City of Phoenix
Deferred Compensation Plan
Section 457

Financial Report
December 31, 2023

Contents

RSM US LLP

Independent Auditor's Report

City of Phoenix Deferred Compensation Board
City of Phoenix Deferred Compensation Plan

Opinion

We have audited the financial statements of the City of Phoenix – Section 457 Deferred Compensation Plan (the Plan) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2023, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Plan, as of and for the year ended December 31, 2022, were audited by other auditors, whose report, dated October 31, 2023, expressed an unmodified opinion on those statements.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

RSM US LLP

Washington, D.C.
July 18, 2024

City of Phoenix Deferred Compensation Plan
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Management's Discussion and Analysis

This discussion and analysis of the City of Phoenix Deferred Compensation Plan (the Plan) and its financial performance provides an overview of the Plan's financial position and activities as of and for the years ended December 31, 2023, 2022 and 2021. Please read it in conjunction with the Plan's financial statements, which follow this section. This information is presented as required supplemental information to the financial statements.

Financial Highlights

Net position available for Plan benefits was $2.00 billion, $1.74 billion and $2.06 billion as of December 31, 2023, 2022 and 2021, respectively. Changes in net position are primarily attributable to contributions, Plan investment income (loss) and distributions from year to year.

Employee contributions increased from $81 million for the year ended December 31, 2022, to $89.5 million for the year ended December 31, 2023. Contributions increased by approximately $4.5 million, from $76.5 million for the year ended December 31, 2021, to $81 million for the year ended December 31, 2022. The fluctuation in contributions from year to year is primarily due to changes in active Plan participants and participant changes in voluntary contributions. There were 10,482, 9,769 and 10,212 active Plan participants at December 31, 2023, 2022 and 2021, respectively.

Variable earnings investment income increased by approximately $567.1 million, from a $306.7 million loss for the year ended December 31, 2022, to a $260.4 million gain for the year ended December 31, 2023. Variable earnings investment income decreased by approximately $542.6 million, from $236 million gain for the year ended December 31, 2021, to a $306.7 million loss for the year ended December 31, 2022. The fluctuations in earnings from year to year were primarily due to market conditions in each fiscal year. The Plan's overall average rate of return on variable earnings investments was 16.19%, (20.96%) and 13.05% for the years ended December 31, 2023, 2022 and 2021, respectively.

Distributions to participants decreased by approximately $214 thousand, from $99.0 million for the year ended December 31, 2022, to $98.8 million for the year ended December 31, 2023. Distributions to participants increased by approximately $5.0 million, from $94.0 million for the year ended December 31, 2021, to $99.0 million for the year ended December 31, 2022. The fluctuations in distributions to participants from year to year can be attributed to the number of participants receiving a distribution in each fiscal year. There were 3,580, 3,545 and 3,219 individuals who received a distribution from the Plan during 2023, 2022 and 2021, respectively.

Administrative and asset fees paid for the years ended December 31, 2023, 2022 and 2021, were $1,067,000, $1,066,000 and $839,000, respectively. The fluctuation in fees from year to year can be attributed to the fluctuation in account balances and the revised fee and expense policy statement, which now charges a fee against all assets, including those in the self-directed brokerage option.

As of December 31, 2023, 2022 and 2021, the total balance of loans outstanding to participants was approximately $29.3 million, $27.2 million and $27.4 million, respectively. See Note 4 to the financial statements for further analysis of participant loans.

Management's Discussion and Analysis

Overview of the Financial Statements

The statements of fiduciary net position provide the financial position of the Plan at December 31, 2023 and 2022.

The statements of changes in fiduciary net position summarize the Plan's financial activities that occurred during the years ended December 31, 2023 and 2022.

The notes to financial statements provide additional information that is essential to a full understanding of the financial statements and include detailed information not readily evident in the basic financial statements.

The analysis below focuses on net position available for benefits (Table 1) and changes in net position available for benefits (Table 2).

The following summary of fiduciary net position and the summary of changes in fiduciary net position provide information about the financial position and activities of the Plan as a whole.

