



**Item 5.2: Report on December 31, 2019
Financial Audit**

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Urgent Board of Directors Meeting

ERCOT Public

April 14, 2020



Electric Reliability Council of
Texas, Inc.
Report on December 31,
2019 Financial Audit

April 14, 2020

Presented by:

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Audit presentation topics

- Audit overview
- Internal control communication
- Auditor Communication with Those Charged with Governance
- Questions



Audit overview

- Audit was conducted smoothly with no difficulties.
- Management was cooperative and available.
- Audit schedule was maintained and communication between management and auditors was good.
- Last day of fieldwork was March 13, 2020.
- Fieldwork was conducted remote.
- Facilities and IT support were readily available.

Audit overview

- 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 overview

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



Internal control communication

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

Area to Be Communicated	Auditor's Response
<p>Auditor's View on Qualitative Aspects of Significant Accounting Practices</p> <ul style="list-style-type: none"> – Significant accounting policies – Sensitive estimates – Financial statement disclosures 	<ul style="list-style-type: none"> – ERCOT's significant accounting policies are discussed in Note 2. ASC 606 – Revenue from contracts with customers was adopted in 2019. – 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. – Disclosures are neutral, consistent, and clear.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit

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

Area to Be Communicated	Auditor's Response
<p>Disagreements with Management</p>	<ul style="list-style-type: none"> – 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>	<ul style="list-style-type: none"> – There are no other issues to disclose as part of the audit in connection with these Professional Auditing Standards.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit

Area to Be Communicated	Auditor's Response
Corrected Misstatements	<ul style="list-style-type: none">– 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

Significant Findings from the Audit

Area to Be Communicated	Auditor's Response
Management Representations	<ul style="list-style-type: none">- 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 governance letter.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit

Area to Be Communicated	Auditor's Response
Management's Consultations with Other Accountants	<ul style="list-style-type: none"><li data-bbox="884 568 1787 901">– 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="884 939 1787 1325">– 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

Significant Findings from the Audit

Area to Be Communicated	Auditor's Response
Auditor Independence	<ul style="list-style-type: none">– 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.



Audit summary

Thank You!

We appreciate the work performed by ERCOT's accounting staff, management, and Internal Audit staff in preparing for and assisting in the audit!

We would be happy to answer any questions regarding the audit.