Memorandum

To: Audit Committee of the ISO Board of Governors

From: Ryan Seghesio, Chief Financial Officer and Treasurer

Date: July 8, 2014

Re: Acceptance of Audit of the California ISO Retirement Savings Benefits Plan for 2013 and 2012

This memorandum requires Committee action.

EXECUTIVE SUMMARY

Moss Adams LLP was engaged to audit the financial statements and supplementary information of the *California ISO Retirement Savings Benefits Plan* (the 401(k) plan) for the years ended December 31, 2013 and 2012, for inclusion in the plan's 2013 Form 5500 filing with the Internal Revenue Service.

As permitted by 29 C.F.R. 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under Employee Retirement Income Security Act of 1974 (ERISA), the independent accountant issues a "disclaimer of opinion" for retirement plan audits, as they rely on certified financial data from the trustee of the plan. As part of this audit process, the ISO has received certification from the trustee, Charles Schwab Bank, that the information provided was complete and accurate.

The attached report issued by Moss Adams LLP states that, other than the financial information derived from the plan's trustee, the financial statements and supplementary information have been audited in accordance with auditing standards generally accepted in the United States of America and, in Moss Adams' opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Management recommends the following motion:

> **MOVED, that the Audit Committee of the ISO Board of Governors accepts the financial statements and supplementary information of the California ISO Retirement Savings Benefits Plan for the years ended December 31, 2013 and 2012, as audited by Moss Adams LLP Certified Public Accountants, and as attached to the memorandum dated July 8, 2014.**

DISCUSSION AND ANALYSIS

The California Independent System Operator Corporation is the plan administrator of the *California ISO Retirement Savings Benefits Plan* (the 401(k) plan). Each year, companies that administer qualified retirement savings plans for 100 participants or more are required by Federal law to have an independent audit of their plan. The accountant's findings are recorded on Form 5500 and filed with the Internal Revenue Service. The main goal of the audit is to ensure that the 401(k) plan is being administered in accordance with its written provisions. A second objective of the audit is to render an opinion on the financial statements of the plan (except for information certified by the Plan's trustee) and if it presents fairly all material aspects the financial status of the plan. During the audit, various procedures are performed to ensure the 401(k) plan is being administered in compliance with both government regulations and requirements specified within the plan documents.

Most private sector pension plans are covered by ERISA. An administrator or sponsor of an employee benefit plan subject to ERISA must file information about each plan annually. Among other things, ERISA provides protections for participants and beneficiaries in employee benefit plans, including providing access to plan information. Also, companies like the ISO who administer plans have fiduciary responsibilities and must meet certain standards of conduct required under ERISA.

The Form 5500, which is attached to the financial statements of the ISO Retirement Savings Benefits Plan, is an informational return that reports the financial information for the ISO's retirement plan for the year. This form must be filed annually with the Internal Revenue Service, but no payment of taxes required. An audit of the plan's financial statements must be completed prior to the filing of the Form 5500.

The financial statements, the filing of Form 5500, and the independent audit opinion are all requirements of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.