Table 1
Fiduciary Net Position

	2023	2022	2021
Total investments	$ 1,972,829,449	$ 1,715,963,602	$ 2,034,211,157
Total receivables	29,305,245	27,227,906	27,486,387
Net position available for plan benefits	$ 2,002,134,694	$ 1,743,191,508	$ 2,061,697,544

Table 2
Changes in Fiduciary Net Position

	2023	2022	2021
Additions to net position attributed to:			
Variable earnings investment income (loss)	$ 260,360,862	$ (306,704,246)	$ 235,938,583
Employee contributions	89,465,195	80,998,298	76,496,706
Interest income	8,973,307	7,268,798	6,596,734
Total additions	358,799,364	(218,437,150)	319,032,023
Deductions from net position attributed to:			
Distributions to participants	98,789,128	99,003,108	94,048,218
Administrative fees and asset fees	1,067,050	1,065,778	839,088
Total deductions	99,856,178	100,068,886	94,887,306
Net increase (decrease)	$ 258,943,186	$ (318,506,036)	$ 224,144,717

Financial Contact

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have any questions about the report or need additional financial information, contact the Staff Coordinator for the Deferred Compensation and Defined Contribution Plans, City of Phoenix Retirement Office at (602) 534-4400.

Financial Statements

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Statements of Fiduciary Net Position
December 31, 2023 and 2022

	2023	2022
Assets:		
Investments:		
Variable earnings investments	**$ 1,667,904,661**	$ 1,384,236,491
Fixed earnings investments	**304,924,788**	331,727,111
Total investments	**1,972,829,449**	1,715,963,602
Receivables:		
Loans receivable	**29,286,426**	27,169,468
Contributions receivable	**18,819**	58,438
Total receivables	**29,305,245**	27,227,906
Fiduciary net position restricted for benefits	**$ 2,002,134,694**	$ 1,743,191,508

See notes to financial statements.

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Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
Additions:		
Variable earnings investment income (loss)	**$ 260,360,862**	$ (306,704,246)
Employee contributions	**89,465,195**	80,998,298
Interest income	**8,973,307**	7,268,798
Total additions	**358,799,364**	(218,437,150)
Deductions:		
Distributions to participants	**98,789,128**	99,003,108
Asset fees	**896,300**	890,868
Administrative fees	**170,750**	174,910
Total deductions	**99,856,178**	100,068,886
Net increase (decrease) in fiduciary net position	**258,943,186**	(318,506,036)
Net position restricted for benefits at beginning of year	**1,743,191,508**	2,061,697,544
Net position restricted for benefits at end of year	**$ 2,002,134,694**	$ 1,743,191,508

See notes to financial statements.

Note 1. Summary of Significant Accounting Policies

General: The City of Phoenix Deferred Compensation Plan (the Plan) was established in 1974, pursuant to the City of Phoenix Code Ordinance G-4634 Resolution #14256. The Plan is governed by the City of Phoenix Deferred Compensation Board (the Board), and is administered by a third party. The Board is also the named trustee if the Plan.

Contributions and contributions receivable: Under the Plan provisions, employees of the City of Phoenix are eligible to contribute to the Plan through payroll deductions. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an employee's annual contribution to an amount not to exceed lesser of $22,500, or 100%, of the employee's includable compensation for the year ended December 31, 2023, and the lesser of $20,500, or 100%, of the employee's includable compensation for the year ended December 31, 2022. The plan also provides certain catch-up contribution provisions for participants aged 50 or older, and for participants within three years of their normal retirement age. Amounts contributed by the City and employees are deferred for federal and state income tax purposes until benefits are paid to the employees. Effective January 1, 2008, the City ceased making nonelective employer contributions to the Plan. Nonelective employer contributions vest at a time that they are made. Employee contributions are recognized when such amounts are withheld.

Participant accounts: Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for Plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. At December 31, 2023 and 2022, the Plan met the requirements of SBJPA. Employees may contribute or exchange to any of the following investment options:

- Fixed earning investments in a City of Phoenix Stable Income Fund option managed by Morley Financial Services, Inc.

- Variable earnings investments consisting of various mutual funds. See list of variable earnings investments at Note 2, p. 9.

- Self-directed option—Personal Choice Retirement Accounts (PCRA) offered by Charles Schwab & Co., Inc. Participants may exchange funds accumulated in the core options of the Plan to a PCRA account, which provides approximately 3,000 additional mutual fund offerings other than the Plan's core options. This option is included in the variable earnings investments.

