**THIS STAFF REPORT COVERS CALENDAR ITEM NO.:** 8
**FOR THE MEETING OF:** January 13, 2011

# TRANSBAY JOINT POWERS AUTHORITY

## BRIEF DESCRIPTION:

Presentation of the audited Financial Statements of the Transbay Joint Powers Authority (TJPA) for the fiscal year ended June 30, 2010 and the Report to the Board of Directors.

## SUMMARY:

Macias Gini & O'Connell LLP (MGO) conducted an audit of the TJPA's financial statements for fiscal year ended June 30, 2010. These financial statements are the seventh audited financial statements of the TPJA and fairly represent the financial position of the TJPA for the period of July 1, 2009 to June 30, 2010. The consolidation of the financial information was made possible by a collaborative effort between the staff and consultants of the TJPA.

The financial statements include the following sections:

1) Independent Auditor's Report—this report was prepared by the independent auditors, who rendered an unqualified opinion, which is the most favorable opinion an agency can receive in an audit. An unqualified opinion means that the financial statements are presented fairly and in accordance with accounting principles generally accepted in the United States of America.

2) Management's Discussion and Analysis—this section provides management's overview of TJPA's financial activities.

3) Basic Financial Statements—the basic financial statements include a statement of net assets, statement of revenues and changes in fund net assets, statement of cash flows, and notes to the statements, which are essential to a full understanding of the data provided.

4) Supplementary and Other Information—this includes the Schedule of Federal Awards, and the Reports on Compliance and on Internal Control, which is required under Government Auditing Standards.

In addition, MGO issued a report addressed to the Board of Directors which is intended solely for the information of TJPA's Board of Directors and management.

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# TRANSBAY JOINT POWERS AUTHORITY

Independent Auditor's Reports,
Management's Discussion and Analysis,
Basic Financial Statements and
Other Supplementary Information

For the Year Ended June 30, 2010

**TRANSBAY JOINT POWERS AUTHORITY**
For the Year Ended June 30, 2010

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Board of Directors
Transbay Joint Powers Authority
San Francisco, California

**Independent Auditor's Report**

We have audited the accompanying basic financial statements of the Transbay Joint Powers Authority (TJPA), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the TJPA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit 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 TJPA'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TJPA as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010, on our consideration of the TJPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 29, 2010

# MANAGEMENT’S DISCUSSION AND ANLYSIS

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2010 with comparative information for the year ended June 30, 2009. Please read it in conjunction with the TJPA's basic financial statements, which follow this section.

### *Financial Highlights*

- At the close of the year, June 30, 2010, assets of the TJPA exceeded its liabilities by $303,123,017.
- The TJPA received $75,352,708 in capital contributions for the year ended June 30, 2010. All contributions were used for the Transbay Transit Center Program (the "Program"), which consists of both the Transbay Transit Center and the Caltrain Downtown Extension.
- During the year ended June 30, 2010:
    - The TJPA purchased one additional right of way property.
    - Design Development for the Transbay Transit Center was completed and the Construction Document phase of design began.
    - Construction of Phase I of the Temporary Terminal was completed and planning was finalized for operations scheduled to commence on August 7, 2010.

### *Overview of the Financial Statements*

This discussion and analysis is intended to serve as an introduction to the TJPA's basic financial statements. The annual financial report for the TJPA includes this management's discussion and analysis (MD&A), the basic financial statements and notes to the basic financial statements.

The TJPA is reported as an *enterprise fund*. Enterprise funds are a type of proprietary fund that is used to report information in a manner similar to a private-sector business. An enterprise fund is used to account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The Joint Powers Agreement creating the TJPA, dated April 4, 2001, states that the "Members" intend to operate and manage the new transit terminal and related facilities upon their completion as an enterprise operation.

The basic financial statements include the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and Statement of Cash Flows. Following is a brief explanation of the use of each of the statements.

