgeted office expansion completed in quarter one of 2021.

External professional services include costs for independent director search and travel expenses. Professional services were primarily underspent because no travel expenses were incurred.

MRO staff believes responsibilities under the delegation agreement were met in 2021. Some highlights:

- Conducted 13 audits, including 7 combined CIP/operations and planning audits, 1 CIP audit, and 5 operations and planning audits; MRO also participated in 5 audits led by another Regional Entity, 1 combined CIP/operations and planning audit led by FERC
- Participated in 1 CIP spot check led by another Regional Entity
- Completed 24 Compliance Oversight Plans (COPs) utilizing the new ERO process
- Submitted 209 noncompliances and 4 dismissals with the Applicable Governmental Authority
- Registered 28 new entities, added functions to 38 entities, removed 10 functions, and deregistered 9 entities
- Participated in 3 certification reviews
- Completed 2 seasonal and long-term reliability assessments for MRO and 3 for NERC
- Provided analysis of 14 events in the Region and worked with registered entities on the completion of reports, recommendations, lessons learned, and reliability assessments
- Developed metrics based on data from the events and causes, as well as for the performance of protection systems, and assessed situation awareness information provided by registered entities

¹ Adoption of a new accounting standard in 2019 resulted in a change in presentation of revenue for audited financial statements. This change is not presented on the statement of activities for this true-up report.



- Completed workshops in support of regional reliability and security, in addition to other outreach activities

Budget variances greater than \$10,000 and 10 percent are explained below; expenses not budgeted are also explained.

Meeting and Travel Expenses (Variance of \$957,363 (99.4%) under budget)

Meetings and travel were severely impacted by COVID-19. All scheduled in-person conferences, board, and staff meetings were converted to virtual formats.

Consultants & Contracts (Variance of \$522,597 (39%) under budget)

Consultants and Contracts were underspent due to COVID-19. Internal IT staff maintained MRO's virtual environment, reducing the need for external IT support.

Rent and Facilities (Variance of \$177,054 (15.1%) under budget)

As a result of the pandemic leasing expenses were credited due to lower costs from leased building operations such as utilities, reduction in proportionate tax expense, and common area maintenance costs.

Office Costs (Variance of \$153,102 (17.3%) under budget)

The 2021 budget variance was primarily due to canceled in-person employee training, reduced equipment repairs and fewer purchases of office and computer supplies.

Professional Services (Variance of \$90,252 (17.4%) under budget)

External professional services experienced reduced costs due to cancelled travel for independent directors.

Fixed Assets (Variance of \$549,300 (219.7%) over budget)

Purchases in leasehold improvements, computer, and furniture assets are one-time purchases from an approved unbudgeted office expansion. Majority of these costs were offset by the underages experienced in other budget areas.

Personnel expenses was under the 10 percent variance threshold but experienced a \$624K over spend as a result of internal promotions, equity, and market adjustments that were made in addition to the budgeted 3 percent in merit.

MRO had no non-statutory activities in 2021; 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		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
Assessments		363,316	509,498	(146,181)	-28.7%
Penalty Sanctions		7,712	10,815	(3,103)	-28.7%
A. Total ERO Funding		\$ 371,028	\$ 520,313	\$ (149,284)	-28.7%
Expenses					
Personnel Expenses					
Salaries		204,464	233,737	(29,273)	-12.5%
Payroll Taxes		15,882	14,862	1,020	6.9%
Employee Benefits		24,783	26,129	(1,346)	-5.2%
Savings and Retirement		41,886	37,175	4,711	12.7%
Total Personnel Expenses		\$ 287,014	\$ 311,903	\$ (24,889)	-8.0%
Meeting Expenses					
Meetings		-	1,400	(1,400)	-100.0%
Travel - Staff Business		-	20,000	(20,000)	-100.0%
Travel - Member Reimbursement		-	5,000	(5,000)	-100.0%
Total Meeting Expenses		\$ -	\$ 26,400	\$ (26,400)	-100.0%
Operating Expenses					
Consultants		-	-	-	
Contract		-	-	-	
Building Rent and Facilities		-	-	-	
Office Costs		-	6,583	(6,583)	-100.0%
Professional Services		-	-	-	
Total Operating Expenses		\$ -	\$ 6,583	\$ (6,583)	-100.0%
Indirect Expenses					
		\$ 133,289	\$ 207,291	\$ (74,001)	-35.7%
Other Non-Operating Expenses					
		\$ -	\$ -	\$ -	
B. Total Expenses		\$ 420,304	\$ 552,177	\$ (131,873)	-23.9%
Change in Assets (A-B)		\$ (49,276)	\$ (31,864)	\$ 63,681	54.6%
Fixed Assets					
Allocation of Fixed Assets		17,099	7,500	9,599	128.0%
C. Total Inc(Dec) in Fixed Assets		\$ 17,099	\$ 7,500	\$ 9,599	128.0%
Total Budget (B+C)		\$ 437,403	\$ 559,677	\$ (122,274)	-21.8%
Change in Working Capital (A-B-C)		\$ (66,375)	\$ (39,364)	\$ (27,011)	
FTEs		1.02	1.50	(0.48)	-32.0%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual formats.

Indirect Expenses

Indirect expenses were lower than budget primarily due to total Administrative Services Expenses being lower than budget. The allocation of Administrative Services costs was also impacted by the under-budget variance in FTEs for this program.



2. Compliance Monitoring and Enforcement Program (CMEP)

COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	12,281,513	12,027,239	254,274	2.1%
	Penalty Sanctions	260,700	259,563	1,137	0.4%
A. Total ERO Funding		\$ 12,542,213	\$ 12,286,802	\$ 255,411	2.1%
Expenses					
Personnel Expenses					
	Salaries	5,431,306	5,282,183	149,123	2.8%
	Payroll Taxes	355,968	340,856	15,112	4.4%
	Employee Benefits	535,771	557,406	(21,635)	-3.9%
	Savings and Retirement	926,287	791,450	134,837	17.0%
Total Personnel Expenses		\$ 7,249,332	\$ 6,971,895	\$ 277,437	4.0%
Meeting Expenses					
	Meetings	284	10,500	(10,216)	-97.3%
	Travel - Staff Business	140	181,300	(181,160)	-99.9%
	Travel - Member Reimbursement	-	25,000	(25,000)	-100.0%
Total Meeting Expenses		\$ 424	\$ 216,800	\$ (216,376)	-99.8%
Operating Expenses					
	Consultants	58,007	403,000	(344,993)	-85.6%
	Contract	198,079	180,394	17,685	9.8%
	Building Rent and Facilities	-	-	-	
	Office Costs	113,753	129,020	(15,267)	-11.8%
	Professional Services	-	-	-	
	Contingency	-	-	-	
Total Operating Expenses		\$ 369,839	\$ 712,414	\$ (342,575)	-48.1%
Indirect Expenses		\$ 4,505,705	\$ 4,974,975	\$ (469,270)	-9.4%
Other Non-Operating Expenses		\$ -	\$ -	\$ -	
B. Total Expenses		\$ 12,125,300	\$ 12,876,084	\$ (750,784)	-5.8%
Change in Assets (A-B)		\$ 416,913	\$ (589,282)	\$ 1,006,195	-170.7%
Fixed Assets					
	Allocation of Fixed Assets	578,017	180,000	398,017	221.1%
C. Total Inc(Dec) in Fixed Assets		\$ 578,017	\$ 180,000	\$ 398,017	221.1%
Total Budget (B+C)		\$ 12,703,317	\$ 13,056,084	\$ (352,767)	-2.7%
Change in Working Capital (A-B-C)		\$ (161,105)	\$ (769,282)	\$ 608,178	
FTEs		34.48	36.00	(1.52)	-4.2%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual formats due to COVID-19.

Operating Expenses

Consultants

MRO used an external consultant to support redesign of its validation, determination, and mitigation processes. Fewer hours were needed than expected.

Office Costs

Reduced staff presence in the office resulted in reduced use of facility and need for office supplies and office maintenance.

Fixed Assets

The Fixed Asset allocation is higher due to unbudgeted fixed asset purchases for an approved office expansion, recorded in the Information Technology Program and allocated to the statutory programs on the basis of FTEs.



3. Reliability Assessment and Performance Analysis Program

RELIABILITY ASSESSMENT AND PERFORMANCE ANALYSIS		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	3,088,188	2,832,806	255,381	9.0%
	Penalty Sanctions	65,553	60,132	5,421	9.0%
A.	Total ERO Funding	\$ 3,153,741	\$ 2,892,939	\$ 260,802	9.0%
Expenses					
Personnel Expenses					
	Salaries	1,383,031	1,303,637	79,394	6.1%
	Payroll Taxes	88,673	86,380	2,293	2.7%
	Employee Benefits	119,572	136,669	(17,097)	-12.5%
	Savings and Retirement	228,231	201,108	27,123	13.5%
	Total Personnel Expenses	\$ 1,819,507	\$ 1,727,794	\$ 91,713	5.3%
Meeting Expenses					
	Meetings	317	9,000	(8,683)	-96.5%
	Travel - Staff Business	138	100,000	(99,862)	-99.9%
	Travel - Member Reimbursement	-	60,000	(60,000)	-100.0%
	Total Meeting Expenses	\$ 456	\$ 169,000	\$ (168,544)	-99.7%
Operating Expenses					
	Consultants	-	-	-	-
	Contract	28,236	71,100	(42,864)	-60.3%
	Building Rent and Facilities	-	-	-	-
	Office Costs	17,898	31,000	(13,102)	-42.3%
	Professional Services	-	-	-	-
	Contingency	-	-	-	-
	Total Operating Expenses	\$ 46,134	\$ 102,100	\$ (55,966)	-54.8%
	Indirect Expenses	\$ 1,132,960	\$ 1,152,536	\$ (19,576)	-1.7%
	Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
B.	Total Expenses	\$ 2,999,057	\$ 3,151,430	\$ (152,373)	-4.8%
	Change in Assets (A-B)	\$ 154,684	\$ (258,491)	\$ 413,175	-159.8%
Fixed Assets					
	Allocation of Fixed Assets	145,343	41,700	103,643	248.5%
C.	Total Inc(Dec) in Fixed Assets	\$ 145,343	\$ 41,700	\$ 103,643	248.5%
	Total Budget (B+C)	\$ 3,144,399	\$ 3,193,130	\$ (48,731)	-1.5%
	Change in Working Capital (A-B-C)	\$ 9,341	\$ (300,191)	\$ 309,533	
	FTEs	8.67	8.34	0.33	4.0%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual formats due to COVID-19.

Operating Expenses

Contracts

There was reduced spending on Power System Simulation (PSS) modeling.

Office Costs

Reduced staff presence in the office resulted in reduced use of facility and need for office supplies and office maintenance.

Fixed Assets

The Fixed Asset allocation is higher due to unbudgeted fixed asset purchases for an approved office expansion, recorded in the Information Technology Program and allocated to the statutory programs on the basis of FTEs.



4. Training, Education, and Operator Certification Program

TRAINING AND EDUCATION		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	534,289	733,676	(199,388)	-27.2%
	Penalty Sanctions	11,341	15,574	(4,232)	-27.2%
A.	Total ERO Funding	\$ 545,630	\$ 749,250	\$ (203,620)	-27.2%
Expenses					
Personnel Expenses					
	Salaries	359,868	290,379	69,489	23.9%
	Payroll Taxes	25,456	18,898	6,558	34.7%
	Employee Benefits	33,902	33,080	822	2.5%
	Savings and Retirement	63,821	46,609	17,212	36.9%
	Total Personnel Expenses	\$ 483,048	\$ 388,966	\$ 94,082	24.2%
Meeting Expenses					
	Meetings	1,575	120,000	(118,425)	-98.7%
	Travel - Staff Business	-	33,067	(33,067)	-100.0%
	Travel - Member Reimbursement	-	6,000	(6,000)	-100.0%
	Total Meeting Expenses	\$ 1,575	\$ 159,067	\$ (157,492)	-99.0%
Operating Expenses					
	Consultants	-	-	-	-
	Contract	-	-	-	-
	Building Rent and Facilities	-	-	-	-
	Office Costs	-	-	-	-
	Professional Services	-	-	-	-
	Contingency	-	-	-	-
	Total Operating Expenses	\$ -	\$ -	\$ -	0.0%
Indirect Expenses					
		\$ 196,014	\$ 298,499	\$ (102,485)	-34.3%
Other Non-Operating Expenses					
		\$ -	\$ -	\$ -	-
B.	Total Expenses	\$ 680,637	\$ 846,532	\$ (165,895)	-19.6%
Change in Assets (A-B)		\$ (135,007)	\$ (97,281)	\$ 82,940	33.5%
Fixed Assets					
	Allocation of Fixed Assets	25,146	10,800	14,346	132.8%
C.	Total Inc(Dec) in Fixed Assets	\$ 25,146	\$ 10,800	\$ 14,346	132.8%
Total Budget (B+C)		\$ 705,782	\$ 857,332	\$ (151,549)	-17.7%
Change in Working Capital (A-B-C)		\$ (160,153)	\$ (108,081)	\$ (52,071)	
FTEs		1.50	2.16	(0.66)	-30.6%



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

Personnel Expenses

Outreach and training initiatives were led by staff subject matter experts. Executive staff also allocated time to outreach initiatives.

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual formats due to COVID-19.

Indirect Expenses

Indirect expenses were lower than budget primarily due to total Administrative Services Expenses being lower than budget. The allocation of Administrative Services costs was also impacted by the under-budget variance in FTEs for this program.

Fixed Assets

The Fixed Asset allocation is higher due to unbudgeted fixed asset purchases for an approved office expansion, recorded in the Information Technology Program and allocated to the statutory programs on the basis of FTEs.



5. Situation Awareness and Infrastructure Security Program

SITUATION AWARENESS AND INFRASTRUCTURE SECURITY		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	715,947	679,330	36,617	5.4%
	Penalty Sanctions	15,197	14,420	777	5.4%
A.	Total ERO Funding	\$ 731,144	\$ 693,750	\$ 37,394	5.4%
Expenses					
Personnel Expenses					
	Salaries	289,314	279,803	9,511	3.4%
	Payroll Taxes	19,411	17,455	1,956	11.2%
	Employee Benefits	32,582	34,037	(1,455)	-4.3%
	Savings and Retirement	52,580	46,397	6,183	13.3%
	Total Personnel Expenses	\$ 393,888	\$ 377,692	\$ 16,196	4.3%
Meeting Expenses					
	Meetings	330	2,000	(1,670)	-83.5%
	Travel - Staff Business	-	18,400	(18,400)	-100.0%
	Travel - Member Reimbursement	-	45,000	(45,000)	-100.0%
	Total Meeting Expenses	\$ 330	\$ 65,400	\$ (65,070)	-99.5%
Operating Expenses					
	Consultants	-	-	-	
	Contract	-	-	-	
	Building Rent and Facilities	-	-	-	
	Office Costs	3,767	16,500	(12,733)	-77.2%
	Professional Services	-	-	-	
	Contingency	-	-	-	
	Total Operating Expenses	\$ 3,767	\$ 16,500	\$ (12,733)	-77.2%
	Indirect Expenses	\$ 262,659	\$ 276,388	\$ (13,729)	-5.0%
	Other Non-Operating Expenses	\$ -	\$ -	\$ -	
B.	Total Expenses	\$ 660,643	\$ 735,980	\$ (75,336)	-10.2%
Change in Assets (A-B)					
	Fixed Assets				
	Allocation of Fixed Assets	33,695	10,000	23,695	237.0%
C.	Total Inc(Dec) in Fixed Assets	\$ 33,695	\$ 10,000	\$ 23,695	237.0%
	Total Budget (B+C)	\$ 694,339	\$ 745,980	\$ (51,641)	-6.9%
	Change in Working Capital (A-B-C)	\$ 36,805	\$ (52,229)	\$ 89,035	
	FTEs	2.01	2.00	0.01	0.5%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual formats due to COVID-19.

Operating Expenses

Office Costs

Reduced staff presence in the office resulted in reduced use of facility and need for office supplies and office maintenance.

Fixed Assets

The Fixed Asset allocation is higher due to unbudgeted fixed asset purchases for an approved office expansion, recorded in the Information Technology Program and allocated to the statutory programs on the basis of FTEs.



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 their respective number of FTEs.



6a. General and Administrative

GENERAL AND ADMINISTRATIVE SERVICES		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
Other Funding					
	Interest Income	419	-	419	0.0%
	Other Revenue	4,382	-	4,382	0.0%
A.	Total Funding	\$ 4,800	\$ -	\$ 4,800	0.0%
Expenses					
Personnel Expenses					
	Salaries	899,950	845,317	54,633	6.5%
	Payroll Taxes	52,654	34,161	18,493	54.1%
	Employee Benefits	47,790	51,571	(3,781)	-7.3%
	Savings and Retirement	120,635	104,936	15,699	15.0%
	Total Personnel Expenses	\$ 1,121,029	\$ 1,035,985	\$ 85,044	8.2%
Meeting Expenses					
	Meetings	421	60,000	(59,579)	-99.3%
	Travel - Staff Business	1,406	81,000	(79,594)	-98.3%
	Travel - Member Reimbursement	-	119,700	(119,700)	-100.0%
	Total Meeting Expenses	\$ 1,827	\$ 260,700	\$ (258,873)	-99.3%
Operating Expenses					
	Consultants	72,052	65,000	7,052	10.8%
	Contract	-	-	-	
	Building Rent and Facilities	-	-	-	
	Office Costs	142,204	120,000	22,204	18.5%
	Professional Services	-	-	-	
	Contingency	-	-	-	
	Total Operating Expenses	\$ 214,256	\$ 185,000	\$ 29,256	15.8%
Indirect Expenses					
		\$ (1,337,112)	\$ (1,481,685)	\$ 144,573	-9.8%
Other Non-Operating Expenses					
		\$ -	\$ -	\$ -	
B.	Total Expenses	\$ -	\$ -	\$ -	
Change in Assets (A-B)		\$ 4,800	\$ -	\$ 4,800	
Fixed Assets					
	Allocation of Fixed Assets	-	-	-	
C.	Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget (B+C)		\$ -	\$ -	\$ -	
Change in Working Capital (A-B-C)		\$ 4,800	\$ -	\$ 4,800	
FTEs		4.07	3.36	0.71	21.1%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual formats due to COVID-19.

Operating Expenses

Office Costs

These costs were over spent due to increased leadership training and executive coaching performed during the year as part of the organization's strategic plan.



6b. Legal and Regulatory

LEGAL AND REGULATORY		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	-	-	-	
	Penalty Sanctions	-	-	-	
A.	Total ERO Funding	\$ -	\$ -	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	358,258	268,391	89,867	33.5%
	Payroll Taxes	22,200	12,352	9,848	79.7%
	Employee Benefits	26,303	20,113	6,190	30.8%
	Savings and Retirement	50,559	33,534	17,025	50.8%
	Total Personnel Expenses	\$ 457,321	\$ 334,390	\$ 122,931	36.8%
Meeting Expenses					
	Meetings	-	-	-	
	Travel - Staff Business	259	23,500	(23,241)	-98.9%
	Travel - Member Reimbursement	-	-	-	
	Total Meeting Expenses	\$ 259	\$ 23,500	\$ (23,241)	-98.9%
Operating Expenses					
	Consultants	1,000	-	1,000	0.0%
	Contract	-	-	-	
	Building Rent and Facilities	-	-	-	
	Office Costs	23,553	15,244	8,309	54.5%
	Professional Services	371,248	461,500	(90,252)	-19.6%
	Contingency	-	-	-	
	Total Operating Expenses	\$ 395,800	\$ 476,744	\$ (80,944)	-17.0%
	Indirect Expenses	\$ (853,381)	\$ (834,634)	\$ (18,747)	2.2%
	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	2.18	1.55	0.63	40.6%



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

Personnel Expenses

Higher salary costs are a direct result of hiring an Assistant Counsel and Corporate secretary.

Meeting Expenses

All scheduled travel was converted to virtual formats due to COVID-19.

Operating Expenses

Professional Services

There was decreased spending in independent director travel costs due to COVID-19.



6c. Information Technology

INFORMATION TECHNOLOGY		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	-	-	-	
	Penalty Sanctions	-	-	-	
A.	Total ERO Funding	\$ -	\$ -	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	614,810	746,507	(131,697)	-17.6%
	Payroll Taxes	40,758	55,252	(14,494)	-26.2%
	Employee Benefits	83,176	104,289	(21,113)	-20.2%
	Savings and Retirement	120,781	130,990	(10,209)	-7.8%
	Total Personnel Expenses	\$ 859,526	\$ 1,037,038	\$ (177,512)	-17.1%
Meeting Expenses					
	Meetings	97	-	97	0.0%
	Travel - Staff Business	220	28,400	(28,180)	-99.2%
	Travel - Member Reimbursement	-	-	-	
	Total Meeting Expenses	\$ 317	\$ 28,400	\$ (28,083)	-98.9%
Operating Expenses					
	Consultants	96,750	191,200	(94,450)	-49.4%
	Contract	255,280	358,507	(103,227)	-28.8%
	Building Rent and Facilities	-	-	-	
	Office Costs	195,469	332,950	(137,481)	-41.3%
	Professional Services	-	-	-	
	Contingency	-	-	-	
	Total Operating Expenses	\$ 547,499	\$ 882,657	\$ (335,158)	-38.0%
	Indirect Expenses	\$ (1,407,343)	\$ (1,948,095)	\$ 540,752	-27.8%
	Other Non-Operating Expenses	\$ -	\$ -	\$ -	
B.	Total Expenses	\$ -	\$ -	\$ -	
	Change in Assets (A-B)	\$ -	\$ -	\$ -	
Fixed Assets					
	Computer & Software CapEx	363,042	250,000	113,042	45.2%
	Furniture & Fixtures CapEx	267,027	-	-	
	Equipment CapEx	-	-	-	
	Leasehold Improvements	169,231	-	-	
	Inc(Dec) in Fixed Assets	\$ 799,300	\$ 250,000	\$ 549,300	219.7%
	Allocation of Fixed Assets	(799,300)	(250,000)	(549,300)	219.7%
C.	Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
	Total Budget (B+C)	\$ -	\$ -	\$ -	
	Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	
	FTEs	6.30	6.00	0.30	5.0%



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

Fewer executive hours spent in IT operations and the addition of one budgeted FTE did not occur until the end of the year.

Meeting Expenses

All scheduled travel was converted to virtual formats due to COVID-19.

Operating Expenses*Consultants*

Consultants were underspent due to COVID-19. Internal IT staff maintained MRO's virtual environment, reducing the need for external IT support.

Contracts

Contracts were underspent due to discontinued use of some software contracts as improved systems came online.

Office Costs

Office costs were underspent due to COVID-19. Reduced staff presence in the office resulted in reduced use of facility and need for office and computer supplies and equipment maintenance.

Indirect Expenses

There were fewer indirect costs than budgeted generated by this administrative service area. These costs are allocated to the other technical program areas based on the technical areas' FTEs.

Fixed Assets

Purchases in leasehold improvements, computer, and furniture assets resulted in a variance of \$549,300 over budget. All purchases were related to an approved unbudgeted office expansion.



6d. Human Resources

HUMAN RESOURCES		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	-	-	-	
	Penalty Sanctions	-	-	-	
A. Total ERO Funding		\$ -	\$ -	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	343,127	259,627	83,500	32.2%
	Payroll Taxes	22,974	15,704	7,270	46.3%
	Employee Benefits	25,998	24,239	1,759	7.3%
	Savings and Retirement	52,869	38,003	14,866	39.1%
Total Personnel Expenses		\$ 444,969	\$ 337,573	\$ 107,396	31.8%
Meeting Expenses					
	Meetings	-	-	-	
	Travel - Staff Business	-	2,000	\$ (2,000)	-100.0%
	Travel - Member Reimbursement	-	-	-	
Total Meeting Expenses		\$ -	\$ 2,000	\$ (2,000)	-100.0%
Operating Expenses					
	Consultants	6,222	-	6,222	0.0%
	Contract	43,623	27,000	16,623	61.6%
	Building Rent and Facilities	-	-	-	
	Office Costs	89,412	64,500	24,912	38.6%
	Professional Services	-	-	-	
	Contingency	-	-	-	
Total Operating Expenses		\$ 139,257	\$ 91,500	\$ 47,757	52.2%
Indirect Expenses		\$ (584,226)	\$ (431,073)	\$ (153,153)	35.5%
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		1.27	1.29	(0.02)	-1.6%



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

Personnel Expenses

Higher salary costs are a direct result of promotion of staff in this program.

Operating Expenses

Consultants

Consultants was over spent due to unbudgeted compensation consulting costs incurred under this program.

Contracts

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

Office Costs

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

Indirect Expenses

There were more indirect costs than budgeted generated by this administrative service area. These costs are allocated to the other technical program areas based on the technical areas' FTEs.



6e. Finance and Accounting

FINANCE AND ACCOUNTING		2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	-	-	-	
	Penalty Sanctions	-	-	-	
A.	Total ERO Funding	\$ -	\$ -	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	573,449	549,682	23,767	4.3%
	Payroll Taxes	38,456	35,972	2,484	6.9%
	Employee Benefits	69,063	76,841	(7,778)	-10.1%
	Savings and Retirement	111,242	98,006	13,236	13.5%
	Total Personnel Expenses	\$ 792,211	\$ 760,501	\$ 31,710	4.2%
Meeting Expenses					
	Meetings	63	2,000	(1,937)	-96.8%
	Travel - Staff Business	652	10,000	(9,348)	-93.5%
	Travel - Member Reimbursement	-	-	-	
	Total Meeting Expenses	\$ 716	\$ 12,000	\$ (11,284)	-94.0%
Operating Expenses					
	Consultants	12,646	7,500	5,146	68.6%
	Contract	45,208	36,000	9,208	25.6%
	Building Rent and Facilities	991,646	1,168,700	(177,054)	-15.1%
	Office Costs	148,141	171,500	(23,359)	-13.6%
	Professional Services	58,000	58,000	0	0.0%
	Contingency	-	-	-	
	Total Operating Expenses	\$ 1,255,640	\$ 1,441,700	\$ (764,987)	-53.1%
Indirect Expenses					
		\$ (2,048,567)	\$ (2,214,201)	\$ 165,634	-7.5%
Other Non-Operating Expenses					
		\$ (578,927)	\$ -	\$ (578,927)	
B.	Total Expenses	\$ (578,927)	\$ -	\$ (578,927)	
Change in Assets (A-B)					
		\$ 578,927	\$ -	\$ 578,927	
Fixed Assets					
	Allocation of Fixed Assets	-	-	-	
C.	Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget (B+C)					
		\$ (578,927)	\$ -	\$ (578,927)	
Change in Working Capital (A-B-C)					
		\$ 578,927	\$ -	\$ 578,927	
FTEs		4.04	3.80	0.24	6.3%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual formats due to COVID-19.

Operating Expenses

Building Rent and Facilities

As a result of the pandemic, leasing expenses were credited due to lower costs from leased building operations such as utilities, reduction in proportionate tax expense, and common area maintenance costs.

Office Costs

Office costs were underspent due to COVID-19. Reduced staff presence in the office resulted in reduced use of facility and need for office supplies, maintenance, and repairs.

Other Non-Operating Expenses

There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2021 adjustment resulted in a decrease in the deferred liability, primarily because the benefit discount rate increased while retiree benefit premiums decreased.



SECTION B — SUPPLEMENTAL FINANCIAL INFORMATION

Statement of Activities and Capital Expenditures by Program 2021 Business Plan and Budget	Functions in Delegation Agreement											
	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 6008.900)	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	16,983,251	363,316	12,281,512	3,088,188	534,289	715,947						
Assessment Stabilization Adjustment	360,504	7,712	260,700	65,553	11,341	15,197						
Membership Dues	-											
Testing Fees	-											
Services & Software	-											
Workshops & Miscellaneous Revenue	-											
Interest & Investment Income	4,800							4,800				
Total Funding (A)	17,348,555	371,028	12,542,212	3,153,741	545,630	731,144	-	4,800	-	-	-	-
Expenses												
Personnel Expenses												
Salaries	10,457,578	204,464	5,431,306	1,383,031	359,868	289,314	-	899,950	358,258	614,810	343,127	573,449
Payroll Taxes	682,432	15,882	355,968	88,673	25,456	19,411	-	52,654	22,200	40,758	22,974	38,456
Benefits	998,942	24,783	535,771	119,572	33,902	32,582	-	47,790	26,303	83,176	25,998	69,063
Retirement Costs	1,768,892	41,886	926,287	228,231	63,821	52,580	-	120,635	50,559	120,781	52,869	111,242
Total Personnel Expenses	13,907,844	287,014	7,249,332	1,819,507	483,048	393,888	-	1,121,029	457,321	859,526	444,969	792,211
Meeting Expenses												
Meetings	3,410	-	346	317	1,575	330	-	421	259	97	-	63
Travel	2,494	-	78	138	-	-	-	1,406	-	220	-	652
Total Meeting Expenses	5,904	-	424	456	1,575	330	-	1,827	259	317	-	716
Operating Expenses												
Consultants & Contracts	817,104	-	256,086	28,236	-	-	-	72,052	1,000	352,030	49,845	57,854
Office Rent	991,646	-	-	-	-	-	-	-	-	-	-	991,646
Office Costs	734,195	-	113,753	17,898	-	3,767	-	142,204	23,553	195,469	89,412	148,141
Professional Services	429,248	-	-	-	-	-	-	-	371,248	-	-	58,000
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	2,972,193	-	369,839	46,134	-	3,767	-	214,256	395,800	547,499	139,257	1,255,640
Total Direct Expenses	16,885,941	287,014	7,619,595	1,866,097	484,623	397,985	-	1,337,112	853,381	1,407,343	584,226	2,048,567
Indirect Expenses	-	133,289	4,505,705	1,132,960	196,014	262,659	-	(1,337,112)	(853,381)	(1,407,343)	(584,226)	(2,048,567)
Other Non-Operating Expenses	(578,927)	-	-	-	-	-	-	-	-	-	-	(578,927)
Total Expenses (B)	16,307,014	420,304	12,125,300	2,999,057	680,637	660,643	-	-	-	-	-	(578,927)
Change in Net Assets	462,614	(49,276)	416,912	154,684	(135,007)	70,501	-	4,800	-	-	-	578,927
Fixed Assets												
Computer & Software CapEx	363,042	-	-	-	-	-	-	-	-	363,042	-	-
Furniture & Fixtures CapEx	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx	267,027	-	-	-	-	-	-	-	-	267,027	-	-
Leasehold Improvements	169,231	-	-	-	-	-	-	-	-	169,231	-	-
Allocation of Fixed Assets	-	17,099	578,017	145,343	25,146	33,695	-	-	-	(799,300)	-	-
Inc(Dec) in Fixed Assets (C)	799,300	17,099	578,017	145,343	25,146	33,695	-	-	-	-	-	-
TOTAL BUDGET (Total Expenses plus Fixed Asset Additions =B + C)	17,106,314	437,403	12,703,317	3,144,399	705,782	694,339	-	-	-	-	-	(578,927)
TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)	242,241	(66,375)	(161,105)	9,341	(160,152)	36,805	-	4,800	-	-	-	578,927
FTEs	65.54	1.02	34.48	8.67	1.50	2.01	-	4.07	2.18	6.30	1.27	4.04

Midwest Reliability Organization

Financial Statements

December 31, 2021 and 2020

Midwest Reliability Organization

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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, 2021 and 2020, 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, 2021 and 2020, 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.

