

**CITY OF SAN JOSE
DEFINED CONTRIBUTION 401(a) PLAN**

Independent Auditor's Report and
Basic Financial Statements

For the Period from Inception
(February 1, 2013) through June 30, 2017
and for the Year Ended June 30, 2018



Certified
Public
Accountants

CITY OF SAN JOSE
DEFINED CONTRIBUTION 401(a) PLAN
For the Period from Inception (February 1, 2013) through
June 30, 2017 and for the Year Ended June 30, 2018

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Independent Auditor's Report

Management and City Council
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Defined Contribution 401(a) Plan (Plan) of the City of San José, California (City), as of June 30, 2018 and 2017, and for the year ended June 30, 2018 and for the period from inception (February 1, 2013) through June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2018 and 2017, and the changes in financial position for the year ended June 30, 2018 and for the period from inception (February 1, 2013) through June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Basis of Presentation

As discussed in Note 2, the financial statements of the Plan are intended to present the financial position, the changes in financial position of only that portion of the City. They do not purport to, and do not present fairly the financial position of the City as of June 30, 2018, the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 20, 2018

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CITY OF SAN JOSE
DEFINED CONTRIBUTION 401(a) PLAN
 Statements of Net Position Due to Participants
 June 30, 2018 and 2017

	2018	2017
Assets		
Investments at fair value		
Short Term Funds	\$ 2,918	\$ 9,455
Global International Funds	22,291	10,213
Assets Allocation Funds	1,152,313	802,417
Large Cap Growth Funds	18,082	10,763
Large Cap Value Funds	20,080	10,312
Small- Cap/Mid-Cap Funds	22,954	16,143
Specialty Fund- Real Estate	8,658	4,677
Total investments at fair value	1,247,296	863,980
 Liabilities	 -	 -
 Net position due to participants	 \$ 1,247,296	 \$ 863,980

See accompanying notes to the financial statements.

CITY OF SAN JOSE
DEFINED CONTRIBUTION 401(a) PLAN
Statements of Changes in Net Position Due to Participants
For the Period from Inception (February 1, 2013) through
June 30, 2017 and for the Year Ended June 30, 2018

	2018	2017
Additions		
Contributions		
Employee	\$ 332,165	\$ 779,759
Net investment income and adjustments to fair value	87,678	113,909
Total additions	419,843	893,668
Deductions		
Payments to participants	36,527	29,688
Net increase (decrease)	383,316	863,980
Net position due to participants		
Beginning of year	863,980	-
End of year	\$ 1,247,296	\$ 863,980

See accompanying notes to the financial statements.

CITY OF SAN JOSE
DEFINED CONTRIBUTION 401(a) PLAN

Notes to the Financial Statements
For the Period from Inception (February 1, 2013) through
June 30, 2017 and for the Year Ended June 30, 2018

NOTE 1 – PLAN DESCRIPTION

The following description of the City of San José's (City's) Defined Contribution 401(a) (Plan) provides only general information. Participants should refer to the Plan's agreement and the Municipal Code for a more complete description of the Plan's provisions.

The City of San José, California, Defined Contribution 401(a) Plan is described in Chapter 3.49 of the San José Municipal Code. Each employee hired on or after January 20, 2013, whom has never been a member of the Federated or Sworn Retirement Plans, has a one-time irrevocable election to either: (1) become a participant in this plan and make mandatory employee contributions to this Plan; or (2) become a participant as a Tier 2 member in the federated employees retirement plan under Chapter 3.28, by executing a written election form on or before his or her first day of employment with the City. Each employee has only one election (including a default election) to participate in the Plan, and that election cannot be changed for any reason. If an employee who has made an election (including a default election) under this section leaves employment with the City and later returns to City employment in a capacity/position that would be covered by the Plan, the employee's prior election will determine whether or not the employee participates in this Plan. An employee who becomes a participant in this Plan (and any survivors of such a participant) is not eligible for retiree medical, dental, or other health and welfare benefits under Part 16 and Part 17 of Chapter 3.28.

On executing the participation agreement, the employee designates his or her investment objective prospectively only. The City may select for investment of accounts the types of investments set forth in Sections 53601 and 53602 of the Government Code of the State of California and in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, variable and fixed annuities, mortgages, deeds of trust, or other security interests in real or personal property. The Plan utilizes Voya Retirement Insurance and Annuity Company ("VRIAC") as its investment administrator.

Contributions – During each payroll period in which an employee is a participant in the Plan, the City deducts the percentage of the employee's compensation specified in the adoption agreement and contributes such amount to the Plan. The contributions are paid by the City via salary reductions in accordance with Internal Revenue Code Section 414(h)(2). A participant may not receive any amounts paid directly instead of having the amounts paid to the Plan. Participant contributions are subject to the applicable limit under Internal Revenue Code Section 415, as provided by Section 3.049.045 and the Plan.

