

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS

Independent Auditor's Report,
Management's Discussion and Analysis, and
Basic Financial Statements

For the Fiscal Years Ended
June 30, 2016 and 2015

**CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Deferred Compensation Advisory Committee
City of San Jose Deferred Compensation Plans

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We have audited the accompanying financial statements of the 457 and the PTC Deferred Compensation Plans (Plans) of the City of San Jose, California (City) as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Plans' basic 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 audit. We conducted our audit 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 Plan'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 Plans' 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 Plans as of June 30, 2016, and the changes in their financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter – 2015 financial statements

The financial statements of the Plans as of and for the year ended June 30, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2015 financial statements in their report dated September 9, 2015.

Grant Thornton LLP

San Jose, California

March 2, 2017

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015
(Unaudited)

The following discussion and analysis of the City of San José's (City) 457 and PTC Deferred Compensation Plans (Plans) financial performance provides an overview of its basic financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Plans financial statements, which begin on page 7. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest solely with the management of the Plans. To the best of our actual knowledge and belief, the financial statements, as presented, are accurate in all material respects.

Financial Highlights – 2016

457 Plan

- At the close of the fiscal year, June 30, 2016, the net position due to 457 Plan participants was \$817.1 million. This represents a decrease of \$1.4 million from the prior year ending balance.
- Increase in distribution amounts to the retirees contributed to the change.

PTC Plan

- At the close of the fiscal year, June 30, 2016, the net position due to PTC Plan participants was \$18.0 million. This represents an increase of \$1.6 million from the prior year ending balance.
- Increases in employer and employee contributions as well as investment earnings from last year contributed to the change.

Financial Highlights – 2015

457 Plan

- At the close of the fiscal year, June 30, 2015, the net position due to 457 Plan participants was \$818.5 million. This represented an increase of \$22.9 million from the prior year ending balance.
- Favorable investment earnings and fair value adjustments of \$27.9 million contributed to the change.

PTC Plan

- At the close of the fiscal year, June 30, 2015, the net position due to PTC Plan participants was \$16.4 million. This represented an increase of \$1.3 million from the prior year ending balance.
- Increases in employer and employee contributions, as well as favorable investment earnings and fair value adjustments contributed to the change.

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS

Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015
(Unaudited)

Financial Statements

The financial reports for the Plans include management's discussion and analysis (MD&A), a statement of net position due to participants, a statement of changes in net position due to participants, and notes to financial statements. These financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting.

The following table indicates the net position due to participants as of June 30, 2016, 2015 and 2014 (dollars in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>457 Plan</i>			
Investments at fair value	\$ 803,751	\$ 804,848	\$ 782,044
Loans receivable from participants	13,329	13,667	13,506
Total assets	<u>817,080</u>	<u>818,515</u>	<u>795,550</u>
Net position due to participants	<u>\$ 817,080</u>	<u>\$ 818,515</u>	<u>\$ 795,550</u>
<i>PTC Plan</i>			
Investments at fair value	\$ 17,953	\$ 16,362	\$ 15,065
Net position due to participants	<u>\$ 17,953</u>	<u>\$ 16,362</u>	<u>\$ 15,065</u>

The following table indicates the changes in net position for the fiscal years ended June 30, 2016, 2015, and 2014 (dollars in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>457 Plan</i>			
Additions	\$ 32,680	\$ 55,937	\$ 127,912
Deductions	(34,115)	(32,972)	(35,801)
Net increase	<u>(1,435)</u>	<u>22,965</u>	<u>92,111</u>
Net position, beginning of year	818,515	795,550	703,439
Net position, end of year	<u>\$ 817,080</u>	<u>\$ 818,515</u>	<u>\$ 795,550</u>
<i>PTC Plan</i>			
Additions	\$ 2,516	\$ 2,220	\$ 2,052
Deductions	(925)	(923)	(1,119)
Net increase	<u>1,591</u>	<u>1,297</u>	<u>933</u>
Net position, beginning of year	16,362	15,065	14,132
Net position, end of year	<u>\$ 17,953</u>	<u>\$ 16,362</u>	<u>\$ 15,065</u>

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015
(Unaudited)

2016 Analysis

457 Plan

The net position due to participants decreased by \$1.4 million, or 0.2 percent, in fiscal year 2015-2016. This change in net position is mainly due to increase in distribution amounts.