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 7, 2022

Midwest Reliability Organization

Statements of Financial Position

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,535,807	\$ 8,654,730
Restricted cash	458,250	360,504
Prepaid expenses	610,428	376,264
Total current assets	<u>7,604,485</u>	<u>9,391,498</u>
Property, Improvements and Equipment, Net	<u>2,696,007</u>	<u>1,612,369</u>
Other Assets		
Restricted cash, noncurrent	4,166,731	2,246,980
Security deposit, noncurrent	39,858	39,858
Investments	207,789	166,208
Capitalized software costs, net of accumulated amortization of \$501,264 and \$493,681 respectively	7,000	15,196
Total assets	<u>\$ 14,721,870</u>	<u>\$ 13,472,109</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, trade	\$ 215,757	\$ 196,219
Accounts payable, construction	-	506,345
Accrued liabilities	2,285,101	1,908,952
Retirement plan contribution	863,658	733,675
Total current liabilities	<u>3,364,516</u>	<u>3,345,191</u>
Other Liabilities		
Postretirement medical benefit obligation	311,796	609,597
Deferred rent and lease incentives, noncurrent	1,240,477	446,917
Other retirement plan liability	207,789	166,208
Total liabilities	<u>5,124,578</u>	<u>4,567,913</u>
Net Assets (Without Donor Restrictions)	<u>9,597,292</u>	<u>8,904,196</u>
Total liabilities and net assets	<u>\$ 14,721,870</u>	<u>\$ 13,472,109</u>

See notes to financial statements

Midwest Reliability Organization

Statements of Activities

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue		
Assessments	\$ 16,983,251	\$ 16,983,251
Penalty sanctions	517,497	7,483
Other	4,382	4,147
	<u>17,505,130</u>	<u>16,994,881</u>
Expenses		
Personnel expenses:		
Salaries	10,457,578	9,786,020
Payroll taxes	682,432	637,315
Employee benefits	998,942	1,010,281
Retirement benefits	1,768,892	1,543,882
	<u>13,907,844</u>	<u>12,977,498</u>
Meeting expenses:		
Meetings and conference calls	3,088	10,124
Travel	2,816	75,846
	<u>5,904</u>	<u>85,970</u>
Operating expenses:		
Building rent and facilities	991,646	723,149
Consulting	817,104	630,168
Office costs	1,239,215	977,474
Professional services	429,248	448,244
	<u>3,477,213</u>	<u>2,779,035</u>
Total expenses	<u>17,390,961</u>	<u>15,842,503</u>
Change in net assets without donor restrictions before postretirement benefit related changes	<u>114,169</u>	<u>1,152,378</u>
Postretirement Benefit Related Changes		
Postretirement medical benefit obligation changes other than net periodic cost	(528,667)	(304,370)
Other components of net periodic pension cost	(50,260)	(54,980)
	<u>(578,927)</u>	<u>(359,350)</u>
Change in net assets without donor restrictions	693,096	1,511,728
Net Assets Without Donor Restrictions, Beginning	<u>8,904,196</u>	<u>7,392,468</u>
Net Assets Without Donor Restrictions, Ending	<u>\$ 9,597,292</u>	<u>\$ 8,904,196</u>

See notes to financial statements

Midwest Reliability Organization

Statements of Cash Flows

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 693,096	\$ 1,511,728
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	497,440	400,385
Software amortization	7,583	18,809
Change in assets and liabilities:		
Prepaid expenses	(234,164)	(70,021)
Accounts payable, trade	12,785	(110,979)
Accrued liabilities	376,149	794,689
Retirement plan contribution	129,983	74,925
Deferred rent and lease incentives	793,560	(54,844)
Accrued retirement plan obligations	(256,220)	(106,509)
Net cash flows from operating activities	<u>2,020,212</u>	<u>2,458,183</u>
Cash Flows From Investing Activities		
Purchases of investments	(41,581)	(61,667)
Purchases of property, improvements and equipment and software	(2,080,057)	(277,755)
Net cash flows from investing activities	<u>(2,121,638)</u>	<u>(339,422)</u>
Net change in cash and cash equivalents	(101,426)	2,118,761
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>11,262,214</u>	<u>9,143,453</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 11,160,788</u>	<u>\$ 11,262,214</u>
Supplemental Cash Flow Disclosure		
Property, improvements and equipment additions included in accounts payable	<u>\$ 6,753</u>	<u>\$ 506,345</u>

See notes to financial statements

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2021 and 2020

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 north-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.

In February 2018, the Organization amended its delegation agreement with NERC updating its geographical borders to include the reassignment of 93 of the 122 registered entities formerly registered in the Southwest Power Pool, Inc. Regional Entity to the Organization.

Financial Statement Presentation

As a 501(c)(3) non-profit 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, 2021 and 2020.

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 \$4,166,731 and \$2,246,980 as of December 31, 2021 and 2020, 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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,535,807	\$ 8,654,730
Restricted cash	458,250	360,504
Restricted cash, noncurrent	<u>4,166,731</u>	<u>2,246,980</u>
Total cash, cash equivalents and restricted cash	<u>\$ 11,160,788</u>	<u>\$ 11,262,214</u>

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2021 and 2020

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.

Deferred Rent and Lease Incentives

Rent expense is recognized on a straight-line basis over the term of the lease. Lease incentives are recognized as a reduction of rent expense on a straight-line basis over the term of the lease.

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 \$7,583 and \$18,809 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020. 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.

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2021 and 2020

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.

Future Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this standard will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through April 7, 2022 which is the date that the financial statements were approved and available to be issued.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2021 and 2020

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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,535,807	\$ 8,654,730
Restricted cash, current	458,250	360,504
Total	<u>\$ 6,994,057</u>	<u>\$ 9,015,234</u>

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 \$16,983,251 for each of the years ended December 31, 2021 and 2020, 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. 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. The amount of the allowance is included in deferred rent and lease incentives in the accompanying statement of financial position and is being amortized as a reduction of rent expense over the term of the lease. Rent expense was \$488,075 and \$359,756 for years ended December 31, 2021 and 2020 respectively.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2021 and 2020

Future expected minimum lease payments under the lease as of December 31, 2021 are as follows:

Years ending December 31:	
2022	\$ 562,187
2023	574,891
2024	587,939
2025	601,046
2026	614,439
Thereafter	<u>3,869,778</u>
Total	<u>\$ 6,810,280</u>

5. Property, Improvements and Equipment

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

	<u>2021</u>	<u>2020</u>
Equipment	\$ 2,985,246	\$ 2,488,449
Furniture	817,208	681,498
Leasehold improvements	2,557,288	981,030
Construction in progress	<u>-</u>	<u>760,534</u>
	6,359,742	4,911,511
Less accumulated depreciation	<u>(3,663,735)</u>	<u>(3,299,142)</u>
Net property, improvements and equipment	<u>\$ 2,696,007</u>	<u>\$ 1,612,369</u>

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, 2023. There were no outstanding balances at December 31, 2021 or 2020.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2021 and 2020

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:

	<u>2021</u>	<u>2020</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 2,614,660	\$ 2,455,717
Service cost	374,829	334,207
Interest cost	64,785	77,410
Actuarial loss (gain)	(512,772) *	(191,624) **
Benefits paid	<u>(34,596)</u>	<u>(61,050)</u>
Benefit obligation at end of year	<u>2,506,906</u>	<u>2,614,660</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	2,005,063	1,677,944
Actual return on plan assets	130,940	245,136
Employer contribution	93,703	143,033
Benefits paid	<u>(34,596)</u>	<u>(61,050)</u>
Fair value of plan assets at end of year	<u>2,195,110</u>	<u>2,005,063</u>
Unfunded status recognized as a noncurrent liability	<u>\$ (311,796)</u>	<u>\$ (609,597)</u>
Weighted average assumptions used to calculate the benefit obligation-discount rate	2.81 %	2.50 %

* 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.

** Primary sources of the actuarial gain in 2020 are: 1) Pre-65 monthly premium increases, partially offset by 2) An increase in the number of active participants (from 51 as of December 31, 2019 to 56 as of December 31, 2020) and 3) A decrease in discount rate from 3.21 percent as of December 31, 2019 to 2.50 percent as of December 31, 2020.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>
Components of net periodic benefit cost:		
Service cost	\$ 374,829	\$ 334,207
Interest cost	64,785	77,410
Expected return on plan assets	(111,576)	(93,789)
Amortization of prior service credit	<u>(3,469)</u>	<u>(38,601)</u>
Net periodic benefit cost	<u>\$ 324,569</u>	<u>\$ 279,227</u>

Weighted-average assumptions used to calculate the net periodic benefit cost:

Discount rate	2.5 %	3.21 %
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 year ended December 31, 2021. The mortality assumptions for the plan were based on Pri-2012 headcount weighted mortality tables under MP-2019 during the year ended December 31, 2020.

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:

	<u>2021</u>	<u>2020</u>
Health care cost trend rate assumed for next year	6.0 %	5.8 %
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	2025

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

	<u>2021</u>	<u>2020</u>
Actuarial loss (gain) arising during the year	\$ (532,136)	\$ (342,971)
Amortization of prior year service cost	<u>3,469</u>	<u>38,601</u>
Total	<u>\$ (528,667)</u>	<u>\$ (304,370)</u>

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2021 and 2020

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:

	<u>2021</u>	<u>2020</u>
Equity securities	57 %	54 %
Debt securities	42	44
Other	1	2

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

	<u>2021</u>	<u>2020</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Asset category:		
Cash equivalents	\$ 24,279	\$ 36,858
Mutual funds, bonds	918,339	875,223
Mutual funds, equities	<u>1,252,492</u>	<u>1,092,982</u>
Total	<u>\$ 2,195,110</u>	<u>\$ 2,005,063</u>

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, 2021 and 2020.

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 are as follows:

Years ending December 31:	
2022	\$ 36,417
2023	50,344
2024	52,318
2025	62,858
2026	67,022
2027-2031	<u>469,313</u>
Total	<u>\$ 738,272</u>

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 \$90,238 to the plan in 2022.

Defined Contribution Retirement Plan

The Organization has a thrift savings plan to replace the terminated multiple-employer plan for the benefit of its employees. The Organization's previous 401(k) plan was converted into the new plan as well as the establishment of a new, non-elective employer contribution plan. 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. For employees to receive the nonelective or employer contribution, they must have worked 1,000 hours during the plan year. The Organization matched \$528,670 and \$475,998 of employee deferrals as of December 31, 2021 and 2020, respectively. In addition, the Organization elected to make employer contributions in the amounts of \$782,734 and \$668,611 for the years ended December 31, 2021 and 2020, 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 \$29,567 and \$28,529 for the years ended December 31, 2021 and 2020, respectively. The fair values of the Organization's 457B plan assets at December 31, 2021 and 2020 are \$207,789 and \$166,208, respectively. The plan assets consist of money market funds and mutual funds, which are Level 1 investments for which quoted prices are readily available.

The Organization also had a 457F plan, which was terminated in 2020. Upon termination of the plan in 2020, all balances in the plan were distributed to its participants.

Midwest Reliability Organization

Notes to Financial Statements
December 31, 2021 and 2020

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:

	2021		
Description:	Program Service Expenses	Management and General Expenses	Total Expenses
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	<u>\$ 13,697,924</u>	<u>\$ 3,693,037</u>	<u>\$ 17,390,961</u>

	2020		
Description:	Program Service Expenses	Management and General Expenses	Total Expenses
Salaries	\$ 8,542,074	\$ 1,243,946	\$ 9,786,020
Payroll taxes and employee benefits	2,785,636	405,842	3,191,478
Meetings and travel	62,565	23,405	85,970
Building rent and facilities	588,021	135,128	723,149
Consulting	402,395	227,773	630,168
Office costs	406,295	151,985	558,280
Professional services	281,820	166,424	448,244
Depreciation and amortization	340,863	78,331	419,194
Total	<u>\$ 13,409,669</u>	<u>\$ 2,432,834</u>	<u>\$ 15,842,503</u>

ATTACHMENT 3

2021 ACTUAL COST-TO-BUDGET COMPARISON

AND

2021 AUDITED FINANCIAL REPORT

FOR

NORTHEAST POWER COORDINATING COUNCIL, INC.



May 4, 2022

North American Electric Reliability Corporation
3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326
Attention: Mr. Andy Sharp

Subject: NPCC 2021 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2021 Financial Statements

Dear Andy:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2021 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP (PwC) was concluded on April 29, 2022, and forwarded to NERC for its information and provision to FERC. In preparing the financial statements for the year ended December 31 2021, NPCC identified an error related to a deferred compensation plan, the related trust and a retiree medical plan which were not recorded in the previously issued financial statements. NPCC and PwC have evaluated the effect of these misstatements, both qualitatively and quantitatively, and concluded that they are not material to any previously issued financial statements. For comparative purposes, NPCC has revised the previously reported amounts as of December 31, 2020 within its 2021 financial statements.

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 96/4 split for 2021 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 2021 were \$15,029,736 which is \$1,410,913 or 8.58% under the 2021 operating budget of \$16,440,648. Actual total expenses and fixed asset expenditures for NPCC's CS division for 2021 were \$813,024 which is \$186,689 or 18.67% under the 2021 operating budget of \$999,713. In the aggregate, actual total expenses, and fixed asset expenditures for the NPCC RE and CS divisions were \$15,842,760 which is \$1,597,602 or 9.16% under the 2021 total corporate expense budget of \$17,440,360. 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 2021 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 Regional Delegation Agreement (RDA) responsibilities.

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
Director, Finance and Accounting

Enclosures

cc: Mr. Charles Dickerson – NPCC President & CEO

Northeast Power Coordinating Council, Inc.
2021 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

	2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	15,154,584	15,154,584	-	0.00%
Penalty Sanctions	201,131	201,131	-	0.00%
Total ERO Funding	15,355,715	15,355,715	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	671,755	671,755	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	-100.00%
Interest & Investment Income	2,787	60,000	(57,213)	-95.36%
Miscellaneous	-	-	-	
Total Funding	16,030,257	16,154,969	(124,713)	-0.77%
Expenses				
Personnel Expenses				
Salaries	8,509,883	8,319,090	190,793	2.29%
Payroll Taxes	570,262	509,085	61,177	12.02%
Employee Benefits	1,745,113	2,107,678	(362,565)	-17.20%
Savings & Retirement	919,959	946,487	(26,528)	-2.80%
Total Personnel Expenses	11,745,217	11,882,340	(137,123)	-1.15%
Meeting Expenses				
Meetings & Conference Calls	15,015	345,600	(330,585)	-95.66%
Travel	6,952	773,360	(766,408)	-99.10%
Total Meeting Expenses	21,967	1,118,960	(1,096,993)	-98.04%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	1,039,797	1,567,500	(527,703)	-33.67%
Rent & Improvements	764,610	870,141	(105,531)	-12.13%
Office Costs	867,977	841,420	26,557	3.16%
Professional Services	1,103,665	1,005,000	98,665	9.82%
Miscellaneous	40,522	55,000	(14,478)	-26.32%
Depreciation	-	-	-	
Total Operating Expenses	3,816,571	4,339,061	(522,490)	-12.04%
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	-	-	-	
Total Expenses	15,583,755	17,340,361	(1,756,606)	-10.13%
Change in Net Assets	446,502	(1,185,392)	1,631,893	-137.67%
Fixed Asset Additions, excluding Right of Use Assets	259,005	99,999	159,006	159.01%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	15,842,760	17,440,360	(1,597,602)	-9.16%
Change in Working Capital (Total Funding less Total Budget)	187,497	(1,285,391)	1,472,888	-114.59%
FTE's	46.00	44.27	1.73	

Northeast Power Coordinating Council, Inc.
2021 Statement of Activities Summary

TOTAL STATUTORY				
	2021	2021	2021 Variance	
	Actual	Budget	from Budget	
			Over(Under)	
Funding				
ERO Funding				
Assessments	15,154,584	15,154,584	-	0.00%
Penalty Sanctions	201,131	201,131	-	0.00%
Total ERO Funding	<u>15,355,715</u>	<u>15,355,715</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	-100.00%
Interest & Investment Income	2,613	56,264	(53,651)	-95.36%
Miscellaneous	-	-	-	
Total Funding	<u>15,358,328</u>	<u>15,479,479</u>	<u>(121,151)</u>	<u>-0.78%</u>
Expenses				
Personnel Expenses				
Salaries	8,168,951	7,982,119	186,832	2.34%
Payroll Taxes	548,558	485,768	62,790	12.93%
Employee Benefits	1,693,655	2,021,243	(327,588)	-16.21%
Savings & Retirement	886,922	909,832	(22,910)	-2.52%
Total Personnel Expenses	<u>11,298,086</u>	<u>11,398,962</u>	<u>(100,876)</u>	<u>-0.88%</u>
Meeting Expenses				
Meetings & Conference Calls	14,794	334,400	(319,606)	-95.58%
Travel	6,884	727,920	(721,036)	-99.05%
Total Meeting Expenses	<u>21,678</u>	<u>1,062,320</u>	<u>(1,040,642)</u>	<u>-97.96%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	1,039,797	1,509,800	(470,003)	-31.13%
Rent & Improvements	764,610	870,141	(105,531)	-12.13%
Office Costs	865,032	837,420	27,612	3.30%
Professional Services	1,103,665	1,005,000	98,665	9.82%
Miscellaneous	40,298	51,000	(10,702)	-20.98%
Depreciation	-	-	-	
Total Operating Expenses	<u>3,813,402</u>	<u>4,273,361</u>	<u>(459,959)</u>	<u>-10.76%</u>
Indirect Expense Allocation	<u>(352,280)</u>	<u>(387,994)</u>	<u>35,714</u>	<u>-9.20%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>14,780,886</u>	<u>16,346,649</u>	<u>(1,565,763)</u>	<u>-9.58%</u>
Change in Net Assets	<u>577,442</u>	<u>(867,171)</u>	<u>1,444,612</u>	<u>-166.59%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>248,850</u>	<u>93,999</u>	<u>154,850</u>	<u>164.74%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>15,029,736</u>	<u>16,440,648</u>	<u>(1,410,913)</u>	<u>-8.58%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>328,592</u>	<u>(961,170)</u>	<u>1,289,762</u>	<u>-134.19%</u>
FTE's	<u>44.40</u>	<u>42.11</u>	<u>2.29</u>	<u>5.44%</u>

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

Workshop Fees

Under budget variance is a result of NPCC's Spring and Fall Compliance and Standards Workshops being converted to a virtual format to allow for remote participation due to in-person meeting and travel restrictions as a result of the COVID-19 pandemic. The virtual workshops have received positive feedback and high attendance. Fees are only charged for in-person workshops in order to offset the associated expenses. There are no fees collected for virtual workshop participation.

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 lower 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 Regional Delegation Agreement (RDA) responsibilities. 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 and cost savings resulting from the consolidation of multiple insurance carriers. Additional FTEs were added in the compliance program area to replace the use of contractor compliance auditors. Increased personnel expenses in the compliance area are partially offset by decreased consultants & contracts expenses.

Meeting Expenses

Under budget variance is the result of continued in-person meeting and travel limitations due to the Covid-19 pandemic. NPCC's Spring and Fall Compliance and Standards Workshops were converted to a remote attendance webinar format. The increased number of attendees encouraged NPCC to deliver a third workshop to reach as wide an audience of participants as possible. Based on positive feedback received on the virtual format, NPCC will deliver workshops both in person and virtually going forward. Other planned meetings and activities, including the 2021 Annual Meeting of NPCC Members, were conducted successfully via webinar, video conferencing and teleconference.

Consultants & Contracts

Under budget variance is the result of NPCC replacing the use of independent contractor compliance auditors with FTEs. Decreased consultants and contracts expenses are partially offset by increased personnel expenses in the compliance program.

Rent and Improvements

Maintenance, utilities, and landlord operating expenses were lower than budgeted related to remote working due to the COVID-19 pandemic.

Professional Services

Over budget variance is related to legal fees and accounting fees.

Miscellaneous

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

Fixed Assets

Over budget variance is primarily due to advancing planned equipment purchases and software development projects including an enterprise risk management system.

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.
2021 Statement of Activities Summary**

RELIABILITY STANDARDS	2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	957,193	957,193	-	0.00%
Penalty Sanctions	11,483	11,483	-	0.00%
Total ERO Funding	968,675	968,675	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	968,675	968,675	-	0.00%
Expenses				
Personnel Expenses				
Salaries	256,208	359,491	(103,283)	-28.73%
Payroll Taxes	21,682	21,383	299	1.40%
Employee Benefits	70,387	111,331	(40,944)	-36.78%
Savings & Retirement	29,839	38,780	(8,941)	-23.06%
Total Personnel Expenses	378,116	530,986	(152,870)	-28.79%
Meeting Expenses				
Meetings & Conference Calls	-	4,000	(4,000)	-100.00%
Travel	-	72,720	(72,720)	-100.00%
Total Meeting Expenses	-	76,720	(76,720)	-100.00%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	19,728	20,000	(272)	-1.36%
Rent & Improvements	-	-	-	
Office Costs	1,899	2,000	(101)	-5.05%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	21,627	22,000	(373)	-1.70%
Indirect Expense Allocation	219,940	333,603	(113,663)	-34.07%
Other Non-Operating Expenses	-	-	-	
Total Expenses	619,683	963,309	(343,626)	-35.67%
Change in Net Assets	348,992	5,366	343,626	6403.25%
Fixed Asset Additions, excluding Right of Use Assets	7,255	5,366	1,889	35.19%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	626,938	968,675	(341,737)	-35.28%
Change in Working Capital (Total Funding less Total Budget)	341,737	-	341,737	
FTE's	1.00	1.84	(0.84)	-45.65%

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.
2021 Statement of Activities Summary

COMPLIANCE ENFORCEMENT and ORGANIZATION REGISTRATION	2021 Actual	2021 Budget	2021 Variance from Budget	
Funding				
ERO Funding				
Assessments	8,444,793	8,444,793	-	0.00%
Penalty Sanctions	121,378	121,378	-	0.00%
Total ERO Funding	8,566,171	8,566,171	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	8,566,171	8,566,171	-	0.00%
Expenses				
Personnel Expenses				
Salaries	3,251,288	3,058,980	192,308	6.29%
Payroll Taxes	221,355	214,978	6,377	2.97%
Employee Benefits	795,661	834,388	(38,727)	-4.64%
Savings & Retirement	313,102	333,201	(20,099)	-6.03%
Total Personnel Expenses	4,581,406	4,441,546	139,860	3.15%
Meeting Expenses				
Meetings & Conference Calls	-	12,000	(12,000)	-100.00%
Travel	823	269,120	(268,297)	-99.69%
Total Meeting Expenses	823	281,120	(280,297)	-99.71%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	243,811	707,150	(463,339)	-65.52%
Rent & Improvements	-	-	-	
Office Costs	16,823	18,000	(1,177)	-6.54%
Professional Services	-	-	-	
Miscellaneous	1,546	-	1,546	
Depreciation	-	-	-	
Total Operating Expenses	262,180	725,150	(462,970)	-63.84%
Indirect Expense Allocation	3,665,401	3,526,402	138,999	3.94%
Other Non-Operating Expenses	-	-	-	
Total Expenses	8,509,810	8,974,218	(464,408)	-5.17%
Change in Net Assets	56,361	(408,046)	464,408	-113.81%
Fixed Asset Additions, excluding Right of Use Assets	159,612	56,727	102,886	181.37%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	8,669,422	9,030,944	(361,522)	-4.00%
Change in Working Capital (Total Funding less Total Budget)	(103,251)	(464,773)	361,522	-77.78%
FTE's	22.00	19.45	2.55	13.11%

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 in 2021, 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:

- Completing 7 virtual O&P audits that were converted from on-site audits
- Completing 6 virtual CIP audits that were converted from on-site audits
- Completing 20 off-site O&P audits
- Starting 14 O&P off-site audits
- Starting 1 virtual O&P audit converted from on-site audit
- Starting 1 virtual CIP audit converted from on-site audit
- Starting 2 off-site CIP audits
- Participating in 2 MRRE audits
- Starting 1 Certification Review for a replacement Energy Management System
- Completing 57 off-site CIP self-certifications

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

- Performed 31 Inherent Risk Assessments (IRA)
- Developed 31 Compliance Oversight Plans (COP)
- Processed 10 new Technical Feasibility Exception (TFE) submittals and 6 Material Change Reports (MCR)
- Closed 123 instances of non-compliance with NERC Reliability Standards
- Performed a Preliminary Screen on 296 incoming non-compliances
- Registered 3 new entities, delisted 7 entities, deactivated 2 functions, processed 2 entity name changes, and added new functions to 1 entity.
- Conducted 5 compliance webinars that were attended by a total of 1,050 stakeholders
- 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.
2021 Statement of Activities Summary

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	3,280,822	3,280,822	-	0.00%
Penalty Sanctions	33,948	33,948	-	0.00%
Total ERO Funding	<u>3,314,770</u>	<u>3,314,770</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>3,314,770</u>	<u>3,314,770</u>	-	0.00%
Expenses				
Personnel Expenses				
Salaries	1,155,525	1,017,371	138,154	13.58%
Payroll Taxes	75,718	64,068	11,650	18.18%
Employee Benefits	283,728	280,566	3,162	1.13%
Savings & Retirement	125,916	110,034	15,882	14.43%
Total Personnel Expenses	<u>1,640,887</u>	<u>1,472,039</u>	<u>168,848</u>	<u>11.47%</u>
Meeting Expenses				
Meetings & Conference Calls	2,057	17,600	(15,543)	-88.31%
Travel	3,339	172,960	(169,621)	-98.07%
Total Meeting Expenses	<u>5,396</u>	<u>190,560</u>	<u>(185,164)</u>	<u>-97.17%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	638,300	647,000	(8,700)	-1.34%
Rent & Improvements	-	-	-	
Office Costs	18,704	3,000	15,704	523.47%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>657,004</u>	<u>650,000</u>	<u>7,004</u>	<u>1.08%</u>
Indirect Expense Allocation	<u>1,021,588</u>	<u>986,305</u>	<u>35,283</u>	<u>3.58%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>3,324,875</u>	<u>3,298,904</u>	<u>25,971</u>	<u>0.79%</u>
Change in Net Assets	<u>(10,105)</u>	<u>15,866</u>	<u>(25,971)</u>	<u>-163.69%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>45,707</u>	<u>15,866</u>	<u>29,841</u>	<u>188.08%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>3,370,582</u>	<u>3,314,770</u>	<u>55,812</u>	<u>1.68%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>(55,812)</u>	<u>-</u>	<u>(55,812)</u>	
FTE's	6.30	5.44	0.86	15.81%

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

Personnel Expenses

Over budget variance is due to this program area being fully staffed for the year and the addition of a partial reallocation of an FTE to support this program area.

Office Costs

Un-budgeted office costs include home internet expense reimbursements and other remote working related expenses.

Northeast Power Coordinating Council, Inc.
2021 Statement of Activities Summary

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2021 Variance			
	2021	2021	from Budget	
	Actual	Budget	Over(Under)	
Funding				
ERO Funding				
Assessments	174,133	174,133	-	0.00%
Penalty Sanctions	624	624	-	0.00%
Total ERO Funding	<u>174,757</u>	<u>174,757</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	-100.00%
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>174,757</u>	<u>242,257</u>	<u>(67,500)</u>	<u>-27.86%</u>
Expenses				
Personnel Expenses				
Salaries	21,261	18,352	2,909	15.85%
Payroll Taxes	1,443	1,068	375	35.13%
Employee Benefits	6,051	6,091	(40)	-0.66%
Savings & Retirement	1,551	2,324	(773)	-33.26%
Total Personnel Expenses	<u>30,306</u>	<u>27,835</u>	<u>2,471</u>	<u>8.88%</u>
Meeting Expenses				
Meetings & Conference Calls	3,200	184,000	(180,800)	-98.26%
Travel	8	12,000	(11,992)	-99.93%
Total Meeting Expenses	<u>3,208</u>	<u>196,000</u>	<u>(192,792)</u>	<u>-98.36%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	240	-	240	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>240</u>	<u>-</u>	<u>240</u>	
Indirect Expense Allocation	<u>18,337</u>	<u>18,131</u>	<u>206</u>	<u>1.14%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>52,091</u>	<u>241,965</u>	<u>(189,874)</u>	<u>-78.47%</u>
Change in Net Assets	<u>122,666</u>	<u>292</u>	<u>122,374</u>	<u>41958.82%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>726</u>	<u>292</u>	<u>434</u>	<u>148.76%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>52,817</u>	<u>242,257</u>	<u>(189,441)</u>	<u>-78.20%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>121,941</u>	<u>-</u>	<u>121,941</u>	
FTE's	<u>0.10</u>	<u>0.10</u>	<u>-</u>	<u>0.00%</u>

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

Workshop Fees

Under budget variance is a result of NPCC's Spring and Fall Compliance and Standards Workshops being converted to a virtual format to allow for remote participation due to in-person meeting and travel restrictions as a result of the COVID-19 pandemic. The virtual workshops have received positive feedback and high attendance. Fees are only charged for in-person workshops in order to offset the associated expenses. There are no fees collected for virtual workshop participation.

