

***California Independent
System Operator
Corporation***
Report to the Audit
Committee of the Board of
Governors
May 2017



*Audit Committee
Meeting*

Folsom, CA

May 1, 2017

Agenda

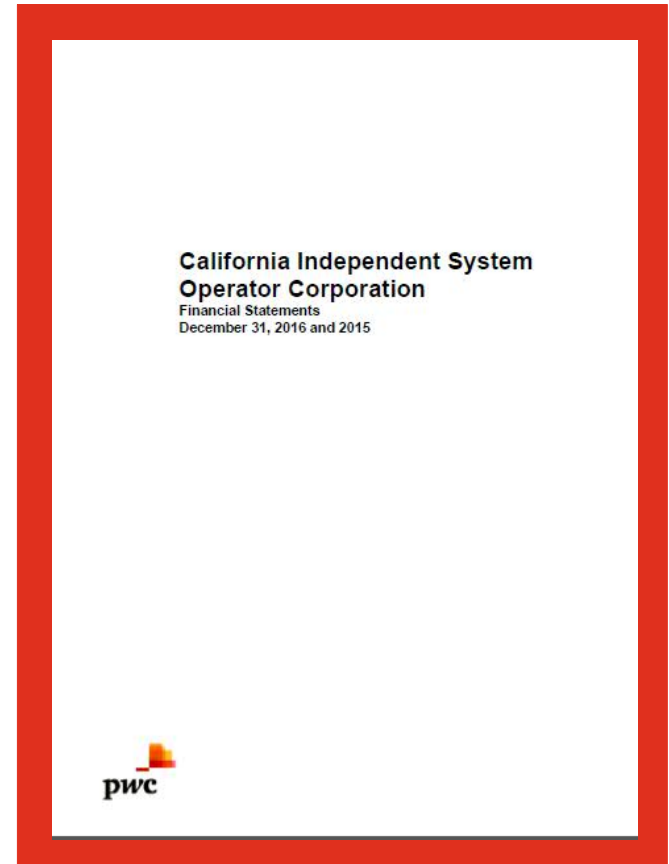
- Results of audit
- Description of financial statements
- Key audit areas
- Required communications
- Independence
- Closing

Results of audit

- Audits are complete
 - Audit reports have been issued
 - Two sets of financial statements
 - General purpose – GAAP
 - Statutory – FERC
 - ISO Management prepared the financial statements
 - PwC audited the financial statements
- The PwC audit opinions are standard and unqualified
- Form and content of the financial statements are similar to prior years

Corporate Financial Statements

- General purpose use
 - Annual report
 - Financial users
- Basis of accounting – State and Local Government (GASB)
 - Required based on state government board appointment process
- Audit comments
 - These are the primary statements; prepared first
 - Audit is focused on these statements– over 90% of audit effort



FERC Form #1 Financial Statements

- Statutory
 - Filed with FERC
 - Publicly available through FERC
- Basis of Accounting – FERC Uniform System of Accounts
 - Basic accounting generally follows normal private accounting principles (FASB)
 - Statutory forms
- Audit comments
 - Focus on statutory reporting requirements/leverage primary audit
 - FERC vs. GAAP differences total approximately \$0.5 million



**FERC FINANCIAL REPORT
FERC FORM No. 1: Annual Report of
Major Electric Utilities, Licensees
and Others and Supplemental
Form 3-Q: Quarterly Financial Report**

FERC vs GASB reporting

- Differences in net income/loss from corporate (general purpose) financial statements
 - Post-employment medical plan - different actuarial assumptions under FERC (\$0.7 million lower expense for FERC)
 - Debt - different treatment of amortization of loss on debt refunding and debt issuance costs under FERC (\$0.2 million higher expense for FERC)
 - Net Income - \$0.5 million higher for FERC than corporate
- Significant differences between corporate and FERC financial statement footnotes
 - Generally reduced disclosures, no requirement for MD&A
 - Additional schedules required by FERC (unaudited)

Key audit areas

- Risk of management override of controls – presumed risk (not ISO specific)
- Legal contingencies
- Cash held for market participants and related liabilities
- Determination of fair value for non-traded investments
- Fixed assets, and related depreciation
- Debt
- GMC revenues

There were no significant changes to the planned audit strategy or the significant risks initially identified and reported to you during the planning phase

Required communications

There were:

- No disagreements with Management
- No significant issues discussed prior to retention
- No significant difficulties encountered during the audit or difficult or contentious matters
- No identified irregularities, frauds or illegal acts
- No related party transactions
- No audit adjustments or uncorrected errors

Required communications, continued

Internal controls:

- Scope of audit requires us to gain an understanding of process and internal controls to assess risk, but does not require that we test and rely on internal controls
- We are required to report to the Audit Committee any
 - Significant deficiencies
 - Material weaknesses
- No significant deficiencies or material weaknesses were identified during the course of our audit procedures.

Required communications, continued

Other topics:

- Auditors' responsibility
- Significant accounting policies
- Management judgments and accounting estimates
- Significant risks and exposures
- Material uncertainties related to events and conditions
- Other information in documents containing reviewed financial information
- Consultations with other accountants
- Other material written communications
- Other matters

Independence

- **Key element of audit relationship**
- **Numerous core processes in place to monitor compliance with PwC independence rules**
 - **Annual compliance**
 - **Annual training**
 - **Firm monitoring**
- **Individual audit independence and objectivity is manifested in numerous ways**
 - **Partner rotation**
 - **Risk management oversight procedures**
 - **All individuals verify independence for each engagement**

Closing

- The audits were completed timely
- High level of commitment and cooperation of accounting and other staff is greatly appreciated
- PwC encourages communication and feedback from the Audit Committee

Questions?

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