



RELIABILITY FIRST

PUBLIC

Agenda

Board of Directors • Finance and Audit Committee

Teleconference

June 19, 2023 • 4:00 PM – 5:00 PM (ET) • Cleveland, OH

CLOSED SESSION

Open Agenda

1. **Call to Order** 4:00 PM
Presenter: Patrick Cass, Chair
2. **Appoint Secretary to Record Minutes**
Presenter: Patrick Cass, Chair
3. **Antitrust Statement**
Presenter: Patrick Cass, Chair
4. **Approve Finance and Audit Committee Meeting Minutes** 4:05 PM
Presenter: Patrick Cass, Chair
Reference: [Draft Minutes for the April 26, 2023 Finance and Audit Committee Meeting](#)
Action: **Approve Minutes**
5. **2024 Business Plan and Budget** 4:10 PM
Presenter: Beth Dowdell, Senior Director Corporate Services
Description: Ms. Dowdell will present the 2024 Business Plan and Budget.
Reference: a) 2024 Business Plan and Budget Presentation
 b) 2024 Business Plan and Budget
Action: **Endorse the Final Draft of the 2024 Business Plan and Budget for Board Approval**
6. **Next Meeting** 4:55 PM
August 23, 2023 • Cleveland, OH.
7. **Adjourn** 5:00 PM

Roster • Finance and Audit Committee

Patrick Cass, **Chair** • Independent (2023)

Jennifer T. Sterling, **Vice Chair** • Exelon (Large LSE 2025)

Joanna Burkey • Independent (2025)

Scott Etnoyer • Talen Energy (AL 2023)

Nelson Peeler • Duke Energy (TS 2024)

Joseph Trentacosta • Southern Maryland Electric Cooperative (AL 2025)

Draft Minutes for the April 26, 2023 Finance and Audit Committee Meeting



RELIABILITY FIRST

DRAFT - Minutes

Board of Directors • Finance and Audit Committee

April 26, 2023 • 3:10 PM – 5:15 PM (ET)

ReliabilityFirst Corporation

3 Summit Park Drive • Cleveland, OH 44131

Open Session

Call to Order – Chair Patrick Cass called to order a duly noticed open meeting of the Finance and Audit Committee (Committee) on April 26, 2023, at 3:10 p.m. (ET). A quorum was present, consisting of the following members of the Committee: Chair Patrick Cass, Scott Etnoyer, Nelson Peeler, Joanna Burkey, Jennifer Sterling, and Joseph Trentacosta. A list of others present during the Committee meeting is set forth in Attachment A.

Appoint Secretary to Record Minutes – Chair Cass designated Carol Baskey as the secretary to record the meeting minutes.

Antitrust Statement – Chair Cass advised all present that this meeting is subject to, and all attendees must adhere to, ReliabilityFirst's (RF) Antitrust Compliance Guidelines.

Approve Minutes – Chair Cass presented the draft minutes for the March 10, 2023, March 17, 2023, and April 5, 2023 meetings, which were included in the agenda package. Upon a motion duly made and seconded, the Committee approved the minutes as presented.

Financial Update – Carol Baskey, RF's Manager and Treasurer Finance & Accounting, presented an overview of the 2022 Q4 Statement of Activities to advise the Committee of RF's financial status and effective use of funds by identifying budgeted amounts to actual spend. For the period ending December 31, 2022, she reported that RF was \$125K under budget. Salaries were \$101K over budget primarily due to Board approved inflation-related salary adjustments that occurred in the fourth quarter, offset partially by personnel count that was below approved staffing levels during the first half of the year. Employee benefits were \$177K under budget, mainly due to variances in training and medical benefits. Training was under budget primarily due to employees utilizing more virtual training options than anticipated in the budget, in addition to a lower than budgeted personnel count in the first half of the year. Medical benefits were under budget due to a personnel count that was below approved staffing levels in the first half of the year, along with employees selecting medical plans that differed from what was budgeted. Savings and retirement costs were \$81K under budget, primarily due to a lower than budgeted personnel count in the first half of the year and differences in employee's actual deferral percentages compared to budgeted deferrals.