Northeast Power Coordinating Council, Inc.
2021 Statement of Activities Summary

SITUATION AWARENESS and INFRASTRUCTURE SECURITY			2021 Variance	
	2021	2021	from Budget	
	Actual	Budget	Over(Under)	
Funding				
ERO Funding				
Assessments	2,372,783	2,372,783	-	0.00%
Penalty Sanctions	33,699	33,699	-	0.00%
Total ERO Funding	<u>2,406,482</u>	<u>2,406,482</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>2,406,482</u>	<u>2,406,482</u>	-	0.00%
Expenses				
Personnel Expenses				
Salaries	963,614	885,454	78,160	8.83%
Payroll Taxes	65,736	60,595	5,141	8.48%
Employee Benefits	158,514	233,918	(75,404)	-32.24%
Savings & Retirement	100,042	96,873	3,169	3.27%
Total Personnel Expenses	<u>1,287,906</u>	<u>1,276,840</u>	<u>11,066</u>	<u>0.87%</u>
Meeting Expenses				
Meetings & Conference Calls	955	6,400	(5,445)	-85.08%
Travel	1,261	75,440	(74,179)	-98.33%
Total Meeting Expenses	<u>2,216</u>	<u>81,840</u>	<u>(79,624)</u>	<u>-97.29%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	30,000	50,000	(20,000)	-40.00%
Rent & Improvements	-	-	-	
Office Costs	5,015	3,000	2,015	67.17%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>35,015</u>	<u>53,000</u>	<u>(17,985)</u>	<u>-33.93%</u>
Indirect Expense Allocation	<u>949,290</u>	<u>979,052</u>	<u>(29,762)</u>	<u>-3.04%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>2,274,427</u>	<u>2,390,732</u>	<u>(116,305)</u>	<u>-4.86%</u>
Change in Net Assets	<u>132,055</u>	<u>15,749</u>	<u>116,305</u>	<u>738.48%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>35,550</u>	<u>15,749</u>	<u>19,801</u>	<u>125.72%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>2,309,977</u>	<u>2,406,482</u>	<u>(96,505)</u>	<u>-4.01%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>96,505</u>	<u>-</u>	<u>96,505</u>	
FTE's	<u>4.90</u>	<u>5.40</u>	<u>(0.50)</u>	<u>-9.26%</u>

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

Consultants and Contracts

Consulting support was utilized less than projected. Increased staff efforts enabled NPCC to perform all of its responsibilities in this program area despite the underspend.

Northeast Power Coordinating Council, Inc.
2021 Statement of Activities Summary

ADMINISTRATIVE SERVICES	2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(75,140)	(75,140)	-	0.00%
Penalty Sanctions	-	-		
Total ERO Funding	(75,140)	(75,140)	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	2,613	56,264	(53,651)	-95.36%
Miscellaneous	-	-	-	
Total Funding	(72,527)	(18,876)	(53,651)	284.23%
Expenses				
Personnel Expenses				
Salaries	2,521,055	2,642,472	(121,417)	-4.59%
Payroll Taxes	162,624	123,675	38,949	31.49%
Employee Benefits	379,314	554,948	(175,634)	-31.65%
Savings & Retirement	316,472	328,620	(12,148)	-3.70%
Total Personnel Expenses	3,379,465	3,649,716	(270,251)	-7.40%
Meeting Expenses				
Meetings & Conference Calls	8,582	110,400	(101,818)	-92.23%
Travel	1,453	125,680	(124,227)	-98.84%
Total Meeting Expenses	10,035	236,080	(226,045)	-95.75%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	107,958	85,650	22,308	26.05%
Rent & Improvements	764,610	870,141	(105,531)	-12.13%
Office Costs	822,351	811,420	10,931	1.35%
Professional Services	1,103,665	1,005,000	98,665	9.82%
Miscellaneous	38,752	51,000	(12,248)	-24.02%
Depreciation	-	-	-	
Total Operating Expenses	2,837,336	2,823,211	14,125	0.50%
Indirect Expense Allocation	(6,226,836)	(6,231,487)	4,651	-0.07%
Other Non-Operating Expenses	-	-	-	
Total Expenses	1	477,520	(477,526)	-100.00%
Change in Net Assets	(72,528)	(496,396)	423,875	-85.39%
Fixed Asset Additions, excluding Right of Use Assets	-	-	-	
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	1	477,520	(477,526)	-100.00%
Change in Working Capital (Total Funding less Total Budget)	(72,528)	(496,396)	423,875	-85.39%
FTE's	10.10	9.88	0.22	2.23%

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

Consultants and Contracts

Over budget variance resulted from a compensation study that was unbudgeted.

NPCC
Penalty Sanctions

Date Invoiced	Date Received	Entity	Penalty Amount	Year to Recognize as Revenue for Business Plan & Budget															
				2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 and Future Years		
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											
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	<u>\$ 170,500.00</u>																
2/20/2015	3/5/2015		\$ 10,000.00						\$ 10,000.00										
		Subtotal - 2015	<u>\$ 10,000.00</u>																
12/12/2016	12/16/2016		\$ 75,000.00									\$ 75,000.00							
		Subtotal - 2016	<u>\$ 75,000.00</u>																
		Subtotal - 2017	<u>\$ -</u>																
7/2/2018	7/16/2018		\$ 120,000.00										\$ 120,000.00						
		Subtotal - 2018	<u>\$ 120,000.00</u>																
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	<u>\$ 154,000.00</u>																
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	<u>\$ 615,068.71</u>																
8/3/2021			\$ 360,000.00														\$ 43,241.10	\$ 316,758.90	
7/19/2021			\$ 100,000.00															\$ 100,000.00	
		Subtotal - 2021	<u>\$ 460,000.00</u>																
			<u>\$ 3,154,368.71</u>	<u>\$ 308,500.00</u>	<u>\$ 614,000.00</u>	<u>\$ 297,300.00</u>	<u>\$ 153,000.00</u>	<u>\$ 290,500.00</u>	<u>\$ 67,000.00</u>	<u>\$ -</u>	<u>\$ 75,000.00</u>	<u>\$ -</u>	<u>\$ 120,000.00</u>	<u>\$ 201,132.00</u>	<u>\$ 201,132.00</u>	<u>\$ 300,000.00</u>	<u>\$ 526,804.71</u>		
Penalties Reconciliation			12/31/2021	12/31/2020	Change in 2021														
Total Cumulative Penalties - GAAP/PWC Audit			\$ 3,154,368.71	\$ 2,694,368.71	\$ 460,000.00														
Total Cumulative Penalties - True Up Report/BP&B			2,126,432.00	1,925,300.00	201,132.00														
NERC Unrecognized Penalties¹			\$ 1,027,936.71	\$ 769,068.71	\$ 258,868.00														

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.

Northeast Power Coordinating Council, Inc.

Financial Statements

December 31, 2021 and 2020

Northeast Power Coordinating Council, Inc.
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December 31, 2021 and 2020

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Report of Independent Auditors

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

Opinion

We have audited the accompanying financial statements of Northeast Power Coordinating Council, Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, including the related notes (collectively referred to as 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, 2021 and 2020, 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 audit in accordance with auditing standards generally accepted in the United States of America (US 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 for one year after the date 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 US 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 US 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.

PricewaterhouseCoopers LLP

New York, New York
April 29, 2022

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Cash	\$ 9,821,202	\$ 3,371,323
Restricted cash	1,178,427	919,159
Investments	718,303	6,860,058
Prepaid expenses	627,413	479,177
Other assets	603,785	308,257
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$2,907,629 and \$2,697,595, respectively	<u>531,391</u>	<u>553,791</u>
Total assets	<u>\$ 13,480,521</u>	<u>\$ 12,491,765</u>
Liabilities and Net Assets		
Accrued expenses and other liabilities	\$ 4,714,638	\$ 4,066,584
Deferred revenue	261,888	314,881
Deferred rent	<u>237,143</u>	<u>338,787</u>
Total liabilities	<u>5,213,669</u>	<u>4,720,252</u>
Net assets		
Without donor restrictions:		
Available for operations	8,266,852	7,069,490
Board designated for future use	-	<u>702,023</u>
Total without donor restrictions	<u>8,266,852</u>	<u>7,771,513</u>
Total net assets	<u>8,266,852</u>	<u>7,771,513</u>
Total liabilities and net assets	<u>\$ 13,480,521</u>	<u>\$ 12,491,765</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2021 and 2020

	2021	2020
<u>Operating</u>		
Revenue		
Criteria Services assessments	\$ 671,754	\$ 1,065,203
Regional Entity assessments	15,154,584	15,338,737
Penalty sanctions	<u>460,000</u>	<u>615,069</u>
Total revenue	<u>16,286,338</u>	<u>17,019,009</u>
Expenses		
Salaries and employee benefits	11,745,340	10,834,587
Administrative and consultant fees	1,368,779	2,273,825
Professional fees	758,736	734,320
Meetings and travel	13,997	133,095
Telephone and telecommunications	182,365	176,279
Office supplies and expense	773,270	625,514
Equipment leases	90,175	141,764
Rent expense	594,748	652,204
Insurance expense	44,930	42,113
Miscellaneous	40,519	12,018
Depreciation and amortization	<u>210,034</u>	<u>195,474</u>
Total expenses	<u>15,822,893</u>	<u>15,821,193</u>
Change in net assets from operating activities without donor restrictions	463,445	1,197,816
<u>Non-operating</u>		
Interest and dividend income	2,787	18,768
Other components of net periodic benefit costs	<u>29,107</u>	<u>16,837</u>
Change in net assets without donor restrictions	495,339	1,233,421
Net assets		
Beginning of year	<u>7,771,513</u>	<u>6,538,092</u>
End of year	<u>\$ 8,266,852</u>	<u>\$ 7,771,513</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 495,339	\$ 1,233,421
Depreciation and amortization	210,034	195,474
(Increase) in prepaid expenses	(148,236)	(22,144)
(Increase) decrease in other assets	(295,528)	24,577
Increase in accrued expenses and other liabilities	648,054	102,866
(Decrease) in deferred revenue	(52,993)	(409,821)
(Decrease) in deferred rent	(101,644)	(101,644)
Net cash provided by operating activities	<u>755,026</u>	<u>1,022,729</u>
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(187,634)	(216,422)
Sales (purchases) of investments	<u>6,141,755</u>	<u>(1,563,851)</u>
Net cash provided by (used for) investing activities	<u>5,954,121</u>	<u>(1,780,273)</u>
Net increase (decrease) in cash and restricted cash	6,709,147	(757,544)
Cash and restricted cash		
Beginning of year	<u>4,290,482</u>	<u>5,048,026</u>
End of year	<u>\$ 10,999,629</u>	<u>\$ 4,290,482</u>
Reconciliation of cash and restricted cash reported in the statement of financial position		
Cash	\$ 9,821,202	\$ 3,371,323
Restricted cash	<u>1,178,427</u>	<u>919,159</u>
Total cash and restricted cash	<u>\$ 10,999,629</u>	<u>\$ 4,290,482</u>

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

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

1. Background

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.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

The Company reports information regarding its financial position and change in net assets in accordance with Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk.

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 at December 31, 2021 and December 31, 2020.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, (*Topic 842*): *Leases*, which establishes a right of use model ("ROU") that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For lessors, the new standard requires a lessor to classify leases as either sales-type,

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

finance or operating. A lease will be treated as a sale if it transfers all the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor does not convey risks and rewards or control, then the lease would be classified as an operating lease. The new standard requires a modified retrospective approach to adoption. The Company is currently evaluating the impact Topic 842 will have on its financial statements. The new standard is effective for annual periods beginning after December 15, 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.

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 than 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.

Restricted Cash

Restricted cash represents amounts in deposit accounts funded with penalties levied and received for noncompliance within NPCC 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.

Revenue Recognition

The Company recognizes revenue consistent with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which the Company adopted effective January 1, 2018.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

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. Penalty sanctions are recorded as income when levied and the appeals process has been waived or is concluded.

Rent Expense

The Company's office lease which commenced in 2009 contains predetermined increases and decreases in the rentals payable during the lease term. Rent expense is 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 is recorded as "Deferred rent" on the Statements of Financial Position. Deferred rent also includes the landlord's contribution toward the cost of leasehold improvements, which is being amortized over the lease term. The unamortized balance of the landlord's contribution at December 31, 2021 and 2020 was approximately \$84,000 and \$120,000, respectively.

Income Taxes and Taxes Other Than 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 Accounting Standards Codification (ASC) 740, "Income Taxes", in establishing and classifying any tax provisions for uncertain tax positions and in recognizing any interest and penalties.

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. Actual results could vary from the estimates that are used.

3. Revision of 2020 Financial Statements

In preparing the financial statements as of and for the year ended December 31, 2021, the Company identified an error related to a deferred compensation plan, the related trust, and a

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

retiree medical plan which were not recorded in the previously issued financial statements. The Company has evaluated the effect of these misstatements, both qualitatively and quantitatively, and concluded that they are not material to any previously issued financial statements. For comparative purposes, the Company has revised the following previously reported amounts within its 2021 financial statements:

Statement of Financial Position

	As Previously Reported December 31, 2020	Adjustment	As Revised December 31, 2020
Assets			
Investments	<u>\$ 6,241,778</u>	<u>\$ 618,280</u>	<u>\$ 6,860,058</u>
Total assets	<u>\$ 11,873,485</u>	<u>\$ 618,280</u>	<u>\$ 12,491,765</u>
Liabilities and Net Assets			
Accrued expenses and other liabilities	<u>\$ 2,965,155</u>	<u>\$ 1,101,429</u>	<u>\$ 4,066,584</u>
Total liabilities	<u>3,618,823</u>	<u>1,101,429</u>	<u>4,720,252</u>
Net assets			
Without donor restrictions:			
Available for operations			
Total without donor restrictions	<u>8,254,662</u>	<u>(483,149)</u>	<u>7,771,513</u>
Total net assets	<u>8,254,662</u>	<u>(483,149)</u>	<u>7,771,513</u>
Total liabilities and net assets	<u>\$ 11,873,485</u>	<u>\$ 618,280</u>	<u>\$ 12,491,765</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

Statement of Activities

	As Previously Reported For the Year Ended December 31, 2020	Adjustment	As Revised For the Year Ended December 31, 2020
Operating Expenses			
Salaries and employee benefits	\$ 10,850,903	\$ (16,316)	\$ 10,834,587
Total expenses	<u>15,837,509</u>	<u>(16,316)</u>	<u>15,821,193</u>
Change in net assets from operating activities without donor restrictions	<u>1,181,500</u>	<u>16,316</u>	<u>1,197,816</u>
Non-operating income			
Other components of net periodic benefit costs	<u>-</u>	<u>16,837</u>	<u>16,837</u>
Change in net assets without donor restrictions	1,200,268	33,153	1,233,421
Net assets			
Beginning of year	<u>7,054,394</u>	<u>(516,302)</u>	<u>6,538,092</u>
End of year	<u>\$ 8,254,662</u>	<u>\$ (483,149)</u>	<u>\$ 7,771,513</u>

Statement of Cash Flows

	As Previously Reported For the Year Ended December 31, 2020	Adjustment	As Revised For the Year Ended December 31, 2020
Cash flows from operating activities			
Change in net assets	\$ 1,200,268	\$ 33,153	\$ 1,233,421
Increase in accrued expenses and other liabilities	<u>90,024</u>	<u>12,842</u>	<u>102,866</u>
Net cash provided by operating activities	<u>976,734</u>	<u>45,995</u>	<u>1,022,729</u>
Cash flows from investing activities			
Purchases of investments	<u>(1,517,856)</u>	<u>(45,995)</u>	<u>(1,563,851)</u>
Net cash (used for) investing activities	<u>(1,734,278)</u>	<u>(45,995)</u>	<u>(1,780,273)</u>

4. Investments

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

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

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 2021 and 2020, the funds 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 at December 31 are classified as Level 1 in the table below.

The Company has entered into fixed annuity contracts with Metropolitan Life Insurance Company ("MetLife"). The annuity contracts are included in the statement of financial position at contract value as reported by MetLife, which approximates fair value. The fair value of the assets of the annuity contracts at December 31 are classified as Level 2 in the table below.

	2021	2020
Investments		
U.S. Treasury securities (Level 1)	\$ 41,997	\$ 6,241,778
MetLife annuity contracts (Level 2)	<u>676,306</u>	<u>618,280</u>
Total assets at fair value	<u>\$ 718,303</u>	<u>\$ 6,860,058</u>

5. Equipment and Leasehold Improvements

Equipment and leasehold improvements at December 31, 2021 and 2020 consist of the following:

	Depreciable Life	2021	2020
Furniture	10 years	\$ 204,968	\$ 204,968
Computer equipment	3 years	623,626	591,883
Website	3 years	232,000	232,000
Software	3 years	1,247,844	1,082,724
Leasehold improvements	15 years (see Note 2)	<u>974,691</u>	<u>974,691</u>
		3,283,129	3,086,266
Less: Accumulated depreciation and amortization		<u>(2,907,629)</u>	<u>(2,697,595)</u>
		375,500	388,671
Assets not yet in service		<u>155,891</u>	<u>165,120</u>
		<u>\$ 531,391</u>	<u>\$ 553,791</u>

Depreciation and amortization expense totaled \$210,034 and \$195,474 in 2021 and 2020, respectively.

6. Net Assets Without Donor Restrictions

Effective in 2018, NPCC's Board of Directors designated \$1,000,000 of Net Assets to serve as a Business Continuity Reserve ("BCR"). The BCR serves to fund varying financial impacts over several years beginning in 2020, in connection with succession initiatives for the office of President and CEO and additionally in the event of multiple coincident staff retirements. During the years 2021 and 2020 the Company used \$232,714 and \$297,977, respectively of the BCR for the designated expenditures. The remaining balance of \$469,309 was released to assets available for operations at December 31, 2021.

Northeast Power Coordinating Council, Inc.
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7. 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 compensation up to the 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 compensation, and 50% of his or her contribution for the next 2% of compensation. Company contributions to the 401(k) plan were \$273,719 and \$236,931 for 2021 and 2020, 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 2021 and 2020 was 8% of base compensation and totaled \$538,256 and \$463,960, respectively.

The Company also maintains a deferred compensation 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, as described in Note 4. The deferred compensation accounts are shown as both assets and liabilities on the statement of financial position and the assets are available to creditors in the event of the Company's liquidation. The fair value of the trusts' assets was \$676,306 and \$618,280 as of December 31, 2021 and 2020, respectively. The Company contributed \$58,500 and \$39,000 to this deferred compensation plan for 2021 and 2020, respectively. In February of 2022, distributions totaling \$339,506 were paid to two plan participants whose employment with Company ended in 2021.

Additionally, the Company maintained a 457(f) plan for its outgoing President and CEO. The assets of the plan were held in a designated account and are shown as both assets and liabilities on the statement of financial position. Plan assets were invested in bond funds. The fair value of the assets of this 457(f) plan were \$0 and \$265,192 as of December 31, 2021 and 2020, respectively. Plan assets were distributed in full to the plan participant in January 2021 in accordance with the plan's vesting schedule. The Company contributed \$35,000 to this plan for 2020. Additionally, the Company established a new 457(f) plan in 2021 for its incoming President and CEO. The 2021 contribution of \$20,500 to this plan was accrued at December 31, 2021 and is included in the accompanying statement of activities for 2021.

8. 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 \$428,129 and \$483,149 as of December 31, 2021 and 2020, respectively.

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

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	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 483,149	\$ 516,302
Service cost	5,545	5,186
Interest cost	7,849	8,403
Actuarial gain	(36,956)	(25,240)
Benefits paid	<u>(31,458)</u>	<u>(21,502)</u>
Benefit obligation at end of year	428,129	483,149
Funded status	<u>\$ (428,129)</u>	<u>\$ (483,149)</u>

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

	2021	2020
Service cost	\$ 5,545	\$ 5,186
Interest cost	7,849	8,403
Benefits paid	(31,458)	(21,502)
Recognized actuarial gain	<u>(36,956)</u>	<u>(25,240)</u>
Net periodic benefit cost	<u>\$ (55,020)</u>	<u>\$ (33,153)</u>

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:

	2021	2020
Actuarial gain	\$ (36,956)	\$ (25,240)
Benefits paid	31,458	21,502
Amortization of gain	<u>36,956</u>	<u>25,240</u>
Total recognized in change in net assets without donor restrictions	<u>\$ 31,458</u>	<u>\$ 21,502</u>
Total recognized in net periodic pension cost and change in net assets without donor restrictions	<u>\$ (23,562)</u>	<u>\$ (11,651)</u>

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

	2021	2020
Discount rate used for net periodic benefit cost	1.74 %	1.74 %
Discount rate used for benefit obligations	2.22 %	2.22 %

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:

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2022	\$ 67,000
2023	43,000
2024	47,000
2025	16,000
2026	16,000
2027 - 2031	150,000

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

9. Leases

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC's office lease, which commenced in 2009, provides for base rent along with additional rent based on increases in real estate taxes and operating expenses over base amounts. The office lease expires on April 30, 2024 and includes an option to renew for five years. The office lease provides for security in the form of a collateralized letter of credit in the amount of \$150,000. NPCC executed various computer and equipment leases with expiration dates through 2024. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$684,923 and \$793,968 for 2021 and 2020, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2021 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31			
2022	\$ 720,392	\$ 76,311	\$ 796,703
2023	720,392	32,173	\$ 752,565
2024	<u>240,131</u>	<u>6,365</u>	<u>\$ 246,496</u>
	<u>\$ 1,680,915</u>	<u>\$ 114,849</u>	<u>\$ 1,795,764</u>

10. Salaries and Employee Benefits

During 2021 and 2020, salaries and employee benefits consist of the following:

	2021	2020
President, senior management and technical staff	\$ 8,398,891	\$ 7,631,346
Administrative support	102,100	195,885
Payroll taxes, insurance, educational assistance, savings and supplemental plans	<u>3,244,349</u>	<u>3,007,356</u>
Total salaries and employee benefits	<u>\$ 11,745,340</u>	<u>\$ 10,834,587</u>

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11. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$2,127,515 and \$3,008,145 in 2021 and 2020, respectively, and consist of the following:

	2021	2020
Consultants	\$ 545,470	\$ 1,589,049
Accounting, legal and other services	1,553,063	1,390,958
Savings and supplemental plan administration	<u>28,982</u>	<u>28,138</u>
Total administrative, consultant and professional fees	<u>\$ 2,127,515</u>	<u>\$ 3,008,145</u>

These costs are reflected in "Administrative and consultant fees" and "Professional fees" in the Statements of Activities.

12. 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, 2021 and 2020:

	Programs		Supporting Services	Total
	Regional Entity	Criteria Services	Management and General	
Year ended December 31, 2021				
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
Equipment leases	63,122	5,411	21,642	90,175
Rent expense	416,323	35,685	142,740	594,748
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	<u>\$ 10,734,822</u>	<u>\$ 605,812</u>	<u>\$ 4,482,259</u>	<u>\$ 15,822,893</u>

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<u>Year ended December 31, 2020</u>	<u>Programs</u>		<u>Supporting Services</u>	<u>Total</u>
	<u>Regional Entity</u>	<u>Criteria Services</u>	<u>Management and General</u>	
Salaries and employee benefits	\$ 7,148,010	\$ 463,491	\$ 3,223,086	\$ 10,834,587
Administrative and consultant fees	1,677,009	-	596,816	2,273,825
Professional fees	514,024	44,059	176,237	734,320
Meetings and travel	94,374	5,547	33,174	133,095
Telephone and telecommunications	123,395	10,577	42,307	176,279
Office supplies and expense	437,860	37,531	150,123	625,514
Equipment leases	99,235	8,506	34,023	141,764
Rent expense	456,543	39,132	156,529	652,204
Insurance expense	29,479	2,527	10,107	42,113
Miscellaneous	8,413	721	2,884	12,018
Depreciation and amortization	136,832	11,728	46,914	195,474
Total expenses	<u>\$ 10,725,174</u>	<u>\$ 623,819</u>	<u>\$ 4,472,200</u>	<u>\$ 15,821,193</u>

13. 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 are as follows:

Financial assets:	2021	2020
Cash	\$ 9,821,202	\$ 3,371,323
Restricted cash	201,132	201,132
Investments	41,997	6,241,778
Financial assets, at December 31,	<u>10,064,331</u>	<u>9,814,233</u>
Less: Assets unavailable for general expenditures within one year:		
Board-designated reserve - BCR	-	702,023
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,064,331</u>	<u>\$ 9,112,210</u>

14. 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, 2021 and 2020:

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Revenue recognized at a point in time:		
Penalty sanctions	2021	2020
	\$ 460,000	\$ 615,069
Total revenue recognized at a point in time	<u>460,000</u>	<u>615,069</u>
Revenue recognized over time:		
Criteria Services assessments	671,754	1,065,203
Regional Entity assessments	15,154,584	15,338,737
Total revenue recognized over time	<u>15,826,338</u>	<u>16,403,940</u>
 Total revenues	 <u>\$ 16,286,338</u>	 <u>\$ 17,019,009</u>

15. 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 2021 and 2020, total Criteria Services assessments billed amounted to \$671,754 and \$1,065,203, respectively.

Description	2021		2020	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	29.83%	\$ 200,393	27.88%	\$ 296,906
Independent Electricity System Operator	21.77%	146,222	22.16%	236,008
ISO-New England, Inc.	19.21%	129,052	19.90%	212,027
New Brunswick System Operator	2.29%	15,401	2.27%	24,173
New York Independent System Operator	25.11%	168,659	25.97%	276,666
Nova Scotia Power Inc.	1.79%	12,027	1.82%	19,423
Total criteria services assessments	<u>100.00%</u>	<u>\$ 671,754</u>	<u>100.00%</u>	<u>\$ 1,065,203</u>

16. Risks and Uncertainties

Global pandemic

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Company's business and financial results will depend on future developments, including

Northeast Power Coordinating Council, Inc.
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the duration and spread of the outbreak. Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, the Company is currently unable to fully determine the extent of COVID-19's impact on its business in future periods. The Company's performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States and Canada. The Company continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.

17. Litigation

In October 2021, an employee of the Company issued a demand for remuneration alleging various claims against the Company. While the Company denies any liability, to avoid the cost and time of litigation, the Company agreed to a settlement with the employee in April 2022. The full settlement amount less a \$25,000 retention, has been approved by NPCC's insurance carrier and the carrier expects to issue reimbursement to NPCC within a few weeks. The full settlement amount and insurance reimbursement were both accrued at December 31, 2021, with the net settlement of \$25,000 included in the accompanying statement of activities for the year ended December 31, 2021.

18. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through April 29, 2022, the date the financial statements were available to be issued.

ATTACHMENT 4

2021 ACTUAL COST-TO-BUDGET COMPARISON

AND

2021 AUDITED FINANCIAL REPORT

FOR

RELIABILITYFIRST 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 7, 2022

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

ReliabilityFirst's 2021 Actual Cost-To-Budget Comparison

Dear Mr. Andy Sharp:

As requested, ReliabilityFirst Corporation (ReliabilityFirst, or RF) is providing NERC the end of year 2021 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 2021, 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 2021 independent audit that was performed by RSM US LLP and completed on April 27, 2022. For the year ending December 31, 2021, ReliabilityFirst was \$833K (3.4%) 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

Employee Benefits were under budget mainly due to variances in training and medical benefits. Training was under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Meetings and travel were under budget due to the cancellation of activities as a result of the COVID 19 pandemic.

Operating Expenses

Office costs were over budget primarily due to furniture purchases related to an unbudgeted office expansion.

Professional Services were over budget primarily due to a search fee to replace an Independent Board Member, annual fees related to an additional board approved director in May, and an increase in accounting fees to implement payroll system improvements.

Fixed Assets

Fixed assets were over budget primarily due to audio visual equipment purchases related to an unbudgeted office expansion.

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 \$5,230,418 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 2021.

