

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

Single Audit, Passenger Facility Charges, and
Customer Facilities Charges Reports

Year Ended June 30, 2016



Certified
Public
Accountants

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
SINGLE AUDIT, PASSENGER FACILITY CHARGES, AND
CUSTOMER FACILITY CHARGES REPORTS
YEAR ENDED JUNE 30, 2016

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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, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2016.

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, we identified certain deficiencies in internal control that we consider to be a significant deficiency, which is described in the accompanying federal awards schedule of findings and questioned costs as item 2016-001.

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*.

Port of Oakland's Response to Findings

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

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
November 29, 2016



**Independent Auditor’s Report on Compliance for the Major Federal Program:
Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance**

Board of Port Commissioners
of the City of Oakland, California

Report on Compliance for the Major Federal 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 Compliance Supplement* that could have a direct and material effect on the Port’s major federal program for the year ended June 30, 2016. The Port’s major federal program is identified in the summary of auditor’s results section of the accompanying federal awards schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Port’s major federal 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 the major federal program. However, our audit does not provide a legal determination of the Port’s compliance.

Opinion on the Major Federal 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 program for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying federal awards schedule of findings and questioned costs as items 2016-002. Our opinion on the major federal program is not modified with respect to this matter.

The Port's responses to the noncompliance findings identified in our audit are described in the accompanying federal awards schedule of findings and questioned costs. The Port's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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, the passenger facility charges program, or the customer 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, the passenger facility charges program, or the customer 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Port as of and for the year ended June 30, 2016, and have issued our report thereon dated November 29, 2016 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 is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 is fairly stated in all material respects in relation to the financial statements taken as a whole.

Macias Gini & O'Connell LLP

Oakland, California
January 20, 2017

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Agency, Pass Through Agency and Program Description	Program CFDA Number	Expenditures
U.S. Department of Transportation:		
Direct Programs:		
Federal Aviation Administration - Airport Improvement Program (AIP)		
AIP-61	20.106	\$ 27,592
AIP-63	20.106	561,524
AIP-67	20.106	100,439
AIP-68	20.106	15,230,574
AIP-70	20.106	81,170
AIP-71	20.106	688,603
AIP-72	20.106	594,758
Subtotal Airport Improvement Program		<u>17,284,660</u>
Surface Transportation Discretionary Grants for Capital Investments - Transportation Investment Generating Economic Recovery (TIGER) Grants American Recovery and Reinvestment Act (ARRA) (DTMA-91-G-2012-0005)		
	20.932	<u>4,132,808</u>
Total U.S. Department of Transportation		<u>21,417,468</u>
U.S. Department of Homeland Security:		
Direct Program:		
Port Security Grant Program (PSGP)		
FY 2013 (Round 13) (EMW-2013-PU-00195)	97.056	431,066
FY 2014 (Round 14) (EMW-2014-PU-00203)	97.056	195,471
Subtotal Port Security Grant - Direct		<u>626,538</u>
Pass-Through Marine Exchange of the San Francisco Bay Region:		
Port Security Grant Program (PSGP)		
FY 2010 (Round 10) (2010-PU-T0-K050) (see note 2)	97.056	<u>632,041</u>
Total U.S. Department of Homeland Security		<u>1,258,579</u>
TOTAL EXPENDITURE OF FEDERAL AWARDS		<u><u>\$ 22,676,047</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 EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

(1) General

The schedule of expenditures of federal awards (SEFA) 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 financial statements. Because the SEFA 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. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) Basis of Accounting

The SEFA 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 SEFA when the disbursement is made by the Port to the subrecipient. The Port passed through \$589,043 of the Port Security Grant to the City of Oakland as a subrecipient during the year ended June 30, 2016.

