

**CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY
ASSOCIATION PLANS**

Independent Auditor's Report,
and Basic Financial Statements

For the Period from
Inception (November 1, 2017)
through June 30, 2018



Certified
Public
Accountants

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
For the Period from Inception (November 1, 2017) through June 30, 2018

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Independent Auditor's Report

VEBA Advisory Committee
City of San José VEBA Plan
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the two Voluntary Employee Beneficiary Association (VEBA) Plans of the City of San José, California (City), the City of San José Federated VEBA Health Savings Plan and the City of San José Police and Fire VEBA Health Savings Plan (collectively "the VEBA Plans"), of as of and for the period from inception (November 1, 2017) through June 30, 2018, 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 opinions 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 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 positions of the VEBA Plans as of June 30, 2018, and the respective changes in financial positions for the period from inception (November 1, 2017) through June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Basis of Presentation

As discussed in Note 2, the financial statements of the VEBA Plans are intended to present the financial positions, the changes in financial positions 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.

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
November 30, 2018

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CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Statements of Net Position Due to Participants
June 30, 2018

| <i>Police and Fire Departments</i> | <u>2018</u> |
|---|----------------------------|
| Assets | |
| Investments at fair value | |
| Short Term Funds | \$ 7,551,439 |
| Global Internation Funds | 82,657 |
| Assets Allocation Funds | 291,723 |
| Large Cap Growth Funds | 94,185 |
| Large Cap Value Funds | 185,808 |
| Small- Cap/Mid-Cap Funds | <u>76,205</u> |
| Total investments at fair value | 8,282,017 |
| Liabilities | |
| | <u>-</u> |
| Net position due to participants | <u><u>\$ 8,282,017</u></u> |

| <i>Federated Employees</i> | <u>2018</u> |
|-----------------------------------|-----------------------------|
| Assets | |
| Investments at fair value | |
| Short Term Funds | \$ 12,922,474 |
| Bonds Funds | 19,301 |
| Global Internation Funds | 107,785 |
| Assets Allocation Funds | 739,851 |
| Large Cap Growth Funds | 59,843 |
| Large Cap Value Funds | 202,694 |
| Small- Cap/Mid-Cap Funds | 44,079 |
| Specialty Fund- Real Estate | <u>6,743</u> |
| Total investments at fair value | 14,102,770 |
| Liabilities | |
| | <u>-</u> |
| Net position due to participants | <u><u>\$ 14,102,770</u></u> |

See accompanying notes to the financial statements.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
 Statements of Changes in Net Position Due to Participants
 For the Period from Inception (November 1, 2017) through June 30, 2018

| <i>Police and Fire Departments</i> | <u>2018</u> |
|---|-----------------------------|
| Additions | |
| Transfer from the San Jose Police & Fire Retirement Plan | \$ 7,896,871 |
| Employee contributions | 361,950 |
| Investment Income | 17,366 |
| Investment Expense | <u>7,548</u> |
| Net investment income | <u>24,914</u> |
| Total additions | 8,283,735 |
| Deductions | |
| Administration fees | <u>(1,718)</u> |
| Change in net position | 8,282,017 |
| Net position due to participants | |
| Beginning of year | <u>-</u> |
| End of year | <u><u>\$ 8,282,017</u></u> |
| | |
| <i>Federated Employees</i> | <u>2018</u> |
| Additions | |
| Transfer from the San Jose Federated Employees' Retirement System | \$ 13,496,598 |
| Employee contributions | 581,590 |
| Investment Income | 29,431 |
| Investment Expense | <u>4,073</u> |
| Net investment income | <u>33,504</u> |
| Total additions | 14,111,692 |
| Deductions | |
| Administration fees | <u>(8,922)</u> |
| Change in net position | 14,102,770 |
| Net position due to participants | |
| Beginning of year | <u>-</u> |
| End of year | <u><u>\$ 14,102,770</u></u> |

See accompanying notes to the financial statements.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Notes to the Financial Statements
For the Period from Inception (November 1, 2017) through June 30, 2018

NOTE 1 – PLANS DESCRIPTION

The following description of the City of San José's (City's) Voluntary Employee Beneficiary Association Plans (VEBA Plans) provides only general information. Participants should refer to the VEBA Plans' agreement and the Municipal Codes for a more complete description of the VEBA Plans provisions.

A VEBA is a tax-exempt trust instrument authorized by Internal Revenue Code 501(c)(9) through which eligible healthcare benefits, such as post-retirement healthcare premiums, prescriptions, co-pays, and other healthcare related expenses, can be reimbursed. Members of the VEBA Plans can use their account assets after retirement to pay for premiums in the City's healthcare and dental plans. These assets may also be used for any other expenses permitted by the plan, including paying premiums for other plans nationwide or internationally.