The total additions to net position of \$32.7 million in fiscal year 2015-2016 decreased by \$23.2 million from \$55.9 million in fiscal year 2014-2015. The decrease is due to less favorable market returns. Total deductions from net position of \$34.1 million in fiscal year 2015-2016 increased by \$1.1 million from \$33.0 million in fiscal year 2014-2015. The change is mainly due to the amount of distribution participants are entitled, resulting in an increase in distributions from the Plan to participants.

PTC Plan

The net position due to participants increased by \$1.6 million, or 9.7 percent, in fiscal year 2015-2016.

Total additions to net position of \$2.5 million in fiscal year 2015-2016 increased by \$0.3 million from the \$2.2 million in fiscal year 2014-2015. The increase is due to a rise in contributions received due to an increase in the number of participants. Total deductions maintained the same level from fiscal year 2014-2015 to fiscal year 2015-2016.

2015 Analysis

457 Plan

The net position due to participants increased by \$22.9 million, or 2.9 percent, in fiscal year 2014-2015. This change in net position is mainly due to combination of increased contributions and decreased distributions from the 457 Plan to participants.

The total additions to net position of \$55.9 million in fiscal year 2014-2015 decreased by \$72.0 million from the \$127.9 million in fiscal year 2013-2014. The decrease is due to less favorable market returns. Total deductions from net position of \$33.0 million in fiscal year 2014-2015 decreased by \$2.8 million from \$35.8 million in fiscal year 2013-2014. The change is mainly due to combination of the decrease in the number of participants that terminated their employment during the fiscal year and the amount of distribution participants are entitled, resulting in a decrease in distributions from the Plan to participants.

PTC Plan

The net position due to participants increased by \$1.3 million, or 8.6 percent, in fiscal year 2014-2015.

Total additions to net position of \$2.2 million in fiscal year 2014-2015 increased by \$0.1 million from the \$2.1 million in fiscal year 2013-2014. The increase is due to a rise in contributions received due to an increase in the number of participants. Total deductions from net position decreased by \$0.2 million from \$1.1 million in fiscal year 2013-2014 to \$0.9 million in fiscal year 2014-2015. The change is mainly due to combination of the decrease in the number of participants that terminated their employment during the fiscal year and the amount of distribution participants are entitled, resulting in a decrease in distributions from the Plan to participants.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deferred Compensation Advisory Committee, 200 East Santa Clara Street, Tower 4th Floor, San Jose, CA 95113-1905.

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CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
 Statements of Net Position Due to Participants
 For the Fiscal Years Ended June 30, 2016 and 2015

457 Plan	2016	2015
Assets		
Investments at fair value	803,751	804,848
Loans receivable from participants	13,329	13,667
Total assets	<u>817,080</u>	<u>818,515</u>
Net position due to participants	<u>\$ 817,080</u>	<u>\$ 818,515</u>
PTC Plan	2016	2015
Assets		
Investments at fair value	\$ 17,953	\$ 16,362
Net position due to participants	<u>\$ 17,953</u>	<u>\$ 16,362</u>

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Statements of Changes in Net Position Due to Participants
For the Fiscal Years Ended June 30, 2016 and 2015

457 Plan	2016	2015
Additions		
Employee contributions	\$ 26,889	\$ 26,316
Rollover from other institutions	1,951	1,688
Net investment income and adjustments to fair value	3,840	27,933
Total additions	<u>32,680</u>	<u>55,937</u>
Deductions		
Payments to participants	(34,011)	(32,868)
Administration fees	(104)	(104)
Total deductions	<u>(34,115)</u>	<u>(32,972)</u>
Net increase (decrease)	(1,435)	22,965
Net position due to participants		
Beginning of year	818,515	795,550
End of year	<u>\$ 817,080</u>	<u>\$ 818,515</u>

