



RELIABILITY FIRST

Minutes

Board of Directors • Finance and Audit Committee

May 1, 2024

ReliabilityFirst Corporation • Cleveland, OH

Open Session

Call to Order – Chair Patrick Cass called to order a duly noticed open meeting of the Finance and Audit Committee (Committee) on May 1, 2024 at 3:19 pm (ET). A quorum was present, consisting of the following members of the Committee: Chair Patrick Cass, Vice Chair Jennifer Sterling, Joanna Burkey, 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 Hue DeLuca 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 December 6, 2023 and March 25, 2024 meetings, which were included in the agenda package. Upon a motion duly made and seconded, the Committee approved the minutes as presented.

Financial Update – Beth Dowdell, RF's Senior Director of Corporate Services, provided a financial update to the Committee. She explained the addition of the 2023 Actual Cost to Budget Comparison document to the agenda, which has been completed and submitted to NERC.

Ms. Dowdell reported that as of March 31, 2024, RF is currently under budget by \$260K (3.22%). She noted that the investment portfolio is performing better than expected, resulting in additional income of \$67K, and that RF is under budget in personnel expenses (\$136K), meeting expenses (\$43K), and operating expenses (\$316K). Factors contributing to lower operating expenses include independent board member vacancies, lower office costs, timing of IT projects, and training scheduled for later in the year. Ms. Dowdell stated that estimated year-end projections are early but show RF will be right at budget at year-end.

Mr. Trentacosta inquired about hiring and how those costs are impacting the budget. Ms. Dowdell explained RF's hiring strategy and the four new hires this year (two new and two replacement) which took 39 days to hire from opening the position to their start date.

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2023 Financial Audit – Mandy Pittman, RSM US LLP Certified Public Accountant, presented the results of the 2023 financial audit to the Committee. She reported that RF had a clean audit that resulted in a clean, unmodified opinion. Overall, she noted that the financial audit was a smooth process even with new employees within the accounting team. Ms. Pittman then walked through the audit process and discussed the highlights. 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. This shines a light on how well RF provided a seamless experience despite personnel changes. Additionally, no material weaknesses were identified during the audit. Upon a motion duly made and seconded, the Committee approved the Audited Financial Statements.

Working Capital and Investment Analysis – Christi Klein, Manager Accounting and Finance, presented an analysis on the working capital and investment account. Ms. Klein talked through the chart of working capital and discussed the operating cash and reserve levels. She noted that the operating reserve of \$1M, previously approved by the Board in March, is held outside of RF's operating funds. Once the 2025 budget is approved, funds held in working capital will be set aside for the 2025 budget. Ms. Klein stated that a little over \$1M has been moved from Glenmede to operating cash this year to cover the working capital set aside for the 2024 budget.

Ms. Klein indicated that RF will be enhancing this chart to better reflect and tell the story of working capital. Ms. Sterling suggested building out a forecast in the chart, and the Committee agreed that the presentation should include definitions, a current status of the working capital, a forecast of what's ahead, and overall takeaways for the Board. Ms. Burkey asked for anything presented to the Committee to show the figures for the whole year, with actuals versus forecast. Chairman Cass suggested viewing this data in a quarterly view instead of a monthly view.

Ms. Klein then discussed RF's investment account performance and highlighted positive growth from the market. Ms. Dowdell confirmed that RF's strategy is to not pull money from Glenmede until cash is needed and to watch cash flow carefully. Ms. Klein and Ms. Dowdell stated that conversations with Glenmede continue, and that the investment portfolio and strategy provides flexibility to meet cash flow needs with low risk funds.

Ms. Dowdell reported that that RF will be changing from Chase Bank to KeyBank during the second quarter. This transition will allow RF to earn interest in the funds held at the bank (to take advantage of high interest rates) and RF is hoping to receive better customer service as well.