As a part of the City's Alternative Pension Reform Frameworks, employees who are a part of the current Defined Benefit Retiree Healthcare plan were provided with a one-time irrevocable opportunity to voluntarily choose to opt-in to the VEBA Plans or stay in the Defined Benefit Retiree Healthcare plan. This was an irrevocable election. Employees who elected to opt-in to the VEBA Plans are no longer eligible for and have waived any entitlement to receive any Defined Benefit Retiree Healthcare plan benefits to which he/she might have been entitled. Employees who do not sign the VEBA Election Form remain covered by the Defined Benefit Retiree Healthcare plan under the currently applicable collective bargaining agreement or compensation plan.

Effective November 1, 2017, the City maintains two VEBA Plans: City of San Jose Federated VEBA Health Savings Plan (Federated VEBA Plan) and the City of San Jose Police and Fire VEBA Health Savings Plan (P&F VEBA Plan). The following is a brief description of the City's two VEBA Plans:

- Federated VEBA Plan is described in Chapter 3.58 of the San José Municipal Code. All full-time Federated Tier 2B are mandated to join the VEBA, with the exception of Unit 99. Unit 99 employees had a one-time option to receive the one-time contribution of funds into an individual VEBA account from the Retiree Healthcare 115 Trust, but are not eligible to contribute a percentage of pay into the VEBA on an ongoing basis. VEBA contribution rate is 2.5% for mandated Federated Tier 2B employees, such as CAMP, AEA, AMSP, and ALP, and 3.5% for opted-in Federated Tier 1 and 2A employees such as MEF, CEO, IBEW, OE#3, and ABMEI. Federated VEBA Plan currently utilizes Voya Retirement Insurance and Annuity Company (VRIAC) as its investment administrator.
- P&F VEBA Plan is described in Chapter 3.57 of the San José Municipal Code. All full-time Police and Fire Tier 2 employees are mandated to join the VEBA. VEBA contribution rate is 4.0% for Police and Fire Tier 2 employees. The Sworn VEBA Plan currently utilizes Voya Retirement Insurance and Annuity Company (VRIAC) as its investment administrator.

The assets of the Plans are held in trust and administered by the VEBA Advisory Committee (VAC). The VAC consists of five members – one active member of the San Jose Firefighters, one active member of the San Jose Police Officers' Association, two active members of the Federated Unions, and one active member of unrepresented employees. The VAC uses Conduent Consultants as their investment consultant. Conduent Consultants performs tasks such as helping formulate an Investment Policy, provide investment performance reports, conduct manager searches, and attend VAC meetings.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Notes to Financial Statements
For the Period from Inception (November 1, 2017) through June 30, 2018

NOTE 1 – PLANS DESCRIPTION (Continued)

- *Contributions* – Members in the VEBA Plans are mandated to contribute a specific percentage of their base pay into the VEBA Plans as stated in the brief descriptions of the plans above. The eligible employees can contribute only the above stated percentages into the VEBA Plans. There are no required contributions by the City to the VEBA Plans.

Participant Accounts – As VEBA Plans are provided by Voya and TASC/Genesis, the third-party administrator of the program, Voya provides investment management services and TASC/Genesis provides individual account management and claims processing services.

Payment of Benefits – The VEBA Plans reimburse eligible medical expenses for individuals who have either 1) terminated City service and have reached the required retirement age based on their retirement tier and system or 2) retired for service, service-connected disability, or non-service connected disability. If an employee becomes a member of a reciprocal retirement system, the VEBA funds can be accessed after retirement from that system. The VEBA Plans reimburse out-of-pocket healthcare costs (including but not limited to insurance premiums, co-pays and deductibles, prescription costs, Medicare Part B premiums, supplemental insurance premiums, and most over-the-counter medications and supplies, etc.) incurred by employees, their spouses and qualifying dependents. As a defined contribution plan, the only funds available in the VEBA Plans are the contributions made while employed and any investment returns on those funds. Once the funds in the VEBA Plans are exhausted, the employee will no longer be able to reimburse their eligible healthcare expenses. If an employee or former employee passes away prior to using all of the funds, eligible survivors can use the funds in accordance with IRS rules. VEBA funds may only be used for eligible medical expenses for the employee and/or eligible dependents.

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.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Notes to Financial Statements
For the Period from Inception (November 1, 2017) through June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 – TRANSFERS FROM THE CITY OF SAN JOSE PENSION PLANS

Prior to the effective date of the VEBA plans and the opt-in election, the healthcare contributions of members who opted into the VEBA plans were held by the San José Police & Fire Retirement Plan and the San José Federated Employees’ Retirement System (collectively “pension plans”). The contributions for the members who opted in to the VEBA and opted out of the defined benefit healthcare plan were transferred from the respective pension plans in March 2018.