Total meeting expenses were \$509K under budget, primarily due to a post-COVID hybrid work approach which includes lower than budgeted in-person attendance to various activities and

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events that impact both travel and meetings, as well as lingering cancellations due to COVID during the first half of the year. Contracts and consultants expenses were \$191K over budget, primarily due to greater than anticipated data analytics support and placement fees for an open VP position. Rent and utilities were \$124K over budget, primarily due to an unbudgeted fifth floor office expansion and lease extension. Office costs and computer hardware & software was \$152K over budget, primarily due to a laptop replacement program impacting all employees in 2022 (rather than half of the employees per the budget to address possible supply chain delays), in addition to unbudgeted security software upgrades. Professional services was \$91K over budget, due to fees for an additional independent director approved by the Board in May 2021 not included in the budget. Fixed assets were \$22K under budget, primarily due to lower than anticipated software costs.

2022 Financial Audit – Mandy Pittman, RSM US LLP Certified Public Accountant, phoned into the meeting and introduced Olga Weber, Audit Manager, who was also on the call. Ms. Pittman shared the financial audit timeline, which began with a pre-planning phone call with management and the Finance and Audit Committee Chair on July 18, 2022. Preliminary fieldwork took place during the week of January 2, 2023, and final fieldwork took place during the week of January 30, 2023. The initial draft financial statements were provided to management on March 27, 2023 and only minor comments were discussed. Final bound reports will be provided upon request after approval from the Committee.

Ms. Pittman stated that RF had a smooth, clean audit that resulted in a clean unmodified opinion, and noted the following financial highlights. There was an increase in RF's total assets and liabilities, primarily due to the addition of the operating lease's right of use assets and liabilities (due to the implementation of the new accounting standard ASU 2016-02, Leases). Revenues decreased because of a decrease in penalty sanctions, and expenses increased in both the program and general and administrative areas. RSM also looked at the estimates used in the Statement of Functional Expenses and identified no issues. Ms. Pittman reviewed the footnotes to the financial statements in relation to operating leases and noted that these were the result of the accounting standard ASU 2016-02, that were also reflected on the balance sheet. There were no audit adjustments or uncorrected misstatements, and RSM noted no deficiencies in internal control. Upon a motion duly made and seconded, the Committee approved the Audited Financial Statements.

Working Capital and Investment Analysis – Ms. Baskey led a discussion on the working capital and investment analysis and shared a graph representing RF's operating cash and reserve levels. She noted that RF is using assessments smoothly over time. Ms. Baskey then discussed the reserve investment account activity. She explained that recently the investment manager has been holding investments to maturity and purchasing shorter term bonds. Chair Cass noted that he participated in the quarterly investment call and confirmed that RF's short-term investments were in line with the corporate policy. There were no questions or comments from the Committee.

Review of Policies– Beth Dowdell presented the Statement of Policy and Procedure on the Working Capital and Operating Reserve and the Whistleblower Policy that was currently up for review. There was one small conforming change from Chair Cass to the Statement of Policy and

Procedure on the Working Capital and Operating Reserve in relation to the “quarterly” board meeting reference, which is no longer applicable. There were no other proposed changes to the policies and there were no additional comments or questions from the Committee.

Finance and Audit Committee Charter- Niki Schaefer led a discussion on the annual review of the Finance and Audit Committee Charter (Charter) and proposed revisions to the Charter. Ms. Schaefer noted that all committee charters were currently undergoing reviews, and that some of the proposed revisions are updates for consistency with the other charters. She discussed the proposed revisions set forth in the redlines to the Charter, and the Committee had no questions or concerns. Ms. Schaefer noted that the Committee will vote on the proposed revisions to the Charter at the August meeting, and if any Committee members have questions or proposed edits prior to the August meeting they can contact her.

2023 Finance and Audit Committee Planner- Beth Dowdell, RF’s Senior Director Corporate Services, presented and led a discussion on the 2023 Finance and Audit Committee Planner, which is used to monitor and track the Committee’s performance of the specific duties set forth in the Charter. There were no outstanding responsibilities that the Committee needed to address, and there were no questions or comments from the Committee.

Next Meeting – Chair Cass noted that the next Committee meeting will be in June and the date has yet to be determined.

Adjourn – Upon a motion duly made and seconded, Chair Cass adjourned the Committee meeting at 4:20 p.m. (ET).

The Committee then went into a closed session at 4:20 p.m. All guests that were not part of the Committee or RF employees excused themselves from the meeting at this time.

Closed Session

2024 Business Plan and Budget – Beth Dowdell presented an overview of the 2024 Business Plan and Budget. She began with the 2024 budget projections from the 2023 Business Plan and Budget, stating that the projected increase was between 4.5% and 7.8%. The low range included two additional FTEs and the high range included five additional FTEs.