Employees may withdraw the value of the funds contributed to the Plan upon termination of employment with the employer, retirement, death, initiation of a loan, or financial hardship. Employees or their beneficiaries may select various payout options, which include lump sum or periodic or annuity payments. Earnings are credited to individual participants' accounts, based upon the investment performance of each specific investment option selected. There were 10,482 and 10,212 active Plan participants at December 31, 2023 and 2022, respectively.

Distributions to participants: Employees investing in the Plan may withdraw the value of their accounts upon termination of employment with the City, because of an unforeseeable emergency or initiation of a loan while employed, if approved by the Plan administrator or in order to satisfy minimum distribution requirements of the IRC. Employees are eligible to receive benefits under the Plan subject to Internal Revenue Service regulations at the time they separate from service or suffer disability. Upon such separation or disability, employees may select various payout options, which include lump sum, periodic or annuity payments. In the case of death, any amount due under the participant's account, with certain exceptions, is paid to the beneficiary or the estate. Distributions participants are recorded at the time withdrawals are made from the participant account.

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates in preparing financial statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Basis of accounting: The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting, in accordance with the accounting principles generally accepted in the United States of America, and present the net position available for Plan benefits and changes in net position.

Investment valuation: Fixed earnings investments consisting solely of the City of Phoenix Stable Income Fund are presented at contract value, which approximates fair value. Contributions of participants who elect this investment option for the City of Phoenix Deferred Compensation Plan Section 457 and/or the City of Phoenix Defined Contribution Plan Section 401(a) are combined and held in a trust. Each plan has an undivided interest in the trust and each plan's ownership is represented by its proportionate dollar interest. Interest rates are reset quarterly based on prior quarters' performance.

Variable earnings investments (mutual funds), including personal choice retirement accounts, are presented at fair value based on published quotations or the net asset value reported by the investment provider. All purchases and sales are recorded on a trade-date basis.

Variable earnings investment income (loss): Variable earnings investment income (loss) consists of dividend income and realized and unrealized gains and losses attributed to the variable earnings investments.

Interest income: During 2023, the Stable Value option paid interest ranging from 2.02% to 2.37%. At December 31, 2023, the actual crediting rate was 2.70%. During 2022, the Stable Income option paid interest ranging from 1.58% to 1.71%. At December 31, 2022, the actual crediting rate was 2.21%.

Interest income is recorded as earned on the accrual basis.

Subsequent events: Subsequent events have been evaluated through the auditor's report date, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments held in the name of the Plan at December 31, 2023 and 2022, were as noted below. Investments marked with an asterisk (*) represent individual investment options which exceed 5% of the total Plan investments as of December 31, 2023 and 2022.

	Fair and Carrying Value			
	2023		2022	
Fixed earnings investments:				
City of Phoenix Stable Income Fund	$ 304,924,788	*	$ 331,727,111	*
Variable earnings investments, at fair value:				
Personal Choice Retirement Account—Charles Schwab	429,854,304	*	359,486,555	*
US Large Cap Stock Portfolio	269,985,361	*	221,214,938	*
Vanguard® Institutional Index Fund—Institution Plus Shares	133,816,154	*	101,916,156	*
American Funds 2035 Target Date Retirement Fund—Class R6	93,623,875		77,773,489	
US Mid Cap Stock Portfolio	82,704,693		73,109,471	
American Funds 2040 Target Date Retirement Fund—Class R6	77,892,007		60,738,851	
American Funds 2030 Target Date Retirement Fund—Class R6	74,921,807		63,595,154	
American Funds 2045 Target Date Retirement Fund—Class R6	68,013,667		53,848,136	
American Funds 2025 Target Date Retirement Fund—Class R6	63,346,950		60,522,530	
US Small Cap Stock Portfolio	60,465,446		53,825,415	
EuroPacific Growth Fund®—Class R6	59,215,910		50,701,078	
Metropolitan West Funds—Total Return Bond Fund—Plan Class	57,033,121		45,727,305	
American Funds 2050 Target Date Retirement Fund—Class R6	46,007,960		36,072,226	
American Funds 2020 Target Date Retirement Fund—Class R6	32,657,270		32,057,307	
American Funds 2055 Target Date Retirement Fund—Class R6	25,612,457		17,823,865	
Vanguard® Extended Market Index Fund—Institutional Shares	24,545,089		19,411,393	
American Funds 2060 Target Date Retirement Fund—Class R6	21,850,906		12,787,814	
American Funds 2015 Target Date Retirement Fund—Class R6	18,136,440		18,082,867	
Vanguard® Total International Stock Index Fund—Institutional Shares	12,332,157		9,131,252	
American Funds 2010 Target Date Retirement Fund—Class R6	12,102,986		12,870,174	
PIMCO All Asset Fund—Institutional Class	4,174,801		3,540,515	
Suspense	(388,700)		-	
Total variable earnings investments	1,667,904,661		1,384,236,491	
Total investments	$ 1,972,829,449		$ 1,715,963,602	