> The *Statement of Net Assets* presents information on all of the TJPA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the TJPA is improving or deteriorating.
>
> The *Statement of Revenues, Expenses and Changes in Fund Net Assets* presents information showing how the TJPA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *Statement of Cash Flows* presents the cash inflows and outflows and the resulting cash position at fiscal year end.

*Notes to the Basic Financial Statements*. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11-23 of this report.

### *Financial Statement Analysis*

The TJPA has applied Governmental Accounting Standards Board (GASB) Statement No. 34. In accordance with GASB, a comparative analysis of financial data is presented.

**TJPA'S CONDENSED STATEMENTS OF NET ASSETS**

| | 2010 | 2009 | Dollar Change | Percent Change |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current and other assets | $ 21,152,582 | $ 26,706,879 | $ (5,554,297) | -21% |
| Capital assets | 315,296,599 | 239,553,675 | 75,742,924 | 32% |
| **Total assets** | 336,449,181 | 266,260,554 | 70,188,627 | 26% |
| **Liabilities:** | | | | |
| Current and other liabilities | 16,642,849 | 21,560,658 | (4,917,809) | -23% |
| Intergovernmental liability to SFRA for re-conveyance of State donated land | 16,683,315 | 16,683,315 | - | 0% |
| **Total liabilities** | 33,326,164 | 38,243,973 | (4,917,809) | -13% |
| **Net Assets:** | | | | |
| Invested in capital assets, net of related obligations | 298,613,284 | 222,870,360 | 75,742,924 | 34% |
| Unrestricted | 4,509,733 | 5,146,221 | (636,488) | -12% |
| **Total net assets** | $ 303,123,017 | $ 228,016,581 | $ 75,106,436 | 33% |

Total net assets at June 30, 2010 include invested in capital assets, net of related obligations, which is comprised of construction in progress of $201,686,327, land of $96,789,583, and permanent easements of $137,374. The construction in progress includes engineering and design, construction, program consulting and management, environmental and planning, and administrative costs necessary to support the development of the Transbay Transit Center and Caltrain Downtown Extension. Construction in progress also includes information technology costs for website development and labor compliance software. In addition, current year net assets include $4,509,733 in unrestricted net assets.

The $5,554,297 net decrease in current and other assets is primarily attributable to a $4,728,956 decrease in grantor receivables and a $753,426 decrease in cash and cash equivalents. The net decrease of $4,917,809 in current and other liabilities from the prior year resulted primarily from a $4,944,792 decrease in accounts and other payables.

The $16,683,315 intergovernmental liability to the San Francisco Redevelopment Agency (SFRA) is due to the TJPA's acceptance of the transfer of four parcels from the State of California during fiscal year ended June 30, 2009 for interim use by TJPA during construction of the Transbay Transit Center. These four parcels will be re-conveyed to the SFRA upon completion of the Center.

**TJPA'S CONDENSED STATEMENTS OF CHANGES IN NET ASSETS**

| | 2010 | 2009 | Dollar Change | Percent Change |
|---|---|---|---|---|
| **Nonoperating revenues** | | | | |
| Interest income | $ 44,612 | $ 104,291 | $ (59,679) | -57% |
| Other nonoperating revenues | 399,657 | 585,626 | (185,969) | -32% |
| Loss on conveyance of land | (690,541) | - | (690,541) | n/a |
| Total nonoperating revenues | (246,272) | 689,917 | (936,189) | -136% |
| **Capital contributions** | | | | |
| Federal government capital grants | 4,244,086 | 5,278,597 | (1,034,511) | -20% |
| State government capital grants | 2,168,367 | 1,522,229 | 646,138 | 42% |
| Local government shared revenues | 68,940,255 | 74,632,942 | (5,692,687) | -8% |
| Total capital contributions | 75,352,708 | 81,433,768 | (6,081,060) | -7% |
| **Change in net assets** | 75,106,436 | 82,123,685 | (7,017,249) | -9% |
| Net assets- beginning | 228,016,581 | 145,892,896 | 82,123,685 | 56% |
| Net assets- ending | $ 303,123,017 | $ 228,016,581 | $ 75,106,436 | 33% |