ReliabilityFirst Corporation's 2021 Actual Cost-To-Budget Comparison

Statement of Activities, Fixed Assets and Change in Working Capital January 1, 2021 - December 31, 2021 ReliabilityFirst Corporation				
	2021 Actual	2021 Budget	2021 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 22,764,995	\$ 22,764,995	\$ -	0.0%
Penalty Sanctions	4,540,000	4,540,000	-	0.0%
Total ReliabilityFirst Funding	\$ 27,304,995	\$ 27,304,995	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Investment	(103,090)	50,000	(153,090)	-306.2%
Miscellaneous	3,958	-	3,958	-
Total Funding (A)	\$ 27,205,863	\$ 27,354,995	\$ (149,132)	-0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 15,350,853	\$ 15,372,329	\$ (21,476)	-0.1%
Payroll Taxes	955,575	934,645	20,930	2.2%
Employee Benefits	2,039,279	2,351,930	(312,651)	-13.3%
Retirement Costs	2,487,291	2,493,787	(6,496)	-0.3%
Total Personnel Expenses	\$ 20,832,998	\$ 21,152,691	\$ (319,693)	-1.5%
Meeting Expenses				
Meetings & Conference Calls	\$ 64,904	\$ 379,635	\$ (314,731)	-82.9%
Travel	8,188	601,000	(592,812)	-98.6%
Total Meeting Expenses	\$ 73,092	\$ 980,635	\$ (907,543)	-92.5%
Operating Expenses				
Contracts & Consultants	\$ 310,912	\$ 324,578	\$ (13,666)	-4.2%
Office Rent	632,523	628,092	4,431	0.7%
Office Costs	1,080,967	956,776	124,191	13.0%
Professional Services	692,343	481,335	211,008	43.8%
Miscellaneous	34,578	43,885	(9,307)	-21.2%
Total Operating Expenses	\$ 2,751,323	\$ 2,434,666	\$ 316,657	13.0%
Total Direct Expenses	\$ 23,657,413	\$ 24,567,992	\$ (910,579)	-3.7%
Indirect Expenses	\$ -	\$ -	\$ -	-
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	\$ 23,657,413	\$ 24,567,992	\$ (910,579)	-3.7%
Change in Net Assets (A-B)	\$ 3,548,450	\$ 2,787,003	\$ 761,447	27.3%
Fixed Asset Additions, excluding Right of Use Assets (C)	294,646	217,500	77,146	35.5%
Allocation of Fixed Assets	-	-	\$ -	-
Inc/(Dec) in Fixed Assets	\$ 294,646	\$ 217,500	\$ 77,146	35.5%
Total Budget	\$ 23,952,059	\$ 24,785,492	\$ (833,433)	-3.4%
Total Change in Working Capital	\$ 3,253,804	\$ 2,569,503	\$ 684,301	26.6%
WC - 12/31/2020	\$ (1,727,667)	(2,411,429)	683,762	
Less: Adjustment for future liabilities	(506,627)	-	(506,627)	
Available Working Capital	(2,234,294)	(2,411,429)	177,135	
Change in reserves from current year operations	3,253,804	2,569,503	684,301	
Other Adjustments to Reserves	378,447	(158,074)	536,521	
Total Working Capital	1,397,957	-	1,397,957	
Working Capital Reserve	5,230,418	5,230,418	-	
Operating Reserve	1,000,000	1,000,000	-	
Total Working Capital and Operating Reserve	7,628,375	6,230,418	1,397,957	
FTEs	82.06	84.35	(2.29)	-2.7%

Major Accomplishments

All statutory objectives were satisfied, including these major accomplishments:

- Hosted the second annual Innovation Awards and Retreat that encourages staff to try new ideas and projects and recognizes exceptional work that took place over the past year.
- At GridSecCon 2021, RF introduced the Incident Response Performance Assessment Tool (IRPAT), to add to RFs existing Cyber Resilience Assessment Tool (CRAT) and Insider Threat Preparedness Maturity Assessment Tool (InTP). The launch of the IRPAT was a success, with over 100 registrations and considerable interest from the E-ISAC and industry.
- In June, RF hosted our first Operational Resilience Webinar. With guest speakers from NERC, EEI, ESCC, the NAGF, the Argonne National Laboratory, IEEE, PJM, ITC, MISO, FirstEnergy, and PPL, this event brought together industry experts to discuss extreme weather, system design and human performance, resilience during the pandemic, and communication during emergency operations.
- RF built upon the success of the 2020 Insider Threats Webinar, collaborating with SERC on their event, “The Scoop on Insider Threat.”
- The percentage of noncompliances identified through self-reports and self-logs in 2021 was slightly higher than previous years, with entities self-reporting and self-logging 95% of noncompliance. This is a positive trend showing strong detective controls at entities, and also relates to the increased numbers of self-logs (which are presumed to be minimal risk).
- RF processed a number of higher risk violations in 2021, showing the need for entities to remain vigilant in focusing on sustainable programs and continuous improvement.
- RF has been taking extra steps to ensure entities have accurate Facility Ratings in place since 2018, and in 2021 this effort continued.
- In February 2021, an extreme cold weather event caused outages across Texas and the South Central United States. During the event, 1,045 BES generating units were affected, and more than 4.5 million people lost power. In the months following, RF staff members participated in a team with FERC and NERC to conduct a joint inquiry examining the event, its causes, and creating recommendations to prevent future events from occurring. This was a major undertaking throughout 2021, and the joint inquiry team released its final public report in November. The report included 28 recommendations in various areas, from improvements to the Reliability Standards to enhanced gas-electric coordination and weather proofing mechanical and electrical components.
- 2021 marked the seventh consecutive year that the number of misoperations in the RF footprint decreased, and the first year that the rate was below 10%. These improvements reflect a concerted, multi-year effort to address this risk and decrease the amount of misoperations in our regional footprint.

- RF recently teamed up with FERC, NERC and other Regional Entities to better understand the strategies and techniques Reliability Coordinators and Transmission Operators use to perform Real-time Assessments.
- The Analytics department has created 10 visualizations with additional visualizations in development. These visualizations are used cross departmentally to provide trending of key metrics across the organization.
- Due to COVID-19, RF's outreach was once again virtual in 2021. However, this presented an opportunity to collaborate with industry experts across the country and reach new audiences. Technical Talk with RF (Tech Talk), our monthly open webinar and forum, averaged 270 attendees per event in 2021.
- RF engaged in significant state outreach in 2021, as part of an ERO Enterprise-wide initiative to increase communications and serve as an independent reliability expert for state public utility commissions and legislatures.

For more information on these major accomplishments see [2021 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, 2021 - December 31, 2021				
Reliability Assurance and Compliance Monitoring				
	2021 Actual	2021 Budget	2021 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 12,621,096	\$ 12,621,096	\$ -	0.0%
Penalty Sanctions	2,991,496	2,991,496	-	0.0%
Total ReliabilityFirst Funding	\$ 15,612,591	\$ 15,612,591	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(65,258)	31,734	(96,992)	-305.6%
Miscellaneous	2,506	-	2,506	-
Total Funding (A)	\$ 15,549,839	\$ 15,644,325	\$ (94,486)	-0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 7,601,344	\$ 7,598,182	\$ 3,162	0.0%
Payroll Taxes	484,099	475,257	8,842	1.9%
Employee Benefits	968,481	1,076,368	(107,887)	-10.0%
Retirement Costs	1,173,397	1,173,200	197	0.0%
Total Personnel Expenses	\$ 10,227,321	\$ 10,323,007	\$ (95,686)	-0.9%
Meeting Expenses				
Meetings & Conference Calls	\$ 1,811	\$ 18,400	\$ (16,589)	-90.2%
Travel	6,652	358,000	(351,348)	-98.1%
Total Meeting Expenses	\$ 8,463	\$ 376,400	\$ (367,937)	-97.8%
Operating Expenses				
Contracts & Consultants	\$ 1,719	\$ 80,000	\$ (78,281)	-97.9%
Office Rent	-	-	-	-
Office Costs	373,131	357,316	15,815	4.4%
Professional Services	-	-	-	-
Miscellaneous	348	7,400	(7,052)	-95.3%
Total Operating Expenses	\$ 375,198	\$ 444,716	\$ (69,518)	-15.6%
Total Direct Expenses	\$ 10,610,982	\$ 11,144,123	\$ (533,141)	-4.8%
Indirect Expenses	\$ 4,434,920	\$ 4,362,163	\$ 72,757	1.7%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 15,045,902	\$ 15,506,286	\$ (460,384)	-3.0%
Change in Net Assets (A-B)	\$ 503,937	\$ 138,039	\$ 365,898	265.1%
Fixed Asset Additions, excluding Right of Use Assets (C)	-	-	-	-
Allocation of Fixed Assets	\$ 186,514	\$ 138,042	\$ 48,472	35.1%
Inc/(Dec) in Fixed Assets	\$ 186,514	\$ 138,042	\$ 48,472	35.1%
Total Budget	\$ 15,232,416	\$ 15,644,328	\$ (411,912)	-2.6%
Total Change in Working Capital	\$ 317,423	\$ 0	\$ 317,426	-
FTEs	40.50	41.00	(0.50)	-1.2%

Explanation of Variances – Reliability Assurance and Compliance Monitoring

Personnel Expenses

Employee Benefits were under budget primarily due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Meeting expenses and travel were under budget due to the cancellation of activities as a result of the COVID 19 pandemic.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Enforcement Management

Statement of Activities, Fixed Assets and Change in Working Capital
 January 1, 2021 - December 31, 2021
Enforcement Management

	2021 Actual	2021 Budget	2021 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 2,204,153	\$ 2,204,153	\$ -	0.0%
Penalty Sanctions	522,436	522,436	-	0.0%
Total ReliabilityFirst Funding	\$ 2,726,590	\$ 2,726,590	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(14,308)	6,966	(21,274)	-305.4%
Miscellaneous	549	-	549	-
Total Funding (A)	\$ 2,712,831	\$ 2,733,556	\$ (20,725)	-0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 1,347,461	\$ 1,251,563	\$ 95,898	7.7%
Payroll Taxes	89,580	84,871	4,709	5.5%
Employee Benefits	160,456	186,720	(26,264)	-14.1%
Retirement Costs	195,692	188,949	6,743	3.6%
Total Personnel Expenses	\$ 1,793,189	\$ 1,712,103	\$ 81,086	4.7%
Meeting Expenses				
Meetings & Conference Calls	\$ 75	\$ 1,025	\$ (950)	-92.7%
Travel	-	20,000	(20,000)	-100.0%
Total Meeting Expenses	\$ 75	\$ 21,025	\$ (20,950)	-99.6%
Operating Expenses				
Contracts & Consultants	\$ -	\$ -	\$ -	-
Office Rent	-	-	-	-
Office Costs	18,362	12,575	5,787	46.0%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Total Operating Expenses	\$ 18,362	\$ 12,575	\$ 5,787	46.0%
Total Direct Expenses	\$ 1,811,626	\$ 1,745,703	\$ 65,923	3.8%
Indirect Expenses	\$ 972,397	\$ 957,548	\$ 14,849	1.6%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 2,784,023	\$ 2,703,251	\$ 80,772	3.0%
Change in Net Assets (A-B)	\$ (71,192)	\$ 30,305	\$ (101,497)	-334.9%
Fixed Asset Additions, excluding Right of Use As:	-	-	-	-
Allocation of Fixed Assets	\$ 40,895	\$ 30,302	\$ 10,593	35.0%
Inc/(Dec) in Fixed Assets	\$ 40,895	\$ 30,302	\$ 10,593	35.0%
Total Budget	\$ 2,824,918	\$ 2,733,553	\$ 91,365	3.3%
Total Change in Working Capital	\$ (112,087)	\$ (0)	\$ (112,090)	-
FTEs	8.88	9.00	(0.12)	-1.3%

Explanation of Variances – Enforcement Management

Personnel Expenses

Employee Benefits were under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Travel was under budget due to the cancellation of activities as a result of the COVID 19 pandemic.

Reliability Assessment and Performance Analysis

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2021 - December 31, 2021				
Reliability Assessment and Performance Analysis				
	2021 Actual	2021 Budget	2021 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 2,498,906	\$ 2,498,906	\$ -	0.0%
Penalty Sanctions	463,839	463,839	-	0.0%
Total ReliabilityFirst Funding	\$ 2,962,745	\$ 2,962,745	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(10,634)	5,108	(15,742)	-308.2%
Miscellaneous	408	-	408	-
Total Funding (A)	\$ 2,952,519	\$ 2,967,853	\$ (15,334)	-0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 1,497,849	\$ 1,495,220	\$ 2,629	0.2%
Payroll Taxes	90,048	90,895	(847)	-0.9%
Employee Benefits	140,364	162,236	(21,872)	-13.5%
Retirement Costs	237,471	228,591	8,880	3.9%
Total Personnel Expenses	\$ 1,965,732	\$ 1,976,942	\$ (11,210)	-0.6%
Meeting Expenses				
Meetings & Conference Calls	\$ 202	\$ 8,000	\$ (7,798)	-97.5%
Travel	(578)	95,000	(95,578)	-100.6%
Total Meeting Expenses	\$ (376)	\$ 103,000	\$ (103,376)	-100.4%
Operating Expenses				
Contracts & Consultants	\$ 84,294	\$ 116,624	\$ (32,330)	-27.7%
Office Rent	-	-	-	-
Office Costs	44,061	46,863	(2,802)	-6.0%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Total Operating Expenses	\$ 128,355	\$ 163,487	\$ (35,132)	-21.5%
Total Direct Expenses	\$ 2,093,711	\$ 2,243,429	\$ (149,718)	-6.7%
Indirect Expenses	\$ 722,728	\$ 702,202	\$ 20,526	2.9%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 2,816,439	\$ 2,945,631	\$ (129,192)	-4.4%
Change in Net Assets (A-B)	\$ 136,080	\$ 22,222	\$ 113,858	512.4%
Fixed Asset Additions, excluding Right of Use Assets	-	-	-	-
Allocation of Fixed Assets	\$ 30,395	\$ 22,221	\$ 8,174	36.8%
Inc/(Dec) in Fixed Assets	\$ 30,395	\$ 22,221	\$ 8,174	36.8%
Total Budget	\$ 2,846,834	\$ 2,967,851	\$ (121,018)	-4.1%
Total Change in Working Capital	\$ 105,685	\$ -	\$ 105,684	-
FTEs	6.60	6.60	0.00	0.0%

Explanation of Variances - Reliability Assessment and Performance Analysis

Personnel Expenses

Employee Benefits were under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Travel was under budget due to the cancellation of activities as a result of the COVID 19 pandemic.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Training and Education

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2021 - December 31, 2021				
Training and Education				
	2021 Actual	2021 Budget	2021 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 1,384,211	\$ 1,384,211	\$ -	0.0%
Penalty Sanctions	210,836	210,836	-	0.0%
Total ReliabilityFirst Funding	\$ 1,595,047	\$ 1,595,047	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(4,834)	2,322	(7,156)	-308.2%
Miscellaneous	186	-	186	-
Total Funding (A)	\$ 1,590,399	\$ 1,597,369	\$ (6,970)	-0.4%
Expenses				
Personnel Expenses				
Salaries	\$ 658,660	\$ 707,053	\$ (48,393)	-6.8%
Payroll Taxes	34,749	36,672	(1,923)	-5.2%
Employee Benefits	76,549	89,323	(12,774)	-14.3%
Retirement Costs	112,402	111,869	533	0.5%
Total Personnel Expenses	\$ 882,361	\$ 944,917	\$ (62,557)	-6.6%
Meeting Expenses				
Meetings & Conference Calls	\$ 18,470	\$ 237,600	\$ (219,130)	-92.2%
Travel	(87)	18,000	(18,087)	-100.5%
Total Meeting Expenses	\$ 18,383	\$ 255,600	\$ (237,217)	-92.8%
Operating Expenses				
Contracts & Consultants	\$ 28,815	\$ 50,000	\$ (21,185)	-42.4%
Office Rent	-	-	-	-
Office Costs	21,324	17,070	4,254	24.9%
Professional Services	-	-	-	-
Miscellaneous	600	500	100	20.0%
Total Operating Expenses	\$ 50,739	\$ 67,570	\$ (16,831)	-24.9%
Total Direct Expenses	\$ 951,483	\$ 1,268,087	\$ (316,605)	-25.0%
Indirect Expenses	\$ 328,513	\$ 319,183	\$ 9,330	2.9%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 1,279,996	\$ 1,587,270	\$ (307,275)	-19.4%
Change in Net Assets (A-B)	\$ 310,403	\$ 10,099	\$ 300,305	2973.6%
Fixed Asset Additions, excluding Right of Use Assets	-	-	-	-
Allocation of Fixed Assets	\$ 13,816	\$ 10,101	\$ 3,715	36.8%
Inc/(Dec) in Fixed Assets	\$ 13,816	\$ 10,101	\$ 3,715	36.8%
Total Budget	\$ 1,293,812	\$ 1,597,370	\$ (303,560)	-19.0%
Total Change in Working Capital	\$ 296,587	\$ -	\$ 296,590	-
FTEs	3.00	3.00	0.00	0.0%

Explanation of Variances – Training and Education

Personnel Expenses

Employee Benefits were under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Travel and meetings were under budget due to the cancellation of activities as a result of the COVID 19 pandemic.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Situation Awareness and Infrastructure Security

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2021 - December 31, 2021				
Situation Awareness and Infrastructure Security				
	2021 Actual	2021 Budget	2021 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 1,487,126	\$ 1,487,126	-	-
Penalty Sanctions	351,393	351,393	-	0.0%
Total ReliabilityFirst Funding	\$ 1,838,519	\$ 1,838,519	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	(8,056)	3,870	(11,926)	-308.2%
Miscellaneous	309	-	309	-
Total Funding (A)	\$ 1,830,772	\$ 1,842,389	\$ (11,617)	-0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 846,328	\$ 843,467	\$ 2,861	0.3%
Payroll Taxes	53,920	52,832	1,088	2.1%
Employee Benefits	133,792	171,141	(37,349)	-21.8%
Retirement Costs	133,515	133,310	205	0.2%
Total Personnel Expenses	\$ 1,167,555	\$ 1,200,750	\$ (33,195)	-2.8%
Meeting Expenses				
Meetings & Conference Calls	\$ -	\$ 1,500	\$ (1,500)	-100.0%
Travel	221	50,000	(49,779)	-99.6%
Total Meeting Expenses	\$ 221	\$ 51,500	\$ (51,279)	-99.6%
Operating Expenses				
Contracts & Consultants	6,000	10,000	\$ (4,000)	-40.0%
Office Rent	-	-	-	-
Office Costs	9,757	31,334	(21,577)	-68.9%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Total Operating Expenses	\$ 15,757	\$ 41,334	\$ (25,577)	-61.9%
Total Direct Expenses	\$ 1,183,533	\$ 1,293,584	\$ (110,051)	-8.5%
Indirect Expenses	\$ 547,521	\$ 531,971	\$ 15,550	2.9%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 1,731,054	\$ 1,825,555	\$ (94,501)	-5.2%
Change in Net Assets (A-B)	\$ 99,718	\$ 16,834	\$ 82,884	492.4%
Fixed Asset Additions, excluding Right of Use As	-	-	-	-
Allocation of Fixed Assets	\$ 23,026	\$ 16,834	\$ 6,192	36.8%
Inc/(Dec) in Fixed Assets	\$ 23,026	\$ 16,834	\$ 6,192	36.8%
Total Budget	\$ 1,754,080	\$ 1,842,389	\$ (88,309)	-4.8%
Total Change in Working Capital	\$ 76,692	\$ -	\$ 76,692	-
FTEs	5.00	5.00	0.00	0.0%

Explanation of Variances - Situation Awareness and Infrastructure Security

Personnel Expenses

Employee Benefits were under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Travel was under budget due to the cancellation of activities as a result of the COVID 19 pandemic.

Operating Expenses

Office costs were under budget as the result of Computer Service & Maintenance projects that were not complete by year end.

Administrative Services

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2021 - December 31, 2021				
Administrative Services				
	2021 Actual	2021 Budget	2021 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 2,569,503	\$ 2,569,503	\$ -	0.0%
Penalty Sanctions	-	-	-	-
Total ReliabilityFirst Funding	\$ 2,569,503	\$ 2,569,503	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	\$ 2,569,503	\$ 2,569,503	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 3,399,211	\$ 3,476,844	\$ (77,633)	-2.2%
Payroll Taxes	203,179	194,118	9,061	4.7%
Employee Benefits	559,637	666,142	(106,505)	-16.0%
Retirement Costs	634,814	657,868	(23,054)	-3.5%
Total Personnel Expenses	\$ 4,796,841	\$ 4,994,972	\$ (198,131)	-4.0%
Meeting Expenses				
Meetings & Conference Calls	\$ 44,346	\$ 113,110	\$ (68,764)	-60.8%
Travel	1,980	60,000	(58,020)	-96.7%
Total Meeting Expenses	\$ 46,326	\$ 173,110	\$ (126,784)	-73.2%
Operating Expenses				
Contracts & Consultants	\$ 190,084	\$ 67,954	\$ 122,130	179.7%
Office Rent	632,523	628,092	4,431	0.7%
Office Costs	614,332	491,618	122,714	25.0%
Professional Services	692,343	481,335	211,008	43.8%
Miscellaneous	33,630	35,985	(2,355)	-6.5%
Total Operating Expenses	\$ 2,162,912	\$ 1,704,984	\$ 457,928	26.9%
Total Direct Expenses	\$ 7,006,079	\$ 6,873,066	\$ 133,013	1.9%
Indirect Expenses	\$ (7,006,079)	\$ (6,873,066)	\$ (133,013)	1.9%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ -	\$ -	\$ -	-
Change in Net Assets (A-B)	\$ 2,569,503	\$ 2,569,503	\$ -	0.0%
Fixed Asset Additions, excluding Right o	294,646	217,500	77,146	35.5%
Allocation of Fixed Assets	\$ (294,646)	\$ (217,500)	\$ (77,146)	35.5%
Inc/(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
Total Budget	\$ -	\$ -	\$ -	-
Total Change in Working Capital	\$ 2,569,503	\$ 2,569,503	\$ -	0.0%
FTEs	18.08	19.75	(1.67)	-8.5%

Explanation of Variances – Administrative Services

Personnel Expenses

Employee Benefits were primarily under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Meeting expenses and travel were under budget due to the cancellation of activities as a result of the COVID 19 pandemic.

Operating Expense

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Office costs were over budget primarily due to furniture purchases related to an unbudgeted office expansion.

Professional Services were over budget primarily due to a search fee to replace an Independent Board Member, annual fees related to an additional board approved director in May, and an increase in accounting fees to implement payroll system improvements.

Fixed Assets

Fixed assets were over budget primarily due to audio visual equipment purchases related to an unbudgeted office expansion.

ReliabilityFirst Corporation

Financial Report
December 31, 2021

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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 statement of financial position as of December 31, 2021 and 2020, 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 ReliabilityFirst Corporation as of December 31, 2021 and 2020, 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.

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 for 12 months beyond the date of the financial statements.

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.

THE POWER OF BEING UNDERSTOOD
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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
May 4, 2022

ReliabilityFirst Corporation

Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	\$ 2,365,145	\$ 2,459,881
Cash—regulatory designated	3,488,681	4,540,000
Investments	10,209,432	6,583,286
Accounts receivable	181,095	147,380
Prepaid expenses	362,706	395,480
Total current assets	<u>16,607,059</u>	<u>14,126,027</u>
Noncurrent assets:		
Cash—regulatory designated (net of current portion)	1,773,200	1,914,931
Deferred compensation plan assets	356,098	451,899
Fixed assets:		
Furniture and equipment	410,579	410,579
Leasehold improvements	2,086,939	2,086,939
Computer software and hardware	3,553,877	3,411,752
Construction in progress	152,521	-
	<u>6,203,916</u>	<u>5,909,270</u>
Less accumulated depreciation and amortization	4,699,664	4,288,597
	<u>1,504,252</u>	<u>1,620,673</u>
Total noncurrent assets	<u>3,633,550</u>	<u>3,987,503</u>
Total assets	<u>\$ 20,240,609</u>	<u>\$ 18,113,530</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 275,426	\$ 50,559
Accrued expenses (current portion)	5,103,695	5,032,719
Deferred rent (current portion)	142,569	211,438
Total current liabilities	<u>5,521,690</u>	<u>5,294,716</u>
Long-term liabilities:		
Deferred revenue	350,000	350,000
Accrued expenses (net of current portion)	122,536	-
Deferred rent (net of current portion)	1,174,014	1,269,977
Deferred compensation	356,098	451,899
	<u>2,002,648</u>	<u>2,071,876</u>
Total liabilities	<u>7,524,338</u>	<u>7,366,592</u>
Net assets:		
Without donor restrictions:		
Undesignated	5,549,856	1,763,858
Operating reserve fund	1,000,000	1,000,000
Working capital reserve fund	904,534	1,528,149
Regulatory designated funds	5,261,881	6,454,931
Total net assets	<u>12,716,271</u>	<u>10,746,938</u>
Total liabilities and net assets	<u>\$ 20,240,609</u>	<u>\$ 18,113,530</u>

See notes to financial statements.

ReliabilityFirst Corporation

Statements of Activities

Years Ended December 31, 2021 and 2020

	2021	2020
Net assets without donor restrictions or regulatory designations:		
Revenues:		
Quarterly assessments	\$ 22,764,995	\$ 22,318,623
Investment (loss) income	(103,090)	152,893
Penalty sanctions released from regulatory designations	4,540,000	267,627
Miscellaneous	3,958	81,610
Total revenues	27,205,863	22,820,753
Expenses:		
Program:		
Reliability assurance and compliance monitoring	10,610,982	9,965,130
Enforcement	1,811,626	1,592,091
Assessment	2,093,711	2,164,821
Training and education	951,482	955,335
Situational awareness	1,185,663	1,256,650
Total program expenses	16,653,464	15,934,027
General and administrative	7,415,016	7,248,140
Total expenses	24,068,480	23,182,167
Increase (decrease) in net assets without regulatory designations	3,137,383	(361,414)
Net assets with regulatory designations:		
Penalty sanctions subject to regulatory designations, received in the current year	3,371,950	2,304,931
Penalty sanctions released from regulatory designations	(4,540,000)	(267,627)
(Decrease) increase in net assets with regulatory designations	(1,168,050)	2,037,304
Increase in net assets	1,969,333	1,675,890
Net assets at beginning of year	10,746,938	9,071,048
Net assets at end of year	\$ 12,716,271	\$ 10,746,938

See notes to financial statements.

ReliabilityFirst Corporation

Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services							
	Reliability Assurance and Compliance	Enforcement	Assessment	Training and Education	Situational Awareness	Total Programs	General and Administrative	Total
	Monitoring							
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	484,089	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	195,592	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)	(67)	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

Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services							
	Reliability Assurance and Compliance Monitoring	Enforcement	Assessment	Training and Education	Situational Awareness	Total Programs	General and Administrative	Total
Personnel expenses:								
Salaries	\$ 7,097,190	\$ 1,200,773	\$ 1,557,295	\$ 647,932	\$ 877,815	\$ 11,381,005	\$ 3,694,800	\$ 15,075,805
Payroll taxes	458,367	78,588	86,996	29,209	58,785	711,945	188,688	900,633
Employee benefits	941,095	136,883	137,909	76,394	150,183	1,442,464	565,694	2,008,158
Savings and retirement	1,074,218	162,482	229,720	80,721	143,774	1,690,915	654,785	2,345,700
Total personnel expenses	9,570,870	1,578,726	2,011,920	834,256	1,230,557	15,226,329	5,103,967	20,330,296
Meeting expenses:								
Meetings	5,024	247	476	32,370	1,099	39,216	37,427	76,643
Travel	62,005	1,053	18,596	1,942	7,580	91,176	15,832	107,008
Conference calls	-	-	-	-	-	-	14,640	14,640
Total meeting expenses	67,029	1,300	19,072	34,312	8,679	130,392	67,899	198,291
Operating expenses:								
Rent and improvements	-	-	-	-	-	-	578,106	578,106
Contracts	15,180	-	85,628	72,081	-	172,889	85,921	258,810
Office costs	58,270	12,065	9,082	10,031	6,760	96,208	110,494	206,702
Professional services	-	-	-	-	-	-	527,730	527,730
Computer purchase and maintenance	253,781	-	35,421	4,555	4,507	298,264	301,765	600,029
Furniture	-	-	-	-	-	-	2,261	2,261
Miscellaneous	-	-	425	100	-	525	45,826	46,351
Depreciation and amortization	-	-	3,273	-	6,147	9,420	424,171	433,591
Total operating expenses	327,231	12,065	133,829	86,767	17,414	577,306	2,076,274	2,653,590
Total	\$ 9,965,130	\$ 1,592,091	\$ 2,164,821	\$ 955,335	\$ 1,256,650	\$ 16,934,027	\$ 7,248,140	\$ 23,182,167

See notes to financial statements.

ReliabilityFirst Corporation

Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Increase in net assets	\$ 1,969,333	\$ 1,675,890
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	411,067	433,591
Unrealized (gain) loss on investments	224,126	(33,525)
Realized (gain) loss on investments	(10,942)	1,511
Changes in assets and liabilities:		
Accounts receivable	(33,715)	(67,868)
Prepaid expenses	32,774	(187,404)
Accounts payable	240,324	(88,905)
Accrued expenses	175,118	379,362
Deferred rent	(164,832)	(200,244)
Net cash provided by operating activities	2,843,253	1,912,408
Cash flows from investing activities:		
Purchase of investments	(7,163,379)	(4,785,321)
Sale of investments	3,324,049	4,664,442
Purchases of fixed assets	(291,709)	(131,051)
Net cash used in investing activities	(4,131,039)	(251,930)
Net (decrease) increase in cash	(1,287,786)	1,660,478
Cash at beginning of year	8,914,812	7,254,334
Cash at end of year	\$ 7,627,026	\$ 8,914,812
Supplemental disclosure of noncash investing activities:		
Accrued acquisition of fixed assets	\$ 45,676	\$ 42,739
Reconciliation of cash:		
Cash	\$ 2,365,145	\$ 2,459,881
Cash—regulatory designated	3,488,681	4,540,000
Cash—regulatory designated (net of current portion)	1,773,200	1,914,931
Total	\$ 7,627,026	\$ 8,914,812

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. 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.

ReliabilityFirst Corporation

Notes to Financial Statements

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, 2021 and 2020.

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.

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.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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, 2021 and 2020, 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 \$904,534 and \$1,528,149 has been designated by the Board of Directors for the Corporation's working capital reserve fund at December 31, 2021 and 2020, 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 \$4,540,000 and \$267,627 were released from regulatory designations during 2021 and 2020, respectively. Net assets with regulatory designations at December 31, 2021 and 2020, were \$5,261,881 and \$6,454,931, 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.

Recent 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 will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Clarifications to this ASU were issued by the FASB in July 2018 under ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU 2018-11, *Leases (Topic 842) Targeted Improvements*. The new standard will be effective for the Corporation in 2022.

