

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

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

Years Ended June 30, 2015 and 2014



Certified
Public
Accountants

**DEFERRED COMPENSATION PLAN
OF THE PORT OF OAKLAND**
Years Ended June 30, 2015 and 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position due to participants of the Deferred Compensation Plan of the Port of Oakland (Plan) as of June 30, 2015 and 2014, and the related statements of changes in net position due to participants for the years then ended, 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 Plan'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 Plan'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 the Plan's 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 net position due to participants of the Plan as of June 30, 2015 and 2014, and the changes in net position due to participants for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, the basic 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, 2015 and 2014, 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.

Other Matters - Required Supplementary Information

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 & O'Connell LLP

Oakland, California
March 11, 2016

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

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2015 and 2014

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, 2015 and 2014. 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, rests solely with management of the Port of Oakland. To the best of our knowledge and belief, the basic financial statements, as presented, are accurate in all material respects.

Financial Statements

The financial report for the Plan includes management's discussion and analysis, statements of net position due to participants, statements of changes in net position 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 (Great-West). As of February 2015, Great-West uses the branded name Empower Retirement. The Plan's assets are held in trust by Wells Fargo Bank.

The following table indicates the net position due to participants as of June 30, 2015, 2014 and 2013 (dollars in thousands):

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|------------------------------------|------------------|------------------|------------------|
| Investments at fair value: | | | |
| Stable value fund | \$ 25,135 | \$ 24,870 | \$ 25,485 |
| Mutual funds | <u>48,662</u> | <u>49,016</u> | <u>39,421</u> |
| Total investments at fair value | 73,797 | 73,886 | 64,906 |
| Loans receivable from participants | <u>609</u> | <u>560</u> | <u>-</u> |
| Net position due to participants | <u>\$ 74,406</u> | <u>\$ 74,446</u> | <u>\$ 64,906</u> |

The following table indicates the changes in net position for the years ended June 30, 2015, 2014, and 2013 (dollars in thousands):

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|------------------|
| Net additions to net position | \$ 6,540 | \$ 13,197 | \$ 9,891 |
| Deductions from net position | <u>(6,580)</u> | <u>(3,657)</u> | <u>(5,440)</u> |
| Change in net position | (40) | 9,540 | 4,451 |
| Net position due to participants, beginning of year | <u>74,446</u> | <u>64,906</u> | <u>60,455</u> |
| Net position due to participants, end of year | <u>\$ 74,406</u> | <u>\$ 74,446</u> | <u>\$ 64,906</u> |

- Net position due to participants of \$74.4 million remained consistent at June 30, 2015 as at June 30, 2014.
- Net position due to participants increased from \$64.9 million at June 30, 2013 to \$74.4 million at June 30, 2014. The net increase of \$9.5 million in plan assets during fiscal year 2014 was caused mainly by net investment gains of \$9.6 million.

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

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2015 and 2014

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 Position Due to Participants
June 30, 2015 and 2014
(Dollars in Thousands)

| | 2015 | 2014 |
|---|------------------|------------------|
| ASSETS | | |
| Investments at fair value: | | |
| Stable value fund | \$ 25,135 | \$ 24,870 |
| Mutual funds | 48,662 | 49,016 |
| Total investments at fair value | 73,797 | 73,886 |
| Loans receivable from participants | 609 | 560 |
| NET POSITION DUE TO PARTICIPANTS | \$ 74,406 | \$ 74,446 |

See accompanying notes to the basic financial statements.

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

Statements of Changes in Net Position Due to Participants
Years Ended June 30, 2015 and 2014
(Dollars in Thousands)

| | 2015 | 2014 |
|---|-------------|-------------|
| ADDITIONS TO NET POSITION: | | |
| Contributions by participants | \$ 3,642 | \$ 3,618 |
| Net investment income and adjustments to fair value | 2,898 | 9,579 |
| Total additions to net position | 6,540 | 13,197 |
| DEDUCTIONS FROM NET POSITION: | | |
| Withdrawals by participants | (6,580) | (3,657) |
| CHANGE IN NET POSITION DUE TO PARTICIPANTS | (40) | 9,540 |
| NET POSITION DUE TO PARTICIPANTS: | | |
| Beginning of year | 74,446 | 64,906 |
| End of year | \$ 74,406 | \$ 74,446 |

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, 2015 and 2014

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. 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. Plan participants can choose to make contributions on a pre-tax basis to the traditional 457, and after-tax basis to the Roth 457, or a combination of the two contribution options. The Plan currently utilizes one investment administrator: Great-West Life & Annuity Insurance Company (Great-West). As of February 2015, Great-West uses the branded name Empower Retirement. Payment for administrative services is provided 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 comprised of seven voting members – the Port's Director of Human Resources, the Port's Chief Financial Officer, and five other members appointed by the Port's Director of Human Resources or the Port's Chief Financial Officer. The Port's Director of Human Resources or the Port's 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, 2015 and 2014

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 Sections 1.14 and 3.03 of the Plan.

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

- Twice the applicable dollar amount permitted under IRC §457(b)(2)(A); or
- The sum of:
 - The maximum amount of compensation that may be deferred for the employment period as determined under Section 3.01 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 3.01 of the Plan's document less the compensation deferred under the Plan for such employment period or employment periods.