Nonoperating revenues

The fiscal year 2010 decrease in interest income is primarily attributable to declining interest rates and reduced average balances. The fiscal year 2010 decrease in other nonoperating revenues is primarily due to properties being required for construction and no longer available for leasing. During the year ended June 30, 2010, the TJPA conveyed a strip of land valued at $860,541 to acquire permanent and temporary easements resulting in a loss on conveyance of land of $690,541.

Capital contributions

For the year ended June 30, 2010, the TJPA received $75,352,708 in capital contributions that were expended on the Transbay Transit Center Program, which includes a new Transit Center building, new bus storage facilities, bus ramps and a 1.3 mile extension of rail lines from the Transit Center to the Caltrain station. At June 30, 2010, the TJPA had capital project contract commitments of $137,489,113 for construction, design, engineering, planning and administrative costs. Additional information on the TJPA's capital assets can be found in Note 4 to the financial statements.

## *Economic Factors and Next Year's Budget*

Several factors affecting expenditures in the TJPA's fiscal year 2011 budget include continuation of engineering and design for the permanent bus storage facilities and the Transbay Transit Center building, as well as the start of the incurrence of expenditures for the demolition of the existing Transbay Terminal and construction of the new Transbay Transit Center building. The TJPA has budgeted $57 million for the Transbay Transit Center building architecture and engineering contract in fiscal year 2011, and $1.5 million for bus storage facility engineering and design contracts. Approximately $154.9 million is budgeted for demolition and construction and approximately $20.1 million for construction management. The TJPA plans to acquire right of way in fiscal year 2011 that is required for the completion of Phase 1 of the Transbay program, as well as the preservation of several parcels for Phase 2. The fiscal year 2011 budget includes approximately $30.5 million for right of way acquisition.

The TJPA's fiscal year 2011 budget anticipates that most of the revenues to pay for these expenditures will be provided by six sources: the funding identified in the expenditure plan approved by the voters for the half cent sales tax for transportation in San Francisco ("Prop. K"), the bridge toll increases approved in Regional Measure 1 and 2 and AB1171 ("RM1", "RM2" and "AB1171"), contributions of transportation sales tax revenues from the County of San Mateo, funds from the State of California via the Regional Transportation Improvement Program ("RTIP"), grants from the Federal Transit Administration ("FTA"), and an American Recovery and Reinvestment Act ("ARRA") grant from the Federal Railroad Administration ("FRA").

The approved fiscal year 2011 budget shows revenues in two categories – committed and planned. Planned revenues are further subdivided between sources which have been identified and "Other Planned Revenues." The identified sources are those planned expenditures of grants that were allocated or had pending applications with funding partners at the time the TJPA Board approved the 2011 fiscal year budget in June 2010. The "Other Planned Revenues" makes up the balance of the revenues required to fund fully the fiscal year 2011 budgeted expenditures. Throughout the 2011 fiscal year, TJPA will work with the funding agencies to secure grants as funding needs are identified. This is explained in detail in the staff report which was submitted with the fiscal year 2011 budget and can be found on the TJPA website for the June 10, 2010 TJPA Board meeting.

With the opening of the Temporary Terminal, the TJPA will begin incurring operating costs for the first time in fiscal year 2011. As such, an operating budget was also approved at the June 10, 2010 Board meeting consisting of $3,817,000 in revenues and expenditures. Expenditures include a facility management contract, security, operating support for AC Transit, and parking control officers. The majority of the revenues will be provided by RM2.