PTC Plan	2016	2015
Additions		
Contributions		
Employer	\$ 1,063	\$ 927
Employee	1,063	927
Miscellaneous	-	4
Total contributions and other additions	<u>2,126</u>	<u>1,858</u>
Net investment income and adjustments to fair value	390	362
Total additions	<u>2,516</u>	<u>2,220</u>
Deductions		
Payments to participants	(925)	(923)
Net increase	1,591	1,297
Net position due to participants		
Beginning of year	16,362	15,065
End of year	<u>\$ 17,953</u>	<u>\$ 16,362</u>

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 1 – PLANS DESCRIPTION

The following description of the City of San José's (City's) Deferred Compensation Plans (Plans) provides only general information. Participants should refer to the Plans' agreements and the Municipal Code for a more complete description of the Plans' provisions.

The City maintains two eligible deferred compensation plans (collectively, Plans) in accordance with Section 457 of the Internal Revenue Code (IRC 457). The Plans permit employees to defer a portion of their compensation until future years. Under the Plans, participants are not generally taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at death, retirement, termination, disability or certain unforeseen emergencies.

The following is a brief description of the City's two deferred compensation plans:

- The City of San José, California, Deferred Compensation Plan (457 Plan) is described in Chapter 3.48 of the San José Municipal Code. The 457 Plan is available to all City employees on a voluntary basis. An employee who elects to participate must enter into a participation agreement that specifies the amount of the deferral and the investment options selected by the participant. The 457 Plan currently utilizes Voya Retirement Insurance and Annuity Company (VRIAC) as its investment administrator. Effective January 1, 2013, 457 Plan participants can choose to make contributions on a pre-tax basis to the traditional 457 Plan, on an after-tax basis to the Roth 457 Plan, or a combination of the two contributions basis.
- The City of San José, California, PTC Deferred Compensation Plan (PTC Plan) is described in Chapter 3.50 of the San José Municipal Code. The PTC Plan is a mandatory plan in lieu of Social Security for those employees who are not eligible for membership in either the Federated City Employees' Retirement System or the Police and Fire Department Retirement Plan. The participants defer 3.75% of salary and the City makes a matching contribution (with the total capped by the maximum allowed under IRC 457). The PTC Plan currently utilizes VRIAC as its investment administrator. PTC Plan participants can only make contributions on a pre-tax basis.

Benefited part-time employees who were hired before October 1, 2006, were given the option to invest PTC contributions in the same investment options as the 457 Plan participants based on their Participation Agreements. After October 1, 2006 when the City transitioned the investment administrator services to VRIAC, those part-time employees' PTC accounts were transferred to the 457 Plan in order for them to continue having the ability to invest in various investment options, instead of only the Stable Value Fund offered in the PTC Plan.

For all new part-time employees hired on and after October 1, 2006, their PTC contributions are deposited and invested in the Stable Value Fund in the PTC Plan.

The assets of the Plans are held in trust and administered by the Deferred Compensation Advisory Committee (DCAC). The DCAC is comprised of seven members – one member representing management employees, one member representing police department employees, one member representing fire department employees, two members representing the other five employee organizations and two members appointed by the City Manager.

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS

Notes to Financial Statements
For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 1 – PLANS DESCRIPTION (Continued)

Contributions – During each payroll period in which an employee is a participant in the Plans, the City will defer payment of the employee’s compensation (as specified by the participating employee). The maximum that each participant may defer under the Plans for any taxable year shall not exceed the lesser of:

1. The dollar amount permitted under IRC 457; or
2. The percentage limitation applied to the participant’s includible compensation.

