

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

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

For the Years Ended June 30, 2020 and 2019



Certified  
Public  
Accountants

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
For the Years Ended June 30, 2020 and 2019

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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 and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Plan's 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 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, 2020 and 2019, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

*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 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
October 9, 2020

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Management’s Discussion and Analysis  
For the Years Ended June 30, 2020 and 2019  
(Unaudited)

The following discussion and analysis of the City of San José’s (City) Defined Contribution 401(a) (Plan) financial performance provides an overview of their basic financial activities for the fiscal years ended June 30, 2020 and 2019. Please read it in conjunction with the Plan’s financial statements, which begin on page 5. 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 Plan. To the best of our actual knowledge and belief, the financial statements, as presented, are accurate in all material respects.

***Financial Highlights – 2020***

- At the close of the fiscal year, June 30, 2020, the net position due to Plan participants was \$2.1 million. This represents an increase of \$457.3 thousand from the prior year ending balance.
- Investment earnings and contributions exceeding the payments to participants were the primary reasons for an increase to net position.

***Financial Highlights – 2019***

- At the close of the fiscal year, June 30, 2019, the net position due to Plan participants was \$1.6 million. This represents an increase of \$389.0 thousand from the prior year ending balance.
- Investment earnings and contributions exceeding the payments to participants were the primary reasons for an increase to net position.

***Financial Statements***

The financial reports for the Plan 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, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Invesmtents at fair value	\$ 2,093,508	\$ 1,636,249	\$ 1,247,296
Net position due to participants	<u>\$ 2,093,508</u>	<u>\$ 1,636,249</u>	<u>\$ 1,247,296</u>

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Management's Discussion and Analysis  
For the Years Ended June 30, 2020 and 2019  
(Unaudited)

*Financial Statements (Continued)*

The following table indicates the changes in net position for the fiscal years ended June 30, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Additions	\$ 504,077	\$ 466,210	\$ 419,843
Deductions	(46,818)	(77,257)	(36,527)
Net increase	457,259	388,953	383,316
Net position, beginning of year	1,636,249	1,247,296	863,980
Net position, end of year	<u>\$ 2,093,508</u>	<u>\$ 1,636,249</u>	<u>\$ 1,247,296</u>

**2020 Analysis**

The net position due to participants increased by \$457.3 thousand, or 27.9 percent, in fiscal year 2019-2020. This change in net position is mainly due to investment income and contributions exceeding the payments to participants.

The total additions to net position of \$504.1 thousand in fiscal year 2019-2020 increased by \$37.9 thousand from \$466.2 thousand in fiscal year 2018-2019. The increase is mainly due to an increase in employee contributions. Total deductions from net position of \$46.8 thousand in fiscal year 2019-2020 decreased by \$30.4 thousand from \$77.3 thousand in fiscal year 2018-2019. The change is mainly due to the decrease in payments to participants.

**2019 Analysis**

The net position due to participants increased by \$389.0 thousand, or 31.2 percent, in fiscal year 2018-2019. This change in net position is mainly due to investment income and contributions exceeding the payments to participants.

The total additions to net position of \$466.2 thousand in fiscal year 2018-2019 increased by \$46.4 thousand from \$419.8 thousand in fiscal year 2017-2018. The increase is mainly due to a decrease in employee contributions. Total deductions from net position of \$77.3 thousand in fiscal year 2018-2019 increased by \$40.7 thousand from \$36.5 thousand in fiscal year 2017-2018. The change is mainly due to the increase in payments to participants.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
 Statements of Net Position Due to Participants  
 June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
Assets		
Investments at fair value		
Short Term Funds	\$ 62,253	\$ 15,570
Global International Funds	20,551	12,690
Assets Allocation Funds	1,869,402	1,499,615
Large Cap Growth Funds	38,070	36,717
Large Cap Value Funds	62,554	36,840
Small-Cap/Mid-Cap Funds	25,063	25,282
Specialty Fund- Real Estate	15,615	9,535
Total investments at fair value	2,093,508	1,636,249
Net position due to participants	\$ 2,093,508	\$ 1,636,249