On December 14, 2007, the California Transportation Commission approved the transfer of the State's right, title, and interest in and to State-owned parcels to the TJPA and to the City and County of San Francisco, per the Cooperative Agreement dated July 11, 2003 between the State of California, the City and County of San Francisco, and the TJPA. This action allows the California Department of Transportation to administratively transfer title to individual parcels to the TJPA. During the fiscal year ended June 30, 2010, no parcels were transferred from the State to the TJPA. Future title transfers are planned as the parcels are required by TJPA and the City; fourteen parcels were transferred in August 2010.

### *Request for Information*

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Transbay Joint Powers Authority, 201 Mission Street, Suite 2100, San Francisco, California 94105.

# BASIC FINANCIAL STATEMENTS

**TRANSBAY JOINT POWERS AUTHORITY**

Statement of Net Assets

June 30, 2010

| | |
|---|---|
| **ASSETS:** | |
| Current assets: | |
| Cash and cash equivalents*:* | |
| Cash in bank | $ 380,798 |
| Restricted cash with fiscal agent | 892,454 |
| Equity in pooled cash and investments with the City and County of San Francisco | 3,647,676 |
| *Total cash and cash equivalents* | 4,920,928 |
| Receivables: | |
| Federal Transit Administration | 409,704 |
| California State Transportation Improvement Program | 882,439 |
| Metropolitan Transportation Commission | 11,554,322 |
| San Francisco County Transportation Authority | 2,875,694 |
| San Mateo County Transportation Authority | 56,476 |
| Interest earnings on deposits | 403 |
| *Total receivables* | 15,779,038 |
| Deposit with Local Government Services | 240,000 |
| Loan receivable - San Francisco Redevelopment Agency | 176,972 |
| Security deposits held by others | 250 |
| *Total current assets* | 21,117,188 |
| Noncurrent assets: | |
| Loan receivable - San Francisco Redevelopment Agency | 35,394 |
| Capital assets, nondepreciable: | |
| Land | 96,789,583 |
| Permanent easements | 137,374 |
| State donated land to be re-conveyed to the San Francisco Redevelopment Agency | 16,683,315 |
| Construction in progress - | |
| Information technology | 92,666 |
| Transbay Transit Center | 149,214,366 |
| Caltrain Downtown Extension | 52,379,295 |
| *Total capital assets* | 315,296,599 |
| *Total noncurrent assets* | 315,331,993 |
| **Total assets** | $ 336,449,181 |

See accompanying notes to the basic financial statements.

**TRANSBAY JOINT POWERS AUTHORITY**

Statement of Net Assets (Continued)

June 30, 2010

| | |
|---|---|
| **LIABILITIES:** | |
| Current liabilities: | |
| Payables: | |
| Accounts, contracts and intergovernmental payables | $ 13,954,159 |
| Relocation assistance payable | 921,478 |
| Retainage payable | 1,233,733 |
| Intergovernmental payable to the City and County of San Francisco | 369,307 |
| Deposits payable | 11,277 |
| *Total payables* | 16,489,954 |
| Intergovernmental liability to the San Francisco Redevelopment Agency for re-conveyance of State donated land | 16,683,315 |
| Compensated absences - accrued vacation | 152,895 |
| **Total liabilities** | 33,326,164 |
| **NET ASSETS:** | |
| Invested in capital assets, net of related obligations | 298,613,284 |
| Unrestricted | 4,509,733 |
| **Total net assets** | $ 303,123,017 |

See accompanying notes to the basic financial statements.

**TRANSBAY JOINT POWERS AUTHORITY**
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2010

| | |
|---|---|
| **NONOPERATING REVENUES (EXPENSES)** | |
| Interest income | $ 44,612 |
| Rental revenues | 396,730 |
| Miscellaneous revenues | 2,927 |
| Loss on conveyance of land | (690,541) |
| **Total nonoperating revenues (expenses)** | (246,272) |
| **CAPITAL CONTRIBUTIONS** | |
| Federal Transit Administration capital grants | 4,244,086 |
| State government capital grants | 2,168,367 |
| Local government shared revenues: | |
| Regional Measure - bridge tolls | 39,717,414 |
| Proposition K - half cent sales tax | 25,913,188 |
| San Mateo County sales tax | 3,309,653 |
| **Total capital contributions** | 75,352,708 |
| Change in net assets | 75,106,436 |
| Net assets, beginning of year | 228,016,581 |
| Net assets, end of year | $ 303,123,017 |

See accompanying notes to the basic financial statements.