The Port has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

(3) Relationship to Federal Financial Reports

Amounts reported in the SEFA 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)
FEDERAL AWARDS SCHEDULE OF AND FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America Unmodified

Internal control over financial reporting:

◆ Material weakness(es) identified? No

◆ Significant deficiency(ies) identified? Yes

Noncompliance material to the basic financial statements noted? No

Federal Awards

Internal control over major federal program:

◆ Material weakness(es) identified? No

◆ Significant deficiency(ies) identified? None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes

Identification of major federal program: CFDA No. 20.106 – U.S. Department of Transportation – Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

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, 2016

Section II Financial Statement Findings

Finding 2016-001 Schedule of Expenditures of Federal Awards Completeness (Significant Deficiency)

Criteria:

The Uniform Guidance requires the Port to prepare a schedule showing total expenditures for the fiscal year for each federal program. Further, it requires that the auditor identify and audit all high-risk type A federal programs. The Port's type A federal programs are those with current year expenditures exceeding \$750,000.

Condition Identified and Perspective:

The Port omitted the following expenditures from its schedule of expenditures of federal awards (SEFA):

- \$589,043 of expenditures related to its Port Security Grant program (CFDA 97.056). These expenditures were passed through to the City of Oakland as a subrecipient.

Asserted Cause and/or Effect:

Internal controls over preparation of the SEFA are not suitably designed to prevent inaccurate or complete preparation of the schedule.

The Port's SEFA serves as the basis for determining the number of major programs required to be audited for a fiscal year. Inaccuracy in the SEFA may result in high-risk type A programs not being identified for testing and type B programs not being subjected to the required audit risk assessment.

Recommendation:

The Port should improve its process for reviewing expenditures reported in the SEFA by developing procedures to ensure that all federal grants are identified.

View of Responsible Officials:

The Port does not regularly share or pass through grants to other agencies, instances of such are infrequent and isolated, therefore the Port has not established extensive procedures for tracking such activity. However, the Port will establish new general ledger accounts to separately track any future subgrantee activity so that it can be easily identified and accurately reported.

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, 2016

Section III Federal Award Findings and Questioned Costs

Finding 2016-002 Reporting - Airport Improvement Program

Federal Program Title(s): Airport Improvement Program
Federal Catalog Number(s): 20.106
Federal Agency: U.S. Department of Transportation
Pass-Through Entity: N/A
Federal Award Number(s) and Year(s): Various multi-year award numbers for FY 2015-16
Category of Finding: Fiscal Reporting

Criteria:

The Airport Improvement Program Handbook, section 5-53, states:

“The sponsor must submit an annual report of their grant financial activity using Standard Form 425, Federal Financial Report, or equivalent... The sponsor must submit each Standard Form 425 no less [sic] than 90 working days after the end of each fiscal year...”

Condition Identified and Perspective:

Federal Financial Report (SF-425) for the fiscal year ended September 30, 2015 was due by December 31, 2015 but not filed with the U.S. Department of Transportation until September 27, 2016.

Asserted Cause and/or Effect:

Internal controls are not adequate to ensure the completion and timely submittal of the required report on a timely basis.

Questioned Costs:

None

Recommendation:

We recommend that the Port meet all mandated reporting requirements and deadlines.

Views of Responsible Officials:

The Port is aware of the Standard Form 425 and completes this form timely for other Federal grant programs. The Port was advised by previous AIP program managers that this form was not necessary for the AIP program and therefore did not submit this form. Through discussions with current AIP program personnel, the Port became aware that this form is required. The Port immediately submitted the form to the FAA on September 27, 2016 and will do so on a timely basis going forward.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
STATUS OF PRIOR YEAR FINDINGS AND
QUESTIONED COSTS FOR FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

<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

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Independent Auditor’s Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program, Internal Control over Compliance in Accordance with the *Passenger Facility Charge Audit Guide for Public Agencies* and Schedule of Passenger Facility Cash Receipts, Cash Disbursements, and Interest by Quarter

Board of Port Commissioners
of the City of Oakland, California

Compliance

We have audited the Port of Oakland’s (Port), a component unit of the City of Oakland, California, compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to its passenger facility charge program for the year ended June 30, 2016.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of the Port’s management.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Port’s compliance based on our audit.