See accompanying notes to the financial statements.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
 Statements of Change in Net Position Due to Participants  
 For the Years Ended June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
<b>Additions</b>		
Employee contributions	\$ 439,116	\$ 373,588
Investment income	64,961	92,622
Total additions	504,077	466,210
<b>Deductions</b>		
Payments to participants	(46,818)	(77,257)
Change in net position	457,259	388,953
<b>Net position due to participants</b>		
Beginning of year	1,636,249	1,247,296
End of year	\$ 2,093,508	\$ 1,636,249

See accompanying notes to the financial statements.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

**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.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2020 and 2019

**NOTE 1 – PLAN DESCRIPTION (Continued)**

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

*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 reported using the economic resources measurement focus and 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. For Fiscal Year 2019-2020, the VRIAC pooled separate accounts are also valued at the net asset value. For Fiscal Year 2018-2019, 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.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2020 and 2019

**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.

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 pages 11 and 12.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2020 and 2019

**NOTE 3 – INVESTMENTS (Continued)**

The following presents investments at June 30, 2020 and 2019 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	June 30, 2020	June 30, 2019	
<b>401(a) Plan</b>					
<b>Investments measured at the net asset value (NAV)</b>					
<b>Short-Term Funds</b>					
Stable Value Fund	4.26 years	AA+	\$ 46,299	\$ -	
Vanguard Federal Money Market	n/a	Not Rated	15,954	15,570	
<b>Global International Funds</b>					
Oppenheimer Developing Mkts FY	n/a	n/a	15,399	7,311	**
Vanguard Tot Intl St Indx Fd Sig	n/a	n/a	5,153	5,379	**
<b>Asset Allocation Funds</b>					
Vanguard T Retirement 2025	8.61 years	A	144,164	131,396	* **
Vanguard Tgt Ret 2020 - Inv	7.69 years	AA	118,574	-	* **
Vanguard T Retirement 2035	8.64 years	A	145,548	83,845	* **
Vanguard T Retirement 2015	7.31 years	AA	6,311	2,285	**
Vanguard T Retirement 2045	8.65 years	A	257,608	196,437	* **
Vanguard Tgt Ret 2055 - Inv	8.67 years	A	464,774	399,453	* **
Vanguard Tgt Ret 2030 - Inv	8.64 years	A	406,425	453,904	* **
Vanguard Tgt Ret 2050 - Inv	8.67 years	A	189,072	172,588	* **
Vanguard Tgt Ret 2040 - Inv	8.62 years	A	71,071	41,864	**
Vanguard Tgt Ret 2060 - Inv	8.63 years	A	59,483	17,844	**
Vanguard Tgt Ret 2065 - Inv	8.62 years	AA	6,371	-	**
<b>Large Cap Growth Funds</b>					
American Funds Growth End R5	n/a	n/a	25,922	26,845	**
Fidelity Adv New Insights I	n/a	n/a	12,148	9,872	**
<b>Large Cap Value Funds</b>					
Vanguard Tot Stok mrkt Ind-Instl	n/a	n/a	11,700	14,158	**
Vanguard Institutl Index (Inst)	n/a	n/a	20,700	6,825	**
The Yacktman Fund Sr	n/a	n/a	8,097	7,726	**
Parnassus Core Equity Fund Inst	n/a	n/a	22,057	8,132	**
<b>Small-Cap/Mid-Cap Funds</b>					
Janus Henderson Enterprise Fund N	n/a	n/a	14,490	14,464	**
Vanguard Sml-Cap Index-Instl	n/a	n/a	6,514	6,908	**
Emerald Growth Fund Inst	n/a	n/a	4,060	3,910	
<b>Specialty Fund - Real Estate</b>					
Voya Clarion Real Est Prtinstl	n/a	n/a	15,615	9,535	
Total 401(a) Plan investments measured at fair value			<u>\$ 2,093,508</u>	<u>\$ 1,636,249</u>	

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

\*\* Represents funds holding international investments

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2020 and 2019

**NOTE 3 – INVESTMENTS (Continued)**

*Short-Term Funds.* This type includes investments in 2 separate accounts (1 as of June 30, 2019) 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.

*Global International Funds.* This type includes investments in 2 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 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.

*Large Cap Value Funds.* This type includes investments in 4 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.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2020 and 2019

**NOTE 3 – INVESTMENTS (Continued)**

*Small-Cap/Mid-Cap Funds.* This type includes investments in 3 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.

**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 10.

**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 10.

**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 10.

**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 VRIAC 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 10. Since all investments are participant directed, all risks exist at the participant level.