

**PORT OF OAKLAND, CALIFORNIA**  
**(A Component Unit of the City of Oakland)**

Single Audit and  
Passenger Facility Charges Reports

Year Ended June 30, 2015



Certified  
Public  
Accountants

**PORT OF OAKLAND, CALIFORNIA**  
**(A Component Unit of the City of Oakland)**  
**SINGLE AUDIT AND PASSENGER FACILITY CHARGES REPORTS**  
**YEAR ENDED JUNE 30, 2015**

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**Independent Auditor’s Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Port Commissioners  
of the City of Oakland, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Oakland (Port), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Port’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Port’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Port’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Port’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Oakland, California  
December 7, 2015



**Independent Auditor’s Report on Compliance for Each Major Federal Program and the Passenger Facility Charges Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 and Schedule of Passenger Facility Cash Receipts, Cash Disbursements and Interest by Quarter Required by the PFC Guide**

Board of Port Commissioners  
of the City of Oakland, California

**Report on Compliance for Each Major Federal Program and the Passenger Facility Charges Program**

We have audited the Port of Oakland’s (Port), a component unit of the City of Oakland, California, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (*PFC Guide*) that could have a direct and material effect on each of the Port’s major federal programs and the passenger facility charges program, respectively, for the year ended June 30, 2015. The Port’s major federal programs are identified in the summary of auditors’ results section of the accompanying federal awards schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs and the passenger facility charges program.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the Port’s major federal programs and the passenger facility charges program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations* and the *PFC Guide*. Those standards, *OMB Circular A-133*, and the *PFC Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or the passenger facility charges program occurred. An audit includes examining, on a test basis, evidence about the Port’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and the passenger facility charges program. However, our audit does not provide a legal determination of the Port’s compliance.

***Opinion on Each Major Federal Program and the Passenger Facility Charges Program***

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and the passenger facility charges program for the year ended June 30, 2015.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *PFC Guide* and which are described in the accompanying Passenger Facility Charges Program schedule of findings and questioned costs as item 2015-001. Our opinion on the PFC Program is not modified with respect to these matters.

The Port's response to the noncompliance finding identified in our audit is described in the accompanying PFC schedule of findings and questioned costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program or the passenger facility charges program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and the passenger facility charges program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *PFC Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or the passenger facility charges program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or the passenger facility charges program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or the passenger facility charges program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the *PFC Guide*. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 and  
Schedule of Passenger Facility Cash Receipts, Cash Disbursements and Interest by Quarter  
Required by the *PFC Guide***

We have audited the financial statements of the Port as of and for the year ended June 30, 2015, and have issued our report thereon dated December 7, 2015 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and schedule of passenger facility cash receipts, cash disbursements and interest by quarter are presented for purposes of additional analysis as required by OMB Circular A-133 and the *PFC Guide*, respectively, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and schedule of passenger facility cash receipts, cash disbursements and interest by quarter are fairly stated in all material respects in relation to the financial statements taken as a whole.