Ms. Dowdell then noted that the 2024 budget of \$31.3M is 12% over the 2023 budget. Personnel expenses increased by \$3.4M (14.6%) and operating and fixed asset costs decreased by \$62K (-1%) from 2023. The assessment request is \$27M, which is a \$2.3M (9.5%) increase from 2023. Total FTEs increased by seven from the 2023 budget. Ms. Dowdell then discussed budgets, assessments, and FTE increases across NERC and the Regions, and reported that RF fell in the middle range in all categories.

Next, Ms. Dowdell covered the 2024 budget breakout of expenses and the 2024 variances from 2023. She reported that personnel expenses comprised 86% of the budget, meeting

expenses comprised 3% of the budget, and operating expenses comprised 10% of the budget. The 2024 budget variations were primarily impacted by personnel costs (\$3.4M). Of the personnel costs, salaries increased by \$2.6M (77% of the overall budget increase), and retirement costs increased by \$0.4M (13% of the budget increase), followed by smaller increases in benefits and payroll taxes.

Ms. Dowdell then discussed budget reduction activities that occurred prior to the first draft of the budget, including FTE reductions, staggering employee start dates, zero increases to travel and meetings, contractor reductions, and staggering medical benefits with employee hire dates (offset partially by a 10% anticipated increase in medical benefits).

The Assessment Stabilization Analysis was then discussed. Ms. Dowdell stated that the 2025 and 2026 increases are based on low projections, and the working capital reserve does not include the \$1 million board approved operating reserve. Ms. Dowdell also showed a chart reflecting the assessment and budget history since 2014, which confirmed that the assessment stabilization policy has been working to help smooth assessments since it was put into effect.

Ms. Dowdell led a discussion on the 2025 and 2026 budget projections. She stated that the budget projection range for 2025 is an increase between 4.3% to 6.5%, with 1-2 projected FTEs, and the budget projection range for 2026 is an increase between 3.8% to 8.2%, with 1-3 projected FTEs. She noted that RF specified the department/functions for FTEs in the budget projections as an enhancement to the budget process, and that specific measures were underway to address FTE concerns prior to the budget season in future years.

Mr. Cass asked for comments or questions from the Committee and there were none. He submitted a proposal to endorse (i) management's assumptions used in the draft 2024 Business Plan and Budget, (ii) the amount of working capital reserve funds used to stabilize assessments in the draft 2024 Business Plan and Budget, and (iii) the First Draft of the 2024 Business Plan and Budget for Board approval. Upon a motion duly made and seconded, the Committee approved the proposal.

Enterprise Risk Management – Diane Holder led a discussion regarding RF's Enterprise Risk Management (ERM) program. Ms. Holder reviewed the Q1 ERM Activities, which included quarterly Risk Owner meetings, quarterly reviews of risk details, meetings with ITC and SMECO on ERM, as well as the development of a new board template for ERM reporting. Ms. Holder then reviewed the new ERM board templates which included inherent and residual risk heat maps, a review of top risks, risk category overviews, one page risk summaries, and an overall risk impact summary. Ms. Holder noted that there were supplemental materials that were provided to the Board at the end of the presentation. The Committee agreed that the format was good to be used going forward and there were no further questions or comments.

Executive Session (Finance and Audit Committee and Mandy Pittman, RSM) – Chair Cass and the Committee members held an executive session with Mandy Pittman from RSM to discuss confidential matters, including the performance and capabilities of RF's personnel

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during the audit and the adoption of the new lease standard and the ongoing accounting for leases.

Executive Session (Finance and Audit Committee) – Chair Cass and the Committee members held an executive session to discuss confidential matters.

Adjourn – Upon a motion duly made and seconded, Chair Cass adjourned the Committee meeting at 5:30 pm (ET).

As approved on this XXX day of XXX, XX by the
Finance and Audit Committee,

Niki Schaefer
*Vice President General Counsel & Corporate
Secretary*

Attachment A

Others Present During the Finance and Audit Committee Meeting

Tim Gallagher • ReliabilityFirst
Jeff Craigo • ReliabilityFirst
Marcus Noel • ReliabilityFirst
Niki Shaefer • ReliabilityFirst
Carol Baskey • ReliabilityFirst
Beth Dowdell • ReliabilityFirst
Diane Holder • ReliabilityFirst
Matt Thomas • ReliabilityFirst
Mandy Pittman • RSM
Olga Weber • RSM