For each participant making contributions to the Plan under Section 3.49.040, the City contributes the percentage of the participant's compensation for each payroll period set forth in the adoption agreement (not to exceed nine percent) to the participant's employer contribution account in the defined contribution fund. In no event will a participant receive any City contributions for any payroll period for which the participant does not make an employee contribution to the Plan.

Participant Accounts – The City established a defined contribution fund to which all contributions to the Plan are credited, and to which all direct rollover amounts accepted by the Plan are credited as received. Separate accounts are established for each employee participating, which show all amounts of contributions, direct rollover amounts, investments made, shares acquired and earnings and gains on investments. Each account is valued at least semiannually.

Vesting – The participant at all times is one hundred percent vested in the contributions paid by the City to the Plan.

CITY OF SAN JOSE
DEFINED CONTRIBUTION 401(a) PLAN

Notes to the Financial Statements
For the Period from Inception (February 1, 2013) through
June 30, 2017 and for the Year Ended June 30, 2018

NOTE 1 – PLAN DESCRIPTION (Continued)

Payment of Benefits – A participant's account balances may continue to be invested until withdrawn for the payment of benefits. Payment of benefits under Section 3.49.131 may commence thirty-one days following the occurrence of a severance event, but in no event will commence later than the required beginning date under Code Section 401(a)(9), as specified in the Plan.

Payment of benefits in the event of the death of the participant prior to commencement of benefits may commence sixty days after satisfactory proof of death, and will commence no later than sixty days after the close of the Plan year in which death occurred, subject to satisfactory proof of the death of the participant. However, if the beneficiary is the spouse of the participant, then the spouse may elect, within sixty days of the participant's death, to defer distribution to a date not later than the participant's required beginning date. In the event of the participant's death after commencement of benefits, benefits will be paid as provided by Internal Revenue Code Section 401(a)(9), as specified in the Plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying statements of net position due to participants and changes in net position due to participants present only the Plan and are not intended to present the financial position of the City and the changes in its financial position in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting – The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as additions when due (at the end of each pay period). Payments to participants are recognized as deductions when due and payable under the provisions of the Plan.

Investment Valuation – The Plan's investments are stated at fair value. Investments valued at the net asset value are investments in the VRIAC separate accounts and pooled separate accounts. The VRIAC pooled separate accounts are valued by "units". The unit value takes into account the underlying funds' daily net asset value, less the separate account expenses for the insurance, administration and services provided by VRIAC. The VRIAC separate accounts are valued based on fair value of the underlying investments without an expense adjustment.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Plan's administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – INVESTMENTS

401 (a) Plan participants may direct contributions into any of the investment options offered by the Plan's investment administrator, which include various VRIAC separate and pooled separate accounts. It is the Plan's policy to permit participants to establish different investment strategies, which have varying return and volatility characteristics to meet each participant's long-term retirement savings strategy.

CITY OF SAN JOSE
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Notes to the Financial Statements
For the Period from Inception (February 1, 2013) through
June 30, 2017 and for the Year Ended June 30, 2018

NOTE 3 – INVESTMENTS (Continued)

The Plan categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

All investments are valued at net asset value (NAV). Descriptions for each fund type are listed on page 9.

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Notes to the Financial Statements
For the Period from Inception (February 1, 2013) through
June 30, 2017 and for the Year Ended June 30, 2018

NOTE 3 – INVESTMENTS (Continued)

The following presents investments at June 30, 2018 with the information related to interest rate risk, credit risk, concentration of credit risk and fair value measurement within the fair value hierarchy established by generally accepted accounting principles on its investments:

