



Item 8.2: Report on December 31, 2021 Financial Audit

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Finance and Audit Committee Meeting

ERCOT Public

April 27, 2022



Electric Reliability Council of Texas, Inc.
and Texas Electric Market Stabilization
Funding M, LLC
Report on December 31, 2021 Financial
Audits

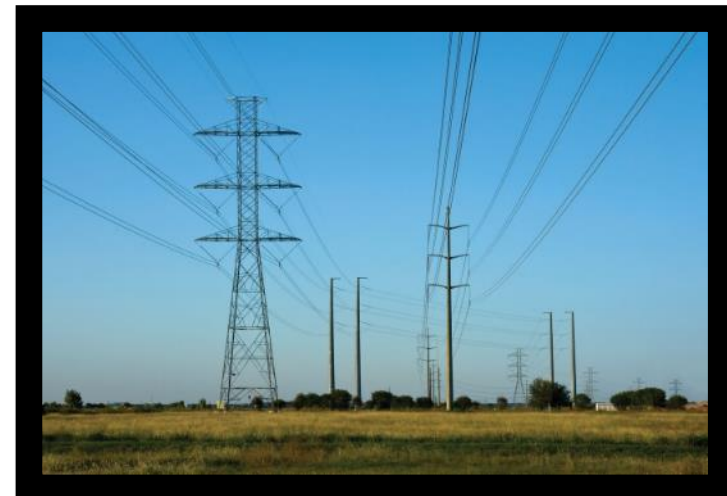
April 27, 2022

Presented by:

Jeff Gendreau CPA, Partner
Sarah Slaughter, CPA, Senior Manager



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Audit presentation topics

- Audit status
- Internal control communication
- Auditor communications to those charged with governance
- Questions

Audit Status

- We are substantially complete with our audits of the consolidated financial statements of ERCOT and the stand-alone financial statements of Texas Electric Market Stabilization Funding M, LLC (TEMSFM) and expect to issue our unmodified reports on the financial statements of both Organization's on or about April 29, 2022, pending the receipt of signed management letters of representation and responses to letters of inquiry from legal counsel.
- Audits were conducted remotely with no difficulties.
- Management was cooperative and available.
- Audit timeline was maintained and there was regular communication between management and auditors leading up to and throughout the period of the audit engagements.

Audit overview

- Audits were performed in accordance with Generally Accepted Auditing Standards
- Audits were based on assessment of risk in key financial statement areas. Key areas of focus included:
 - Unrestricted and restricted cash and investments
 - Accounts payable
 - Payroll
 - Accounts receivable/default charges receivable and revenue recognition
 - Market settlement liabilities
 - Security deposits and reserves
 - Notes and bonds payable
 - Property, equipment and systems under development
 - Evaluation 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 and disclosures
 - Evaluation of going concern
 - Commitments and contingent liabilities
 - Subsequent events



Audit overview

- Audit objective – obtain reasonable assurance that the financial statements are free from material misstatement.
- We expect to issue unmodified reports (clean opinions) on our audits of the consolidated financial statements of ERCOT and the financial statements of TEMSFM



Internal control communication

AU-C Section 265

Communicating Internal Control Related Matters Identified in an Audit

Material weaknesses noted in ERCOT's and TEMSFM's internal controls:

- None noted

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits

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 and TEMSFM's significant accounting policies are discussed in Note 2 to their respective financial statements. ASU 2018-15 – <i>Intangibles – Goodwill and Other - Internal-Use Software</i> was adopted by ERCOT as of January 1, 2021. – Management's methodologies used to record estimates appear to be consistent in their application and appear to make use of reasonable assumptions. – Disclosures are neutral, consistent, and clear.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits (cont.)

Area to Be Communicated	Auditor's Response
Significant Difficulties Encountered in Performing the Audit	> We encountered no difficulties in performing our audits.
Fraud	> We did not identify any known or suspected instances of fraud during our audits.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits (cont.)

Area to Be Communicated	Auditor's Response
Uncorrected Misstatements and Corrected Misstatements	<ul style="list-style-type: none">> Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level of management.> Uncorrected misstatements refer to immaterial passed audit adjustments.> There were no audit adjustments identified by us.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits (cont.)

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 reports. We are pleased to report that no such disagreements were encountered during the course of the audit.</p>
Other Findings or Issues	<p>> As a result of the legislative, regulatory, pending or threatened litigation and other events surrounding Winter Storm Uri, we revised our risk assessment to expand our testing around litigation and related disclosures, as well as address risks relative to management's evaluation of going concern, including engaging in consultations about such matters with our Firm's Professional Practice Group.</p>

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit (cont.)

Area to Be Communicated	Auditor's Response
Management Representations	> We have requested certain representations from management that are included in the management representation letters.
Going Concern	> Management's evaluation of going concern did not identify any conditions or events that give rise to substantial doubt about the ability of ERCOT or TEMSFM to continue as a going concern.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits (cont.)

Area to Be Communicated	Auditor's Response
Management's Consultations with Other Accountants	<ul style="list-style-type: none"> Professional standards require a consulting accountant to discuss any consultations about auditing or the application of accounting principles with the current auditor to determine that the consultant has all the relevant facts. To the best of our knowledge and belief, 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.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits (cont.)

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 US, LLP, ERCOT and TEMSFM 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 audits.