The Special Limited Catch-up Provision can only be elected one time. Employees who are 70½ or older may not elect this 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 \$6,000 in calendar year 2015 and \$5,500 in calendar year 2014.

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, 2015 and 2014

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 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 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.

Loans Receivable from Participants

The IRC permits and the Port allows participants in the 457 Plan to participate in a loan program. The loans are secured by the remaining balance in the participant's account and must be repaid over a period that does not exceed five years, except that if the loan is for the purchase of a principal residence, the loan may be repaid over a period not to exceed fifteen years. The maximum amount of loans to participants is the lesser of \$50,000 or 50% of the participant's vested account balance as of the day immediately preceding the date on which the loan is approved.

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

Notes to the Basic Financial Statements
Years Ended June 30, 2015 and 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 tables present investments that represent 5% or more of the Plan's investments at fair value at June 30, 2015 and 2014 (dollars in thousands):

| | 2015 | % of Investment |
|------------------------------------|-------------|----------------------------|
| Port of Oakland Stable Value Fund* | \$ 25,135 | 34.1% |
| Dreyfus S&P 500 Index Fund | 5,637 | 7.6% |
| Fidelity Contrafund | 3,747 | 5.1% |
| | | |
| | 2014 | % of Investment |
| Port of Oakland Stable Value Fund* | \$ 24,870 | 33.7% |
| Dreyfus S&P 500 Index Fund | 4,849 | 6.6% |
| Harbor International Fund | 4,276 | 5.8% |

* Funds managed by Great-West Retirement Services

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, 2015 and 2014 (dollars in thousands):

| Investments | Average Maturity | Standard and Poor's Credit Rating | Fair Value | |
|-----------------------------------|-----------------------------|--|-------------------|-------------|
| | | | 2015 | 2014 |
| Port of Oakland Stable Value Fund | 5.55 years | Not rated | \$ 25,135 | \$ 24,870 |

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

Notes to the Basic Financial Statements
Years Ended June 30, 2015 and 2014

NOTE 3 – INVESTMENTS (continued)

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.

| <u>Investments</u> | <u>Fair Value</u> | |
|--|-----------------------|------------------|
| | <u>(in thousands)</u> | |
| | <u>2015</u> | <u>2014</u> |
| Mutual Funds:** | | |
| GW Capital Management Aggressive Profile | \$ 1,419 | \$ 1,253 |
| GW Capital Management Moderately Aggressive Profile | 2,207 | 2,241 |
| GW Capital Management Moderate Profile | 1,787 | 1,768 |
| GW Capital Management Moderately Conservative Profile | 786 | 767 |
| GW Capital Management Conservative Profile | 291 | 347 |
| American Funds EuroPacific A | 865 | 806 |
| American Funds New Perspective R4 | 315 | 326 |
| Harbor International Fund | 3,643 | 4,276 |
| Franklin Templeton Mutual Global Discovery Fund | 950 | 969 |
| Franklin Mutual European Fund A | 325 | 261 |
| Allianz RCM Global Technology Fund A | 2,526 | 2,811 |
| Prudential Jennison Utility Fund Z | 644 | 648 |
| Allianz NFJ Small CAP Stock Index Fund | 550 | 645 |
| Baron Small Cap Fund | 823 | 929 |
| Dreyfus Small Cap Stock Index Fund | 822 | 644 |
| Fidelity Low Priced Fund | 2,118 | 2,361 |
| Hartford Small Company R5 | 196 | 214 |
| Well Fargo Advantage Small Cap Val Z | - | 592 |
| PIMCO StocksPLUS Small A | 669 | - |
| Artisan Mid Cap Fund | 1,092 | 1,379 |
| Dreyfus Mid Cap Index Fund | 1,404 | 1,123 |
| JP Morgan Mid Cap Value Fund A | 601 | 625 |
| Neuberger Berman Genesis Fund Trust | 1,145 | 1,697 |
| American Funds Growth Fund R4 | 2,267 | 2,251 |
| Blackrock Equity Index - Collective Fund | 276 | 429 |
| Davis New York Venture Fund | 3,002 | 3,000 |
| Dreyfus S & P 500 Index Fund | 5,637 | 4,849 |
| Fidelity Contrafund | 3,747 | 3,454 |
| Janus Twenty Fund | 1,716 | 2,102 |
| JP Morgan Equity Income A | 656 | - |
| Parnassus Core Equity Fund | 1,131 | 1,100 |
| Pioneer Disciplined Value Fund A | - | 683 |
| Prudential Jennison 20/20 Focus Fund Z | 372 | 401 |
| T. Rowe Price Value Fund | 1,327 | 1,057 |
| Fidelity Puritan Fund | 870 | 808 |
| Janus Balanced Fund | 634 | 653 |
| PAX World Balanced Fund | 560 | 533 |
| Ivy High Income Y | 167 | 104 |
| Payden GNMA | 41 | 19 |
| PIMCO Total Return Fund Admin | 1,081 | 891 |
| | <u>\$ 48,662</u> | <u>\$ 49,016</u> |

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

Notes to the Basic Financial Statements
Years Ended June 30, 2015 and 2014

- ** 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*.