Investments	Average Effective Maturity	Credit Rating	6/30/2018	6/30/2017	
401(a) Plan Investments:					
Short-Term Funds					
Stable Value Fund	n/a	n/a	\$ -	\$ 9,455	
Vanguard Federal Money Market	48 days	Not Rated	2,918	-	
Global International Funds					
Oppenheimer Developing Mkts FY	n/a	n/a	6,753	5,234	**
Vanguard Tot Intl St Indx Fd Sig	n/a	n/a	15,538	4,979	**
Asset Allocation Funds					
Vanguard T Retirement 2025	8.70 years	AA	119,843 *	91,687	**
Vanguard T Retirement 2035	8.70 years	AA	56,952	41,504	**
Vanguard T Retirement 2045	8.69 years	AA	123,013 *	62,393	**
Vanguard Tgt Ret 2055 - Inv	8.69 years	AA	348,539 *	240,373	**
Vanguard Tgt Ret 2030 - Inv	8.70 years	AA	341,408 *	261,579	**
Vanguard Tgt Ret 2050 - Inv	8.69 years	AA	133,710 *	82,685	**
Vanguard Tgt Ret 2040 - Inv	8.70 years	AA	28,848	22,196	**
Large Cap Growth Funds					
American Funds Growth End R5	n/a	n/a	10,169	5,251	**
Fidelity Adv New Insights I	n/a	n/a	7,913	5,512	**
Large Cap Value Funds					
Vanguard Tot Stok mrkt Ind-Instl	n/a	n/a	7,316	-	**
The Yacktman Fund Sr	n/a	n/a	6,401	5,147	**
Parnassus Core Equity Fund Inst	n/a	n/a	6,363	5,165	**
Small-Cap/Mid-Cap Funds					
Janus Henderson Enterprise Fund N	n/a	n/a	12,388	10,359	**
Vanguard Sml-Cap Index-Instl	n/a	n/a	6,766	5,784	**
Emerald Growth Fund Inst	n/a	n/a	3,800	-	
Specialty Fund - Real Estate					
Voya Clarion Real Est Prtinstl	n/a	n/a	8,658	4,677	
Total 401(a) Plan investments measured at fair value			<u>\$ 1,247,296</u>	<u>\$ 863,980</u>	

* Represents 5% or more of the Plan's total investments.

** Represents funds holding international investments

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NOTE 3 – INVESTMENTS (Continued)

Short-Term Funds. This type includes investments in 2 separate accounts and 1 pooled separate account that invest in a diversified portfolio of fixed income assets and short-term money market instruments. The fair value of the investments in this type have been determined using the NAV per share of the investments. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Bond Funds. This type includes investments in 3 pooled separate accounts that invest in bonds and grade securities. Under normal market conditions, the funds will invest at least 80% of its net assets in bonds. The funds might invest some of its net assets in foreign securities. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Global International Funds. This type includes investments in 4 pooled separate accounts that invest in common stocks of issuers throughout the world. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Assets Allocation Funds. This type includes investments in 3 separate accounts and 11 pooled separate accounts that invest in funds according to their asset allocation strategies designed for investors Planning to retire at their respective target years. The fair value of the investments in this type have been determined using the NAV per share of the investments. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Large Cap Growth Funds. This type includes investments in 2 pooled separate accounts that invest primarily in common stocks and seek to invest in companies that appear to offer superior opportunities for growth of capital. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

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NOTE 3 – INVESTMENTS (Continued)

Large Cap Value Funds. This type includes investments in 6 pooled separate accounts that invest primarily in domestic equity securities of large and medium companies regularly traded on the New York Stock Exchange and Nasdaq. The management of each fund may invest its assets in foreign equity securities. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Small-Cap/Mid-Cap Funds. This type includes investments in 6 pooled separate accounts that invest primarily in equity securities of small and medium U.S. companies. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Specialty Fund – Real Estate. This type includes investments in 1 pooled separate account that invests primarily in common and preferred stocks of U.S. real estate investment trusts and real estate companies. The VRIAC pooled separate accounts are valued by “units”. The unit value takes into account the underlying funds’ daily NAV, less the separate account expenses for the insurance, administration and services provided by VRIAC. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Stable Value Option Fund. This fund invests in a diversified portfolio of fixed income assets in order to preserve participant account balances and to return steady growth over time without daily fluctuations. The fair value of the investments in this fund has been determined using the NAV per share of the investments. Investments in this fund do not have any unfunded commitments. Investments in this fund can be redeemed daily, and there is not any restriction on redemption notice period.

Annuities. This includes 2 types of annuities, fixed annuities and variable annuities. The fixed annuities invest through a group annuity contract issued by VRIAC. The value of the Fixed Accounts is determined by the daily crediting of interest which is subject to minimum contractual guarantees. The Fixed Accounts do not have a maturity date. Variable annuities invest in the following investment portfolios: Voya Growth and Income, Voya Index Plus Large Cap Growth, Voya Balanced and Voya Intermediate Bond. The fair value of the investments in this type have been determined using the NAV per share of the investments. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. The maturities of the Plan’s investments are identified on page 9.

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Notes to the Financial Statements
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June 30, 2017 and for the Year Ended June 30, 2018

NOTE 3 – INVESTMENTS (Continued)

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Since all investments are participant directed, all risks exist at the participant level. The credit ratings of the Plans' investments are identified on page 9.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Plans allow the option of investment in the separately managed accounts that invest outside the U.S. The individual funds which hold foreign investments are identified on page 9.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Plans will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. All deposits of the Plans are held on behalf of the Plans by Voya in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plans' investments in single issuer. The Plans' investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the DCAC. The investments that exceed 5% of the Plans' total investments are identified on page 9. Since all investments are participant directed, all risks exist at the participant level.