



Memorandum

To: Audit Committee of the ISO Board of Governors
From: Ryan Seghesio, Chief Financial Officer and Treasurer
Date: April 24, 2017
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, 2016 and 2015.

The audit reports for the financial statements and the FERC Form No. 1 were issued separately by the ISO's external auditor, PricewaterhouseCoopers, LLP (PwC) on April 7, 2017 and April 12, 2017, 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 12, 2017 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 audited financial statements issued on April 7, 2017 by PricewaterhouseCoopers, as attached to the memorandum dated April 24, 2017; and

Moved, that the Audit Committee of the ISO Board of Governors accepts the FERC Form No. 1 audit report, issued on April 12, 2017 by PricewaterhouseCoopers, as attached to the memorandum dated April 24, 2017.

BACKGROUND

Corporate financial statements

Management prepared the financial statements in accordance with generally accepted accounting standards applicable for state and local governmental entities (GASB). The financial statements are prepared and audited in accordance with GASB because of the ISO's state government Board appointment process. The PwC audit opinion is standard and unqualified.

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 and is available to the public through FERC.

Management prepared the FERC Form No. 1 in accordance with FERC Uniform System of Accounts and the Financial Accounting Standards Board (FASB) reporting requirements. The PwC audit opinion is standard and unqualified.

Financial reporting differences between GASB and FASB financial statements

There are small differences between the two accounting standards that result in differences on the balance sheet and income statement. Most of the differences are related to the reporting of retirement benefit plans and bond issuance and refunding costs. The result of these reporting differences is that net income is \$0.5 million higher, and both assets and liabilities are \$2.6 million higher under FASB compared to GASB.