

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

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

Years Ended June 30, 2012 and 2011



**Certified Public Accountants.**

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**  
Years Ended June 30, 2012 and 2011

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**Certified Public Accountants.**



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Deferred Compensation Advisory Committee  
and Board of Port Commissioners of the City of Oakland  
Oakland, California

Sacramento

Oakland

### Independent Auditors' Report

LA/Century City

Newport Beach

San Diego

Seattle

We have audited the accompanying statements of net assets due to participants of the Deferred Compensation Plan of the Port of Oakland (Plan) as of June 30, 2012 and 2011, and the related statements of changes in net assets due to participants for the years then ended. These financial statements are the responsibility of the Plan's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the financial statements referred to above present only the financial activities of the Plan and do not purport to, and do not present the financial position of the Port of Oakland as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets due to participants of the Plan as of June 30, 2012 and 2011, and the changes in net assets due to participants for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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 & Connell LLP Kevin W. Harper, CPA*  
Oakland, California  
January 25, 2013

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2012 and 2011

The following discussion and analysis of the financial performance of the Deferred Compensation Plan of the Port of Oakland (Plan) provides an overview of its financial activities for the years ended June 30, 2012 and 2011. Please read it in conjunction with the Plan's financial statements, which begin on page 4. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests solely with management of the Port of Oakland. To the best of our knowledge and belief, the financial statements, as presented, are accurate in all material respects.

***Financial Highlights***

- Net assets due to participants totaled \$60.5 million, \$59.5 million, and \$51.1 million as of June 30, 2012, 2011 and 2010, respectively.
- The \$0.9 million increase in net assets due to participants during fiscal year 2012 was caused mainly by participant contributions net of withdrawals.
- The \$8.5 million increase in net assets due to participants during fiscal year 2011 was caused mainly by net investment gains of \$9.2 million.

***Financial Statements***

The financial report for the Plan includes management's discussion and analysis, statements of net assets due to participants, statements of changes in net assets due to participants, and notes to the basic financial statements. These financial statements are prepared on the accrual basis of accounting. The Plan is administrated by Great-West Life & Annuity Insurance Company and the Plan's assets are held in trust by Wells Fargo Bank.

The following table indicates the net assets due to participants as of June 30, 2012, 2011 and 2010 (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Investments at fair market value:			
Stable value fund	\$ 24,953	\$ 22,751	\$ 21,642
Mutual funds	<u>35,502</u>	<u>36,794</u>	<u>29,426</u>
Net assets due to participants	<u>\$ 60,455</u>	<u>\$ 59,545</u>	<u>\$ 51,068</u>

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2012 and 2011

The following table indicates the changes in net assets for the years ended June 30, 2012, 2011, and 2010 (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net additions to net assets	\$ 3,388	\$ 12,007	\$ 8,409
Deductions from net assets	<u>(2,478)</u>	<u>(3,530)</u>	<u>(3,868)</u>
Change in net assets	910	8,477	4,541
Net assets due to participants, beginning of year	<u>59,545</u>	<u>51,068</u>	<u>46,527</u>
Net assets due to participants, end of year	<u><u>\$ 60,455</u></u>	<u><u>\$ 59,545</u></u>	<u><u>\$ 51,068</u></u>

- Net assets due to participants increased from \$59.5 million at June 30, 2011 to \$60.5 million at June 30, 2012. The net increase of \$0.9 million in plan assets during fiscal year 2012 was caused mainly by employee contributions net of withdrawals.
- Net assets due to participants increased from \$51.1 million at June 30, 2010 to \$59.5 million at June 30, 2011. The net increase of \$8.5 million in plan assets during fiscal year 2011 was caused mainly by net investment gains of \$9.2 million.

***Request for Information***

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Port Controller, Port of Oakland, 530 Water Street, Oakland, California 94607.

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Statements of Net Assets Due to Participants  
June 30, 2012 and 2011  
(Dollars in Thousands)

	<u><b>2012</b></u>	<u><b>2011</b></u>
ASSETS - Investments at fair value:		
Stable value fund	\$ 24,953	\$ 22,751
Mutual funds	<u>35,502</u>	<u>36,794</u>
NET ASSETS DUE TO PARTICIPANTS	<u><u>\$ 60,455</u></u>	<u><u>\$ 59,545</u></u>

See accompanying notes to the basic financial statements.

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Statements of Changes in Net Assets Due to Participants  
Years Ended June 30, 2012 and 2011  
(Dollars in Thousands)

	<u><b>2012</b></u>	<u><b>2011</b></u>
ADDITIONS TO NET ASSETS:		
Contributions by participants	\$ 3,237	\$ 2,848
Net investment income and adjustments to fair market value	<u>151</u>	<u>9,159</u>
Total additions to net assets	3,388	12,007
DEDUCTIONS FROM NET ASSETS:		
Withdrawals by participants	<u>(2,478)</u>	<u>(3,530)</u>
CHANGE IN NET ASSETS DUE TO PARTICIPANTS	910	8,477
NET ASSETS DUE TO PARTICIPANTS:		
Beginning of year	<u>59,545</u>	<u>51,068</u>
End of year	<u><u>\$ 60,455</u></u>	<u><u>\$ 59,545</u></u>

See accompanying notes to the basic financial statements.