NOTE 4 – INVESTMENTS

VEBA Plans’ participants may direct contributions into any of the investment options offered by the VEBA 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 categorize their 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.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Notes to Financial Statements

For the Period from Inception (November 1, 2017) through June 30, 2018

NOTE 4 – 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 | Federated 6/30/2018 | Police & Fire 6/30/2018 | |
|--|----------------------------------|------------------|------------------------|----------------------------|----|
| Investments measured at the net asset value (NAV) | | | | | |
| Short-Term Funds | | | | | |
| Vanguard Federal Money Market | 48 days | Not Rated | \$ 129 | \$ - | |
| Voya Fixed Account | n/a | n/a | 12,921,557 * | 7,487,986 * | |
| Voya Holding Account | n/a | n/a | 788 | 63,453 | |
| Bonds Funds | | | | | |
| Loomis Sayles Core Plus Bd FN | 8.69 years | BBB | 9,524 | - | ** |
| BlkRck InPrtdBnd - Inst sh | 8.83 years | AA | 194 | - | ** |
| Templeton Global Bond VIP Fd 1 | 2.45 years | BB | 9,583 | - | ** |
| Global International Funds | | | | | |
| American Funds EuroPacific R5 | n/a | n/a | 9,471 | 9,083 | ** |
| Oppenheimer Developing Mkts FY | n/a | n/a | 52,807 | 44,422 | ** |
| DFA Int'l Small CO - Class | n/a | n/a | 9,334 | 7,461 | ** |
| Vanguard Tot Intl St Indx Fd Sig | n/a | n/a | 36,173 | 21,691 | ** |
| Asset Allocation Funds | | | | | |
| Moderate Custom Lifestyle Port | n/a | n/a | 186,842 | - | ** |
| Aggressive Custom Lifestyle Port | n/a | n/a | 131,827 | 93,062 | ** |
| Conservative Custom Lifestyle Port | n/a | n/a | 41,399 | 31,508 | ** |
| Vanguard T Retirement 2025 | 8.70 years | AA | 32,515 | 26,354 | ** |
| Vanguard Tgt Ret 2020 - Inv | 8.07 years | AA | 28,147 | 52,264 | ** |
| Vanguard T Retirement 2035 | 8.70 years | AA | 66,880 | 41,862 | ** |
| Vanguard T Retirement 2015 | 7.49 years | AA | 14,990 | - | ** |
| Vanguard T Retirement 2045 | 8.69 years | AA | 2,815 | 9,289 | ** |
| Vanguard Tgt Ret 2055 - Inv | 8.69 years | AA | 466 | - | ** |
| Vanguard Tgt Ret 2030 - Inv | 8.70 years | AA | 120,608 | 26,175 | ** |
| Vanguard T Retirement Income | 7.25 years | AA | 18,556 | - | ** |
| Vanguard Tgt Ret 2050 - Inv | 8.69 years | AA | 54,430 | 11,209 | ** |
| Vanguard Tgt Ret 2040 - Inv | 8.70 years | AA | 40,304 | - | ** |
| Vanguard Tgt Ret 2060 - Inv | 8.69 years | AA | 72 | - | ** |
| Large Cap Growth Funds | | | | | |
| American Funds Growth End R5 | n/a | n/a | 59,374 | 42,616 | ** |
| Fidelity Adv New Insights I | n/a | n/a | 469 | 51,569 | ** |
| Large Cap Value Funds | | | | | |
| Vanguard Tot Stok mrkt Ind-Instl | n/a | n/a | 65,782 | 78,229 | ** |
| Vanguard Institutl Index (Inst) | n/a | n/a | 59,344 | 13,518 | ** |
| The Yacktman Fund Sr | n/a | n/a | 46,201 | 51,238 | ** |
| Vanguard Equity Income Fund Adm | n/a | n/a | 12,408 | 42,823 | ** |
| Parnassus Core Equity Fund Inst | n/a | n/a | 18,959 | - | ** |
| Small-Cap/Mid-Cap Funds | | | | | |
| Janus Henderson Enterprise Fund N | n/a | n/a | 14,845 | 26,429 | ** |
| Vanguard Sml-Cap Index-Instl | n/a | n/a | 808 | 11,761 | ** |
| Vanguard Mid-Cap Index-Instl | n/a | n/a | 18,993 | 4,257 | ** |
| JPMorgan Md Cap Value Fund Cls L Shr | n/a | n/a | 133 | 4,293 | ** |
| Janus Henderson Small cap Value Fund I | n/a | n/a | 19 | 25,770 | ** |
| Emerald Growth Fund Inst | n/a | n/a | 9,281 | 3,695 | |
| Specialty Fund - Real Estate | | | | | |
| Voya Clarion Real Est Prtinstl | n/a | n/a | 6,743 | - | |
| Total VEBA Plan investments measured at fair value | | | \$ 14,102,770 | \$ 8,282,017 | |

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

** Represents funds holding international investments

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Notes to Financial Statements
For the Period from Inception (November 1, 2017) through June 30, 2018

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 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.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Notes to Financial Statements
For the Period from Inception (November 1, 2017) through June 30, 2018

NOTE 4 – 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.

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Notes to Financial Statements
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NOTE 4 – INVESTMENTS (Continued)

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 Plans' investments are identified on page 9.

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.