The Corporation is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Risks and uncertainties: On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and, on March 11, 2020, declared COVID-19 a pandemic. The Corporation implemented work from home policies and have followed the state and federal guidelines required to mitigate the spread and impact. It is unknown how long the current conditions associated with COVID-19 will last and what the complete financial effect will be to The Corporation.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through May 4, 2022, the date these financial statements were available to be issued.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 2. Availability and Liquidity

The table below represents financial assets available for general expenditures within one-year of December 31, 2021 and 2020:

	2021	2020
Financial assets at year-end:		
Cash	\$ 2,365,145	\$ 2,459,881
Cash—regulatory designated	5,261,881	6,454,931
Investments	10,209,432	6,583,286
Accounts receivable	181,095	147,380
Total financial assets	<u>18,017,553</u>	<u>15,645,478</u>
Less amounts unavailable for general expenditures within one year, due to:		
Operating reserve fund	(1,000,000)	(1,000,000)
Working capital reserve fund	(904,534)	(1,528,149)
Regulatory imposed time restriction	(1,773,200)	(1,914,931)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,339,819</u>	<u>\$ 11,202,398</u>

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. As described in Note 4, the Corporation also has a line of credit, with an expiration date of August 17, 2022, in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

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 Corporation records its investments at fair value. 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 FASB's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option-pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections 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.

The Corporation assesses the levels at each measurement date, and transfers between levels are recognized on the date of the actual event or change in the circumstances that caused the transfer in accordance with the Corporation's accounting policy regarding the recognition of the transfer between levels of the fair value hierarchy. For the years ended December 31, 2021 and 2020, there were no such transfers.

The following tables present the Corporation's fair value hierarchy for its investments as of December 31, 2021 and 2020:

	December 31, 2021			Total
	Level 1	Level 2	Level 3	
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
	<u>\$ 7,103,008</u>	<u>\$ 2,984,889</u>	<u>\$ -</u>	<u>10,087,897</u>
Cash and cash equivalents				121,535
				<u>\$ 10,209,432</u>

	December 31, 2020			Total
	Level 1	Level 2	Level 3	
U.S. government securities	\$ 1,267,295	\$ -	\$ -	\$ 1,267,295
U.S. Treasury obligations	785,233	-	-	785,233
Corporate bonds	-	3,427,869	-	3,427,869
	<u>\$ 2,052,528</u>	<u>\$ 3,427,869</u>	<u>\$ -</u>	<u>5,480,397</u>
Cash and cash equivalents				1,102,889
				<u>\$ 6,583,286</u>

ReliabilityFirst Corporation

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

The composition of investment income for 2021 and 2020 is as follows:

	2021	2020
Interest, net of investment fees	\$ 110,094	\$ 120,879
Realized gain (loss)	10,942	(1,511)
Unrealized (loss) gain	(224,126)	33,525
	<u>\$ (103,090)</u>	<u>\$ 152,893</u>

Note 4. Line of Credit

The Corporation has a \$500,000 line of credit with an expiration date of August 17, 2022. The line is collateralized by substantially all assets of the Corporation and interest is charged at the London Interbank Offered Rate (LIBOR) plus 7.84%. The Corporation did not make any drawdowns on the line during 2021 and 2020 and had no outstanding balance as of December 31, 2021 and 2020. As there were no drawdowns made, no corresponding interest was paid in 2021 or 2020.

Note 5. Operating Leases

The Corporation leases an office from an unrelated third party that expires in February 2030. Rental expense for operating lease amounted to \$567,293 and \$508,090 in the years ended December 31, 2021 and 2020, respectively. Rent expense in 2021 and 2020 includes \$164,832 and \$200,244, in accelerated straight-line amortization a deferred rent liability due to the early termination of a previous lease and a tenant improvement allowance, respectively. The deferred rent liability was \$1,316,583 and \$1,481,415 as of December 31, 2021 and 2020, respectively.

The future minimum lease payments relating to the office lease and data center are as follows:

2022	\$ 710,253
2023	710,337
2024	722,181
2025	734,024
2026	745,868
Thereafter	2,439,228
	<u>\$ 6,061,891</u>

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 2021 and 2020). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16% of employees' eligible compensation in 2021 and 2020. The Corporation's contribution to the plan for 2021 and 2020 was \$2,287,907 and \$2,122,440, respectively.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 6. Employee Retirement Plan (Continued)

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 five and eight participants as of December 31, 2021 and 2020. Employer credits to the investment accounts in 2021 and 2020 were \$61,503 and \$67,466, 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, 2021 and 2020.

ATTACHMENT 5

2021 ACTUAL COST-TO-BUDGET COMPARISON

AND

2021 AUDITED FINANCIAL REPORT

FOR

SERC RELIABILITY CORPORATION



May 2, 2022

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 2021 Actual Cost vs. Budget Variance Analysis

Dear Mr. Andy Sharp:

Enclosed is SERC's response to your request for the end of year 2021 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 2021 independent audit that was performed by GreerWalker LLP and completed on March 29, 2021. For the year ending December 31, 2021, SERC budgeted funding was short by \$71,312, and incurred expenditures of \$648,073 under its 2021 total budget. The net impact was a \$576,761 favorable variance on SERC's Change in Working Capital vs. budget for the year.

Throughout the COVID-19 pandemic, the Reliability Assurance program and audit team members modified their approaches to continue to perform their oversight role conducting offsite audits. In 2021, SERC conducted 48 audits. Thirty six were Operations and Planning (O&P) audits while twelve were (CIP) audits.

In 2021, SERC's Registration Department processed 93 Registration Requests. Of those, 93 resulted in changes to the SERC Compliance Registry, and of those, 53 resulted in changes to the NERC Compliance Registry. In 2021, SERC's Certification Department conducted 10 Certification engagements (4 Certification Reviews and 6 Certification Evaluations (ROP defined 'Lessor Activity')). SERC Certification supported one (1) Cross Regional Certification Engagement with Reliability First (RF).

SERC's Enforcement and Risk Assessment and Mitigation Teams received 262 new potential violations and processed 402 issues to closure, an increase of 24% over 2020 processing. In doing so, SERC decreased the total inventory from 438 to 304, the lowest inventory SERC has seen in five years (six noncompliances had previously been filed but were added to the inventory so they could be tracked because they needed to be refiled as a different filing mechanism since mitigation was not timely completed).

Additionally, SERC's average age of inventory dropped from 13.7 months to 10.7 months. In the 2nd Quarter, SERC implemented the ERO wide Release 1 of the Align software followed by Release 2 in the 3rd Quarter.

In other areas of focus, the teams developed a FAC-008 lessons learned report, which Enforcement presented in a SERC webinar to over 400 attendees. SERC Enforcement also co- led the ERO Enforcement Group Streamlining Minimal Risk Noncompliance project, which resulted in the development, approval, and implementation of the ERO Potential Noncompliance Review Manual. The purpose of the manual is to provide guidance to ERO Staff in all aspects of noncompliance processing to further enhance the consistency and efficiency of processing.

In 2021, the Outreach and Training department hosted 10 events covering a variety of topics including but not limited to 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 Lessons Learned. Seven events were focused on targeted topics with the largest event being the FAC-

008 Facility Rating webinar which hosted over 400 attendees. The average attendance for all Outreach events increased by 30% from 2020.

The Outreach and Training team saw entity members complete over 700 e-learning module courses in 2021. This was fueled by adding six new e-learning modules throughout the year with the most popular module being the FAC-008 Facility Ratings module which accounted for over 300 of the total courses completed.

Funding

Funding from investment income was lower due to continued low interest rates. In addition, workshop revenues were 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 95 funded FTEs vs. 100 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. Payroll taxes were less than budget as employees reached the social security wage base limit. 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 was 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 \$539k of depreciation in 2021. SERC's Statement of Activities excludes the adjustment for best consistency of presentation with the 2021 Business Plan and Budget and the NERC format.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2021 through 12/31/2021
TOTAL STATUTORY

	2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	23,513,886	23,513,886	-
Penalty Sanctions	1,180,000	1,180,000	-
Total ERO Funding	\$24,693,886	\$ 24,693,886	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	131,445	175,000	(43,555)
Interest	1,633	30,000	(28,367)
Miscellaneous	610	-	610
Total Funding (A)	\$24,827,574	\$ 24,898,886	\$ (71,312)
Expenses			
Personnel Expenses			
Salaries	15,668,506	15,157,961	510,545
Payroll Taxes	1,006,438	1,057,723	(51,285)
Employee Benefits	1,454,649	1,920,040	(465,391)
Savings & Retirement	2,003,822	1,924,856	78,966
Total Personnel Expenses	20,133,415	20,060,580	72,835
Meeting Expenses			
Meetings	42,919	399,204	(356,285)
Travel	20,528	985,632	(965,104)
Conference Calls	16,104	16,104	-
Total Meeting Expenses	79,551	1,400,940	(1,321,389)
Operating Expenses			
Consultants & Contracts	1,431,917	1,764,136	(332,219)
Rent & Improvements	805,464	823,200	(17,736)
Office Costs	1,242,748	1,068,823	173,925
Professional Services	452,813	511,400	(58,587)
Miscellaneous	-	-	-
Total Operating Expenses	3,932,942	4,167,559	(234,617)
Indirect Expenses	-	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	24,145,908	25,629,079	(1,483,171)
Change in Assets (A - B)	681,666	(730,193)	1,411,859
Fixed Asset Additions (C)	1,035,096	200,000	835,096
TOTAL BUDGET (B + C)	25,181,004	25,829,079	(648,075)
Change in Working Capital (A-B-C)	(353,430)	(930,193)	576,763
FTE's	94	100	(6)

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2021 through 12/31/2021				
RELIABILITY STANDARDS				
	2021	2021	2021 Variance	%
	Actual	Budget	from Budget	Variance
			Over(Under)	
Funding				
ERO Funding				
Assessments	206,038	206,038	-	0.00%
Penalty Sanctions	8,754	8,754	-	0.00%
Total ERO Funding	\$ 214,792	\$ 214,792	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	200	(200)	-100.00%
Interest	12	223	(211)	-94.56%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 214,804	\$ 215,215	\$ (411)	-0.19%
Expenses				
Personnel Expenses				
Salaries	95,452	96,823	(1,371)	-1.42%
Payroll Taxes	5,339	6,778	(1,439)	-21.23%
Employee Benefits	6,002	9,243	(3,241)	-35.06%
Savings & Retirement	8,661	12,190	(3,529)	-28.95%
Total Personnel Expenses	115,454	125,034	(9,580)	-7.66%
Meeting Expenses				
Meetings	-	1,110	(1,110)	-100.00%
Travel	-	9,540	(9,540)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	-	10,650	(10,650)	-100.00%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	565	200	365	182.50%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	565	200	365	182.50%
Indirect Expenses	70,774	85,887	(15,113)	-17.60%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	186,793	221,771	(34,978)	-15.77%
Change in Assets (A - B)	28,011	(6,556)	34,567	-527.26%
Total Inc(Dec) in Fixed Assets (C)	6,815	1,484	5,331	359.23%
TOTAL BUDGET (B + C)	193,608	223,255	(29,647)	-13.28%
Change in Working Capital (A-B-C)	21,196	(8,040)	29,236	-363.63%
FTE's	0.4	0.5	(0.1)	-14.00%

Reliability Standards
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%

Meeting & Travel Expense (Actual \$11k under budget)

- Meeting and Travel was less than the budget due to COVID-19 related cancelations.

Indirect Expenses (Actual \$15k 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 1/1/2021 through 12/31/2021				
COMPLIANCE MONITORING & ENFORCEMENT; ORGANIZATION REGISTRATION AND CERTIFICATION				
	2021	2021	2021 Variance	%
	Actual	Budget	from Budget	Variance
			Over(Under)	
Funding				
ERO Funding				
Assessments	17,445,909	17,445,909	-	0.00%
Penalty Sanctions	877,996	877,996	-	0.00%
Total ERO Funding	\$ 18,323,905	\$18,323,905	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	32,090	(32,090)	-100.00%
Interest	1,215	22,321	(21,106)	-94.56%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 18,325,120	\$18,378,316	\$ (53,196)	-0.29%
Expenses				
Personnel Expenses				
Salaries	7,367,257	7,474,586	(107,329)	-1.44%
Payroll Taxes	501,842	523,221	(21,379)	-4.09%
Employee Benefits	749,722	812,343	(62,621)	-7.71%
Savings & Retirement	928,839	942,920	(14,081)	-1.49%
Total Personnel Expenses	9,547,660	9,753,070	(205,410)	-2.11%
Meeting Expenses				
Meetings	5,188	18,500	(13,312)	-71.96%
Travel	8,576	501,485	(492,909)	-98.29%
Conference Calls	-	-	-	
Total Meeting Expenses	13,764	519,985	(506,221)	-97.35%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	26,089	28,530	(2,441)	-8.56%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	26,089	28,530	(2,441)	-8.56%
Indirect Expenses	7,641,946	8,614,511	(972,565)	-11.29%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	17,229,459	18,916,096	(1,686,637)	-8.92%
Change in Assets (A - B)	1,095,661	(537,780)	1,633,441	-303.74%
Total Inc(Dec) in Fixed Assets (C)	735,868	148,813	587,055	394.49%
TOTAL BUDGET (B + C)	17,965,327	19,064,909	(1,099,582)	-5.77%
Change in Working Capital (A-B-C)	359,793	(686,593)	1,046,386	-152.40%
FTE's	46.4	50.2	(3.7)	-7.42%

**Compliance Monitoring & Enforcement; Organization Registration and Certification
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Meeting & Travel Expense (Actual \$506k under budget)

- Meeting and Travel was less than the budget due to COVID-19 related cancelations.

Indirect Expenses (Actual \$973k 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 1/1/2021 through 12/31/2021 RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS				
	2021	2021	2021 Variance	%
	Actual	Budget	from Budget	Variance
			Over(Under)	
Funding				
ERO Funding				
Assessments	2,440,677	2,440,677	-	0.00%
Penalty Sanctions	110,297	110,297	-	0.00%
Total ERO Funding	\$2,550,974	\$ 2,550,974	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	131,445	2,524	128,921	5107.81%
Interest	153	2,804	(2,651)	-94.56%
Miscellaneous	-	-	-	
Total Funding (A)	\$2,682,572	\$ 2,556,302	\$ 126,270	4.94%
Expenses				
Personnel Expenses				
Salaries	1,067,004	929,064	137,940	14.85%
Payroll Taxes	73,739	65,035	8,704	13.38%
Employee Benefits	96,292	106,764	(10,472)	-9.81%
Savings & Retirement	143,271	117,183	26,088	22.26%
Total Personnel Expenses	1,380,306	1,218,046	162,260	13.32%
Meeting Expenses				
Meetings	8,525	60,000	(51,475)	-85.79%
Travel	963	85,080	(84,117)	-98.87%
Conference Calls	-	-	-	
Total Meeting Expenses	9,488	145,080	(135,592)	-93.46%
Operating Expenses				
Consultants & Contracts	202,930	170,000	32,930	19.37%
Rent & Improvements	-	-	-	
Office Costs	10,498	17,800	(7,302)	-41.02%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	213,428	187,800	25,628	13.65%
Indirect Expenses	1,083,007	1,082,182	825	0.08%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,686,229	2,633,108	53,121	2.02%
Change in Assets (A - B)	(3,657)	(76,806)	73,149	-95.24%
Total Inc(Dec) in Fixed Assets (C)	104,286	18,694	85,592	457.86%
TOTAL BUDGET (B + C)	2,790,515	2,651,802	138,713	5.23%
Change in Working Capital (A-B-C)	(107,943)	(95,500)	(12,443)	13.03%
FTE's	6.6	6.3	0.3	4.44%

**Reliability Assessments and Performance Analysis
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Workshop Fees (Actual \$129k 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 \$162k over budget)

- FTE allocation to RAPA was higher than expected, resulting in salaries, taxes and retirement exceeding budgeted amounts.

Meeting & Travel Expense (Actual \$136k under budget)

- Meeting and Travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$33k over 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, which was partially offset by a special study planned for 2021 that did not occur.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2021 through 12/31/2021 TRAINING, EDUCATION and STAKEHOLDER OUTREACH				
	2021	2021	2021 Variance	%
	Actual	Budget	from Budget Over(Under)	Variance
Funding				
ERO Funding				
Assessments	2,514,652	2,514,652	-	0.00%
Penalty Sanctions	139,184	139,184	-	0.00%
Total ERO Funding	\$ 2,653,836	\$ 2,653,836	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	139,185	(139,185)	-100.00%
Interest	193	3,539	(3,346)	-94.56%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 2,654,029	\$ 2,796,560	\$ (142,531)	-5.10%
Expenses				
Personnel Expenses				
Salaries	1,086,437	914,536	171,901	18.80%
Payroll Taxes	70,077	64,211	5,866	9.14%
Employee Benefits	75,923	111,815	(35,892)	-32.10%
Savings & Retirement	140,491	115,340	25,151	21.81%
Total Personnel Expenses	1,372,928	1,205,902	167,026	13.85%
Meeting Expenses				
Meetings	220	113,094	(112,874)	-99.81%
Travel	476	96,492	(96,016)	-99.51%
Conference Calls	-	-	-	
Total Meeting Expenses	696	209,586	(208,890)	-99.67%
Operating Expenses				
Consultants & Contracts	-	94,345	(94,345)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	4,044	2,002	2,042	102.00%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	4,044	96,347	(92,303)	-95.80%
Indirect Expenses	1,382,562	1,365,610	16,952	1.24%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,760,230	2,877,445	(117,215)	-4.07%
Change in Assets (A - B)	(106,201)	(80,885)	(25,316)	31.30%
Total Inc(Dec) in Fixed Assets (C)	133,131	23,591	109,540	464.33%
TOTAL BUDGET (B + C)	2,893,361	2,901,036	(7,675)	-0.26%
Change in Working Capital (A-B-C)	(239,332)	(104,476)	(134,856)	129.08%
FTE's	8.4	8.0	0.5	5.66%

**Training, Education and Stakeholder Outreach
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Workshop Fees (Actual \$139k 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 to Training, Education and Stakeholder Outreach was higher than expected, resulting in salaries, taxes and retirement exceeding budgeted amounts.
- Employee Benefits variance due to lower group insurance rates.

Meeting & Travel Expense (Actual \$209k under budget)

- Meeting and Travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$94k 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.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2021 through 12/31/2021 SITUATION AWARENESS and INFRASTRUCTURE SECURITY				
	2021	2021	2021	%
	Actual	Budget	Variance from Budget Over(Under)	Variance
Funding				
ERO Funding				
Assessments	906,610	906,610	-	0.00%
Penalty Sanctions	43,769	43,769	-	0.00%
Total ERO Funding	\$ 950,379	\$ 950,379	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	1,001	(1,001)	-100.00%
Interest	61	1,113	(1,052)	-94.56%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 950,440	\$ 952,493	\$ (2,053)	-0.22%
Expenses				
Personnel Expenses				
Salaries	535,741	391,291	144,450	36.92%
Payroll Taxes	36,093	27,390	8,703	31.77%
Employee Benefits	58,453	44,216	14,237	32.20%
Savings & Retirement	72,581	49,346	23,235	47.09%
Total Personnel Expenses	702,868	512,243	190,625	37.21%
Meeting Expenses				
Meetings	-	1,500	(1,500)	-100.00%
Travel	2,798	37,000	(34,202)	-92.44%
Conference Calls	-	-	-	
Total Meeting Expenses	2,798	38,500	(35,702)	-92.73%
Operating Expenses				
Consultants & Contracts	4,460	-	4,460	
Rent & Improvements	-	-	-	
Office Costs	1,941	479	1,462	305.22%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	6,401	479	5,922	1236.33%
Indirect Expenses	571,130	429,437	141,693	33.00%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	1,283,197	980,659	302,538	30.85%
Change in Assets (A - B)	(332,757)	(28,166)	(304,591)	1081.42%
Total Inc(Dec) in Fixed Assets (C)	54,996	7,418	47,578	641.39%
TOTAL BUDGET (B + C)	1,338,193	988,077	350,116	35.43%
Change in Working Capital (A-B-C)	(387,753)	(35,584)	(352,169)	989.68%
FTE's	3.5	2.5	1.0	38.80%

**Situation Awareness and Infrastructure Security
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$191k over budget)

- Personnel costs were higher than budget, primarily due to transfer of FTEs to this program to administer Security Oversight

Meeting & Travel Expense (Actual \$36k under budget)

- Meeting and Travel was less than the budget due to COVID-19 related cancelations.

Indirect Expenses (Actual \$142k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2021 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 1/1/2021 through 12/31/2021
TECHNICAL COMMITTEES AND MEMBER FORUMS

	2021 Actual	2021 Budget	2021 Variance from Budget Over(Under)	%Variance
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	515,734	624,570	(108,836)	-17.43%
Payroll Taxes	31,285	43,720	(12,435)	-28.44%
Employee Benefits	47,649	66,497	(18,848)	-28.34%
Savings & Retirement	76,245	78,715	(2,470)	-3.14%
Total Personnel Expenses	670,913	813,502	(142,589)	-17.53%
Meeting Expenses				
Meetings	1,082	51,000	(49,918)	-97.88%
Travel	525	55,260	(54,735)	-99.05%
Conference Calls	-	-	-	
Total Meeting Expenses	1,607	106,260	(104,653)	-98.49%
Operating Expenses				
Consultants & Contracts	93,115	169,000	(75,885)	-44.90%
Rent & Improvements	-	-	-	
Office Costs	13,286	800	12,486	1560.75%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	106,401	169,800	(63,399)	-37.34%
Indirect Expenses	(778,921)	(1,089,562)	310,641	-28.51%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	2.8	3.9	(1.1)	-27.18%

**Technical Committees and Member Forums
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$143k under budget)

FTEs were reallocated to other program areas, resulting in lower than budgeted salaries, taxes and benefits.

Meeting & Travel Expense (Actual \$105k under budget)

- Meeting and Travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$76k under budget)

- Actual ERAG expenses associated with Dynamic Model Assemble were less than anticipated.

Office Costs (Actual \$12k over budget)

- Software expenses budgeted under RAPA were more appropriately expenses to Technical Committees program.

Indirect Expenses (Actual \$311k under budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs. Allocated Indirect Expenses were less than budgeted due to the under-budget variances described above.

SERC Reliability Corporation				
Statement of Activities, Fixed Assets and Change in Working Capital				
From 1/1/2021 through 12/31/2021				
CORPORATE SERVICES				
	2021	2021	2021	
	Actual	Budget	Variance from Budget Over(Under)	%
				Variance
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	610	-	610	
Total Funding (A)	\$ 610	\$ -	\$ 610	
Expenses				
Personnel Expenses				
Salaries	5,516,615	5,351,661	164,954	3.08%
Payroll Taxes	319,348	371,088	(51,740)	-13.94%
Employee Benefits	468,257	835,659	(367,402)	-43.97%
Savings & Retirement	709,979	687,877	22,102	3.21%
Total Personnel Expenses	7,014,199	7,246,285	(232,086)	-3.20%
Meeting Expenses				
Meetings	28,986	204,604	(175,618)	-85.83%
Travel	7,715	256,035	(248,320)	-96.99%
Conference Calls	16,104	16,500	(396)	-2.40%
Total Meeting Expenses	52,805	477,139	(424,334)	-88.93%
Operating Expenses				
Consultants & Contracts	1,224,527	1,499,791	(275,264)	-18.35%
Rent & Improvements	805,464	823,200	(17,736)	-2.15%
Office Costs	1,199,611	1,019,812	179,799	17.63%
Professional Services	452,813	511,400	(58,587)	-11.46%
Miscellaneous	-	-	-	
Total Operating Expenses	3,682,415	3,854,203	(171,788)	-4.46%
Indirect Expenses	(10,749,419)	(11,577,627)	828,208	-7.15%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	610	-	610	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	610	-	610	
FTE's	28.9	32.6	(3.7)	-11.41%

Corporate Services
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%

Personnel Expenses (Actual \$232k under budget)

- Payroll Taxes were under budget due to vacant positions and reallocation of FTEs.
- Employee Benefits were under budget as negotiated rates for health insurance were lower than budget, and COVID pandemic restrictions drove reduced expenses in employee training and relocations.

Meeting & Travel Expense (Actual \$424k under budget)

- Meeting and Travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$275k 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 \$180k over budget)

- Office Costs exceeded budget due to computer hardware and software purchase budgeted in 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.



Financial Statements for the
Years Ended December 31, 2021 and 2020
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, 2021 and 2020, 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 Corporation as of December 31, 2021 and 2020, 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.

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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
March 29, 2022
Charlotte, NC

SERC RELIABILITY CORPORATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,695,065	\$ 4,799,061
Prepaid expenses and other assets	<u>446,007</u>	<u>352,479</u>
Total current assets	6,141,072	5,151,540
PROPERTY AND EQUIPMENT, NET	2,443,079	1,947,224
INVESTMENTS	7,143,476	7,142,778
INVESTMENTS - DEFERRED COMPENSATION	<u>513,474</u>	<u>529,212</u>
TOTAL	<u>\$ 16,241,101</u>	<u>\$ 14,770,754</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 60,808	\$ 308
Accrued expenses	720,953	408,028
Accrued salaries and related benefits	3,961,717	3,741,875
Deferred revenue	<u>45,253</u>	<u>96,010</u>
Total current liabilities	<u>4,788,731</u>	<u>4,246,221</u>
NON-CURRENT LIABILITIES:		
Deferred compensation	513,474	529,212
Deferred rent	<u>309,513</u>	<u>371,701</u>
Total non-current liabilities	<u>822,987</u>	<u>900,913</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Undesignated	2,443,079	1,947,224
Designated for assessment stabilization reserve	5,408,338	4,545,000
Designated for operating reserves	<u>2,777,966</u>	<u>3,131,396</u>
Total net assets	<u>10,629,383</u>	<u>9,623,620</u>
TOTAL	<u>\$ 16,241,101</u>	<u>\$ 14,770,754</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
FUNDING:		
Member assessments	\$ 23,513,886	\$ 22,459,123
Penalty sanctions	2,043,338	800,000
Workshops	131,445	7,475
Investment income	1,633	80,576
Miscellaneous	610	1,140
Total	<u>25,690,912</u>	<u>23,348,314</u>
EXPENSES:		
Personnel expenses:		
Salaries	15,668,506	14,796,076
Payroll taxes	1,006,438	959,260
Employee benefits	1,454,649	1,590,688
Savings and retirement	2,003,822	1,851,030
Total personnel expenses	<u>20,133,415</u>	<u>19,197,054</u>
Meeting expenses:		
Meetings	42,919	21,001
Travel	20,528	111,242
Conference calls	16,104	16,104
Total meeting expenses	<u>79,551</u>	<u>148,347</u>
Operating expenses:		
Consultants and contracts	1,431,917	1,680,454
Rent and improvements	805,464	821,813
Office costs	1,242,748	823,134
Professional services	452,813	91,908
Depreciation	539,241	552,302
Miscellaneous	-	1,393
Total operating expenses	<u>4,472,183</u>	<u>3,971,004</u>
Total expenses	<u>24,685,149</u>	<u>23,316,405</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,005,763	31,909
NET ASSETS, BEGINNING OF YEAR	<u>9,623,620</u>	<u>9,591,711</u>
NET ASSETS, END OF YEAR	<u>\$ 10,629,383</u>	<u>\$ 9,623,620</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,005,763	\$ 31,909
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	539,241	552,302
Unrealized losses on investments, net	14,145	1,554
Loss on disposal of property and equipment	-	1,247
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(93,528)	(104,612)
Accounts payable	60,500	(2,361)
Accrued expenses	312,925	(568,906)
Accrued salaries and related benefits	219,842	702,229
Deferred revenue	(50,757)	68,180
Deferred rent	(62,188)	(46,435)
Net cash provided by operating activities	<u>1,945,943</u>	<u>635,107</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvestment of earnings	(14,843)	(80,556)
Purchase of property and equipment	<u>(1,035,096)</u>	<u>(409,590)</u>
Net cash applied to investing activities	<u>(1,049,939)</u>	<u>(490,146)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	896,004	144,961
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,799,061</u>	<u>4,654,100</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,695,065</u>	<u>\$ 4,799,061</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 and 2020, 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.

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.

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.

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 is computed using the straight-line method over the estimated economic useful lives of the assets ranging from 5-7 years for leasehold improvements 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 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.

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.

Deferred Rent - The Corporation recognizes operating lease expense on a straight-line basis over the term of the respective lease. When the terms of the operating lease provide for periods of free rent, rent concessions, and/or rent escalations, the Corporation establishes a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. The deferred rent liability is also amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

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 the Federal Energy Regulatory Commission ("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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Beginning of year	\$ 96,010	\$ 27,830
End of year	\$ 45,253	\$ 96,010

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, 2021 and 2020.

Reclassifications - Certain amounts in the 2020 financial statements have been reclassified to conform with 2021 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 March 29, 2022, 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 at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 5,695,065	\$ 4,799,061
Prepaid expenses and other assets	446,007	352,479
Investments	<u>7,143,476</u>	<u>7,142,778</u>
Total financial assets	<u>13,284,548</u>	<u>12,294,318</u>
Financial assets available to meet general expenditures within one year	<u>\$ 13,284,548</u>	<u>\$ 12,294,318</u>

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, 2021 and 2020:

	<u>2021</u>		
	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Fixed income securities	\$ 7,129,096	\$ 7,143,241	\$ (14,145)
Money market funds and other cash equivalents	<u>14,380</u>	<u>14,380</u>	<u>-</u>
Total	<u>\$ 7,143,476</u>	<u>\$ 7,157,621</u>	<u>\$ (14,145)</u>

	<u>2020</u>		<u>Unrealized Gain (Loss)</u>
	<u>Fair Value</u>	<u>Cost</u>	
Fixed income securities	\$ 2,874,056	\$ 2,874,465	\$ (409)
Money market funds and other cash equivalents	<u>4,268,722</u>	<u>4,266,759</u>	<u>1,963</u>
Total	<u>\$ 7,142,778</u>	<u>\$ 7,141,224</u>	<u>\$ 1,554</u>

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Software	\$ 1,492,593	\$ 1,492,593
Leasehold improvements	1,292,158	1,292,158
Computer equipment	305,898	305,898
Equipment	573,104	525,773
Furniture and fixtures	396,986	385,291
Construction in progress	<u>1,110,849</u>	<u>134,778</u>
Subtotal	5,171,588	4,136,491
Less accumulated depreciation	<u>2,728,509</u>	<u>2,189,267</u>
Total, net	<u>\$ 2,443,079</u>	<u>\$ 1,947,224</u>

5. LEASE COMMITMENTS

During the year ended December 31, 2014, the Corporation entered into an operating lease for office space which commenced on April 1, 2014 and continues through January 31, 2025. The lease provides free rent for the first 10 months of the lease period and annual rent payments ranging from approximately \$460,000 to approximately \$612,000.

