

City of Phoenix Defined Contribution Plan Section 401(a)

Financial Report
December 31, 2023

Contents

Independent auditor's report	1-2
Management's discussion and analysis	3-4
Financial statements	
Statement of fiduciary net position	5
Statement of changes in fiduciary net position	6
Notes to financial statements	7-12

Independent Auditor's Report

City of Phoenix Deferred Compensation Board
City of Phoenix Defined Contribution Plan

Opinion

We have audited the financial statements of the City of Phoenix – Section 401(a) Defined Contribution 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 Defined Contribution Plan Section 401(a)

Management's Discussion and Analysis

This discussion and analysis of the City of Phoenix Defined Contribution 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 \$824 million, \$696 million and \$792 million 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.

Contributions increased slightly from \$59.7 million for the year ended December 31, 2022, to \$60.6 million for the year ended December 31, 2023. Contributions decreased by approximately \$462 thousand, from \$60.2 million for the year ended December 31, 2021, to \$59.7 million for the year ended December 31, 2022. The increase in contributions from 2022 to 2023 is mainly attributable to an increase in the number of participants receiving a fringe and special pay contribution. The decrease in contributions from 2021 to 2022 is primarily due to the number of vacancies at the time of reporting. There were 13,124, 12,597 and 12,534 active Plan participants at December 31, 2023, 2022 and 2021, respectively.

Variable earnings investment income increased by approximately \$226.3 million, from a \$120.3 million loss for the year ended December 31, 2022, to a \$106 million gain for the year ended December 31, 2023. Variable earnings investment income decreased by approximately \$208.8 million, from an \$88.5 million gain for the year ended December 31, 2021, to a \$120.3 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 increased by approximately \$2.9 million, from \$37.3 million for the year ended December 31, 2022, to \$40.2 million for the year ended December 31, 2023. Distributions to participants increased by approximately \$4.4 million, from \$32.9 million for the year ended December 31, 2021, to \$37.3 million for the year ended December 31, 2022. The increases over the last two years can be attributed to increased inflation and a higher than expected growth in the retiree population. There were 1,770, 1,759 and 1,502 individuals who received a distribution from the Plan during 2023, 2022 and 2021, respectively.

Administrative fees and asset fees collected or paid for the years ended December 31, 2023, 2022 and 2021, were approximately \$402,000, \$387,000 and \$279,000, respectively. The increase in fees paid in 2023 from 2022 is primarily due to the increase in Plan participants. The increase in fees paid in 2022 from 2021 is primarily due to the Board adopting a fee and expense policy statement in February 2022, which effectively charges a fee against all assets, including those in the self-directed brokerage option.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

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	\$ 823,539,202	\$ 694,915,735	\$ 791,338,278
Contributions receivables	756,220	615,840	347,228
Net position available for plan benefits	<u>\$ 824,295,422</u>	<u>\$ 695,531,575</u>	<u>\$ 791,685,506</u>

**Table 2
Changes in Fiduciary Net Position**

	2023	2022	2021
Additions to net position attributed to:			
Variable earnings investment income (loss)	\$ 106,001,998	\$ (120,316,435)	\$ 88,522,822
Contributions	60,632,722	59,708,876	60,170,428
Interest income	2,711,009	2,115,633	1,751,987
Total additions	<u>169,345,729</u>	<u>(58,491,926)</u>	<u>150,445,237</u>
Deductions from net position attributed to:			
Distributions to participants	40,180,310	37,275,128	32,894,247
Administrative fees and asset fees	401,572	386,877	279,262
Total deductions	<u>40,581,882</u>	<u>37,662,005</u>	<u>33,173,509</u>
Net increase (decrease)	<u>\$ 128,763,847</u>	<u>\$ (96,153,931)</u>	<u>\$ 117,271,728</u>

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

**City of Phoenix Defined Contribution Plan
Section 401(a)**

**Statements of Fiduciary Net Position
December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Assets:		
Investments:		
Variable earnings investments	\$ 707,098,337	\$ 573,907,599
Fixed earnings investments	116,440,865	121,008,136
Total investments	<u>823,539,202</u>	<u>694,915,735</u>
Receivables:		
Contributions receivable	<u>756,220</u>	615,840
Fiduciary net position restricted for benefits	<u>\$ 824,295,422</u>	<u>\$ 695,531,575</u>

See notes to financial statements.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