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; and the PFC Guide. Those standards 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 material effect on the passenger facility charge 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. Our audit does not provide a legal determination of the Port’s compliance with those requirements.

Opinion

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the PFC Guide and which are described in the accompanying passenger facility charge schedule of findings and questioned costs as items 2016-003. Our opinion on the passenger facility charge program is not modified with respect to this matter.

The Port's responses to the noncompliance findings identified in our audit are described in the accompanying passenger facility charge schedule of findings and questioned costs. The Port's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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, we considered the Port's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 PFC Guide. Accordingly, this report is not suitable for any other purpose.

Schedule of Passenger Facility Charge Cash Receipts, Cash Disbursements, and Interest by Quarter

We have audited the financial statements of the Port as of and for the year ended June 30, 2016, and have issued our report thereon dated November 29, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Port as a whole. The accompanying Schedule of Passenger Facility Charge Cash Receipts, Cash Disbursements, and Interest by Quarter (PFC Schedule) is presented for purposes of additional analysis as required by the PFC Guide, issued by the FAA, and is not a required part of the Port's 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 PFC Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Oakland, California
January 20, 2017

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, 2016

	<u>1st</u> <u>Quarter</u>	<u>2nd</u> <u>Quarter</u>	<u>3rd</u> <u>Quarter</u>	<u>4th</u> <u>Quarter</u>	<u>Total</u>
Cash receipts	\$ 5,876,262	\$ 5,292,384	\$ 5,395,621	\$ 6,186,323	\$ 22,750,590
Cash disbursements	(2,289,581)	(8,333,765)	(6,736,726)	(4,689,464)	(22,049,536)
Interest income	3,673	2,726	3,457	3,226	<u>13,082</u>
Excess of cash receipts and interest income over cash disbursements					714,136
Unrealized gains on investments					2,480
Unexpended cash balance at June 30, 2015					<u>2,434,826</u>
Unexpended cash balance at June 30, 2016					<u><u>\$ 3,151,442</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, 2016

(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 February 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 \$3,151,442 at June 30, 2016, which includes an allocation of unrealized gain on investments of \$2,480 at June 30, 2016.

PORT OF OAKLAND, CALIFORNIA
 (A Component Unit of the City of Oakland)
**PASSENGER FACILITY CHARGE PROGRAM SCHEDULE OF AND FINDINGS AND
 QUESTIONED COSTS**
 YEAR ENDED JUNE 30, 2016

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 deficiency(ies) identified? Yes

Noncompliance material to the basic financial statements noted? No

Passenger Facility Charges

Internal control over the PFC 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 PFC program Unmodified

Any audit findings disclosed that are required to be reported in accordance with the PFC Guide Yes

Section II Financial Statement Findings

See Finding 2016-001.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
**PASSENGER FACILITY CHARGE PROGRAM SCHEDULE OF AND FINDINGS AND
QUESTIONED COSTS**
YEAR ENDED JUNE 30, 2016

Section III Passenger Facility Charges Findings and Questioned Costs

Finding 2016-003 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, 2016, was due by July 31, 2016 but not submitted until August 16, 2016.

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 prepared and submitted airline cash receipts collections on a timely basis, however the Port had not received the Port's share of interest earned from the City of Oakland (City) in time to include this information with the report. Upon receiving the final interest earned amount from the City, Port staff updated the reporting. When Port staff updated the reporting, the date stamp on the system updated to the current date and overrode the initial reporting date. Port staff contacted the FAA and confirmed that the system does not keep an audit trail and will only show the last modified date. The Port is dependent upon the City to provide interest earned information because per the City Charter, the City holds all excess cash, including PFC deposits, with the City treasury. The Port will discuss with the FAA proper reporting procedures and support documentation in the event the Port does not receive interest earned information timely from the City. Additionally, the Port will discuss with the City what steps can be taken to ensure interest earned information is calculated and communicated timely.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR
THE PASSENGER FACILITY CHARGE PROGRAM
YEAR ENDED JUNE 30, 2016