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Notes to the Basic Financial Statements  
Years Ended June 30, 2012 and 2011

**NOTE 1 – PLAN DESCRIPTION**

The following description of the Deferred Compensation Plan of the Port of Oakland (Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

The Port of Oakland (Port) maintains an eligible deferred compensation plan in accordance with Section 457 of the Internal Revenue Code (IRC 457). The Port's Plan was established in 1977 and is governed by the Deferred Compensation Advisory Committee (Committee) in accordance with IRC 457 and the Port's Plan document. The Plan permits employees to defer a portion of their compensation until future years. Under the Plan, participants are not taxed on the deferred portion of their compensation until distributed to them. Distributions may be made only at death, retirement, termination, disability or some other event, as provided in the Plan in accordance with the provisions of Sections 53212-53214 of the Government Code of the State of California and the applicable provisions of the Internal Revenue Code.

The Plan is available to all permanent Port employees on a voluntary basis. Each employee may elect to participate by signing a participation agreement that specifies the amount of the deferral and the investment options selected by the participant. The Plan currently utilizes one investment administrator: Great-West Life & Annuity Insurance Company (Great-West). Great-West is paid for the administrative services it provides through a management fee on the Port's Stable Value Fund and through reallocations from mutual fund companies.

The assets of the Plan are held in trust by Wells Fargo Bank and investment options are monitored by the Committee. All amounts of compensation deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property or rights are held by the Plan in trust through Wells Fargo Bank for the exclusive benefit of the participants or beneficiaries, and are not subject to the claims of the Port's creditors. The Committee is composed of seven voting members – the Director of Administration, the Chief Financial Officer, and five other members appointed by the Director of Administration or the Chief Financial Officer. The Director of Administration or the Chief Financial Officer may also appoint up to two alternative members.

*Contributions*

During each payroll period in which an employee is a participant in the Plan, the Port defers a portion of the employee's compensation as specified by the employee. The maximum that each participant may defer under this Plan for any taxable year is the lesser of:

- The applicable dollar amount determined pursuant to IRC 457 Section (e)(15), or
- One hundred percent of the participant's year-to-date includible compensation.

Participants in the Plan may elect to rollover balances from other IRC 457 deferred compensation plans, subject to the requirements of the Plan.



**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Notes to the Basic Financial Statements  
Years Ended June 30, 2012 and 2011

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

*Special Limited Catch-Up Deferral*

Qualified employees who have not deferred the maximum regular deferral amount(s) allowed in prior years, may elect the Special Limited Catch-up Provision as defined in IRC 457(b)(3) for one or more of the participant's last three tax years ending before the year in which the participant attains normal retirement age as defined under Section 2.15 of the Plan.

In that instance, participants may elect to contribute the lesser of:

- Twice the applicable dollar amount permitted under IRC 457; or
- The sum of:
  - The maximum amount of compensation that may be deferred for the employment period as determined under Section 4.2 of the Port's Plan for the taxable year; plus
  - The maximum amount of compensation that may be deferred for any prior employment period or employment periods as determined under Section 4.2 of the Plan's document less the compensation deferred under the Plan for such employment period or employment periods.

The Plan prohibits the election of the Special Limited Catch-up Provision during the period in which the participant ceases to be an employee.

The Special Limited Catch-up Provision can only be elected one time. Employees who are 70½ or older may not elect the 3-year catch up provision.

*Age 50 and Older Catch-Up Deferral*

Plan participants, who attain age 50 by the last day of a tax year and who do not utilize the Special Limited Catch-up Provision for such tax year, may make an additional deferral into the Plan as a catch-up contribution, subject to the requirements of Internal Revenue Code Section 414(v)(2)(B)(i). The Age 50 and Older Catch-up Deferral election limit was \$5,500 in calendar year 2011 and \$5,500 in calendar year 2010.

Employees may not participate in both the Special Limited Catch-up Provision deferral and the Age 50 and Older Catch-up Deferral concurrently.

*Participant Deferred Compensation Accounts*

The administrative services agreement with Great-West provides that each participant's deferred compensation account shall be updated daily with the participant's contributions and allocations of Plan earnings, including interest, dividends, and gains/losses from investments.

*Vesting*

Participants are immediately vested in their contributions plus actual earnings thereon.