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

	2023	2022
Additions:		
Variable earnings investment income (loss)	\$ 106,001,998	\$ (120,316,435)
Contributions	60,632,722	59,708,876
Interest income	2,711,009	2,115,633
Total additions	169,345,729	(58,491,926)
Deductions:		
Distributions to participants	40,180,310	37,275,128
Asset fees	375,522	361,102
Administrative fees	26,050	25,775
Total deductions	40,581,882	37,662,005
Net increase (decrease) in fiduciary net position	128,763,847	(96,153,931)
Net position restricted for benefits at beginning of year	695,531,575	791,685,506
Net position restricted for benefits at end of year	\$ 824,295,422	\$ 695,531,575

See notes to financial statements.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

General: The City of Phoenix Defined Contribution Plan (the Plan) was established pursuant to the City of Phoenix Code Ordinance G-4634, effective December 2004. The City of Phoenix Deferred Compensation Board (the Board) is also named trustee of the Plan.

Contributions and contributions receivable: The Plan is designed to be a tax-qualified 401(a) defined contribution plan under Internal Revenue Code (IRC) Section 401(a). Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. The Plan was adopted by the Board effective December 20, 2004, for all general and public safety employees. Public Safety workers retiring on or after June 30, 2005, and before October 1, 2007, may elect to have their accumulated leave and compensatory time contributed to the Plan as a “pickup contribution.” Effective June 30, 2005, Sworn Public Safety Workers also became eligible to make an election to have irrevocable contributions made to the Plan, by electing a designated percentage of salary reduction. Effective January 1, 2008, the Plan was amended to mandate that 100% of the nonelective employer contribution amounts otherwise payable to them are contributed by the City to this Plan. Eligible employees may make an election to have irrevocable contributions made to the Plan by electing a designated percentage of salary reduction. In accordance with the Internal Revenue Service (IRS) code, the Plan limits the amount of contributions to an amount not to exceed \$66,000, or 100%, of an employee’s eligible compensation for the year ended December 31, 2023, and not to exceed \$61,000, or 100%, of an employee’s eligible compensation for the year ended December 31, 2022.

Employees who retired between December 20, 2004 and January 7, 2005, receive an accumulated leave/compensatory time contribution to the Plan on their behalf by the City. General employees retiring on or after January 8, 2005, receive an accumulated leave/compensatory time contribution to the Plan on their behalf by the City. Public safety officers retiring on or after July 1, 2007, receive an accumulated leave/compensatory time contribution on their behalf by the City. The aforementioned employer contributions are made as soon as administratively practicable following the employee’s retirement. Employee contributions are recognized when such amounts are withheld.

Participant accounts: The Plan is governed by the Board and is administered by a third party. An employee’s interest in his/her account is fully vested at all times. An employee may elect to invest contributions in 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.

With the consent of the Board, an employee may pay over to the Plan any amount which constitutes a rollover contribution, as set forth by Section 402(c) or 408(d)(3) of the IRC. The Board may also accept a direct transfer of funds from an eligible retirement plan as defined in the Plan document.

Earnings are credited to individual participants’ accounts based upon the investment performance of each specific investment option selected. There were 13,124 and 12,597 active Plan participants at December 31, 2023 and 2022, respectively.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Distributions to participants: Employees with assets in the Plan are eligible to receive benefits under the Plan subject to IRS regulations upon retirement, death, or termination of employment with the City. In the case of death, any amount due under the participant's account with certain exceptions is paid to the beneficiary or their estate. Distributions to participants are recorded at the time withdrawals are made from the participant account.

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.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