**TRANSBAY JOINT POWERS AUTHORITY**
Statement of Cash Flows
For the Year Ended June 30, 2010

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from rental revenues | $ 363,745 |
| Other cash receipts | 2,777 |
| **Net cash provided by operating activities** | 366,522 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Proceeds from Federal government capital grants | 4,296,256 |
| Proceeds from State government capital grants | 1,624,935 |
| Proceeds from local government shared revenues | 74,160,473 |
| Proceeds from conveyance of land | 170,000 |
| Receipts from repayment of loan by San Francisco Redevelopment Agency | 70,789 |
| Construction and acquisition of capital assets | (81,488,289) |
| **Net cash used in capital and related financing activities** | (1,165,836) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest income received, net of service charges | 45,888 |
| **Net cash provided by investing activities** | 45,888 |
| Net change in cash and cash equivalents | (753,426) |
| Cash and cash equivalents, beginning of year | 5,674,354 |
| Cash and cash equivalents, end of year | $ 4,920,928 |
| **Reconciliation of operating income to net cash provided by operating activities** | |
| Operating income | $ - |
| Nonoperating revenues (rental and miscellaneous) | 399,657 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Increase in security deposits held by others | (150) |
| Decrease in refundable rental deposits | (32,985) |
| Total adjustments | (33,135) |
| Net cash provided by operating activities | $ 366,522 |
| **Noncash capital financing activities** | |
| Acquisition of capital assets on accounts payable, contracts payable, intergovernmental payables, retainage payable and accrued liabilities | $ 16,631,572 |

See accompanying notes to the basic financial statements.

## NOTE 1 - ORGANIZATION

In April 2001, the City and County of San Francisco ("City"), Alameda-Contra Costa Transit District ("AC Transit"), and the Peninsula Corridor Joint Powers Board ("PCJPB") (collectively, "Member Agencies") entered into an agreement creating the Transbay Joint Powers Authority ("TJPA") to design, build, develop, operate and maintain a new transportation terminal known as the Transbay Transit Center ("Transit Center") and associated facilities in San Francisco (collectively, the "Program").

The TJPA Board of Directors ("TJPA Board") is composed of one director appointed by each of the following agencies:

Alameda-Contra Costa Transit District
City and County of San Francisco, Board of Supervisors
City and County of San Francisco, Mayor's Office
San Francisco's Municipal Transportation Agency
Peninsula Corridor Joint Powers Board
State of California Department of Transportation (ex-officio)

The State of California has granted the TJPA primary jurisdiction with respect to all matters pertaining to the financing, design, development, construction, and operation of the new Transit Center. The Member Agencies of the TJPA have granted to the TJPA most of their jointly held powers, including the authority to buy and sell property, to enter into contracts, and to accept and expend grants of cash and property. The TJPA's management functions include contract oversight, policy direction, financing, investment supervision, and coordinating and collaborating with, among others, the State of California and local entities including the Member Agencies.

The Program will provide expanded bus and rail service in a new Transit Center building on the site of the existing Transbay Terminal in downtown San Francisco at First and Mission Streets. Also included in the Program are ramps linking the new Transit Center to the Bay Bridge and to off-site bus storage facilities; a below-grade extension of Caltrain to the new Transit Center building, including the construction of a new subsurface station in the vicinity of Fourth and Townsend Streets; modifications to the existing Fourth and Townsend surface station; a temporary terminal for use by buses during construction of the new Transit Center; and a new permanent off-site bus storage facility. It is anticipated that the new Transit Center will eventually accommodate not only buses and commuter trains but also a California High-Speed Rail Line and a future underwater extension of rail service across the San Francisco Bay to Alameda County.