Custodial credit risk: The risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparties trust department or agent, but not in the Plan's name.

Variable earnings investments are registered investments for which the securities are held by Nationwide Retirements Solutions, Inc., agent for the Plan, in the Plan's name. Therefore, these investments have a minimal level of custodial credit risk. Fixed earnings investments are held in the Plan's name by Morley Financial Services, Inc., agent of the Plan. As a result, the investments of the Plan are not exposed to custodial credit risk.

Note 2. Investments (Continued)

Credit risk: The risk that the Plan will lose money because of the default of the security of the issuer or investment counterparty. The Plan's investment policy states the minimum allowable credit quality for any contract is A- and the minimum credit quality for the fund is AA-. The average credit quality rating is calculated using the lowest of all available ratings including, but not limited to, S&P, Moody's and Fitch. The Plan's investments in the City of Phoenix Stable Income Fund had an average credit quality rating of AA- as of December 31, 2023, and AA as of December 31, 2022.

Concentration of credit risk: The risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' election to invest in the available investment options as selected by the Board. The investments that exceed 5% are identified on page 9.

Interest rate risk: The risk that changes in interest rates will adversely affect the value of an investment. The Plan's investment policy states the expected duration for the portfolio will average five (5) years, with durations of three (3) to seven (7) years possible at times.

As of December 31, 2023 and 2022, the Plan had the following investments and weighted average maturities in its fixed earnings investments, and the following mutual funds, which include investments in bonds.

	2023		2022	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Fixed earnings investments:				
City of Phoenix Stable Income Fund	$ 304,924,788	3.35	$ 331,727,111	3.36
Variable earnings investments:				
American Funds 2035 Target Date Retirement Fund—Class R6	93,623,875	5.73	77,773,489	5.36
American Funds 2040 Target Date Retirement Fund—Class R6	77,892,007	5.90	60,738,851	5.63
American Funds 2030 Target Date Retirement Fund—Class R6	74,921,807	5.69	63,595,154	5.35
American Funds 2045 Target Date Retirement Fund—Class R6	68,013,667	6.35	53,848,136	6.00
American Funds 2025 Target Date Retirement Fund—Class R6	63,346,950	5.54	60,522,530	5.24
Metropolitan West Funds—Total Return Bond Fund—Plan Class	57,033,121	6.90	45,727,305	6.82
American Funds 2050 Target Date Retirement Fund—Class R6	46,007,960	6.43	36,072,226	6.04
American Funds 2020 Target Date Retirement Fund—Class R6	32,657,270	5.48	32,057,307	5.18
American Funds 2055 Target Date Retirement Fund—Class R6	25,612,457	6.50	17,823,865	6.09
American Funds 2060 Target Date Retirement Fund—Class R6	21,850,906	6.50	12,787,814	6.09
American Funds 2015 Target Date Retirement Fund—Class R6	18,136,440	5.14	18,082,867	4.93
American Funds 2010 Target Date Retirement Fund—Class R6	12,102,986	4.97	12,870,174	4.63
PIMCO All Asset Fund—Institutional Class	4,174,801	4.26	3,540,515	4.49

Since all investments are participant directed, all risks exist at the participant level. Each individual participant has the ability to liquidate their positions on demand and has responsibility for managing their exposure to fair value loss.

