

**CITY OF SAN JOSÉ
FEDERATED CITY EMPLOYEES'
RETIREMENT SYSTEM**

Communication with the Board of Administration
June 30, 2023



Certified
Public
Accountants



Certified
Public
Accountants

November 3, 2023

Members of the Board of Administration
of the City of San José Federated City Employees' Retirement System
San José, California

We are pleased to present this report related to our audit of the Federated City Employees' Retirement System's (System) financial statements as of and for the year ended June 30, 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the System's financial reporting process.

This report is intended solely for the information and use of the Board of Administration, management, and others within the System, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the System.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California

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REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the System's financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described in our engagement letter dated June 16, 2023. Our audit of the System's financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We conducted our audit consistent with the planned scope and timing in our engagement letter dated June 16, 2023.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the System. The System did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates are as below.

Significant Accounting Estimates

Valuation of investments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management's estimate of the fair value of investments is based on a hierarchy of inputs. Observable inputs are developed based on market data obtained from sources independent from the System. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. Investments that do not have a readily determined fair value are valued using the net asset value (NAV) as a practical expedient, which generally represents the System's ownership interest in partnership capital.

MGO evaluated the assumptions through comparative analysis with third party pricing sources, reviewing fund audited financial statements, and performing roll forward procedures of audited values to year-end values, and determined that they are reasonable.

Total pension liability

Management's estimate of the total pension liability is based on actuarial measurements performed in accordance with the parameters set forth in GASB Statement No. 67, *Financial Reporting for Pension Plans*, and actuarial standards of practice. The actuarial valuation is very sensitive to the underlying assumptions, including the discount rate.

MGO evaluated the methodologies and assumptions used to develop the actuarial calculations through census data testing and engaging an actuarial consultant to evaluate the System's actuarial valuation for reasonableness of assumptions and results and determined that they are reasonable.

Total other postemployment benefits (OPEB) liability

Management's estimate of the total OPEB liability is based on actuarial measurements performed in accordance with the parameters set forth in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and actuarial standards of practice. The actuarial valuation is very sensitive to the underlying assumptions, including the discount rate and the healthcare cost trend rates.

MGO evaluated the methodologies and assumptions used to develop the actuarial calculations through census data testing and engaging an actuarial consultant to evaluate the System's actuarial valuation for reasonableness of assumptions and results and determined that they are reasonable.

Audit Adjustments and Uncorrected Misstatements

In the course of the audit, there were no misstatements that were not recorded by management and no material adjustments identified.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the System's financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

Shared Responsibilities for Independence

Independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office* (GAO) independence rules. For MGO to fulfill its professional responsibility to maintain and monitor independence, management, the Board of Administration, and MGO each play an important role.

Our Responsibilities

1. AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. MGO is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
2. Maintain a system of quality management over compliance with independence rules and firm policies.

The System's Responsibilities

1. Timely inform MGO, before the effective date of transactions or other business changes, of the following:
 - a. New affiliates, directors, or officers.
 - b. Changes in the organizational structure or the reporting entity impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint ventures, component units, jointly governed organizations.

2. Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
3. Understand and conclude on the permissibility, prior to the System and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with MGO.
4. Not entering into arrangements of nonaudit services resulting in MGO being involved in making management decisions on behalf of the System.
5. Not entering into relationships resulting in close family members of MGO covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the System.

EXHIBIT A

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Administration of the City of San José
Federated City Employees’ Retirement System
San José, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the City of San José Federated City Employees’ Retirement System (the System), a pension trust fund and postemployment healthcare trust fund of the City of San José, California (the City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements, and have issued our report thereon dated November 3, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 3, 2023

EXHIBIT B
Accounting Pronouncements

ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements have been issued as of the date of this communication but are not yet effective and may affect the future financial reporting by the System.

Pronouncement	Summary
<p>GASB Statement No. 99, <i>Omnibus 2022</i></p>	<p>The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.</p> <p>The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for the System’s fiscal year ending June 30, 2024.</p>
<p>GASB Statement No. 100, <i>Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62</i></p>	<p>The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.</p> <p>Statement No. 100 is effective for the System’s fiscal year ending June 30, 2024.</p>
<p>GASB Statement No. 101, <i>Compensated Absences</i></p>	<p>The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.</p> <p>Statement No. 100 is effective for the System’s fiscal year ending June 30, 2025.</p>