



Item 4.2: Report on December 31, 2015 Financial Audit

Aaron Worthman, CPA

Partner, Baker Tilly Virchow Krause, LLP

Sarah Slaughter, CPA

Senior Manager, Baker Tilly Virchow Krause, LLP

Finance & Audit Committee Meeting

ERCOT Public

April 18, 2016

Electric Reliability Council of Texas, Inc. Report on December 31, 2015 Financial Audit April 18, 2016



Let's talk about an opportunity.



Presented by:

***Aaron Worthman, CPA, Partner
Sarah Slaughter, CPA, Senior Manager
Baker Tilly Virchow Krause, LLP***



Audit overview

Internal control communication

Auditor Communication with Those Charged with Governance

Questions

Audit overview



Candor. Insight. Results.

- > Audit was conducted smoothly with no major difficulties.
- > Management was cooperative and available.
- > Audit schedule was maintained and communication between management and auditors was good.
- > Last day of fieldwork was February 26, 2016.
- > Facilities and IT support were readily available.

- > **Audit performed in accordance with Generally Accepted Auditing Standards**
- > **Audit is based on assessment of risk in key business process areas. Below are several key areas of review:**
 - Unrestricted and restricted cash
 - Accounts payable
 - Payroll
 - Accounts receivable/revenue recognition
 - Debt coverage
 - Market settlement liabilities
 - Deferred revenue
 - Security deposits
 - Property, equipment and systems under development
 - Review of controls over cash disbursements, payroll, settlements and information technology
 - Analytical review of statements of financial position and statements of activities and net assets
 - Financial reporting

- > Audit objective – obtain reasonable assurance that financial statements are free from material misstatement.
- > Financial statements received an *Unmodified Opinion (clean opinion)*.

AU-C Section 265

Communicating Internal Control Related Matters Identified in an Audit

Material weaknesses noted in ERCOT's internal control:

- > None noted

Significant deficiencies noted in ERCOT's internal control:

- > None noted

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit



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Area to be communicated	Auditor's response
<p data-bbox="170 496 931 588">Auditor's View on Qualitative Aspects of Significant Accounting Practices</p> <ul data-bbox="146 679 819 851" style="list-style-type: none"><li data-bbox="146 679 819 722">> Significant accounting policies<li data-bbox="146 745 819 788">> Sensitive estimates<li data-bbox="146 811 819 851">> Financial statement disclosures	<ul data-bbox="989 496 1819 1122" style="list-style-type: none"><li data-bbox="989 496 1819 739">> ERCOT's significant accounting policies are discussed in Note 2. No new accounting policies were adopted and the application of existing policies was not changed during 2015.<li data-bbox="989 762 1819 1005">> The most sensitive estimate includes medical self insurance reserve. We feel that the estimate made by management is in accordance with generally accepted accounting principles.<li data-bbox="989 1028 1819 1122">> Disclosures are neutral, consistent, and clear.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit



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Area to be communicated	Auditor's response
Significant Difficulties Encountered in Performing the Audit	> We encountered no difficulties in performing our audit.
Uncorrected Misstatements	> By Professional Auditing Standards, uncorrected misstatements refer to immaterial passed audit adjustments. There were none noted as part of our audit.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit



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Area to be communicated	Auditor's response
Disagreements with Management	<p>> Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements were encountered during the course of the audit.</p>
Other Findings or Issues	<p>> There are no other issues to disclose as part of the audit in connection with these Professional Auditing Standards.</p>

Auditor Communication with Those Charged with Governance

Other Required Communications



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Area to be communicated	Auditor's response
Corrected Misstatements	> Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were none noted as part of our audit.

Auditor Communication with Those Charged with Governance

Other Required Communications



Candor. Insight. Results.

Area to be communicated	Auditor's response
Management Representations	> We have requested certain representations from management that are included in the management representation letter. A copy of this letter will be included with our written management letter.

Auditor Communication with Those Charged with Governance

Other Required Communications



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Area to be communicated	Auditor's response
<p>Management's Consultations with Other Accountants</p>	<ul style="list-style-type: none"><li data-bbox="956 528 1787 821">> To the best of our knowledge, management has not consulted with or obtained opinions from other independent accountants on auditing and or the application of accounting principles during the past year.<li data-bbox="956 913 1787 1249">> Professional standards require the consulting accountant to discuss any such contacts with the current auditor to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Auditor Communication with Those Charged with Governance

Other Required Communications



Candor. Insight. Results.

Area to be communicated	Auditor's response
Auditor Independence	> We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and ERCOT that, in our professional judgment, may reasonably be thought to bear on our independence.

Thank You!

We appreciate the work done by ERCOT's accounting staff and management in preparing for and assisting in the audit!

We would be happy to answer any questions about the audit or audit report.