Note 2. Investments (Continued)

Fair value measurements: 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 hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1: Unadjusted quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable.

Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument, and should not be perceived as the particular investment's risk.

Variable earnings investments classified in Level 1 of the fair value hierarchy are valued using the quoted prices in active markets for these securities.

The Plan has the following fair value measurement as of December 31:

		Fair Value Measurements		
	December 31, 2023	Level 1	Level 2	Level 3
Investments at fair value				
Variable earnings investments	$ 1,254,749,161	$ 1,254,749,161	$ -	$ -
Investments at contract value				
Fixed earnings investments	304,924,788			
Investments at net asset value				
Investment options	413,155,500			
Total investments	$ 1,972,829,449			

		Fair Value Measurements		
	December 31, 2022	Level 1	Level 2	Level 3
Investments at fair value				
Variable earnings investments	$ 1,036,086,667	$ 1,036,086,667	$ -	$ -
Investments at contract value				
Fixed earnings investments	331,727,111			
Investments at net asset value				
Investment options	348,149,824			
Total investments	$ 1,715,963,602			

Note 3. Plan Administration and Asset Fees

The City has appointed Nationwide Retirements Solutions, Inc. (NRS) as the Plan administrator under an administrative services contract. NRS and Nationwide Life are subsidiaries of Nationwide Financial Services, Inc.

Note 3. Plan Administration and Asset Fees (Continued)

The City has contracted with NRS to provide administrative services to the Plan under Board authority. Under the agreement, NRS provides administrative services to the Plan, such as participant recordkeeping, participant account statements, monitoring the Plan's financial transactions, participant relations and general management. NRS is paid a fee per average participant for this plan and of the 401(a) plan combined.

Effective February 1, 2022, an administrative fee of 5.96 basis points (0.0596%) will apply to each unique participant and be withdrawn from the participant core (non-brokerage) accounts. Participants will pay no more than $700 in administrative fees each year (fee cap). Participants will be required to maintain a $1,000 minimum core (non-brokerage) balance in all deferred compensation plans (DCP) accounts so that fees may be collected. If a participant has a 457 and 401(a) account, the participant must maintain a minimum core balance of $1,000 in each account. The Board and DCP consultant will revisit the fee structure at least annually to determine the most appropriate administrative fee and fee cap combination.

Participants who select the Schwab & Co. self-directed investment options are assessed a $50 fee annually. In an effort to reduce frequent trading within long term retirement accounts, certain funds impose a short-term trading fee (redemption fee).

Administrative fees and asset fees collected and paid for the years ended December 31, 2023 and 2022, were $1,067,050 and $1,065,778, respectively.

Note 4. Loans receivables

Effective January 2012, the Plan was amended to allow participants to take loans from their account balances. Any participant may be eligible to receive a loan. Participants are charged a nonrefundable loan set-up fee of $50. An additional annual fee of $35 is assessed on the anniversary date. The maximum term permitted on a loan is five years, or 15 years, if the loan is for the purchase of a principal residence. The minimum loan amount permitted is $1,000, and the maximum amount of any loan under the Plan is the lesser of 50% of the participants vested account balance or $50,000. Loans receivable from the participants are valued at their unpaid principal balance, plus any accrued but unpaid interest. Loans granted by the Plan bear interest at a rate determined by the Plan administrator, but not to exceed the maximum rate permitted by all applicable laws. The interest rate assessed on loan balances was 9.56% and 4.37% respectively, as of December 31, 2023 and 2022. As of December 31, 2023 and 2022, the total balance of the loans outstanding to participants was $29,286,426 and $ 27,169,468, respectively.

Note 5. Tax Status

The Plan is reviewed by legal counsel to ensure conformity with Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan, and any income attributable to the amounts so deferred, shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or other beneficiary.

Note 6. Related Parties

Certain members of the Deferred Compensation Board are participants in the Plan.

Note 7. Risks and Uncertainties

The Plan, as directed by participants, may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and that such change could materially affect the amounts reported in the statements of fiduciary in that position.

Note 8. Plan Termination

The City may terminate the Plan at any time, although no intent to terminate the Plan has been expressed. In the event of termination, all participants will remain fully vested.