*Macias Gini & O'Connell LLP*

Oakland, California  
March 30, 2016

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

<b>Federal Agency, Pass Through Agency and Program Description</b>	<b>Program CFDA Number</b>	<b>Expenditures</b>
U.S. Department of Transportation:		
Direct Programs:		
Federal Aviation Administration - Airport Improvement Program (AIP):		
AIP-59	20.106	\$ 26,808
AIP-61	20.106	338
AIP-63	20.106	(739,792) <sup>(1)</sup>
AIP-65	20.106	5,694,729
AIP-66	20.106	426,418
AIP-67	20.106	617,111
AIP-68	20.106	20,223,551
AIP-70	20.106	1,405,930
AIP-71	20.106	<u>3,961,058</u>
Subtotal Airport Improvement Program		<u>31,616,151</u>
Surface Transportation Discretionary Grants for Capital Investments - Transportation Investment Generating Economic Recovery Grants American Recovery and Reinvestment Act (ARRA) (DTMA-91-G-2012-0005)		
	20.932	<u>9,263,349</u>
Total U.S. Department of Transportation		<u>40,879,500</u>
U.S. Department of Homeland Security:		
Direct Program:		
Port Security Grant Program:		
FY 2012 (Round 12) (EMW-2012-PU-00191)	97.056	1,672,942
FY 2013 (Round 13) (EMW-2013-PU-00195)	97.056	114,199
FY 2014 (Round 14) (EMW-2014-PU-00203)	97.056	<u>310,339</u>
Subtotal Direct Program - Port Security Grant		<u>2,097,480</u>
Pass-Through Marine Exchange of the San Francisco Bay Region:		
Port Security Grant Program:		
FY 2009 (Round 9) (2009-PU-T9-K032) (see note 2)	97.056	750,000
FY 2010 (Round 10) (2010-PU-T0-K050) (see note 2)	97.056	<u>1,075,589</u>
Subtotal Pass-Through Program - Port Security Grant		<u>1,825,589</u>
Total U.S. Department of Homeland Security		<u>3,923,069</u>
<b>TOTAL EXPENDITURE OF FEDERAL AWARDS</b>		<u><u>\$ 44,802,569</u></u>

(1) - In fiscal year ended June 30, 2015, certain prior year costs were transferred from AIP-63 to AIP-65.

The accompanying notes are an integral part of this schedule.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

**(1) General**

The schedule of expenditures of federal awards (Schedule) presents the activity of the federal award programs of the Port of Oakland, California (Port). The reporting entity is defined in Note 1 of the Port's basic financial statements. Because the Schedule presents only the federal award activity of the Port, it is not intended to and does not present the financial position, changes in financial position or the cash flows of the Port.

**(2) Basis of Accounting**

The Schedule is presented using the accrual basis of accounting as described in Note 2 to the Port's basic financial statements. Expenditures of federal awards are reported in the Port's basic financial statements as expenses for non-operating grant expense and as additions to capital assets for related capital expenditures. Payments to subrecipients are included in the Schedule when the disbursement is made by the Port to the subrecipient. The Port passed through \$1,030,126 of the Port Security Grant to the City of Oakland as a subrecipient during the year ended June 30, 2015.

**(3) Relationship to Federal Financial Reports**

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**SCHEDULE OF PASSENGER FACILITY CASH RECEIPTS, CASH DISBURSEMENTS  
AND INTEREST BY QUARTER**  
**YEAR ENDED JUNE 30, 2015**

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Total</u>
Cash receipts	\$ 5,394,359	\$ 5,124,611	\$ 4,978,033	\$ 5,845,723	\$ 21,342,725
Cash disbursements	(5,396,704)	(2,090,879)	(1,172,854)	(12,528,140)	(21,188,577)
Interest income	2,608	4,397	7,249	3,622	<u>17,877</u>
Excess of cash receipts and interest income over cash disbursements					172,024
Unexpended cash balance at June 30, 2014					<u>2,262,802</u>
Unexpended cash balance at June 30, 2015					<u><u>\$ 2,434,826</u></u>

The accompanying notes are an integral part of this schedule.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
NOTES TO SCHEDULE OF PASSENGER FACILITY CASH RECEIPTS,  
CASH DISBURSEMENTS AND INTEREST BY QUARTER  
YEAR ENDED JUNE 30, 2015

**(1) General**

The Port of Oakland, California (Port), as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (Act), as amended, imposes a Passenger Facility Charge (PFC) of \$4.50 per enplaning passenger at the Oakland International Airport. Under the Act, air carriers are responsible for the collection of PFC charges and are required to remit PFC revenues to the Port in the following month after they are recorded by the air carrier. The Port has two approved and active applications with the FAA. The current authority to impose PFCs is estimated to end March 1, 2035.

PFC revenues, including any interest earned thereon, are restricted solely to finance allowable costs of new airport planning and development projects as defined and authorized by the FAA. PFC revenues may be used to pay debt service and related expenditures associated with FAA approved projects, and the Port has received FAA approval to pay certain debt service if debt proceeds are used for qualifying projects.