In addition, the maximum deferral described above is not applicable for one or more of the participant’s last three taxable years ending before the attainment of normal retirement age. In that instance, the maximum shall be the lesser of:

1. Twice the dollar amount permitted under IRC 457; or
2. The sum of:
 - a. The maximum deferral amount established for the purposes of Section 3.48.040.A or 3.50.040.B of the Municipal Code for the taxable year (determined without regard to Section 3.48.040.B or 3.50.040.C); plus
 - b. The maximum deferral amount established for the purposes of Section 3.48.040.A or 3.50.040.B of the Municipal Code for taxable years beginning after December 31, 1978, and before the taxable year as has not previously been used under Section 3.48.040.A or 3.50.040.B, or under Section 3.48.040.B or 3.50.040.C.

Furthermore, beginning January 1, 2002, a participant who has attained the age of fifty years before the close of the tax year, and with respect to whom no other elective deferrals may be made to the plan for the year by reason of the limitations set forth under Section 3.48.040A, may specify in the participation agreement that the participant elects to make deferrals in addition to those permitted by Section 3.48.040A in the amount not to exceed:

1. The dollar amount permitted under Section 414(v)(2)(B) of the Internal Revenue Code (IRC) as adjusted for the cost-of-living in accordance with Section 414(v)(2)(C) of the IRC; or
2. The portion of the participants compensation (as defined in Section 415(C)(3) of the IRC) that is in excess of any other elective deferrals of the participant for such year as are made without regard to Section 3.48.040.B.

Participants in the 457 Plan may also contribute amounts representing distributions from other qualified IRC 457 deferred compensation plans of any local government, state or tax-exempt organization.

Participant Accounts – The account of each participant is credited with the participant’s contribution and allocations of the Plans’ earnings and charged with an allocation of administrative expenses. Allocations are based on participant earnings on account balances. The account of each PTC participant is also credited with the City’s matching contribution.

Vesting – Participants are immediately vested in the employee and employer contributions plus actual earnings thereon.

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 1 – PLANS DESCRIPTION (Continued)

Payment of Benefits – On termination of service due to death, disability, or retirement, a participant (or a participant’s beneficiary) may elect to receive either a lump-sum amount equal to the value the participant’s interest in his or her account or periodic installments during the lifetime of the participant less any federal or state income tax required to be withheld.

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 Plans 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 Plans 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 Plans.

Investment Valuation – The Plans’ 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.

Loans Receivable from Participants – The IRC permits and the City allows participants in the 457 Plan to participate in a loan program. The loans are secured by the remaining balance in the participant’s account and must be repaid over a period that does not exceed five years, except that if the loan is for the purchase of a principal residence, the loan may be repaid over a period not to exceed twenty years. The maximum amount of loans to participants is the lesser of \$50,000 or 50% of the participant’s vested account balance as of the day immediately preceding the date on which the loan is approved. The maximum number of loans that can be outstanding at one time for a participant is two.

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

NOTE 3- NEW ACCOUNTING STANDARD IMPLEMENTED

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purpose. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. As of June 30, 2016, the Plans adopted GASB Statement No. 72, which did not have a significant impact on its financial statements. The plans have disclosed fair value measurements for assets held in the plans in Note 4 below.

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 4 – INVESTMENTS

457 Plan participants may direct contributions into any of the investment options offered by the Plans' 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.

The Plans 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 types are listed on page 15 and page 16.

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 4 – INVESTMENTS (Continued)

The following presents investments at June 30, 2016 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 (dollars in thousands):