Notes to Financial Statements

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	\$ 116,440,865 *	\$ 121,008,136 *
Variable earnings investments, at fair value:		
Personal Choice Retirement Account—Charles Schwab	158,306,081 *	135,903,758 *
US Large Cap Stock Portfolio	85,894,105 *	70,073,560 *
American Funds 2035 Target Date Retirement Fund—Class R6	51,440,315 *	40,289,811 *
Vanguard® Institutional Index Fund—Institution Plus Shares	49,931,084 *	37,006,795 *
American Funds 2040 Target Date Retirement Fund—Class R6	46,908,140 *	36,311,550 *
American Funds 2045 Target Date Retirement Fund—Class R6	44,590,377 *	34,336,385
American Funds 2030 Target Date Retirement Fund—Class R6	39,474,055	32,676,624
American Funds 2050 Target Date Retirement Fund—Class R6	33,668,149	24,365,670
American Funds 2025 Target Date Retirement Fund—Class R6	31,201,586	28,505,492
US Mid Cap Stock Portfolio	29,948,259	26,028,338
US Small Cap Stock Portfolio	22,866,472	19,940,970
EuroPacific Growth Fund®—Class R6	20,781,606	16,970,070
American Funds 2055 Target Date Retirement Fund—Class R6	19,287,553	12,874,827
Metropolitan West Funds—Total Return Bond Fund—Plan Class	17,277,142	14,912,744
American Funds 2060 Target Date Retirement Fund—Class R6	16,429,294	9,449,652
American Funds 2020 Target Date Retirement Fund—Class R6	14,688,806	13,433,880
Vanguard® Extended Market Index Fund—Institutional Shares	9,488,311	7,257,072
American Funds 2015 Target Date Retirement Fund—Class R6	4,790,450	4,908,362
Vanguard® Total International Stock Index Fund—Institutional Shares	4,475,466	3,182,584
American Funds 2010 Target Date Retirement Fund—Class R6	3,638,756	3,826,309
PIMCO All Asset Fund—Institutional Class	1,280,652	1,203,802
Suspense	731,678	449,344
Total variable earnings investments	<u>707,098,337</u>	<u>573,907,599</u>
Total investments	<u>\$ 823,539,202</u>	<u>\$ 694,915,735</u>

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.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

Notes to Financial Statements

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	\$ 116,440,865	3.35	\$ 121,008,136	3.36
Variable earnings investments:				
American Funds 2035 Target Date Retirement Fund—Class R6	51,440,315	5.73	40,289,811	5.36
American Funds 2040 Target Date Retirement Fund—Class R6	46,908,140	5.90	40,289,811	5.63
American Funds 2045 Target Date Retirement Fund—Class R6	44,590,377	6.35	34,336,385	6.00
American Funds 2030 Target Date Retirement Fund—Class R6	39,474,055	5.69	32,676,624	5.35
American Funds 2050 Target Date Retirement Fund—Class R6	33,668,149	6.43	24,365,670	6.04
American Funds 2025 Target Date Retirement Fund—Class R6	31,201,586	5.54	28,505,492	5.24
American Funds 2055 Target Date Retirement Fund—Class R6	19,287,553	6.50	12,874,827	6.09
Metropolitan West Funds—Total Return Bond Fund—Plan Class	17,277,142	6.90	14,912,744	6.82
American Funds 2060 Target Date Retirement Fund—Class R6	16,429,294	6.50	9,449,652	6.09
American Funds 2020 Target Date Retirement Fund—Class R6	14,688,806	5.48	13,433,880	5.18
American Funds 2015 Target Date Retirement Fund—Class R6	4,790,450	5.14	4,908,362	4.93
American Funds 2010 Target Date Retirement Fund—Class R6	3,638,756	4.97	3,826,309	4.63
PIMCO All Asset Fund—Institutional Class	1,280,652	4.26	1,203,802	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.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

Notes to Financial Statements

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	\$ 568,389,501	\$ 568,389,501	\$ -	\$ -
Investments at contract value				
Fixed earnings investments	116,440,865			
Investments at net asset value				
Investment options	138,708,836			
Total investments	<u>\$ 823,539,202</u>			

	Fair Value Measurements			
	December 31, 2022	Level 1	Level 2	Level 3
Investments at fair value				
Variable earnings investments	\$ 457,864,731	\$ 457,864,731	\$ -	\$ -
Investments at contract value				
Fixed earnings investments	121,008,136			
Investments at net asset value				
Investment options	116,042,868			
Total investments	<u>\$ 694,915,735</u>			

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.

**City of Phoenix Defined Contribution Plan
Section 401(a)**

Notes to Financial Statements

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 \$401,572 and \$386,877, respectively.

Note 4. Tax Status

The Plan is intended to be a tax-qualified retirement plan under Section 401(a) of the IRC for the exclusive benefit of the City's employees and their beneficiaries. The amounts of compensation contributed by the City on behalf of employees participating in the Plan are not subject to federal income tax withholding, nor are they includable in taxable income until actually paid or otherwise made available to the participant, the participant's beneficiary, or the participant's estate. The City submitted a Determination Letter application to the IRS regarding the tax status of the Plan. In addition, the City has requested a Private Letter Ruling from the IRS, and both have been approved by the IRS and the Federal Government.

Note 5. Related Parties

Certain members of the Board are participants in the Plan.

Note 6. 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 7. 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.