On January 15, 2016, the Corporation entered into an amendment to the current operating lease for expansion of office space. The amended lease continues through the original expiration date January 31, 2025. The amended lease provides for additional annual rent payments ranging from approximately \$75,000 to approximately \$88,000.

On October 12, 2017, the Corporation entered into an operating sublease for expansion of office space which commenced November 3, 2017 and was scheduled to continue through March 31, 2020. This sublease was terminated in 2018 and replaced with a lease between the owner of the building and the Corporation which continues through January 31, 2025 and has annual rent payments ranging from approximately \$169,000 to approximately \$178,000.

The Corporation also has leases for various office equipment. Total rent expense for the years ended December 31, 2021 and 2020 was approximately \$825,000 and \$811,000, respectively.

The following is a schedule of the approximate future minimum lease payments under all long-term leases as of December 31, 2021:

During the year ending December 31:	
2022	\$ 844,000
2023	863,000
2024	879,000
2025	<u>73,000</u>
Total	<u>\$ 2,659,000</u>

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 5% with all accrued interest and principal due in a single payment upon expiration of the note in May 2022. There were no outstanding borrowings under the line of credit as of December 31, 2021 and 2020.

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, 2021 and 2020, contribution expense related to the plan totaled approximately \$1,926,000 and \$1,788,000, 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, 2021 and 2020, contribution expense related to the plan totaled \$51,424 and \$47,840, 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 \$513,474 and \$529,212 at December 31, 2021 and 2020, respectively.

8. FUNCTIONAL EXPENSES

The following is an allocation of expenses by functional category for the years ended December 31, 2021 and 2020:

	December 31, 2021		
	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
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	-	539,241	539,241
	<u>\$ 13,036,842</u>	<u>\$ 11,648,307</u>	<u>\$ 24,685,149</u>
	December 31, 2020		
	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$ 12,694,963	\$ 6,502,091	\$ 19,197,054
Meeting and travel	91,240	57,107	148,347
Consultants and contracts	192,461	1,487,993	1,680,454
Rent and improvements	-	821,813	821,813
Office costs	71,185	751,951	823,136
Professional services	-	91,908	91,908
Depreciation	-	552,302	552,302
Miscellaneous	-	1,393	1,393
	<u>\$ 13,049,849</u>	<u>\$ 10,266,558</u>	<u>\$ 23,316,407</u>

9. DISAGGREGATION OF REVENUE

The following table disaggregates the Corporation's revenue for the years ended December 31, 2021 and 2020 based on the type of revenue:

	<u>2021</u>	<u>2020</u>
<u>Revenue recognized over time:</u>		
Member assessments	\$ 23,513,886	\$ 22,459,123
Investment income	1,633	80,576
Miscellaneous	610	1,140
Subtotal	<u>23,516,129</u>	<u>22,540,839</u>
 <u>Revenue recognized at a point in time:</u>		
Penalty sanctions	2,043,338	800,000
Workshops and miscellaneous	131,445	7,475
Subtotal	<u>2,174,783</u>	<u>807,475</u>
 Total	 <u>\$ 25,690,912</u>	 <u>\$ 23,348,314</u>

ATTACHMENT 6

2021 ACTUAL COST-TO-BUDGET COMPARISON

AND

2021 AUDITED FINANCIAL REPORT

FOR

TEXAS RELIABILITY ENTITY, INC.

April 10, 2022

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) 2021 Actual Cost-to-Budget Comparison

Dear Mr. Sharp,

Texas Reliability Entity (Texas RE) has completed the 2021 True-Up Analysis. The budget comparisons are for the 2021 Texas RE budget, formally approved by FERC.

Texas RE did not have any non-statutory activities in 2021.

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 2021 for assessments and penalty sanctions. Interest income is less than budget by \$79,325 due to lower interest rates 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 2021 total statutory expenses and fixed asset activity are 1.0% less than total budget.

Personnel Expenses are \$115,480 or 1.1% below budget due primarily to medical insurance (included in Employee Benefits) not increasing as projected. Salaries and payroll taxes are over budget due to promotions and market adjustments applied after this budget was prepared. Unused education reimbursement and training money (also included in Employee Benefits) added to the variance.

Travel and Meeting Expenses are \$324,409 or 79.7% less than budget. All program and administrative travel was suspended due to the COVID-19 pandemic. Meeting expense is greater than budget because one additional workshop was conducted; the budget only allowed for one workshop.

Other Operating Expenses are \$296,934 or 10.6% greater than budget. Consultants and Contracts are greater than budget 29.9% due to search fees for the Vice President position and a Board of Director position that occurred after the budget was prepared. Rent and Improvements are 10.0% greater than

budget because of price increases in utilities and common area maintenance fees. Office costs are 17.1% over budget. Cost for special office cleaning and for supplies to allow employees to work remotely due to the pandemic are the drivers for this unfavorable variance. Unused penetration testing and an outside IT audit being placed on hold cause Professional Services to be 9.9% less than budget.

Other Non-Operating Expenses are for non-capitalized cost to move the office location. The budget for the office relocation is in the 2022 Business Plan and Budget. A portion of the cost actually occurred in 2021.

FIXED ASSETS

Texas RE did not purchase any Fixed Assets in 2021 resulting in the under-budget variance of \$50,000.

Texas RE ended the year \$143,144 or 1.0% under budget. Texas RE completed its intended activities for 2021.

In 2021 Texas RE completed 9 audits. All audits were both O&P and CIP combined (3 were MRRE audits). Texas RE also participated in and supported 1 NERC led CIP spot check. In addition, Texas RE completed 22 Self Certifications. 14 were combination O&P and CIP, 7 were CIP only, 1 was O&P only, and 7 were MRRE audits.

In 2021, Texas RE processed 9 technical feasibility exceptions (TFEs); 3 were terminated, 0 were disapproved, 0 required resubmission, 1 was processed as a material change and 5 were approved.

In 2021 Texas RE discovered 169 noncompliance matters. Additionally, there were 13 noncompliance matters that ultimately failed preliminary screening and were combined with already opened records. Texas RE disposed of 197 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 298 to 273.

Texas RE verified the completion of Mitigation Plans or mitigating activities for 75 possible violations (66 mitigating activities; 9 Mitigation Plans).

In 2021, a total of 89 events were examined, as follows: 74 non-qualified events (below threshold for Categories 1-5), and 14 Category 1 events, and Winter Storm Uri.

In 2021, the data collected for use in performance analysis and reporting included:

- 5,478 monthly reports by 458 conventional generators, 2,630 immediate forced outages;
- 2,240 monthly reports by 155 wind plants (285 groups and sub-groups with 15,230 turbines);
- 471 momentary and sustained forced outages reported on 18,808 circuit miles of 345kV, and 529 sustained forced outages reported on 27,321 circuit miles of 138kV; and
- 111 misoperations reported for 2,186 protection system operations.

In 2021, Texas RE processed registration/function activation requests for 53 entities, deregistration/function deactivation requests for 20 entities, and registered entity name change requests for 2 entities.

In 2021, Texas RE conducted 1 TOP certification and completed 1 TOP certification review.

If you have any questions on the report or the attached spreadsheet, please call me at the number below.

Thank you.

Judy

Judy A. Foppiano, CPA

CFO & Director of Corporate Services

Texas Reliability Entity, Inc.

805 Los Cimas Parkway, Suite 200

Austin, Texas 78746

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512.583.4959 (Direct)

Texas Reliability Entity, Inc.
2021 Statutory Statement of Activities and Fixed Assets
Audited

	2021 Actual	2021 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	\$ 13,343,400	\$ 13,343,400	\$ -	0.0%
Penalty Sanctions	169,195	169,195	-	0.0%
Interest & Memberships	675	80,000	(79,325)	-99.2%
Total Revenues	\$ 13,513,270	\$ 13,592,595	\$ (79,325)	-0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 8,169,897	\$ 7,886,558	\$ 283,339	3.6%
Payroll Taxes	549,127	537,917	11,210	2.1%
Employee Benefits	1,103,235	1,412,700	(309,465)	-21.9%
Savings & Retirement	1,006,735	1,107,299	(100,564)	-9.1%
Total Personnel Expenses	\$ 10,828,994	\$ 10,944,474	\$ (115,480)	-1.1%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 65,612	\$ 35,400	\$ 30,212	85.3%
Travel	17,064	371,685	(354,621)	-95.4%
Total Meeting & Travel Expenses	\$ 82,676	\$ 407,085	\$ (324,409)	-79.7%
Operating Expenses				
Consultants & Contracts	\$ 574,618	\$ 442,404	\$ 132,214	29.9%
Rent & Improvements	1,173,680	1,066,000	107,680	10.1%
Office Costs	804,487	686,740	117,747	17.1%
Professional Services	554,128	614,835	(60,707)	-9.9%
Total Operating Expenses	\$ 3,106,913	\$ 2,809,979	\$ 296,934	10.6%
Total Direct Expenses	\$ 14,018,583	\$ 14,161,538	\$ (142,955)	-1.0%
Other Non-Operating Expenses	\$ 336,099	\$ -	\$ 336,099	100.0%
Indirect Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 14,354,682	\$ 14,161,538	\$ 193,144	1.4%
Change in Assets	\$ (841,412)	\$ (568,943)	\$ (272,469)	47.9%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 50,000	\$ (50,000)	-100.0%
TOTAL BUDGET	\$ 14,354,682	\$ 14,211,538	\$ 143,144	1.0%
Change in Working Capital (Total Revenue less Total Budget)	\$ (841,412)	\$ (618,943)	\$ (222,469)	35.9%
FTE's	59.80	63.00	(3.20)	

Texas Reliability Entity, Inc.
2021 Statement of Activities and Fixed Assets
Audited

Reliability Standards

	2021 Actual	2021 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	\$ 345,684	\$ 345,684	\$ -	0.0%
Penalty Sanctions	4,383	4,383	-	-
Interest & Memberships	19	2,073	(2,054)	-99.1%
Total Revenues	\$ 350,086	\$ 352,140	\$ (2,054)	-0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 158,836	\$ 174,732	\$ (15,896)	-9.1%
Payroll Taxes	11,926	12,643	(717)	-5.7%
Employee Benefits	30,842	40,608	(9,766)	-24.0%
Savings & Retirement	20,524	22,953	(2,429)	-10.6%
Total Personnel Expenses	\$ 222,128	\$ 250,936	\$ (28,808)	-11.5%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ -	\$ -	\$ -	0.0%
Travel	-	6,900	(6,900)	-100.0%
Total Meeting & Travel Expenses	\$ -	\$ 6,900	\$ (6,900)	-100.0%
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Total Operating Expenses	\$ -	\$ -	\$ -	0.0%
Total Direct Expenses	\$ 222,128	\$ 257,836	\$ (35,708)	-13.8%
Indirect Expenses	\$ 179,902	\$ 155,038	\$ 24,864	16.0%
Other Non-Operating Expenses	\$ 9,326	\$ -	\$ 9,326	100.0%
Total Expenses	\$ 411,356	\$ 412,874	\$ (1,518)	-0.4%
Change in Assets	\$ (61,270)	\$ (60,734)	\$ (536)	0.9%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 1,295	\$ (1,295)	-100.0%
TOTAL BUDGET	\$ 411,356	\$ 414,169	\$ (2,813)	-0.7%
Change in Working Capital (Total Revenue less Total Budget)	\$ (61,270)	\$ (62,029)	\$ 759	-1.2%
FTE's	1.25	1.25		

Reliability Standards

Variations > +/- \$10,000 and 10%

Reliability Standards is 0.7% (\$2,813) less than total budget.

Personnel Costs are 11.5% 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.

Meeting and Travel expense is 100.0% less than budget. All travel was suspended due to the COVID-19 pandemic.

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 Reliability Entity, Inc.
2021 Statement of Activities and Fixed Assets
Audited

CMEP

	2021 Actual	2021 Budget	Variance from Budget	%
Revenue				
ERO Funding				
Assessments	\$ 10,716,202	\$ 10,716,202	\$ -	0.0%
Penalty Sanctions	135,882	135,882	-	0.0%
Interest & Membership Dues	532	64,249	\$ (63,717)	-99.2%
Total Revenue	\$ 10,852,616	\$ 10,916,332	\$ (63,716)	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 4,443,837	\$ 4,066,256	\$ 377,581	9.3%
Payroll Taxes	332,886	310,653	22,233	7.2%
Employee Benefits	642,167	816,798	(174,631)	-21.4%
Savings & Retirement	555,270	579,329	(24,059)	-4.2%
Total Personnel Expenses	\$ 5,974,160	\$ 5,773,036	\$ 201,124	3.5%
Meeting & Travel Expenses				
Meetings and Conference Calls	\$ -	\$ -	\$ -	0.0%
Travel	185	143,175	(142,990)	-99.9%
Total Meeting & Travel Expenses	\$ 185	\$ 143,175	\$ (142,990)	-99.9%
Operating Expenses				
Consultants & Contracts	\$ 13,548	\$ 155,204	\$ (141,656)	-91.3%
Office Rent	-	-	-	0.0%
Office Costs	19,144	20,460	(1,316)	-6.4%
Professional Services	-	-	-	0.0%
Total Operating Expenses	\$ 32,692	\$ 175,664	\$ (142,972)	-81.4%
Total Direct Expenses	\$ 6,007,037	\$ 6,091,875	(84,838)	-1.4%
Indirect Expenses	\$ 5,116,408	\$ 4,806,184	\$ 310,224	6.5%
Other Non-Operating Expenses	\$ 265,224	\$ -	\$ 265,224	100.0%
Total Expenses	\$ 11,388,669	\$ 10,898,059	\$ 490,610	4.5%
Change in Assets	\$ (536,053)	\$ 18,273	\$ (554,326)	-3033.6%
Fixed Asset Additions, excluding Right of Use Assets		\$ 40,155	\$ (40,155)	-100.0%
TOTAL BUDGET	\$ 11,388,669	\$ 10,938,214	\$ 450,455	4.1%
Change in Working Capital (Total Revenue less Total Budget)	\$ (536,053)	\$ (21,883)	\$ (514,170)	2349.6%
FTE's	35.55	38.75	(3.20)	

CMEP

Variations > +/- \$10,000 and 10%

CMEP is 4.1% (\$450,455) greater than budget for the year.

Personnel expenses for CMEP are 3.5% or \$201,124 greater than budget. Salaries and related taxes are greater than budget due to promotions and market adjustments given after this budget was finalized. Employee Benefits are 21.4% less than budget. Health Insurance, which is included in Employee Benefits, did not increase 8% as projected. Unspent money for employee training included in this category contributes to the 21.4% budget under-run. Forfeitures are used to fund the retirement account when available accounting for the 4.2% budget under-run for Savings and Retirement.

Meeting and Travel expense is 99.9% less than budget. All travel was suspended due to the COVID-19 pandemic.

Total Operating Expenses are 81.4% less than budget due to Consultants and Contracts. IT Managed Services, which falls under Consultants and Contracts, were budgeted in the program but actually charged to the IT 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 Reliability Entity, Inc.
2021 Statement of Activities and Fixed Assets
Audited

RAPA

	2021 Actual	2021 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	\$ 1,659,283	\$ 1,659,283	\$ -	0.0%
Penalty Sanctions	21,040	21,040	-	0.0%
Interest Revenue	90	9,948	\$ (9,858)	-99.1%
Total Revenues	\$ 1,680,413	\$ 1,690,271	\$ (9,858)	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 922,758	\$ 932,415	\$ (9,657)	-1.0%
Payroll Taxes	64,528	64,899	(371)	-0.6%
Employee Benefits	123,988	155,128	(31,140)	-20.1%
Savings & Retirement	116,588	134,397	(17,809)	-13.3%
Total Personnel Expenses	\$ 1,227,862	\$ 1,286,840	\$ (58,977)	-4.6%
Meeting & Travel Expenses				
Meetings and Conference Calls	\$ -	\$ -	\$ -	0.0%
Travel	8,222	87,500	(79,278)	-90.6%
Total Meeting & Travel Expenses	\$ 8,222	\$ 87,500	\$ (79,278)	-90.6%
Operating Expenses				
Consultants & Contracts	\$ -		\$ -	0.0%
Office Rent	-		-	0.0%
Office Costs	34,654	71,640	(36,986)	-51.6%
Professional Services	-		-	0.0%
Total Operating Expenses	\$ 34,654	\$ 71,640	\$ (36,986)	-51.6%
Total Direct Expenses	\$ 1,270,738	\$ 1,445,981	(175,241)	-12.1%
Indirect Expenses	\$ 863,529	\$ 744,183	\$ 119,346	16.0%
Other Non-Operating Expenses	\$ 44,763	\$ -	\$ 44,763	100.0%
Total Expenses	\$ 2,179,030	\$ 2,190,164	\$ (11,134)	-0.5%
Change in Assets	\$ (498,617)	\$ (499,892)	\$ 1,276	-0.3%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 6,218	\$ (6,218)	-100.0%
TOTAL BUDGET	\$ 2,179,030	\$ 2,196,381	\$ (17,351)	-0.8%
Change in Working Capital (Total Revenue less Total Budget)	\$ (498,617)	\$ (506,110)	\$ 7,493	-1.5%
FTE's	6.00	6.00	-	

RAPA

Variations > +/- \$10,000 and 10%

This department ended the year 0.8% (\$17,351) less than budget.

Personnel expenses are 4.6% less than budget. Health Insurance, which is included in Employee Benefits, did not increase 8% as projected causing this category to be 20.1% under-budget. Forfeitures are used to fund the retirement account when available accounting for the 13.3% budget under-run for Savings and Retirement.

Meeting and Travel expenses are 90.6% less than budget. Travel was suspended due to the COVID-19 pandemic.

Operating Expenses are 51.6% less than budget due to maintenance cost for the PI Software that was budgeted to the this program actually being charged to the IT 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 Reliability Entity, Inc.
2021 Statement of Activities and Fixed Assets
Audited

Training & Education

	2021 Actual	2021 Budget	Variance from Budget	%
Revenues				
ERO Funding				
Assessments	\$ 622,231	\$ 622,231	\$ -	0.0%
Penalty Sanctions	7,890	7,890	-	0.0%
Interest Revenue	34	3,731	\$ (3,697)	-99.1%
Total Revenues	\$ 630,155	\$ 633,852	\$ (3,697)	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 244,050	\$ 247,624	\$ (3,574)	-1.4%
Payroll Taxes	17,123	17,824	(701)	-3.9%
Employee Benefits	27,122	53,755	(26,633)	-49.5%
Savings & Retirement	26,065	35,340	(9,275)	-26.2%
Total Personnel Expenses	\$ 314,360	\$ 354,543	\$ (40,183)	-11.3%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 50,435	\$ 4,500	\$ 45,935	1020.8%
Travel	55	3,030	(2,975)	-98.2%
Total Meeting & Travel Expenses	\$ 50,490	\$ 7,530	\$ 42,960	570.5%
Operating Expenses				
Consultants & Contracts	\$ 859	\$ 3,500	\$ (2,641)	-75.5%
Office Costs	3,267	12,800	(9,533)	-74.5%
Office Rent	-	-	-	0.0%
Professional Services	2,100	3,000	(900)	-30.0%
Total Operating Expenses	\$ 6,226	\$ 19,300	\$ (13,074)	-67.7%
Total Direct Expenses	\$ 371,076	\$ 381,373	(10,297)	-2.7%
Indirect Expenses	\$ 323,823	\$ 279,069	\$ 44,754	16.0%
Other Non-Operating Expenses	\$ 16,786	\$ -	\$ 16,786	100.0%
Total Expenses	\$ 711,685	\$ 660,442	\$ 51,243	7.8%
Change in Assets	\$ (81,530)	\$ (26,590)	\$ (54,940)	206.6%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 2,332	\$ (2,332)	-100.0%
TOTAL BUDGET	\$ 711,685	\$ 662,774	\$ 48,911	7.4%
Change in Working Capital (Total Revenue less Total Budget)	\$ (81,530)	\$ (28,922)	\$ (52,608)	181.9%
FTE's	2.25	2.25	-	

Training and Education

Variations > +/- \$10,000 and 10%

The Training and Education department ended the year 7.4% (\$48,911) over total budget.

Personnel expenses are 11.3% under budget. Health Insurance, which is included in Employee Benefits, did not increase 8% as projected causing this category to be 49.5% under-budget. Forfeitures are used to fund the retirement account when available accounting for the 26.2% budget under-run for Savings and Retirement.

Total Meeting and Travel Expenses are \$42,960 greater than budget. Meeting expense is greater than budget because one additional workshop was conducted and the budget only allowed for one workshop. Due to the pandemic, travel was suspended in March causing the budget under-run.

Operating Expenses are 67.7% less than budget. Consultants and contracts had allowed for leadership coaching that was postponed and video equipment was not purchased in office supplies.

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 Reliability Entity, Inc.
2021 Statement of Activities and Fixed Assets
Audited

Administrative Services

	2021 Actual	2021 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	\$ 2,400,417	\$ 2,465,531	\$ (65,114)	-2.6%
Payroll Taxes	122,663	131,898	(9,235)	-7.0%
Employee Benefits	279,117	346,411	(67,294)	-19.4%
Savings & Retirement	288,286	335,280	(46,994)	-14.0%
Total Personnel Expenses	\$ 3,090,483	\$ 3,279,120	\$ (188,637)	-5.8%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 15,177	\$ 30,900	\$ (15,723)	-50.9%
Travel	8,603	131,080	(122,477)	-93.4%
Total Meeting & Travel Expenses	\$ 23,780	\$ 161,980	\$ (138,200)	-85.3%
Operating Expenses				
Consultants & Contracts	\$ 560,210	\$ 283,700	\$ 276,510	97.5%
Rent & Improvements	1,173,680	1,066,000	107,680	10.1%
Office Costs	747,382	581,840	165,542	28.5%
Professional Services	552,028	611,835	(59,807)	-9.8%
Total Operating Expenses	\$ 3,033,300	\$ 2,543,375	\$ 489,925	19.3%
Total Direct Expenses	\$ 6,147,563	\$ 5,984,475	\$ 163,088	2.7%
Other Non-Operating Expenses	\$ 336,099	\$ -	\$ 336,100	100.0%
Indirect Expenses	\$ (6,483,662)	\$ (5,984,475)	\$ (499,187)	8.3%
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 Capital (Total Revenue less Total Budget)	\$ -	\$ -	\$ -	0.0%
FTE's	14.75	14.75	-	

Administrative Services

Variations > +/- \$10,000 and 10%

Overall Administrative Services expenses are 8.3% (\$499,187) greater than budget.

Total Personnel expenses are below budget 5.8%. Salaries are less than budget due the Vice President and Chief Operating Officer position being vacant for a portion of the year. Health Insurance, which is included in Employee Benefits, did not increase 8% as projected. Employee Benefits budget includes training money that was not utilized causing the 19.4% under-run. Forfeitures are used to fund the retirement account when available accounting for the 14.0% budget under-run for Savings and Retirement.

Total Meeting and Travel expense is 85.3% less than budget. Meeting and Conference Calls are 50.9% less than budget because all meetings, including the annual meeting with the Board of Directors and stakeholders did not occur due to the pandemic. Travel was suspended due to the COVID-19 pandemic.

Operating expenses are 19.3% greater than budget.

- Consultants and Contracts are greater than budget due to search fees for an executive and a Board of Director position that was unanticipated.
- Rent and Improvements are over budget due to rising prices for utilities and common area maintenance for the office space.
- Office costs exceeded budget due to large screen monitors and other supplies being purchased to make working remotely as efficient and effective as possible during the pandemic. The pandemic required special cleaning and sanitation for the office space.
- Professional Services are less than budget due to unused penetration testing, an outside IT audit being placed on hold, and fees for outside legal counsel not being used.
- 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 cost to move the office location. The budget for the office relocation is in the 2022 Business Plan and Budget. A portion of the cost actually occurred in 2021.
- Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

General and Administrative

Variations > +/- \$10,000 and 10%

Personnel Expenses are 18.5% less than budget. The Vice President and Chief Operating Officer position was vacant for a portion of the year. Forfeitures were used as available to fund the employer portion of the retirement plan resulting in savings.

Meeting and Travel Expenses are 86.9% less than budget. Travel was suspended due to the COVID-19 pandemic.

Operating Expenses are 17.2% greater than budget. Consultants and Contracts are greater than budget due to search fees for an executive and a Board of Director position that was unanticipated. Rent and Improvements are over budget due to rising prices for utilities and common area maintenance for the office space. Office costs were less than budget since there were no employees in the office; everyone worked remotely. Professional services are greater than budget due to higher than anticipated risk insurance increases.

Legal and Regulatory

Variations > +/- \$10,000 and 10%

Personnel Expenses are 5.0% greater than budget. Salary expense is greater than budget due to market adjustments for two employees that was not included in the 2021 budget. Forfeitures were used as available to fund the employer portion of the retirement plans resulting in savings.

Meeting and Travel Expenses are 99.4% less than budget. Travel was suspended due to the COVID-19 pandemic.

Information Technology

Variations > +/- \$10,000 and 10%

Personnel expenses are less than budget by 3.2%. Health insurance premiums did not increase 8% as expected and some scheduled training did not occur causing the Employee Benefits under-run.

Meeting and Travel expense is 51.3% less than budget. Travel was suspended due to the COVID-19 pandemic.

Operating Expenses are 47.7% greater than budget. Consultants and Contracts are greater than budget because the budget for IT managed services was included in individual program budgets; the actual costs were charged to the IT department. Office Costs are higher due to IT equipment and computer supplies purchased to allow employees to work remotely effectively and efficiently. An IT external audit was postponed and penetration testing was done remotely resulting in less cost for Professional Services.

Human Resources

Variations > +/- \$10,000 and 10%

All Personnel expenses are included in G & A.

Total Meeting and Travel Expense is 68.0% less than budget. Meetings included in the budget did not occur due to the pandemic and remote working. Travel is under budget because travel was suspended due to the COVID-19 pandemic.

Operating Expenses are 21.9% less than budget driven by Consultants and Contracts. This category is less than budget because the firm contracted to conduct all benefits and compensation surveys were able to use much of the data from the previous year.

Accounting and Finance

Variations > +/- \$10,000 and 10%

Personnel expenses are 3.3% greater than budget. Market adjustments were given to 2 employees after the 2021 budget was completed.

Travel is 99.5% less than budget. Travel was suspended due to the COVID-19 pandemic.

Operating Costs are 22.9% over budget due to fees for training on the accounting software.

Texas Reliability Entity, Inc.
Penalty Sanctions
For year ended December 31, 2021

Date Invoiced	Date Rec'd	Amount	Year to Recognize for BP&B				
			2020	2021	2022	2023	
		Subtotal 2011					
		<u>\$ 1,225,830</u>					
		Subtotal 2012					
		<u>\$ 447,833</u>					
		Subtotal 2013					
		<u>\$ 635,000</u>					
		Subtotal 2014					
		<u>\$ 315,250</u>					
		Subtotal 2015					
		<u>\$ 102,000</u>					
		NO Fines & Penalty Monies received in 2016	\$ -				
		Subtotal 2017					
		<u>\$ 389,449</u>					
6/1/2018	7/1/2018	ERCOT	\$ 140,000	\$ 140,000			
6/1/2018	7/3/2018	ERCOT	\$ 45,000	\$ 45,000			
7/5/2018	7/11/2018	ONCOR	\$ 300,000	\$ 300,000			
10/2/2018	11/1/2018	American Electric Power Service Corp.	\$ 225,000	\$ 225,000			
		Subtotal 2018	<u>\$ 710,000</u>				
11/20/2019	12/15/2019	Calpine Corp (MRO)	\$ 169,195	\$ 169,195			
		Subtotal 2019	<u>\$ 169,195</u>				
9/1/2020	9/30/2020	Texas New Mexico Power	\$ 36,750	\$ -	\$ 36,750		
		Subtotal 2020	<u>\$ 36,750</u>				
1/6/2021	2/5/2021	Oncor Electric	\$ 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	<u>\$ 573,188</u>				
			<u>\$ 3,894,495</u>	<u>\$ 710,000</u>	<u>\$ 169,195</u>	<u>\$ 558,750</u>	<u>\$ 51,188</u>

Texas RE 2021 Penalties Reconciliation	12/31/2021	12/31/2020	Change in 2021
Total Cumulative Penalties - GAAP/BKD Audit	\$ 3,894,495	\$ 3,321,307	\$ 573,188
Total Cumulative Penalties - True Up Report	\$ 4,163,751	\$ 3,994,557	\$ 169,195
	<u>\$ (269,257)</u>	<u>\$ (673,250)</u>	<u>\$ 403,993</u>

Texas Reliability Entity, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Texas Reliability Entity, Inc.
December 31, 2021 and 2020

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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 statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flow 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 Texas RE as of December 31, 2021 and 2020, 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 Texas RE 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 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.

