Memorandum

To: Audit Committee of the ISO Board of Governors

From: Ryan Seghesio, Chief Financial Officer and Treasurer

Date: June 21, 2016

Re: Acceptance of ISO financial statements and FERC Form 1 audit reports

This memorandum requires Committee action.

EXECUTIVE SUMMARY

Management submits to the Audit Committee of the California Independent System Operator Corporation Board of Governors the audited financial statements and the Federal Energy Regulatory Commission Form No. 1 for the years ended December 31, 2015 and 2014.

The audit reports for the FERC Form No. 1 and the financial statements and were issued separately by the ISO's external auditor, PricewaterhouseCoopers, LLP (PwC) on April 15, 2016 and April 20, 2016, respectively. Both audit reports were submitted to the Board electronically shortly after issuance. Subsequently, the ISO provided the audited financial statements to external interested parties and filed FERC Form No. 1 on April 15, 2016 to meet the regulatory deadline.

Management presents the reports for the Committee's acknowledgement, with the following motions:

> ***Moved, that the Audit Committee of the ISO Board of Governors accepts the FERC Form No. 1 audit report, issued on April 15, 2016 by PricewaterhouseCoopers, as attached to the memorandum dated June 21, 2016; and***
>
> ***Moved, that the Audit Committee of the ISO Board of Governors accepts the financial statements audit report issued on April 20, 2016 by PricewaterhouseCoopers, as attached to the memorandum dated June 21, 2016.***

DISCUSSION AND ANALYSIS

Financial statements

Management prepared the ISO's financial statements in accordance with generally accepted accounting standards applicable for state and local governmental entities (GASB) for the years ended December 31, 2015 and 2014. Attached is an unqualified audit opinion of the financial statements issued by PwC on April 20, 2016.

The financial statements are prepared and audited in accordance with GASB because the members of the Board are appointed by the Governor of the state of California.

FERC Form No. 1

The FERC Form No. 1 filing is an annual regulatory requirement for major electric utilities, licensees and others. This report is designed to collect financial and operational information from entities subject to FERC jurisdiction. These reports are also considered to be non-confidential public-use forms.

The ISO is required to file a FERC Form No. 1 because it is considered a major electric utility, which is defined as having (1) one million megawatt hours or more; (2) 100 megawatt hours of annual sales for resale; (3) 500 megawatt hours of annual power exchange delivered; or (4) 500 megawatt hours of annual wheeling for others (deliveries plus losses). The ISO meets the criteria for both (1) and (3) above.

Management prepared the FERC Form No. 1 in accordance with the Financial Accounting Standards Board (FASB) reporting requirements for the years ended December 31, 2015 and 2014.

Financial reporting differences between GASB and FASB financial statements required by FERC

The FERC Form No. 1 financial statements are presented differently from the ISO GASB financial statements because FERC requires the use of FASB opinions for the posting of retirement benefit plans and bond issuance and refunding costs.

The table below summarizes the reporting differences between the financial statements:

Item	GASB	FASB	Difference
Net income/(loss)	13,279,721	13,619,251	339,530
Postretirement benefit plan costs	(643,000)	(1,186,000)	(543,000)
Loss on Refunding	704,617	908,086	203,470
		Net Difference	339,530

The net result of these reporting differences is that the net income is $340K higher under FASB compared to GASB. There are also differences between FASB and GASB accounting methods regarding the supplemental information required as part of the financial statement presentation.

The GASB financial statements are fundamental to the organization's annual financial reporting cycle. Highlights of the GASB financial statements will be presented to the Audit Committee at this meeting.