



## **Item 4.2: Report on December 31, 2023 Financial Audit and Annual Servicer's Certificate**

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Baker Tilly Virchow Krause, LLP

Finance and Audit Committee Meeting

ERCOT Public  
April 22, 2023

# Finance and Audit Committee Request

- **Purpose**

- To receive the report on 2023 financial statement audits prior to voting
  - ERCOT consolidated,
  - Texas Electric Market Stabilization Funding M LLC, and
  - Texas Electric Market Stabilization Funding N LLC
- To receive the report on 2023 servicer's assessment of compliance for the Committee's awareness

- **Key Takeaways**

- Expect to receive unmodified reports (clean opinions) for 2023 ERCOT, Inc. consolidated financial statements, Texas Electric Market Stabilization Funding M LLC financial statements, and Texas Electric Market Stabilization Funding N LLC financial statements
- ERCOT received the independent certified accountant's report regarding the annual Servicer's assessment of compliance



**Electric Reliability Council of  
Texas, Inc., Texas Electric Market  
Stabilization Funding M, LLC, Texas  
Electric Market Stabilization  
Funding N, LLC and ERCOT  
Servicer's Agreement Examination**

**Report on audits and examination engagement  
for the year ended December 31, 2023**

April 22, 2024



# AGENDA

- Status of Audit Engagements
- Audit Overview
- Internal Control Communication
- Servicer's Agreement Examination Engagement
- Auditor Communication to Those Charged with Governance
- Discussion



## Status of audit engagements

- We are substantially complete with our audits of the following entities:
  - Consolidated financial statements of ERCOT, Inc.
  - Texas Electric Market Stabilization Funding M, LLC (TEMSFM)
  - Texas Electric Market Stabilization Funding N, LLC (TEMSFN)
- We expect to issue our unmodified reports on these financial statements on or about April 24, 2024, pending the receipt of signed management letters of representation and responses to letters of inquiry from external and internal legal counsel.
- The audits were conducted with no difficulties.



# Audit overview

- Audits were performed in accordance with Generally Accepted Auditing Standards
- Audits were based on our 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
    - Commitments and contingent liabilities
  - Subsequent events



# Audit overview

## – Audit objective

- To obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error.
- Under GAAS, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of an entity's internal control. Accordingly, we express no such opinion



# Internal control communication

- AU-C Section 265
  - *Communicating Internal Control Related Matters Identified in an Audit*
- We noted no material weaknesses noted in ERCOT's, TEMSFM's and TEMSFN's internal controls





# Servicer's agreement examination engagement

- The engagement was planned and performed to form and express an opinion as to whether management's assertion that ERCOT was in compliance, in all material respects, with the applicable servicing criteria set forth in Exhibit C-1 of the Uplift Property Servicing Agreement for the period from January 1, 2023 through December 31, 2023, was fairly stated.
- The focus of our procedures was to examine evidence supporting management's compliance with the applicable servicing criteria and to obtain evidence that management had performed an assessment of its compliance with the applicable servicing criteria.
- The timeline to complete the examination engagement was met and our unmodified report was issued on March 29<sup>th</sup>.



## Auditor communication to those charged with governance *(significant findings from the audits and examination)*

| Area to Be Communicated   | Auditor's Response  |
|---|---|
| <p><b>Auditor's View on Qualitative Aspects of Significant Accounting Practices</b></p> <ul style="list-style-type: none"> <li>– Significant accounting policies</li> <li>– Sensitive estimates</li> <li>– Financial statement disclosures</li> </ul> | <ul style="list-style-type: none"> <li>– ERCOT, TEMSFM's and TEMSFN's significant accounting policies are discussed in Note 2 to their respective financial statements.</li> <li>– Management's methodologies used to record estimates appear to be consistent in their application and appear to make use of reasonable assumptions.</li> <li>– Disclosures are neutral, consistent, and clear.</li> </ul> |



## Auditor communication to those charged with governance *(significant findings from the audits and examination, cont.)*

| Area to Be Communicated   | Auditor's Response  |
|---|---|
| <b>Significant Difficulties Encountered in Performing the Audits or Examination</b> | > We encountered no difficulties in performing our audits or examination engagement.                        |
| <b>Fraud and Noncompliance with Laws and Regulations</b>                            | > We did not identify any known or suspected instances of fraud or noncompliance with laws and regulations. |
| <b>Significant and Unusual Transactions</b>   | > None noted  |



## Auditor communication to those charged with governance *(significant findings from the audits and examination, cont.)*

| Area to Be Communicated                                      | Auditor's Response   |
|--|--|
| <b>Uncorrected Misstatements and Corrected Misstatements</b> | <ul style="list-style-type: none"><li data-bbox="896 536 1576 739">&gt; 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.</li><li data-bbox="896 779 1576 848">&gt; Uncorrected misstatements refer to immaterial passed audit adjustments.</li><li data-bbox="896 888 1576 916">&gt; There were no misstatements identified.</li></ul> |



## **Auditor communication to those charged with governance** *(significant findings from the audits and examination, cont.)*

| <b>Area to be Communicated</b>       | <b>Auditor's Response</b>   |
|--------------------------------------|---|
| <b>Disagreements with Management</b> | > 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 audits. |
| <b>Other Findings or Issues</b>      | > We encountered no other audit findings or issues that require communication at this time.   |



## Auditor communication to those charged with governance *(significant findings from the audits and examination, cont.)*

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



## Auditor communication to those charged with governance *(significant findings from the audits and examination, cont.)*

| Area to Be Communicated                                  | Auditor's Response  |
|--|---|
| <b>Management's Consultations with Other Accountants</b> | – 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 to those charged with governance *(significant findings from the audits and examination, cont.)*

| Area to Be Communicated     | Auditor's Response   |
|-----------------------------|--|
| <b>Auditor Independence</b> | – We are not aware of any relationships between Baker Tilly US, LLP, ERCOT, TEMSFM and TEMSFN that, in our professional judgment, may reasonably be thought to bear on our independence. |
| <b>Related Parties</b>      | – We are not aware of any material transactions involving related parties  |





**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 are happy to answer any  
questions regarding the audits.**



# Discussion