BKD, LLP

Dallas, Texas
May 26, 2022

Texas Reliability Entity, Inc.
Statements of Financial Position
December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 3,880,970	\$ 4,764,585
Assets limited to use – cash	610,238	206,098
	4,491,208	4,970,683
Accounts receivable	-	7,350
Other current assets	620,161	510,595
Total current assets	5,111,369	5,488,628
Property and Equipment, Net		
	133,762	20,981
Total assets	\$ 5,245,131	\$ 5,509,609

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 55,153	\$ 4,357
Accrued liabilities	1,155,692	1,019,878
Deferred rent	3,838	-
Total current liabilities	1,214,683	1,024,235

Noncurrent Liabilities

Deferred rent	-	1,919
Total noncurrent liabilities	-	1,919
Total liabilities	1,214,683	1,026,154

Net Assets Without Donor Restrictions

Undesignated	3,420,210	4,277,357
Regulator designated	610,238	206,098
Total net assets without donor restrictions	4,030,448	4,483,455
Total liabilities and net assets	\$ 5,245,131	\$ 5,509,609

Texas Reliability Entity, Inc.
Statements of Activities
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues, Gains and Other Support		
Statutory revenue		
Assessments	\$ 13,343,400	\$ 13,344,128
Penalty sanctions	573,188	36,750
Protocol revenue	-	812,628
Interest income	675	14,590
	<u>13,917,263</u>	<u>14,208,096</u>
Expenses		
Salaries and related benefits	10,828,993	11,485,412
Facility and equipment costs	1,743,169	1,132,204
Outside services	1,128,746	1,191,649
Travel and meetings	82,676	106,208
Administrative and other	571,098	553,292
Depreciation and amortization	15,588	51,854
	<u>14,370,270</u>	<u>14,520,619</u>
Change in Net Assets Without Donor Restrictions	(453,007)	(312,523)
Net Assets Without Donor Restrictions, Beginning of Year	<u>4,483,455</u>	<u>4,795,978</u>
Net Assets Without Donor Restrictions, End of Year	<u>\$ 4,030,448</u>	<u>\$ 4,483,455</u>

Texas Reliability Entity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2021

	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	\$ 158,836	\$ 4,443,837	\$ 922,758	\$ 244,050	\$ 5,769,481	\$ 884,326	\$ 428,530	\$ 573,275	\$ 139,445	\$ 374,840	\$ 2,400,416	\$ 8,169,897
Payroll taxes	11,926	332,886	64,528	17,123	426,463	20,187	25,540	42,124	10,796	24,018	122,665	549,128
Employee benefits	30,842	642,167	123,988	27,122	824,119	52,955	53,044	85,237	36,889	50,991	279,116	1,103,235
Savings and retirement	20,524	555,270	116,588	26,065	718,447	53,317	49,574	76,392	59,924	49,079	288,286	1,006,733
Total personnel expenses	222,128	5,974,160	1,227,862	314,360	7,738,510	1,010,785	556,688	777,028	247,054	498,928	3,090,483	10,828,993
Meeting and travel expenses												
Meetings and conference calls	-	-	-	50,435	50,435	-	-	9,405	5,773	-	15,178	65,613
Travel	-	185	8,222	55	8,462	6,355	85	986	1,138	37	8,601	17,063
Total meeting and travel expenses	-	185	8,222	50,490	58,897	6,355	85	10,391	6,911	37	23,779	82,676
Operating expenses												
Consultants and contracts	-	13,548	-	859	14,407	200,098	2,248	295,548	53,031	9,286	560,211	574,618
Rent and improvements	-	-	-	-	-	1,173,680	-	-	-	-	1,173,680	1,173,680
Office costs	-	19,144	34,654	3,267	57,065	71,864	4,596	640,547	9,629	20,787	747,423	804,488
Professional services	-	-	-	2,100	2,100	448,571	29,932	20,136	-	53,388	552,027	554,127
Depreciation	-	-	-	-	-	15,588	-	-	-	-	15,588	15,588
Total operating expenses	-	32,692	34,654	6,226	73,572	1,909,801	36,776	956,231	62,660	83,461	3,048,929	3,122,501
Non-operating expenses												
Office relocation	-	-	-	-	-	336,100	-	-	-	-	336,100	336,100
Total non-operating expenses	-	-	-	-	-	336,100	-	-	-	-	336,100	336,100
Total expenses	\$ 222,128	\$ 6,007,037	\$ 1,270,738	\$ 371,076	\$ 7,870,979	\$ 3,263,041	\$ 593,549	\$ 1,743,650	\$ 316,625	\$ 582,426	\$ 6,499,291	\$ 14,370,270

Texas Reliability Entity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2020

	Statutory Program				Nonstatutory Program	Supporting Services							
	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	State	Total Program	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Total Supporting Services	Total Expenses
Expenses													
Salaries and related benefits													
Salaries	\$ 171,292	\$ 4,144,039	\$ 912,812	\$ 227,657	\$ 576,833	\$ 6,032,633	\$ 1,178,808	\$ 400,586	\$ 514,680	\$ 113,904	\$ 339,445	\$ 2,547,423	\$ 8,580,056
Payroll taxes	11,839	309,251	64,279	16,348	43,761	445,478	34,581	25,941	38,583	8,753	23,634	131,492	576,970
Employee benefits	31,444	662,494	132,010	27,946	67,973	921,867	38,365	43,647	109,862	24,477	49,195	265,546	1,187,413
Savings and retirement	23,240	563,165	127,190	28,198	87,030	828,823	79,854	60,164	73,144	47,778	51,210	312,150	1,140,973
Total personnel expenses	237,815	5,678,949	1,236,291	300,149	775,597	8,228,801	1,331,608	530,338	736,269	194,912	463,484	3,256,611	11,485,412
Meeting and travel expenses													
Meetings and conference calls	2,193	3,003	25	14,002	87	19,310	3,602	-	1,836	7,563	-	13,001	32,311
Travel	-	19,782	17,010	578	696	38,066	30,122	1,008	4,231	-	470	35,831	73,897
Total meeting and travel expenses	2,193	22,785	17,035	14,580	783	57,376	33,724	1,008	6,067	7,563	470	48,832	106,208
Operating expenses													
Consultants and contracts	-	143,397	-	1,156	17,390	161,943	345,963	2,061	55,222	18,867	32,000	454,113	616,056
Rent and improvements	-	-	-	-	46,006	46,006	881,238	-	-	-	-	881,238	927,244
Office costs	140	28,598	36,360	10,796	53,630	129,524	75,603	4,314	529,151	4,671	14,990	628,729	758,253
Professional services	-	-	-	2,817	32,041	34,858	409,165	40,034	36,625	-	54,910	540,734	575,592
Depreciation	-	-	-	-	3,113	3,113	48,741	-	-	-	-	48,741	51,854
Total operating expenses	140	171,995	36,360	14,769	152,180	375,444	1,760,710	46,409	620,998	23,538	101,900	2,553,555	2,928,999
Total expenses	\$ 240,148	\$ 5,873,729	\$ 1,289,686	\$ 329,498	\$ 928,560	\$ 8,661,621	\$ 3,126,042	\$ 577,755	\$ 1,363,334	\$ 226,013	\$ 565,854	\$ 5,858,998	\$ 14,520,619

Texas Reliability Entity, Inc.
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ (453,007)	\$ (312,523)
Item not requiring cash:		
Depreciation	15,588	51,854
Changes in:		
Accounts receivable	7,350	7,372
Other current assets	(109,566)	(105,496)
Accounts payable	50,796	(12,917)
Accrued liabilities	135,814	130,937
Deferred rent	1,919	(107,794)
	<u>(351,106)</u>	<u>(348,567)</u>
Net cash used in operating activities		
Investing Activities		
Capital expenditures for property and equipment and systems under development	<u>(128,369)</u>	<u>-</u>
Net cash used in investing activities	<u>(128,369)</u>	<u>-</u>
Net Decrease in Cash and Cash Equivalents	(479,475)	(348,567)
Cash and Cash Equivalents, Beginning of Year	<u>4,970,683</u>	<u>5,319,250</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,491,208</u>	<u>\$ 4,970,683</u>

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

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.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

- **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, 2021 and 2020

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: 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 and pursuant to the Reliability Monitor Agreement for nonstatutory 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 is recognized monthly as the obligation is satisfied. All statutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

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 they are earned, after all appeals have been exhausted.

For the fiscal year ended December 31, 2020, Texas RE funded its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. Effective November 16, 2020, the agreement was terminated.

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, 2021 and 2020

Note 3: 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, 2021, cash equivalents consisted of a sweep account with a financial institution.

At December 31, 2021, Texas RE's cash accounts, excluding its sweep account that had a balance of \$4,169,714, exceeded federally insured limits by approximately \$415,000. Texas RE places its cash with a high-quality financial institution and management believes no significant risks exist with respect to uninsured balances.

Assets Limited to Use

As stipulated by NERC policies, Texas RE records fines and penalties that are required to be used in future operations as assets limited to use. Assets limited to use (maintained in a financial institution) were \$610,238 and \$206,098 at December 31, 2021 and 2020, respectively.

Revenue Recognition

Revenue is recognized when control of the promised services is transferred under Texas RE's *Delegation Agreement* for statutory operations and the Reliability Monitoring Agreement for nonstatutory operations, which was terminated effective November 16, 2020, 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* and *Reliability Monitoring Agreement*. See *Note 2* 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 2021 and \$351,000 during 2020) 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.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

Property and Equipment

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

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

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

Long-lived Asset Impairment

Texas RE evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Deferred Rent

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

Functional Allocation of Expenses

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

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

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. With a few exceptions, Texas RE is no longer subject to U.S. federal examinations by tax authorities for years before 2018.

Note 4: Property and Equipment

Property and equipment at December 31 consist of:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 761,631	\$ 761,631
Computer hardware	754,361	754,361
Computer software	1,493,734	1,493,734
Furniture	402,859	402,859
Leasehold improvement	546,346	546,346
Work in process	<u>128,369</u>	<u>-</u>
Total property and equipment	4,087,300	3,958,931
Less accumulated depreciation and amortization	<u>3,953,538</u>	<u>3,937,950</u>
Total property and equipment, net	<u>\$ 133,762</u>	<u>\$ 20,981</u>

Note 5: Operating Leases

Texas RE leases office space, datacenter space and equipment under noncancellable agreements recorded as operating leases. Texas RE entered into an office lease on February 9, 2015, that included tenant improvement allowances of \$200,000, which have been recorded in property and equipment and deferred rent in the accompanying statements of financial position December 31, 2021 and 2020. The tenant improvement allowance was amortized as a reduction of rent expense on a straight-line basis over the life of the lease and was fully amortized for the fiscal year ended December 31, 2020.

On March 27, 2019, Texas RE executed an extension of the lease agreement for the period October 1, 2020 through March 31, 2022. Additionally, on September 17, 2020, Texas RE entered into an 11-year lease agreement beginning April 1, 2022.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

Future minimum lease payments under these lease agreements at December 31, 2021, were:

2022	\$ 641,161
2023	935,205
2024	881,067
2025	903,094
2026	925,671
Thereafter	<u>6,060,768</u>
	<u>\$ 10,346,966</u>

Note 6: Employee Benefit Plans

Texas RE employees are sponsored under the Texas Reliability Entity, Inc. 401(k) Savings Plan (Plan) which is subject to the provisions of the *Employee Retirement Income Security Act of 1974*. The Plan utilizes a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate. Texas RE matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE match of 75% after five years. In addition, Texas RE contributes 10% of a participant's eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE contributions of 10% after three years. Employer contributions to the 401(k) plan were \$965,156 and \$1,107,932, respectively, in 2021 and 2020.

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, 2021 and 2020, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,880,970	\$ 4,764,585
Accounts receivable	-	7,350
Other current assets	<u>620,161</u>	<u>510,595</u>
Total financial assets	4,501,131	5,282,530
Less regulator designated net assets	<u>610,238</u>	<u>206,098</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,890,893</u>	<u>\$ 5,076,432</u>

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

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

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

During the years ended December 31, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

Note 8: Future Change in Accounting Principle

Accounting for Leases

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

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

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

Note 9: Subsequent Events

Subsequent events have been evaluated through May 26, 2022, which is the date the financial statements were available to be issued.

ATTACHMENT 7

2021 ACTUAL COST-TO-BUDGET COMPARISON

AND

2021 AUDITED FINANCIAL REPORT

FOR

WESTERN ELECTRICITY COORDINATING COUNCIL



WECC

**2021 Audited Statement of Activities (SOA)
and Variance Explanations**

May 2, 2022

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Overview

The audited change in statutory working capital for the year ended December 31, 2021, is over budget by \$173,000. The major drivers of the 2021 statutory underrun are:

- Other Revenue is under budget by \$607,000 primarily due to the cancellation of the in-person portion of two Reliability and Security Workshops due to the COVID-19 pandemic, and lower-than-anticipated returns on investments due to economic uncertainty caused by the COVID-19 pandemic.
- Personnel Expenses are over budget by a net of \$368,000 primarily due to the hiring of two unbudgeted full-time equivalents (FTE) in Reliability and Security Oversight (these FTEs are budgeted in the 2022 Business Plan and Budget), changes in position levels, lower-than-anticipated use of the Health Reimbursement Account (HRA); and budgeted labor float rate assumptions compared to actual vacancy rates.
- Meeting Expenses are under budget by a net of \$1,655,000 primarily due to the cancelation of all 2021 in-person meetings and travel due to the COVID-19 pandemic.
- Operating Expenses are over budget by a net of \$323,000 primarily due to unbudgeted information technology consulting and legal fees associated with unanticipated regulatory activities.

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 2021 BP&B, with the following exceptions:

- Complete 17 audits with an on-site component, as required by the NERC Rules of Procedure and agreements with Canadian jurisdictions.
 - Due to the COVID-19 pandemic, 23 off-site audits (across 20 entities) were completed.
- Complete initial Inherent Risk Assessments (IRA) and Compliance Oversight Plans (COP) for all new registrations in 2021.
 - There were 27 new entity registrations in 2021. Due to these entities' registration timing, eight COPs were completed in 2021 and eight have been completed in 2022. The remaining 11 are under review.
- Migrate customer relationship management software to the cloud.
 - Due to competing enterprise and information security priorities, this project was partially delayed until 2022.
- Upgrade and refresh wecc.org.
 - High-level requirements for this project were set in 2021. The database upgrade will take place in 2022 and the software upgrade is planned for 2023.



- Hold the 2021 Annual Meeting in Newport Beach, California.
 - The Annual Meeting was held virtually due to the COVID-19 pandemic.

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 2021, 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.



2021 Audited SOA—Statutory and Non-Statutory Activities

Western Electricity Coordinating Council			
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital			
Statutory and Non-Statutory			
	2021 Actual	2021 Budget	2021 Variance Over(Under)
Revenue			
Statutory Funding			
WECC Assessments	\$ 25,000,000	\$ 25,000,000	\$ -
Penalties Released ¹	3,499,000	3,499,000	-
Total Statutory Funding	\$ 28,499,000	\$ 28,499,000	\$ -
Membership Fees	\$ 2,466,978	\$ 2,505,324	\$ (38,346)
Services & Software	-	-	-
Workshops & Miscellaneous	4,500	430,000	(425,500)
Interest	17,067	322,508	(305,441)
Total Revenue (A)	\$ 30,987,545	\$ 31,756,832	\$ (769,287)
Expenses			
Personnel Expenses			
Salaries	\$ 18,370,614	\$ 18,012,764	\$ 357,850
Payroll Taxes	1,285,470	1,183,622	101,848
Employee Benefits	2,337,494	2,478,420	(140,926)
Savings & Retirement	1,615,287	1,548,508	66,778
Total Personnel Expenses	\$ 23,608,865	\$ 23,223,314	\$ 385,550
Meeting Expenses			
Meetings & Conference Calls	\$ 47,869	\$ 589,810	\$ (541,941)
Travel	29,155	1,164,047	(1,134,891)
Total Meeting Expenses	\$ 77,024	\$ 1,753,857	\$ (1,676,832)
Operating Expenses, excluding Depreciation			
Consultants & Contracts	\$ 958,122	\$ 988,500	\$ (30,378)
Office Rent	1,298,634	1,372,346	(73,712)
Office Costs	2,492,042	2,234,806	257,236
Professional Services	1,128,305	955,800	172,505
Miscellaneous	-	-	-
Total Operating Expenses	\$ 5,877,103	\$ 5,551,452	\$ 325,651
Total Direct Expenses	\$ 29,562,992	\$ 30,528,623	\$ (965,631)
Indirect Expenses	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses (B)	\$ 29,562,992	\$ 30,528,622	\$ (965,631)
Change in Assets (=A-B)	\$ 1,424,553	\$ 1,228,210	\$ 196,344
Fixed Assets, excluding Right of Use Assets (C)	\$ 243,173	\$ 101,513	\$ 141,660
Total Budget (B+C)	\$ 29,806,165	\$ 30,630,135	\$ (823,971)
Total Change in Working Capital (A-B-C)	\$ 1,181,380	\$ 1,126,697	\$ 54,684
FTEs	151.8	155.5	(3.7)
Headcount	149.0	155.0	(6.0)

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).



2021 Audited SOA—Statutory Activities

Western Electricity Coordinating Council				
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Statutory Summary				
	2021 Actual	2021 Budget	2021 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 25,000,000	\$ 25,000,000	\$ -	
Penalty Sanctions	3,499,000	3,499,000	-	
Total Statutory Funding	\$ 28,499,000	\$ 28,499,000	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	4,500	430,000	(425,500)	(99.0%)
Interest	18,647	200,000	(181,353)	(90.7%)
Total Revenue (A)	\$ 28,522,147	\$ 29,129,000	\$ (606,853)	(2.1%)
Expenses				
Personnel Expenses				
Salaries	\$ 17,779,326	\$ 17,447,448	\$ 331,878	1.9%
Payroll Taxes	1,243,038	1,144,116	98,922	8.6%
Employee Benefits	2,264,232	2,390,953	(126,721)	(5.3%)
Savings & Retirement	1,563,576	1,499,399	64,177	4.3%
Total Personnel Expenses	\$ 22,850,172	\$ 22,481,916	\$ 368,256	1.6%
Meeting Expenses				
Meetings & Conference Calls	\$ 47,869	\$ 585,190	\$ (537,321)	(91.8%)
Travel	29,083	1,146,887	(1,117,804)	(97.5%)
Total Meeting Expenses	\$ 76,952	\$ 1,732,077	\$ (1,655,125)	(95.6%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 956,772	\$ 988,500	\$ (31,728)	(3.2%)
Office Rent	1,298,634	1,372,346	(73,712)	(5.4%)
Office Costs	1,919,553	1,663,299	256,254	15.4%
Professional Services	1,128,305	955,800	172,505	18.0%
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 5,303,264	\$ 4,979,945	\$ 323,319	6.5%
Total Direct Expenses	\$ 28,230,388	\$ 29,193,938	\$ (963,550)	(3.3%)
Indirect Expenses	\$ (633,035)	\$ (687,436)	\$ 54,401	(7.9%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 27,597,353	\$ 28,506,502	\$ (909,149)	(3.2%)
Change in Assets (=A-B)	\$ 924,794	\$ 622,498	\$ 302,296	48.6%
Fixed Assets, excluding Right of Use Assets (C)	\$ 228,134	\$ 98,527	\$ 129,607	131.5%
Total Budget (B+C)	\$ 27,825,487	\$ 28,605,029	\$ (779,542)	(2.7%)
Total Change in Working Capital (A-B-C)	\$ 696,660	\$ 523,971	\$ 172,689	33.0%
FTEs	145.0	148.5	(3.5)	
Headcount	142.0	148.0	(6.0)	



Significant Variance Explanations—Statutory Activities

Revenue

- Workshops & Miscellaneous: \$426,000 under budget due to the cancellation of the in-person portion of the March and October Reliability and Security Workshops due to the COVID-19 pandemic.
- Interest: \$181,000 under budget due to lower-than-anticipated returns on investments due to economic uncertainty caused by the COVID-19 pandemic.

Personnel Expenses

- No significant variances.

Meeting Expenses

- Meetings & Conference Calls: \$537,000 under budget due to the cancellation of the in-person portion of the March and October Reliability and Security Workshops due to the COVID-19 pandemic.
- Travel: \$1,118,000 under budget due to the cancellation of all 2021 in-person meetings and travel due to the COVID-19 pandemic.

Operating Expenses

- Office Costs: \$256,000 over budget primarily due to the net of:
 - Unbudgeted increases in cloud-based computer licensing and enterprise security tools;
 - Underutilization of budgeted Board training and education;
 - An unbudgeted information technology Gartner subscription; and
 - Lower-than-anticipated office expenses due to the closure of the Salt Lake office due to the COVID-19 pandemic.
- Professional Services: \$173,000 over budget primarily due to:
 - Unbudgeted legal fees related to unanticipated regulatory activities; and
 - Higher-than-budgeted Board retainer fees due to the correction of budgeted Board retainers, which were overbudgeted for in the 2020 BP&B and subsequently adjusted in the 2021 BP&B.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.



Fixed Assets

- Fixed Assets: \$130,000 over budget due to unbudgeted improvements to the Salt Lake City office and meeting space. All the improvements were reimbursed by the landlord through a negotiated tenant improvement allowance in 2021, which per generally accepted accounting principles (GAAP) is amortized over the remaining life of the lease.





Section A

Statutory Program

2021 Audited SOA and Variance Explanations

Reliability Standards

Western Electricity Coordinating Council					
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Reliability Standards					
	2021 Actual	2021 Budget	2021 Variance		
			Over(Under)		%
Revenue					
Statutory Funding					
WECC Assessments	\$ 776,468	\$ 776,468	\$ -		
Penalty Sanctions	98,517	98,517	-		
Total Statutory Funding	\$ 874,985	\$ 874,985	\$ -		
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops & Miscellaneous	-	-	-		
Interest	540	5,631	(5,091)		(90.4%)
Total Revenue (A)	\$ 875,525	\$ 880,616	\$ (5,091)		(0.6%)
Expenses					
Personnel Expenses					
Salaries	\$ 452,182	\$ 438,520	\$ 13,662		3.1%
Payroll Taxes	30,142	27,803	2,339		8.4%
Employee Benefits	52,600	41,062	11,538		28.1%
Savings & Retirement	39,659	38,151	1,508		4.0%
Total Personnel Expenses	\$ 574,583	\$ 545,536	\$ 29,047		5.3%
Meeting Expenses					
Meetings & Conference Calls	\$ -	\$ -	\$ -		
Travel	-	17,550	(17,550)		(100.0%)
Total Meeting Expenses	\$ -	\$ 17,550	\$ (17,550)		(100.0%)
Operating Expenses, excluding Depreciation					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	2,471	4,300	(1,829)		(42.5%)
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Total Operating Expenses	\$ 2,471	\$ 4,300	\$ (1,829)		(42.5%)
Total Direct Expenses	\$ 577,054	\$ 567,386	\$ 9,668		1.7%
Indirect Expenses	\$ 287,937	\$ 294,615	\$ (6,678)		(2.3%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses (B)	\$ 864,991	\$ 862,001	\$ 2,990		0.3%
Change in Assets (=A-B)	\$ 10,534	\$ 18,615	\$ (8,081)		(43.4%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 6,645	\$ 2,775	\$ 3,870		139.5%
Total Budget (B+C)	\$ 871,636	\$ 864,776	\$ 6,860		0.8%
Total Change in Working Capital (A-B-C)	\$ 3,889	\$ 15,840	\$ (11,951)		(75.4%)
FTEs	3.0	3.0	-		
Headcount	3.0	3.0	-		



Significant Variance Explanations—Reliability Standards

Revenue

- No significant variances.

Personnel Expenses

- Employee Benefits: \$12,000 over budget primarily due to changes in benefits enrollment levels.

Meeting Expenses

- Travel: \$18,000 under budget due to the cancellation of all 2021 in-person meetings and travel due to the COVID-19 pandemic.

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				
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Compliance Monitoring and Enforcement and Organization Registration and Certification				
	2021 Actual	2021 Budget	2021 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 14,549,967	\$ 14,549,967	\$ -	
Penalty Sanctions	2,060,650	2,060,650	-	
Total Statutory Funding	\$ 16,610,617	\$ 16,610,617	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	11,051	117,785	(106,734)	(90.6%)
Total Revenue (A)	\$ 16,621,668	\$ 16,728,402	\$ (106,734)	(0.6%)
Expenses				
Personnel Expenses				
Salaries	\$ 7,864,204	\$ 7,314,902	\$ 549,302	7.5%
Payroll Taxes	580,756	504,576	76,180	15.1%
Employee Benefits	795,997	807,824	(11,827)	(1.5%)
Savings & Retirement	690,444	629,057	61,387	9.8%
Total Personnel Expenses	\$ 9,931,401	\$ 9,256,359	\$ 675,042	7.3%
Meeting Expenses				
Meetings & Conference Calls	\$ 487	\$ 3,380	\$ (2,893)	(85.6%)
Travel	1,205	654,743	(653,538)	(99.8%)
Total Meeting Expenses	\$ 1,692	\$ 658,123	\$ (656,431)	(99.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 85,830	\$ -	\$ 85,830	100.0%
Office Rent	-	-	-	
Office Costs	311,813	292,614	19,199	6.6%
Professional Services	3,863	-	3,863	100.0%
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 401,506	\$ 292,614	\$ 108,892	37.2%
Total Direct Expenses	\$ 10,334,599	\$ 10,207,096	\$ 127,503	1.2%
Indirect Expenses	\$ 5,893,088	\$ 6,162,371	\$ (269,283)	(4.4%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 16,227,687	\$ 16,369,467	\$ (141,780)	(0.9%)
Change in Assets (=A-B)	\$ 393,981	\$ 358,935	\$ 35,046	9.8%
Fixed Assets, excluding Right of Use Assets (C)	\$ 135,997	\$ 58,025	\$ 77,972	134.4%
Total Budget (B+C)	\$ 16,363,684	\$ 16,427,492	\$ (63,808)	(0.4%)
Total Change in Working Capital (A-B-C)	\$ 257,984	\$ 300,910	\$ (42,926)	(14.3%)
FTEs	61.4	62.8	(1.4)	
Headcount	60.0	62.0	(2.0)	



Significant Variance Explanations—Compliance Monitoring and Enforcement

Revenue

- Interest: \$107,000 under budget due to lower-than-anticipated returns on investments due to economic uncertainty caused by the COVID-19 pandemic.

Personnel Expenses

- Payroll Taxes: \$76,000 over budget due to the net of:
 - Higher-than-budgeted salaries due to the hiring of two unbudgeted FTEs in Reliability and Security Oversight, one with a focus on Operations and Planning standards and one with a focus on Critical Infrastructure Protection standards, to broaden bench strength and in response to an increasing workload (These FTEs are budgeted in the 2022 BP&B);
 - Changes in position levels; and
 - Budgeted labor float rate assumptions compared to actual vacancy rates.

Meeting Expenses

- Travel: \$654,000 under budget due to the net of the cancellation of all 2021 in-person audits, meetings, and travel due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: \$86,000 over budget due to unbudgeted Reliability and Security Oversight consulting for knowledge transfer efforts on protection and controls standards.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: \$78,000 over budget due to unbudgeted improvements to the Salt Lake City office and meeting space. All the improvements were reimbursed by the landlord through a negotiated tenant improvement allowance in 2021, which per GAAP is amortized over the remaining life of the lease. The fixed asset allocation is based on actual FTEs in each program.



Reliability Assessment and Performance Analysis

Western Electricity Coordinating Council				
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Reliability Assessment and Performance Analysis				
	2021 Actual	2021 Budget	2021 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 8,911,479	\$ 8,911,479	\$ -	
Penalty Sanctions	1,224,896	1,224,896	-	
Total Statutory Funding	\$ 10,136,375	\$ 10,136,375	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	6,390	70,014	(63,624)	(90.9%)
Total Revenue (A)	\$ 10,142,765	\$ 10,206,389	\$ (63,624)	(0.6%)
Expenses				
Personnel Expenses				
Salaries	\$ 4,426,578	\$ 4,314,753	\$ 111,825	2.6%
Payroll Taxes	310,219	295,396	14,823	5.0%
Employee Benefits	538,877	491,141	47,736	9.7%
Savings & Retirement	402,257	374,735	27,522	7.3%
Total Personnel Expenses	\$ 5,677,931	\$ 5,476,025	\$ 201,906	3.7%
Meeting Expenses				
Meetings & Conference Calls	\$ -	\$ 45,180	\$ (45,180)	(100.0%)
Travel	2,882	210,070	(207,188)	(98.6%)
Total Meeting Expenses	\$ 2,882	\$ 255,250	\$ (252,368)	(98.9%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 313,363	\$ 350,000	\$ (36,637)	(10.5%)
Office Rent	-	-	-	
Office Costs	232,935	243,980	(11,045)	(4.5%)
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 546,298	\$ 593,980	\$ (47,682)	(8.0%)
Total Direct Expenses	\$ 6,227,111	\$ 6,325,255	\$ (98,144)	(1.6%)
Indirect Expenses	\$ 3,407,241	\$ 3,663,051	\$ (255,810)	(7.0%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 9,634,352	\$ 9,988,306	\$ (353,954)	(3.5%)
Change in Assets (=A-B)	\$ 508,413	\$ 218,083	\$ 290,330	133.1%
Fixed Assets, excluding Right of Use Assets (C)	\$ 77,297	\$ 34,491	\$ 42,806	124.1%
Total Budget (B+C)	\$ 9,711,649	\$ 10,022,797	\$ (311,148)	(3.1%)
Total Change in Working Capital (A-B-C)	\$ 431,116	\$ 183,592	\$ 247,524	134.8%
FTEs	35.5	37.3	(1.8)	
Headcount	37.0	38.0	(1.0)	



Significant Variance Explanations—Reliability Assessment and Performance Analysis

Revenue

- Interest: \$64,000 under budget due to lower-than-anticipated returns on investments due to economic uncertainty caused by the COVID-19 pandemic.

