

***California Independent  
System Operator  
Corporation***  
Report to the Audit  
Committee of the Board of  
Governors  
June 2016

*Audit Committee  
Meeting*

Folsom, CA

June 28, 2016

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# ***Agenda***

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

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## ***Results of audit***

- Audits are complete
  - Audit opinions were issued in April 2016
  - 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

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# ***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
  - Differs from private accounting principles – some investments; benefit plans
- **Audit comments**
  - Audit effort is focused on these statements– over 90% of audit effort

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# ***FERC Form #1 Financial Statements***

- Statutory
  - Filed with FERC
  - Available to public 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 \$0.3 million

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## ***FERC vs GASB reporting***

- Differences in net income/loss from corporate (general purpose) financial statements
  - Post-employment medical plan - different actuarial assumptions under FERC (\$0.5 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 - \$0.3 million higher for FERC than corporate
  - Investments – no difference between fair value of investments under FERC and corporate in the current year

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## ***FERC vs GASB reporting, continued***

- Significant differences between corporate and FERC financial statement footnotes
  - Generally reduced disclosures, no requirement for MD&A
  - Additional fair value disclosures
  - Additional schedules required by FERC (unaudited)

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## ***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 investments
- 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



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# ***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, fraud or illegal acts
- No related party transactions, except as disclosed in the notes to the financial statements
- No audit adjustments or uncorrected errors

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## ***Required communications, continued***

### **Internal controls:**

- Scope of audit does not include an opinion on internal controls, which differs from SSAE 16 audit that we perform over market systems
- We are required to report to the Audit Committee any
  - Material weaknesses
  - Significant deficiencies
- No material weaknesses or significant deficiencies were identified during the course of our audit procedures.

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# ***Required communications, continued***

## **Other topics:**

- Auditor's 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

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# ***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

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## ***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

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# *Questions?*

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