Investments	Average Effective Maturity	Credit Rating	6/30/2016	
457 Plan				
Investments measured at the net asset value (NAV)				
Short-Term Funds				
Stable Value Fund	3.56 years	AA-	\$ 214,563	*
Vanguard Federal Money Market	116 days	Not Rated	7,741	
Ameritrade SDBA	n/a	n/a	22,544	
Bonds Funds				
Loomis Sayles Core Plus Bd FN	9.75 years	BBB	20,357	**
BlkRck InPrtdBnd - Inst sh	10.58 years	AA	6,243	**
Templeton Global Bond VIP Fd 1	2.71 years	BB	6,133	**
Global International Funds				
American Funds EuroPacific R5	n/a	n/a	20,760	**
Oppenheimer Developing Mkts FY	n/a	n/a	9,251	**
DFA Int'l Small CO - Class	n/a	n/a	4,110	**
Vanguard Tot Intl St Indx Fd Sig	n/a	n/a	2,966	**
Asset Allocation Funds				
Moderate Custom Lifestyle Port	n/a	n/a	92,226	* **
Aggressive Custom Lifestyle Port	n/a	n/a	65,657	* **
Conservative Custom Lifestyle Port	n/a	n/a	17,707	**
Vanguard T Retirement 2025	n/a	n/a	3,889	**
Vanguard Tgt Ret 2020 - Inv	n/a	n/a	2,924	**
Vanguard T Retirement 2035	n/a	n/a	2,291	**
Vanguard T Retirement 2015	n/a	n/a	2,214	**
Vanguard T Retirement 2045	n/a	n/a	2,094	**
Vanguard Tgt Ret 2055 - Inv	n/a	n/a	1,857	**
Vanguard Tgt Ret 2030 - Inv	n/a	n/a	1,719	**
Vanguard T Retirement Income	n/a	n/a	1,293	**
Vanguard Tgt Ret 2050 - Inv	n/a	n/a	1,220	**
Vanguard Tgt Ret 2040 - Inv	n/a	n/a	1,031	**
Vanguard Tgt Ret 2010 - Inv	n/a	n/a	428	**
Large Cap Growth Funds				
American Funds Growth End R5	n/a	n/a	80,200	* **
Fidelity Adv New Insights I	n/a	n/a	21,699	**
Large Cap Value Funds				
Vanguard Tot Stok mrkt Ind-Instl	n/a	n/a	37,219	**
Vanguard Institutl Index (Inst)	n/a	n/a	31,894	**
The Yacktman Fund Sr	n/a	n/a	29,156	**
Vanguard Equity Income Fund Adm	n/a	n/a	15,140	**
Parnassus Core Equity Fund Inst	n/a	n/a	4,381	**
Allianz GI NFJ Div Value Fund - I	n/a	n/a	2	**
Small-Cap/Mid-Cap Funds				
Janus Enterprise Fund N	n/a	n/a	16,907	**
Vanguard Sml-Cap Index-Instl	n/a	n/a	16,165	**
Vanguard Mid-Cap Index-Instl	n/a	n/a	16,014	**
JPMorgan Md Cap Value Fund Cls Shr	n/a	n/a	7,881	**
Perkins SmCp V1 F-J Sh	n/a	n/a	2,389	**
Emerald Growth Fund Inst	n/a	n/a	1,439	**
Specialty Fund - Real Estate				
Voya Clarion Real Est Prtinstl	n/a	n/a	10,305	
Total investments measured at the NAV			<u>802,009</u>	
Annuities	n/a	n/a	1,742	**
Total 457 Plan investments measured at fair value			<u>\$ 803,751</u>	
PTC Plan				
Stable Value Option Fund	3.56 years	AA-	\$ 17,953	

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

** Represents funds holding international investments

CITY OF SAN JOSE
DEFERRED COMPENSATION PLANS
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 4 – INVESTMENTS (Continued)

The following presents investments at June 30, 2015 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 (dollars in thousands):