Personnel Expenses

- No significant variances.

Meeting Expenses

- Meetings & Conference Calls: \$45,000 under budget due to the cancellation of all 2021 in-person meetings due to the COVID-19 pandemic.
- Travel: \$207,000 under budget due to the cancellation of all 2021 travel due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: \$37,000 under budget due to GridView modeling enhancements budgeted in 2021 but completed in January 2022.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: \$43,000 over budget due to unbudgeted improvements to the Salt Lake City office and meeting space. All the improvements were reimbursed by the landlord through a negotiated tenant improvement allowance in 2021, which per GAAP is amortized over the remaining life of the lease. The fixed asset allocation is based on actual FTEs in each program.



Training and Outreach

Western Electricity Coordinating Council					
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Training and Outreach					
	2021 Actual	2021 Budget	2021 Variance		
			Over(Under)		%
Revenue					
Statutory Funding					
WECC Assessments	\$ 343,935	\$ 343,935	\$ -		
Penalty Sanctions	49,259	49,259	-		
Total Statutory Funding	\$ 393,194	\$ 393,194	\$ -		
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops & Miscellaneous	4,500	430,000	(425,500)		(99.0%)
Interest	306	2,816	(2,510)		(89.1%)
Total Revenue (A)	\$ 398,000	\$ 826,010	\$ (428,010)		(51.8%)
Expenses					
Personnel Expenses					
Salaries	\$ 160,233	\$ 154,906	\$ 5,327		3.4%
Payroll Taxes	12,415	11,233	1,182		10.5%
Employee Benefits	19,328	19,387	(59)		(0.3%)
Savings & Retirement	14,489	13,463	1,026		7.6%
Total Personnel Expenses	\$ 206,465	\$ 198,989	\$ 7,476		3.8%
Meeting Expenses					
Meetings & Conference Calls	\$ 14,255	\$ 410,980	\$ (396,725)		(96.5%)
Travel	26	11,720	(11,694)		(99.8%)
Total Meeting Expenses	\$ 14,281	\$ 422,700	\$ (408,419)		(96.6%)
Operating Expenses, excluding Depreciation					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	10,688	40,768	(30,080)		(73.8%)
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Total Operating Expenses	\$ 10,688	\$ 40,768	\$ (30,080)		(73.8%)
Total Direct Expenses	\$ 231,434	\$ 662,457	\$ (431,023)		(65.1%)
Indirect Expenses	\$ 163,164	\$ 147,308	\$ 15,856		10.8%
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses (B)	\$ 394,598	\$ 809,765	\$ (415,167)		(51.3%)
Change in Assets (=A-B)	\$ 3,402	\$ 16,245	\$ (12,843)		(79.1%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 3,765	\$ 1,387	\$ 2,378		171.4%
Total Budget (B+C)	\$ 398,363	\$ 811,152	\$ (412,789)		(50.9%)
Total Change in Working Capital (A-B-C)	\$ (363)	\$ 14,858	\$ (15,221)		(102.4%)
FTEs	1.7	1.5	0.2		
Headcount	1.0	1.0	-		



Significant Variance Explanations—Training and Outreach

Revenue

- Workshops & Miscellaneous: \$426,000 under budget due to the cancellation of the in-person portion of the March and October Reliability and Security Workshops due to the COVID-19 pandemic.

Personnel Expenses

- No significant variances.

Meeting Expenses

- Meetings & Conference Calls: \$397,000 under budget due to the cancellation of the in-person portion of the March and October Reliability and Security Workshops due to the COVID-19 pandemic.
- Travel: \$12,000 under budget due to the cancellation of all 2021 in-person meetings and travel due to the COVID-19 pandemic.

Operating Expenses

- Office Costs: \$30,000 under primarily due to lower-than-anticipated merchant processing fees resulting from the cancellation of the in-person portion of the March and October Reliability and Security Workshops.

Indirect Expenses

- Indirect Expenses: \$16,000 over budget due to higher-than-anticipated FTEs in this program. The indirect expense allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.



Situation Awareness and Infrastructure Security

Western Electricity Coordinating Council				
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Situation Awareness and Infrastructure Security				
	2021 Actual	2021 Budget	2021 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 418,151	\$ 418,151	\$ -	
Penalty Sanctions	65,678	65,678	-	0.0%
Total Statutory Funding	\$ 483,829	\$ 483,829	\$ -	0.0%
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	360	3,754	(3,394)	(90.4%)
Total Revenue (A)	\$ 484,189	\$ 487,583	\$ (3,394)	(0.7%)
Expenses				
Personnel Expenses				
Salaries	\$ 220,535	\$ 218,004	\$ 2,531	1.2%
Payroll Taxes	17,184	16,347	837	5.1%
Employee Benefits	27,526	27,236	290	1.1%
Savings & Retirement	17,771	18,966	(1,195)	(6.3%)
Total Personnel Expenses	\$ 283,016	\$ 280,553	\$ 2,463	0.9%
Meeting Expenses				
Meetings & Conference Calls	\$ -	\$ -	\$ -	
Travel	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ -	\$ -	\$ -	
Office Rent	-	-	-	
Office Costs	752	-	752	100.0%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 752	\$ -	\$ 752	
Total Direct Expenses	\$ 283,768	\$ 280,553	\$ 3,215	1.1%
Indirect Expenses	\$ 191,957	\$ 196,410	\$ (4,453)	(2.3%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 475,725	\$ 476,963	\$ (1,238)	(0.3%)
Change in Assets (=A-B)	\$ 8,464	\$ 10,620	\$ (2,156)	(20.3%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 4,430	\$ 1,849	\$ 2,581	139.6%
Total Budget (B+C)	\$ 480,155	\$ 478,812	\$ 1,343	0.3%
Total Change in Working Capital (A-B-C)	\$ 4,034	\$ 8,771	\$ (4,737)	(54.0%)
FTEs	2.0	2.0	-	
Headcount	1.0	1.0	-	



Significant Variance Explanations—Situation Awareness and Infrastructure Security

Revenue

- No significant variances.

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.



Corporate Services

Western Electricity Coordinating Council				
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Corporate Services				
			2021 Variance	
	2021 Actual	2021 Budget	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	\$ 4,655,594	\$ 5,006,363	\$ (350,769)	(7.0%)
Payroll Taxes	292,322	288,761	3,561	1.2%
Employee Benefits	829,904	1,004,303	(174,399)	(17.4%)
Savings & Retirement	398,956	425,027	(26,071)	(6.1%)
Total Personnel Expenses	\$ 6,176,776	\$ 6,724,454	\$ (547,678)	(8.1%)
Meeting Expenses				
Meetings & Conference Calls	\$ 33,127	\$ 125,650	\$ (92,523)	(73.6%)
Travel	24,970	252,804	(227,834)	(90.1%)
Total Meeting Expenses	\$ 58,097	\$ 378,454	\$ (320,357)	(84.6%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 557,579	\$ 638,500	\$ (80,921)	(12.7%)
Office Rent	1,298,634	1,372,346	(73,712)	(5.4%)
Office Costs	1,360,894	1,081,637	279,257	25.8%
Professional Services	1,124,442	955,800	168,642	17.6%
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 4,341,549	\$ 4,048,283	\$ 293,266	7.2%
Total Direct Expenses	\$ 10,576,422	\$ 11,151,191	\$ (574,769)	(5.2%)
Indirect Expenses	\$ (10,576,422)	\$ (11,151,191)	\$ 574,769	(5.2%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets (=A-B)	\$ -	\$ -	\$ -	
Fixed Assets, excluding Right of Use Assets (C)	\$ -	\$ -	\$ -	
Total Budget (B+C)	\$ -	\$ -	\$ -	
Total Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	
FTEs	41.4	42.0	(0.6)	
Headcount	40.0	43.0	(3.0)	



Significant Variance Explanations—Corporate Services

Revenue

- No significant variances.

Personnel Expenses

- Employee Benefits: \$174,000 under budget due to:
 - Lower-than-anticipated use of the Health Reimbursement Account (HRA); and
 - Changes in benefits enrollment levels.

Meeting Expenses

- Meetings & Conference Calls: \$93,000 under budget due to the cancellation of all 2021 in-person meetings due to the COVID-19 pandemic.
- Travel: \$228,000 under budget due to the cancellation of all 2021 travel due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: \$81,000 under budget due to the net of:
 - An information technology consulting project—to upgrade and refresh the secure sections of wecc.org to enhance data security—budgeted in 2021 but now planned to be completed in 2022; and
 - Unbudgeted organizational development consulting.
- Office Costs: \$279,000 over budget due to the net of:
 - Unbudgeted increases in cloud-based computer licensing and enterprise security tools;
 - Underutilization of budgeted Board training and education;
 - An unbudgeted information technology Gartner subscription; and
 - Lower-than-anticipated office expenses due to the closure of the Salt Lake office due to the COVID-19 pandemic.
- Professional Services: \$169,000 over budget due to:
 - Unbudgeted legal fees related to unanticipated regulatory activities; and
 - Higher-than-budgeted Board retainer fees due to the correction of budgeted Board retainers, which were overbudgeted for in the 2020 BP&B and subsequently adjusted in the 2021 BP&B.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.



Fixed Assets

- No significant variances.





Section B

Non-Statutory Program

2021 Audited SOA and Variance Explanations

WREGIS

Western Electricity Coordinating Council				
2021 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Non-Statutory Summary				
	2021 Actual	2021 Budget	2021 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total Statutory Funding	\$ -	\$ -	\$ -	
Membership Fees	\$ 2,466,978	\$ 2,505,324	\$ (38,346)	(1.5%)
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	(1,580)	122,508	(124,088)	(101.3%)
Total Revenue (A)	\$ 2,465,398	\$ 2,627,832	\$ (162,434)	(6.2%)
Expenses				
Personnel Expenses				
Salaries	\$ 591,288	\$ 565,316	\$ 25,972	4.6%
Payroll Taxes	42,432	39,506	2,926	7.4%
Employee Benefits	73,262	87,467	(14,205)	(16.2%)
Savings & Retirement	51,710	49,109	2,601	5.3%
Total Personnel Expenses	\$ 758,692	\$ 741,398	\$ 17,294	2.3%
Meeting Expenses				
Meetings & Conference Calls	\$ -	\$ 4,620	\$ (4,620)	(100.0%)
Travel	73	17,160	(17,087)	(99.6%)
Total Meeting Expenses	\$ 73	\$ 21,780	\$ (21,707)	(99.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 1,350	\$ -	\$ 1,350	100.0%
Office Rent	-	-	-	
Office Costs	572,489	571,507	982	0.2%
Professional Services	-	-	-	
Miscellaneous	-	-	-	100.0%
Total Operating Expenses	\$ 573,839	\$ 571,507	\$ 2,332	0.4%
Total Direct Expenses	\$ 1,332,604	\$ 1,334,685	\$ (2,081)	(0.2%)
Indirect Expenses	\$ 633,035	\$ 687,436	\$ (54,401)	(7.9%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 1,965,639	\$ 2,022,121	\$ (56,482)	(2.8%)
Change in Assets (=A-B)	\$ 499,759	\$ 605,711	\$ (105,952)	(17.5%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 15,039	\$ 6,473	\$ 12,053	186.2%
Total Budget (B+C)	\$ 1,980,678	\$ 2,028,594	\$ (44,429)	(2.2%)
Total Change in Working Capital (A-B-C)	\$ 484,720	\$ 599,238	\$ (118,005)	(19.7%)
FTEs	6.8	7.0	(0.2)	
Headcount	7.0	7.0	-	



Significant Variance Explanations—WREGIS

Revenue

- Interest: \$124,000 under budget due to lower-than-anticipated returns on investments due to economic uncertainty caused by the COVID-19 pandemic.

Personnel Expenses

- Employee Benefits: \$14,000 under budget due to changes in benefits enrollment levels.

Meeting Expenses

- Travel: \$17,000 under budget due to the cancellation of all 2021 in-person meetings and travel due to the COVID-19 pandemic.

Operating Expenses

- No significant variances.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: \$12,000 over budget due to unbudgeted improvements to the Salt Lake City office and meeting space. All the improvements were reimbursed by the landlord through a negotiated tenant improvement allowance in 2021, which per GAAP is amortized over the remaining life of the lease. The fixed asset allocation is based on actual FTEs in each program.



Appendix A—SOA Reconciliation to Audited Financial Statements

Reconciliation of SOA to Audited Financial Statements	Per Audit	Per SOA	Difference
Total Revenue	31,282,191	30,987,545	294,646
Plus: Recognized Penalty Sanctions	-	3,793,646	(3,793,646)
Less: Released Penalty Sanctions	-	(3,499,000)	3,499,000
Reconciliation of Revenue	31,282,191	31,282,191	-
Total Expenses	29,777,198	29,562,992	214,206
Plus: Depreciation	-	214,206	(214,206)
Reconciliation of Expenses	29,777,198	29,777,198	-





Financial Statements
December 31, 2021 and 2020

Western Electricity Coordinating Council (WECC)

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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, 2021 and 2020, 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, 2021 and 2020, 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.

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 Sallie LLP

Salt Lake City, Utah

May 2, 2022

WECC
Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 29,222,064	\$ 24,563,081
Contractually restricted cash and cash equivalents	23,550,040	5,829,696
Certificates of deposit	5,175,616	6,192,123
Investments	4,744,772	3,360,965
Accounts receivable, net	2,447,528	6,181,743
Prepaid expenses and other assets	698,468	815,130
Property and equipment, net	757,052	726,752
	\$ 66,595,540	\$ 47,669,490
Liabilities and Net Assets		
Accounts payable	\$ 5,802,683	\$ 5,030,966
Accrued expenses	3,034,281	3,414,901
Deferred revenue	28,709,103	11,945,326
Other liabilities	926,368	660,185
Total liabilities	38,472,435	21,051,378
Net Assets		
Without donor restrictions	28,123,105	26,618,112
	\$ 66,595,540	\$ 47,669,490

WECC
Statements of Activities
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Electric Reliability Organization funding	\$ 28,793,646	\$ 26,464,000
Western Renewable Energy Generation Information System (WREGIS)	2,466,978	2,103,103
Donation income	-	3,827,394
Meetings and workshops	4,500	13,486
Net investment return	<u>17,067</u>	<u>314,382</u>
Total revenues	<u>31,282,191</u>	<u>32,722,365</u>
Expenses		
Program expenses		
Statutory	17,653,966	17,216,668
Non-statutory	<u>1,332,603</u>	<u>1,182,048</u>
Total program expenses	<u>18,986,569</u>	<u>18,398,716</u>
Supporting expenses		
Management and general	<u>10,790,629</u>	<u>10,510,324</u>
Total expenses	<u>29,777,198</u>	<u>28,909,040</u>
Change in Net Assets without Donor Restrictions	1,504,993	3,813,325
Net Assets without Donor Restrictions, Beginning of Year	<u>26,618,112</u>	<u>22,804,787</u>
Net Assets without Donor Restrictions, End of Year	<u>\$ 28,123,105</u>	<u>\$ 26,618,112</u>

WECC
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services			Management and General	Total
	Statutory	Non-Statutory	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
	<u> </u>				
Total expenses included in the statement of activities	<u>\$ 17,653,966</u>	<u>\$ 1,332,603</u>	<u>\$ 18,986,569</u>	<u>\$ 10,790,629</u>	<u>\$ 29,777,198</u>

WECC
Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services			Management and General	Total
	Statutory	Non-Statutory	Total		
Labor	\$ 15,666,865	\$ 674,429	\$ 16,341,294	\$ 5,744,846	\$ 22,086,140
Office and equipment	544,161	493,034	1,037,195	2,378,368	3,415,563
Depreciation and amortization	1,333	-	1,333	246,970	248,303
Contract labor and consultants	427,266	2,250	429,516	940,462	1,369,978
Meetings	223,697	2,335	226,032	167,866	393,898
Professional services	353,346	-	353,346	978,474	1,331,820
Excise taxes	-	-	-	53,338	53,338
Other	-	10,000	10,000	-	10,000
Total expenses included in the statement of activities	<u>\$ 17,216,668</u>	<u>\$ 1,182,048</u>	<u>\$ 18,398,716</u>	<u>\$ 10,510,324</u>	<u>\$ 28,909,040</u>

WECC
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 1,504,993	\$ 3,813,325
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation and amortization	214,206	248,303
Bad debt expense	-	10,000
Amortization of discounts and premiums on operating investments	-	(202)
Realized and unrealized (gain) loss on operating investments	18,238	(3,504)
Changes in assets and liabilities		
Accounts receivable	3,734,215	(743,625)
Prepaid expenses and other assets	116,662	(409,018)
Accounts payable	771,717	13,091
Accrued expenses	(380,620)	103,066
Deferred revenue	16,763,777	(3,722,251)
Other liabilities	266,183	515,072
Net Cash from (used for) Operating Activities	23,009,371	(175,743)
Investing Activities		
Purchases of property and equipment	(244,506)	(548,874)
Purchases of investments and certificates of deposit	(9,800,913)	(9,374,276)
Proceeds from sale of investments and certificates of deposit	9,415,375	9,216,673
Net Cash used for Investing Activities	(630,044)	(706,477)
Net Change in Cash and Cash Equivalents	22,379,327	(882,220)
Cash and Cash Equivalents, Beginning of Year	30,392,777	31,274,997
Cash and Cash Equivalents, End of Year	\$ 52,772,104	\$ 30,392,777
Cash and Cash Equivalents are presented as follows on the statement of financial position:		
Cash and cash equivalents	\$ 29,222,064	\$ 24,563,081
Contractually restricted cash and cash equivalents	23,550,040	5,829,696
	\$ 52,772,104	\$ 30,392,777

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 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, 2021 and 2020, were \$23,550,040 and \$5,829,696, 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, 2021 and 2020, the allowance was \$15,589 and \$17,683, 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.

Donation Receivable

WECC records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. An allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2021 and 2020, the allowance was \$0, respectively.

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, 2021 and 2020.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. 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, 2021 and 2020, 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, 2021 and 2020:

	January 1,	
	2021	2020
Accounts receivable, net	\$ 6,181,743	\$ 5,448,118
Deferred revenue	11,945,326	15,667,577

For the years ended December 31, 2021 and 2020, 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, 2021 and 2020, 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 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.

Change in Accounting Principle

As of January 1, 2020, WECC has adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) applicable to contributions received. Management has adopted this standard because it assists WECC in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional.

As of January 1, 2020, WECC has implemented the provisions of ASU 2018-08 applicable to contributions received during the year ended December 31, 2020 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered into after the date of adoption. The update was not adopted previously as WECC did not have any contributions in the prior period. Management has determined that the adoption of this standard did not have a significant impact on WECC's financial statements.

Recent Accounting Guidance

In February 2016, FASB issued ASU No. 2016-02, *Leases*. The standard will require recognition of lease assets and liabilities for most leases, including leases that were previously considered operating leases. The FASB has delayed the amendment to be effective for WECC beginning with the year ending December 31, 2022. WECC has not yet determined what effect this standard will have on the results of its operations.

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 3, 2022, 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:

	2021	2020
Cash and cash equivalents	\$ 29,222,064	\$ 24,563,081
Certificates of deposit	5,175,616	6,192,123
Investments	4,744,772	3,360,965
Accounts receivable, net	2,447,528	6,181,743
	<u>\$ 41,589,980</u>	<u>\$ 40,297,912</u>

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, 2021:

	Total	Fair Value Measurements at Report Date Using		
		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	-
	<u>\$ 4,744,772</u>	<u>\$ -</u>	<u>\$ 4,744,772</u>	<u>\$ -</u>

The following table presents assets measured at fair value on a recurring basis at December 31, 2020:

	Total	Fair Value Measurements at Report Date Using		
		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	\$ 3,243,207	\$ -	\$ 3,243,207	\$ -
Debt securities	117,758	-	117,758	-
	<u>\$ 3,360,965</u>	<u>\$ -</u>	<u>\$ 3,360,965</u>	<u>\$ -</u>

Note 4 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2021 and 2020:

	2021	2020
Operating investments		
Interest and dividends	\$ 33,874	\$ 302,737
Net realized and unrealized gain	(16,807)	11,645
	<u>\$ 17,067</u>	<u>\$ 314,382</u>

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2021 and 2020:

	2021	2020
Equipment	\$ 955,511	\$ 1,068,052
Software	327,036	1,219,441
Furniture and fixtures	272,649	368,011
Leasehold improvements	1,959,412	1,806,627
	3,514,608	4,462,131
Less accumulated depreciation	(2,757,556)	(3,735,379)
	\$ 757,052	\$ 726,752

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, 2021 and 2020, the breakdown of such earnings included in net assets without donor restrictions consisted of the following:

	2021	2020
Non-statutory earnings	\$ 8,374,680	\$ 8,221,880
Statutory earnings	19,748,425	18,396,232
	\$ 28,123,105	\$ 26,618,112

Note 7 - Leases

WECC leases office space and equipment under various operating leases expiring at various dates through 2031. Future minimum lease payments are as follows:

Years Ending December 31,		
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 minimum lease payments	\$	14,889,548

Rent expense for the years ended December 31, 2021 and 2020, totaled \$1,320,395 and \$1,231,471, respectively.

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 \$1,589,411 and \$1,452,650 for the years ended December 31, 2021 and 2020, 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 2021 and 2020 was \$19,500. The Plan is entirely funded by elective employee salary deferrals.

ATTACHMENT 8

**METRICS CONCERNING ADMINISTRATIVE COSTS IN
2021 NERC AND REGIONAL ENTITY
BUDGETS AND ACTUAL COSTS**

2021 Actual versus 2021 Budget

2021 ACTUAL					2021 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		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
\$ 80,315,484	\$ 46,179,594	\$ 34,135,890	42.5%	\$ 1.35	NERC	\$ 82,883,240	\$ 49,182,194	\$ 33,701,046	40.7%	\$ 1.46
17,106,315	10,655,313	6,451,002	37.7%	1.65	MRO	18,412,202	11,252,514	7,159,688	38.9%	1.57
15,029,736	8,906,330	6,123,406	40.7%	1.45	NPCC	15,963,128	9,454,116	6,509,012	40.8%	1.45
23,952,060	16,651,335	7,300,725	30.5%	2.28	RF	24,785,492	17,694,926	7,090,566	28.6%	2.50
25,181,004	13,396,489	11,784,515	46.8%	1.14	SERC	25,829,078	14,051,451	11,777,627	45.6%	1.19
14,354,641	8,207,078	6,147,563	42.8%	1.34	Texas RE	14,211,538	8,177,064	6,034,474	42.5%	1.36
27,825,487	17,653,966	10,171,521	36.6%	1.74	WECC	28,605,029	18,042,747	10,562,282	36.9%	1.71
\$ 203,764,727	\$ 121,650,105	\$ 82,114,622	40.3%	\$ 1.48	TOTAL/AVERAGE	\$ 210,689,707	\$ 127,855,012	\$ 82,834,695	39.3%	\$ 1.54

2021 ACTUAL FTEs					2021 BUDGETED FTEs					
Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs		Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
208.72	131.12	77.60	37.2%	1.69	NERC	213.38	136.30	77.08	36.1%	1.77
65.54	47.68	17.86	27.3%	2.67	MRO	66.00	50.00	16.00	24.2%	3.13
44.40	34.30	10.10	22.7%	3.40	NPCC	40.00	30.45	9.55	23.9%	3.19
82.06	63.98	18.08	22.0%	3.54	RF	84.35	64.60	19.75	23.4%	3.27
94.20	65.30	28.90	30.7%	2.26	SERC	100.00	67.40	32.60	32.6%	2.07
59.80	45.05	14.75	24.7%	3.05	Texas RE	63.00	48.25	14.75	23.4%	3.27
145.00	103.60	41.40	28.6%	2.50	WECC	190.50	148.50	42.00	22.0%	3.54
699.72	491.03	208.69	29.8%	2.35	AVERAGE	757.23	545.50	211.73	28.0%	2.58

2021 ACTUAL SPEND per FTE					2021 BUDGETED SPEND per FTE				
Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE		Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	
\$ 384,800	\$ 352,193	\$ 439,895	\$ 163,549	NERC	\$ 388,430	\$ 360,838	\$ 437,222	\$ 157,939	
261,006	223,476	361,198	98,428	MRO	278,973	225,050	447,481	108,480	
338,508	259,660	606,278	137,915	NPCC	399,078	310,480	681,572	162,725	
291,885	260,258	403,801	88,968	RF	293,841	273,915	359,016	84,061	
267,314	205,153	407,769	125,101	SERC	258,291	208,479	361,277	117,776	
240,044	182,177	416,784	102,802	Texas RE	225,580	169,473	409,117	95,785	
191,900	170,405	245,689	70,148	WECC	150,158	121,500	251,483	55,445	
\$ 291,209	\$ 247,745	\$ 393,477	\$ 117,354	AVERAGE	\$ 278,237	\$ 234,381	\$ 391,228	\$ 109,392	

Analysis of Administrative (Indirect) Costs
2019, 2020, and 2021 Actual

	2019 ACTUAL SPEND					2020 ACTUAL SPEND					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	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	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	\$ 71,737,869	\$ 40,114,899	\$ 31,622,970	44.08%	\$ 1.27	\$ 78,465,988	\$ 47,484,226	\$ 30,981,762	39.48%	\$ 1.53	\$ 80,315,484	\$ 46,179,594	\$ 34,135,890	42.50%	\$ 1.35
MRO	14,361,603	8,494,244	5,867,359	40.85%	1.45	15,848,061	9,840,576	6,007,485	37.91%	1.64	17,106,315	10,655,313	6,451,002	37.71%	1.65
NPCC	14,255,185	9,114,640	5,140,545	36.06%	1.77	14,942,338	8,968,159	5,974,179	39.98%	1.50	15,029,736	8,906,330	6,123,406	40.74%	1.45
RF	22,328,205	15,375,822	6,952,383	31.14%	2.21	22,857,730	15,924,609	6,933,121	30.33%	2.30	23,952,060	16,651,335	7,300,725	30.48%	2.28
SERC	20,518,333	11,137,494	9,380,839	45.72%	1.19	23,172,445	13,348,138	9,824,307	42.40%	1.36	25,181,004	13,396,489	11,784,515	46.80%	1.14
Texas RE	15,911,973	11,046,285	4,865,688	30.58%	2.27	13,543,318	7,733,061	5,810,257	42.90%	1.33	14,354,641	8,207,078	6,147,563	42.83%	1.34
WECC	26,568,505	17,231,323	9,337,182	35.14%	1.85	27,190,111	17,215,337	9,974,774	36.69%	1.73	27,825,487	17,653,966	10,171,521	36.55%	1.74
TOTAL/Average	\$ 185,681,673	\$ 112,514,707	\$ 73,166,966	39.40%	\$ 1.54	\$ 196,019,991	\$ 120,514,106	\$ 75,505,885	38.52%	\$ 1.60	\$ 203,764,727	\$ 121,650,105	\$ 82,114,622	40.30%	\$ 1.48

3-Year Average 39.42% \$ 1.54

	2019 ACTUAL FTEs					2020 ACTUAL FTEs					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	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	202.49	131.78	70.71	34.92%	1.86	202.19	128.89	73.30	36.25%	1.76	208.72	131.12	77.60	37.18%	1.69
MRO	52.98	40.02	12.96	24.46%	3.09	60.23	47.77	12.46	20.69%	3.83	65.54	47.68	17.86	27.25%	2.67
NPCC	35.03	26.28	8.75	24.98%	3.00	37.95	28.24	9.71	25.59%	2.91	44.40	34.30	10.10	22.75%	3.40
RF	77.84	61.00	16.84	21.63%	3.62	82.80	65.09	17.71	21.39%	3.68	82.06	63.98	18.08	22.03%	3.54
SERC	78.05	52.17	25.88	33.16%	2.02	96.10	65.00	31.10	32.36%	2.09	94.20	65.30	28.90	30.68%	2.26
Texas RE	56.90	42.15	14.75	25.92%	2.86	60.20	45.45	14.75	24.50%	3.08	59.80	45.05	14.75	24.67%	3.05
WECC	127.50	92.90	34.60	27.14%	2.68	136.50	98.40	38.10	27.91%	2.58	145.00	103.60	41.40	28.55%	2.50
TOTAL/Average	630.79	446.30	184.49	29.25%	2.42	675.97	478.84	197.13	29.16%	2.43	699.72	491.03	208.69	29.82%	2.35

3-Year Average 29.42% 2.40

	2019 ACTUAL SPEND per FTE				2020 ACTUAL SPEND per FTE				2021 ACTUAL SPEND per FTE			
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 354,279	\$ 304,408	\$ 447,221	\$ 156,171	\$ 388,080	\$ 368,409	\$ 422,671	\$ 153,231	\$ 384,800	\$ 352,193	\$ 439,895	\$ 163,549
MRO	271,076	212,250	452,728	110,747	263,126	205,999	482,142	99,742	261,006	223,476	361,198	98,428
NPCC	406,942	346,828	587,491	146,747	393,737	317,569	615,260	157,422	338,508	259,660	606,278	137,915
RF	286,847	252,063	412,849	89,316	276,060	244,655	391,481	83,733	291,885	260,258	403,801	88,968
SERC	262,887	213,485	362,474	120,190	241,128	205,356	315,894	102,230	267,314	205,153	407,769	125,101
Texas RE	279,648	262,071	329,877	85,513	224,972	170,144	393,916	96,516	240,044	182,177	416,784	102,802
WECC	208,380	185,482	269,861	73,233	199,195	174,953	261,805	73,075	191,900	170,405	245,689	70,148
TOTAL/Average	\$ 294,364	\$ 252,106	\$ 396,590	\$ 115,993	\$ 289,983	\$ 251,679	\$ 383,026	\$ 111,700	\$ 291,209	\$ 247,745	\$ 393,477	\$ 117,354

3-Year Average \$ 291,852 \$ 250,510 \$ 391,031 \$ 115,015