<u><i>Finding No.</i></u>	<u><i>Description</i></u>	<u><i>Status</i></u>
2015-001	Passenger Facility Charge – Fiscal Reporting	Repeated - see Finding 2016-003



Independent Auditor’s Report on Compliance with Applicable Requirements of the Customer Facility Charge Program, Report on Internal Control over Compliance and Schedule of Customer Facility Cash Receipts and Cash Disbursements

Board of Port Commissioners
of the City of Oakland, California

Compliance

We have audited the Port of Oakland’s (Port), a component unit of the City of Oakland, California compliance with requirements described in the *California Civil Code Section 1936, as amended by Senate Bill (SB) 1192 and Assembly Bill (AB) 359* (CFC Code), for its customer facility charge program for the year ended June 30, 2016.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of the Port’s management.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Port’s compliance based on our audit.

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; and the CFC Code. Those standards and the CFC Code 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 material effect on the customer facility charge 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. Our audit does not provide a legal determination of the Port’s compliance with those requirements.

Opinion

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that are applicable to its customer facility charge program for the year ended June 30, 2016.

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, we considered the Port's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 CFC Code. Accordingly, this report is not suitable for any other purpose.

Schedule of Customer Facility Cash Receipts and Cash Disbursements

We have audited the financial statements of the Port as of and for the year ended June 30, 2016, and have issued our report thereon dated November 29, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements of the Port as a whole. The accompanying Schedule of Customer Facility Cash Receipts and Cash Disbursements (CFC Schedule) is presented for purposes of additional analysis as required by the CFC Code, and is not a required part of the Port's 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 CFC Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Oakland, California
January 20, 2017

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
SCHEDULE OF CUSTOMER FACILITY
CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2016

Cash receipts:	
Customer facility charges	\$ 6,192,524
Net investment income	31,635
Total cash receipts	<u>6,224,159</u>
Cash disbursements:	
Contractual services - shuttle bus operations	<u>4,210,419</u>
Total cash disbursements	<u>4,210,419</u>
Excess of cash receipts over cash disbursements	2,013,740
Unexpended cash at June 30, 2015	<u>6,717,306</u>
Unexpended cash at June 30, 2016	<u>\$ 8,731,046</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 CUSTOMER FACILITY CHARGE
CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2016

(1) General

The Port of Oakland, California (Port), as authorized by California Civil Code Section 1936, amended by Senate Bill 1192 and Assembly Bill 359 (CFC Code) imposes a Customer Facility Charge (CFC) of \$10 per rental contract on rental car companies operating at Oakland International Airport and \$8 per rental contract on rental car companies operating off the airport property, but utilizing the common-use shuttle bus service to transport customers. Under the CFC Code, rental car companies are responsible for the collection of CFC charges from renters and are required to remit CFC revenues to the Port.

CFC revenues, including any interest earned thereon, are restricted solely to finance, design and construct a consolidated airport rental car facility; to finance, design, construct and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities; to acquire vehicles for use in that system; and to finance, design and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

(2) Basis of accounting

The accompanying schedule of customer facility charge cash receipts and cash disbursements is presented using the cash basis. Receipts represent amounts received from rental car companies based on their collections from customers. Disbursements represent Port's reimbursement from the CFC cash account for projects that are eligible under the CFC Code.

(3) Cash, Investments and Deposits

The City of Oakland (City) Charter requires all revenues, including CFC 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 CFC balance on deposits and the earnings of the investments. CFC cash, investments and deposits held by the City totaled \$8,731,046 at June 30, 2016. This amount is expected to be used for expansion of the consolidated rental car facility, including rebuilding of access driveways and general infrastructure, demolition of a building and paving of an adjacent property so it can be incorporated into the consolidated rental car facility, and site security enhancements.

During fiscal year 2016, the Port incurred and paid consultant fees of \$33,828 for various CFC audit periods from the Port's general operating account. The Port's general operating account was reimbursed from the CFC cash account in July 2016.