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Notes to the Basic Financial Statements  
Years Ended June 30, 2012 and 2011

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

*Payment of Benefits*

On termination of service due to death, disability, separation of service, retirement, or as otherwise permitted by the Plan, a participant may elect to receive a full or partial lump-sum distribution, periodic payments of a dollar certain, periodic payments for a time certain, or periodic payments over the lifetime of the participant. A participant may also purchase a life or term-certain annuity, or simply leave the money on deposit until the date that they have a minimum annual distribution requirement. The IRS requires a minimum annual distribution to be made no later than April 1 of the calendar year following the later of the calendar year in which the employee attains age 70½, or the calendar year in which the employee retires. Distributions will be net of any federal and state taxes required to be withheld. The participants also have the option of having a direct tax-free rollover to a new employer pension plan or a rollover to an Individual Retirement Account.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying statements of net assets due to participants and changes in net assets due to participants present only the Plan, and are not intended to present the financial position of the Port 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 prepared on the accrual basis of accounting. Contributions are recognized as additions when due (at the end of each pay period). Payments to participants are recognized as deductions when due and payable under the provisions of the Plan.

*Investment Valuation*

The Plan's investments are reported at fair value. Mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end, except as described in the following sentence. Fixed income mutual funds that do not have an established market are reported at fair value calculated by Great-West, which is based on the amount of contributions, withdrawals, and interest credited quarterly.

*Estimates*

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

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Notes to the Basic Financial Statements  
Years Ended June 30, 2012 and 2011

**NOTE 3 – INVESTMENTS**

Plan participants may direct contributions into any of the investment options offered by Great-West, which include various publicly traded mutual funds and fixed income investments. Participants are permitted to establish different investment strategies, which have varying return and volatility characteristics to meet each participant's long-term retirement savings strategy.

*Concentration Risk*

The following table presents investments that represent 5% or more of the Plan's investments at fair value at June 30, 2012 and 2011 (dollars in thousands):

	<u>2012</u>	<u>2011</u>
Port of Oakland Stable Value Fund*	\$ 24,953	\$ 22,751
Harbor International Fund	3,526	4,194
Dreyfus S & P 500 Index Fund	3,233	3,120

\* Funds managed by Great-West.

*Interest Rate Risk and Credit Risk*

The following table presents information related to interest rate risk and credit risk for the Plan's investments at June 30, 2012 and 2011 (dollars in thousands):

<u>Investments</u>	<u>Average Maturity</u>	<u>Standard and Poor's Credit Rating</u>	<u>Fair Value</u>	
			<u>2012</u>	<u>2011</u>
Port of Oakland Stable Value Fund	3 years	Not rated	\$ 24,953	\$ 22,751

The Port of Oakland Stable Value Fund credits interest on a quarterly portfolio basis. All money deposited into the Port of Oakland Stable Value Fund, regardless of when it was deposited, receives the same interest rate. A new interest rate is established each quarter. The quarterly interest rate is set by Great-West according to the investment policy statement guidelines that the Committee has established for the Plan. The Port of Oakland Stable Value Fund invests primarily in securities issued by the U.S. Government or its agencies.

**DEFERRED COMPENSATION PLAN  
OF THE PORT OF OAKLAND**

Notes to the Basic Financial Statements  
Years Ended June 30, 2012 and 2011

**NOTE 3 – INVESTMENTS (continued)**

Investments	Fair Value (in thousands)	
	2012	2011
<b>Mutual Funds:**</b>		
GW Capital Management Aggressive Profile	\$ 842	\$ 715
GW Capital Management Moderately Aggressive Profile	1,573	1,504
GW Capital Management Moderate Profile	1,489	1,268
GW Capital Management Moderately Conservative Profile	371	478
GW Capital Management Conservative Profile	303	248
American Funds EuroPacific A	629	682
Harbor International Fund	3,526	4,194
Franklin Templeton Mutual Discovery Fund	695	770
Mutual European Fund A	233	378
Allianz RCM Global Technology Fund A	1,945	2,235
Allianz NFJ Small CAP Stock Index Fund	356	333
Parnassus Equity Income Fund	514	506
Baron Small Cap Fund	702	661
Dreyfus Small Cap Stock Index Fund	441	347
Pioneer Cullen Value Fund A	564	635
Fidelity Low Priced Fund	1,515	1,526
Neuberger Berman Genesis Fund Trust	1,272	1,307
Well Fargo Advantage Small Cap Val Z	504	631
Artisan Mid Cap Fund	947	860
Dreyfus Mid Cap Index Fund	716	747
JP Morgan Mid Cap Value Fund A	337	308
American Funds Growth Fund R4	1,701	2,154
Davis New York Venture Fund	2,442	2,882
Dreyfus S & P 500 Index Fund	3,233	3,120
Fidelity Contrafund	2,768	2,362
Janus Twenty Fund	1,493	1,550
T. Rowe Price Value Fund	530	523
PIMCO Total Return Fund Admin	769	746
Fidelity Puritan Fund	710	752
Janus Balanced Fund	549	466
PAX World Fund	446	453
Jennison 20/20 Focus Fund Z	436	497
Third Avenue Value Fund	184	148
Blackrock Equity Index - Collective Fund	170	103
Jennison Utility Fund Z	392	384
Hartford Small Company R5	205	321
Total mutual funds	<u>\$ 35,502</u>	<u>\$ 36,794</u>

\*\* Disclosure of the average maturity and credit risk rating for mutual funds invested in equity investments is not applicable under Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures – an amendment of GASB Statement No. 3*.