**(2) Significant Accounting Policies**

**Basis of accounting**

The accompanying schedule of passenger facility cash receipts, cash disbursements and interest by quarter (PFC Schedule) is presented using the cash basis. Receipts represent amounts received from air carriers' enplaning passenger ticket sales. Disbursements represent Port payments for projects that have been authorized by the FAA under the Act.

**Basis for quarterly reporting**

The Port prepares quarterly reports, which are submitted to the FAA and to the airlines, of PFC amounts received and expended on the cash basis. The Port reimburses PFC disbursements by transferring cash to the Port Revenue Fund from the Restricted PFC Fund.

**(3) Cash, Investments and Deposits**

The City of Oakland (City) Charter requires all revenues, including PFC revenue, to be deposited with the City Treasurer. These funds are pooled in a citywide pool and invested by the City Treasurer pursuant to the investment policy adopted by the City Council and guidelines specified in the California Government Code. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily PFC balance on deposits and the earnings of the investments. PFC cash, investments and deposits held by the City totaled \$2,434,826 at June 30, 2015.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**FEDERAL AWARDS SCHEDULE OF AND FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2015**

**Section I      Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued on the basic financial statements of the Port: Unmodified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? No
- ◆ Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to the basic financial statements noted? No

*Federal Awards*

Internal control over major programs:

- ◆ Material weakness(es) identified? No
- ◆ Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of major programs: CFDA No. 20.932 – U.S. Department of Transportation – Surface Transportation Discretionary Grants for Capital Investment –Transportation Investment Generating Economic Recovery ARRA Grants

CFDA No. 97.056 – U.S. Department of Homeland Security – Port Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$1,344,077

Auditee qualified as a low-risk auditee? Yes

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
FEDERAL AWARDS SCHEDULE OF AND FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015

**Section II      Financial Statement Findings**

No matters were reported.

**Section III      Federal Award Findings and Questioned Costs**

No matters were reported.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**PASSENGER FACILITY CHARGES PROGRAM SCHEDULE OF AND FINDINGS AND  
QUESTIONED COSTS**  
YEAR ENDED JUNE 30, 2015

**Section I Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued on the financial statements of the Port:	Unmodified
Internal control over financial reporting:	
◆ Material weakness(es) identified?	No
◆ Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the basic financial statements noted?	No

*Passenger Facility Charges*

Internal control over the program:	
◆ Material weakness(es) identified?	No
◆ Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for Passenger Facility Charges program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the PFC Guide	Yes

**Section II Financial Statement Findings**

No matters were reported.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**PASSENGER FACILITY CHARGES PROGRAM SCHEDULE OF AND FINDINGS AND**  
**QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2015**

**Section III Passenger Facility Charges Findings and Questioned Costs**

**Finding 2015-001 Reporting - Passenger Facility Charges Program**

***Criteria:***

The Passenger Facility Charge Audit Guide for Public Agencies, revised September 2000, states that the public agency's quarterly report "must be provided on or before the last day of the calendar month following the calendar quarter or other period agreed by the public agency and collecting carrier."

***Condition Identified and Perspective:***

During our audit we noted that:

- The report for the quarter ended June 30, 2015, was due by July 31, 2015 but not submitted until August 13, 2015.

***Questioned Costs:***

None

***Asserted Cause and/or Effect:***

Internal controls are not adequate to ensure the completion and submission of the required reports and communications on a timely basis.

***Recommendation:***

We recommend that the Port meet the mandated reporting deadlines.

***Views of Responsible Officials:***

Port staff will be retrained on the required deadlines and a compliance reporting matrix is under development so that supervising staff can better monitor reporting deadlines.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR  
FEDERAL AWARDS AND PASSENGER FACILITY CHARGES PROGRAM  
YEAR ENDED JUNE 30, 2015

<u><i>Finding No.</i></u>	<u><i>Description</i></u>	<u><i>Status</i></u>
2014-001	Airport Improvement Program – Activities Allowed or Unallowed	In Process