



Memorandum

To: Audit Committee of the ISO Board of Governors

From: Ryan Seghesio, Chief Financial Officer & Treasurer

Date: September 12, 2017

Re: Acceptance of Audit of the California ISO Retirement Savings Benefits Plan for 2016 and 2015

This memorandum requires Committee action.

EXECUTIVE SUMMARY

Moss Adams LLP, an independent accounting firm, 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, 2016 and 2015, for inclusion in the plan's 2016 Form 5500 filing with the Internal Revenue Service.

Moss Adams issues a "disclaimer of opinion" for retirement plan audits, as they rely on certified financial data from the plan's trustee, as permitted under the applicable regulations of the Employee Retirement Income Security Act of 1974 (ERISA).¹ 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 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 and, in Moss Adams's 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 audit report of financial statements with supplementary information of the California ISO Retirement Savings Benefits Plan for the years ended December 31, 2016 and

¹ 29 C.F.R. section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

2015, as audited by Moss Adams LLP Certified Public Accountants, and as attached to the memorandum dated September 12, 2017.

DISCUSSION AND ANALYSIS

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 for the ISO 401(k) plan.

The California ISO 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 conduct an independent audit of their plan. 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) including whether they present fairly all material aspects of the financial status of the plan. The audit consists of various procedures to determine whether the 401(k) plan is being administered in compliance with both government regulations and requirements specified within the plan documents.

Most private sector 401(k) and pension plans are covered by ERISA. An administrator or sponsor of an employee benefit plan subject to ERISA requirements must file information about each plan annually. Among other things, ERISA provides protections for participants and beneficiaries in employee benefit plans, including access to plan information. Also, companies that administer plans, such as the ISO, have fiduciary responsibilities and must meet certain standards of conduct required under ERISA.

Schedule H of Form 5500 (attached to the financial statements of the ISO Retirement Savings Benefits Plan) is required supplementary information. This schedule supports the financial information for the ISO's retirement plan for the year. Form 5500 must be filed annually with the Internal Revenue Service, however the Department of Labor has authority over these informational returns and no payment of taxes is required. An audit of the plan's financial statements must be completed prior to the filing of Form 5500.

Basis for disclaimer of opinion

As permitted by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA, the ISO instructed Moss Adams not to perform any auditing procedures with respect to the investment information disclosed in the financial statements and supplemental schedule, which was certified by Charles Schwab Bank, an approved Department of Labor trustee.

Because of the significance of this information, Moss Adams does not provide an audit opinion on the financial statements.

CONCLUSION

The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, has been audited by Moss Adams in accordance with the auditing standards generally accepted in the United States of America and, their opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.