Investments	Average Effective Maturity	Credit Rating	6/30/2015		
457 Plan					
Investments measured at the net asset value (NAV)					
Short-Term Funds					
Stable Value Fund	3.76 Years	AA-	\$ 203,022	*	
Vanguard Prime Money Market Fund	41 days	Not Rated	7,238		
Ameritrade SDBA	n/a	n/a	23,686		
Bonds Funds					
Loomis Sayles Core Plus Bd FN	9.27 years	BBB	19,194	**	
BlkRck InPrtdBnd - Inst sh	10.42 years	AA	5,256	**	
Templeton Global Bond VIP Fd 1	2.36 years	BBB	7,169	**	
Global International Funds					
American Funds EuroPacific R5	n/a	n/a	25,180	**	
Oppenheimer Developing Mkts FY	n/a	n/a	10,507	**	
DFA Int'l Small CO - Class	n/a	n/a	3,792	**	
Vanguard Tot Intl St Indx Fd Sig	n/a	n/a	3,443	**	
Asset Allocation Funds					
Moderate Custom Lifestyle Port	n/a	n/a	93,998	* **	
Aggressive Custom Lifestyle Port	n/a	n/a	65,253	* **	
Conservative Custom Lifestyle Port	n/a	n/a	16,707	**	
Vanguard T Retirement 2025	n/a	n/a	2,736	**	
Vanguard Tgt Ret 2020 - Inv	n/a	n/a	2,585	**	
Vanguard T Retirement 2035	n/a	n/a	1,562	**	
Vanguard T Retirement 2015	n/a	n/a	2,438	**	
Vanguard T Retirement 2045	n/a	n/a	1,950	**	
Vanguard Tgt Ret 2055 - Inv	n/a	n/a	1,132	**	
Vanguard Tgt Ret 2030 - Inv	n/a	n/a	1,417	**	
Vanguard T Retirement Income	n/a	n/a	725	**	
Vanguard Tgt Ret 2050 - Inv	n/a	n/a	698	**	
Vanguard Tgt Ret 2040 - Inv	n/a	n/a	842	**	
Vanguard Tgt Ret 2010 - Inv	n/a	n/a	279	**	
Large Cap Growth Funds					
American Funds Growth End R5	n/a	n/a	81,825	* **	
Fidelity Adv New Insights I	n/a	n/a	22,464	**	
Large Cap Value Funds					
Vanguard Tot Stok mrkt Ind-Instl	n/a	n/a	38,119	**	
Vanguard Institutl Index (Inst)	n/a	n/a	30,606	**	
The Yacktman Fund Sr	n/a	n/a	29,242	**	
Parnassus Core Equity Fund Inst	n/a	n/a	4,734	**	
Allianz GI NFJ Div Value Fund - I	n/a	n/a	17,031	**	
Small-Cap/Mid-Cap Funds					
Fidelity VIP Mid Cap Portfolio (Init)	n/a	n/a	18,973	**	
Vanguard Sml-Cap Index-Instl	n/a	n/a	19,042	**	
Vanguard Mid-Cap Index-Instl	n/a	n/a	17,788	**	
JPMorgan Md Cap Value Fund Cls Shr	n/a	n/a	9,763	**	
Perkins SmCp V1 F-J Sh	n/a	n/a	1,291	**	
Wanger USA Fund	n/a	n/a	2,112	**	
Specialty Fund - Real Estate					
Voya Clarion Real Est Prtinstl	n/a	n/a	9,068		
Total investments measured at the NAV			802,867		
Annuities	n/a	n/a	1,981	**	
Total 457 Plan investments measured at fair value			\$ 804,848		
PTC Plan					
Stable Value Option Fund	3.76 years	AA-	\$ 16,362		

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

** Represents funds holding international investments

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NOTE 4 – 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 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 4 – INVESTMENTS (Continued)

Large Cap Value Funds. This type includes investments in 6 pooled separate accounts 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 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 investment in 1 pooled separate account invest 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. Investment in this type does not have any unfunded commitments. Investment 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 does 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 Voya Retirement Insurance and Annuity Company (VRIAC). The value of the Fixed Accounts are 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 Plans’ investments are identified on pages 13 and 14.

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NOTE 4 – INVESTMENTS (Continued)

Credit risk

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 rating of Plans' investments are identified on pages 13 and 14.

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 pages 13 and 14.

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' investment 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 pages 13 and 14. Since all investments are participant directed, all risks exist at the participant level.