

**CITY OF SAN JOSÉ
FEDERATED CITY EMPLOYEES'
RETIREMENT SYSTEM**
(A Pension Trust Fund of the
City of San José, California)

Required Communications
to the Board of Administration

For the Fiscal Year Ended June 30, 2010

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

We have audited the financial statements of the City of San José Federated City Employees' Retirement System (System), a pension trust fund of the City of San José, California, as of and for the fiscal year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our Audit Plan dated July 9, 2010. Professional standards also require that we communicate to you the following information related to our audit.

I. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 2 to the financial statements. As described in Note 2(f) to the financial statements, the System adopted the provisions of Statement of Governmental Accounting Standards (GASB Statement) No. 53, *Accounting and Financial Reporting for Derivative Instruments* in the fiscal year ended June 30, 2010. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the System's financial statements were:

- Net appreciation in the fair value of investments; and
- Actuarial data of the pension and other postemployment benefits (OPEB) plans.

Management's estimates were based on the following:

- Net appreciation in fair value of investments is discussed in Note 2(c) and net appreciation in fair value of derivative instruments is discussed in Note 3 to the financial statements.
- The actuarial pension and OPEB data, including the funded statuses and required contributions of the plans, are based on actuarial calculations performed in accordance with the parameters set forth in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively, which incorporate actuarial methods and assumptions adopted by the Board of Administration.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosures regarding the funded statuses of the pension and OPEB plans in Notes 5 and 6 to the financial statements, respectively. The funded statuses of the pension and OPEB plans are based on the actuarial calculations described above.

III. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has determined that the effect of the uncorrected misstatement below is immaterial to the financial statements taken as a whole.

<u>Adjustment Description</u>	<u>Debit</u>	<u>Credit</u>
Benefit expense	\$3,987,000	
Employer contributions		\$3,987,000
To record implicit subsidy as part of employer contributions for the Postemployment Healthcare Benefits Fund.		

IV. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 22, 2010.

VII. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VIII. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IX. Other Information in Documents Containing Audited Financial Statements

If the System includes its financial statements in other documents, we are required to describe to you our responsibility related to that other information. The System includes its financial statements in its Comprehensive Annual Financial Report (CAFR). Our responsibility for the other information in the CAFR containing the financial statements and our report does not extend beyond the financial information identified in our audit report. We do not have an obligation to perform any procedures to corroborate other information contained in the CAFR. However, we read the other information in the CAFR and considered whether such information, or its manner of presentation, was materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Macis Gini & Connell LLP

Certified Public Accountants

Walnut Creek, California

November 22, 2010