CITY AND COUNTY OF SAN FRANCISCO
HEALTH SERVICE SYSTEM

Report to the Health Service Board

Year Ended June 30, 2026

mgo. | Certified Public Accountants

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October 23, 2026

Members of the Health Service Board
Honorable Mayor and Members of the Board of Supervisors
City and County of San Francisco, California

We are pleased to present this report related to our audit of the financial statement of the San Francisco Health Service System Other Employee Benefit Trust Fund (the Trust), managed by Health Service System (the System), a department of the City and County of San Francisco, as of and for the year ended June 30, 2026. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Organization's financial reporting process.

This report is intended solely for the information and use of the Health Service Board, the Mayor, the Board of Supervisors, and management, 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.

Macias Gini & O'Connell LLP

Walnut Creek, California

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REQUIRED COMMUNICATIONS

Auditing standards generally accepted a 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 May 8, 2026. 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 May 8, 2026, and we have issued a separate communication letter dated June 10, 2026, regarding the planned scope and timing of our audit and identified significant risks.

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 listed in the following table.

Significant Accounting Estimates	
Reserves for Claims – medical, prescription drugs and dental	
Accounting policy	Reserves for claims are based on actual claim lag reports and historical payment patterns.
Management's estimation process	Management's estimate of reserves for claims is based on actuarial calculations of claims reported and in process of payment and assumptions of claims incurred but not yet reported. These calculations are performed by management's third-party actuarial firm.
Basis for our conclusion on the reasonableness of the estimate	MGO engaged an independent actuarial specialist to review the work of management's actuarial specialist. We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

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 Health Service Board, 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 Organization 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 Organization.
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 Organization.

EXHIBIT A

Recent Accounting Pronouncement

RECENT ACCOUNTING PRONOUNCEMENT

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

Pronouncement	Summary
GASB Statement No. 105, *Subsequent Events*	The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. Statement No. 105 is effective for the System's fiscal year ending June 30, 2027.