2024 Finance and Audit Committee Planner – Ms. Dowdell presented and led a discussion on the 2024 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. She noted that RF is on track with all required tasks, and that there have been recent modifications to the document to make it easier for viewing and tracking. Policies listed in the peach color in the document will be reviewed in preparation for the August Committee meeting.

Next Meeting – Chair Cass noted that the next Committee meeting will be on August 21, 2024 in Canton, OH.

Adjourn – Upon a motion duly made and seconded, Chair Cass adjourned the open session of the Committee meeting at 4:08 p.m. (ET). The Committee then went into a closed session and all guests that were not part of the Committee or RF employees excused themselves from the meeting.

Closed Session

2025 Business Plan and Budget – Ms. Dowdell presented an overview of the 2025 Business Plan and Budget (BP&B) document. She discussed how this year, RF, NERC and the other Regions are using a new FERC-approved template for the BP&B, which allowed RF to remove about thirty pages of unneeded text and streamline the document. She then discussed the proposed 2025 BP&B, which is a 6.5% increase from 2024 (and in line with the forecast made in 2024). She stated that the primary variations from 2024 to 2025 are increases in personnel and operating expenses, and that the 2025 BP&B adds 3 FTEs. This will bring RF's total to 101 employees, which led to a Committee discussion on additional audits and reporting that will be required due to having over 100 participants in the 401k. Ms. Burkey inquired about penalty trends, given that significantly more penalties will be released in 2025 compared to 2024. Ms. Dowdell stated that 2024 was a lower year for release of penalties than the last four-year average.

Ms. Dowdell then provided a preliminary regional budget comparison, noting that RF is on the lower end for budget and assessment increases, and that FTEs are being added across the ERO in similar program areas. She discussed budget constraints, which include a gap for retirement benefits (safe harbor and 401K) related to incentive compensation (\$325K); accounting audit fees to conduct an annual 401K audit (\$17K); and an Energy Assessment tool (\$150K). As part of the budgeting process, the RF leadership team made cuts to different areas within the operating expenses to try to stay within the 6.5% budget increase. Reductions made included travel remaining flat (saving \$78K), staggering start dates of FTEs (saving \$50K), reduced contractor costs (saving \$300K), and meetings remaining flat (saving \$130K). With these budget reductions, there are potential risks (for example, keeping travel flat year over year may not be sustainable).

She then led a discussion on the 2026 and 2027 budget projections. The budget projection range for 2026 is an increase between 5.6% to 8.5%, with 3-5 projected FTEs, and the budget projection range for 2027 is an increase between 3.3% to 7.7%, with 0-4 projected FTEs. The biggest driver of these ranges is the number of new FTEs. The projection for assessments in both years is 10% increase regardless of low/high projections.

Ms. Dowdell discussed the Assessment Stabilization Analysis and showed a chart reflecting the assessment and budget history since 2014, which showed that the assessment stabilization policy has been working to help minimize fluctuations since it was put into effect.

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Ms. Dowdell asked the Committee to endorse the draft 2025 BP&B for Board approval. Upon a motion duly made and seconded, the Committee endorsed the draft 2025 BP&B to be presented to the full Board the following day.

Executive Session (Finance and Audit Committee and Accounting Firm Representative) – The Committee held an executive session with Mandy Pittman from RSM to discuss the audit in more detail.

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 5:10 p.m. (ET).

As approved on this 24th day of June, 2024 by the
Finance and Audit Committee,

A handwritten signature in blue ink, appearing to read 'Niki Schaefer', is centered below the text.

Niki Schaefer
*Vice President General Counsel & Corporate
Secretary*

Attachment A

Others Present During the Finance and Audit Committee Meeting

Jeff Craig • ReliabilityFirst
Beth Dowdell • ReliabilityFirst
Tim Gallagher • ReliabilityFirst
Diane Holder • ReliabilityFirst
Christi Klein • ReliabilityFirst
Mandy Pittman, RSM US LLP – virtual
Hue DeLuca • ReliabilityFirst
Price Marr • MISO