Based upon the TJPA Board's adopted implementation plan, the Project is divided into two phases: the design and construction of the Transit Center Building and Train Box as Phase 1, and the design and construction of the Caltrain Downtown Extension ("DTX") as Phase 2. Phase 1 is funded fully with committed revenues, and has completed major milestones. Phase 2 final design and construction will commence when the required revenues and financing have been secured.

The TJPA is legally separate and financially independent and is not a component unit of the State, City, AC Transit, or the PCJPB. Therefore, these financial statements represent solely the activities, transactions and status of the TJPA.

**NOTE 1 - ORGANIZATION (Continued)**

In fiscal year 2010, the TJPA had five major funding sources including grants from the U.S. Department of Transportation through the Federal Transit Administration ("FTA"), State of California-Department of Transportation ("State"), and local revenue sharing from Metropolitan Transportation Commission ("MTC"), San Francisco County Transportation Authority ("SFCTA") and San Mateo County Transportation Authority ("SMCTA").

On January 25, 2010, TJPA closed on a $171 million Transportation Infrastructure Finance and Innovations Act ("TIFIA") loan. This federal program provides loans and loan guarantees to transportation infrastructure projects throughout the country. The loan is for Phase 1 Transbay Transit Center construction and is to be repaid primarily with tax increment revenues allocated to the project. The tax increment revenues allocated to the project are committed to the TJPA pursuant to an agreement with the SFRA. The first draw on the loan is not planned until fiscal year 2013.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting***
The TJPA is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The TJPA distinguishes operating revenues from nonoperating revenues. Nonoperating revenues result from interest income, miscellaneous, and rental revenue. The TJPA has not earned any operating revenues since its inception. The TJPA will generate operating revenues once the Program is complete and placed into service. There will also be operating revenues generated by the Temporary Terminal. Any excess of actual Temporary Terminal revenues over Temporary Terminal operating expenses shall be allocated to an operating reserve.

Under the terms of grant and revenue sharing agreements, the TJPA funds Program costs on a cost-reimbursement basis. When Program costs are incurred, and if there are both restricted and unrestricted net assets available to finance the costs, it is the TJPA's policy to first apply restricted cost-reimbursement grant and revenue sharing resources to such Program costs.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the TJPA applies all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The TJPA has elected not to apply private-sector guidance issued after November 30, 1989.

***Cash Equivalents***
The TJPA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The deposits in the City's cash and investments pool are considered to be cash equivalents as the pool functions as a demand deposit account (see Note 3).

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Compensated Absences***
It is the policy of TJPA through the employee contract with Local Government Services ("LGS") to permit employees to accumulate earned but unused vacation and sick pay benefits. Each employee is assigned an accrual rate and allowed to accrue up to two years' worth of vacation benefits. There is no liability for unpaid accumulated sick leave since LGS does not have a policy to pay any amounts for sick leave when employees separate from service with LGS. All vacation pay is accrued when incurred because the TJPA has an obligation to reimburse LGS for vacation pay.

***Capital Assets***
The TJPA defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. All costs of acquisition, planning and construction of the Program are recorded as accumulated Program costs until such assets are completed and placed in service, at which time the TJPA will commence recording depreciation expense on depreciable capital assets.

Non-depreciable capital assets include land and associated acquisition costs. Under the TJPA's capital asset policy, land costs include the following in addition to the actual acquisition costs: title and closing costs; relocation services, consultation and assistance; appraisal services; environmental consulting; land surveys; and site preparation.

***Capital Contributions***
The TJPA has direct capital grant agreements with the FTA, the Federal Emergency Management Agency, State, MTC for Regional Measures 1 and 2 and AB1171 ("RM1", "RM2" and "AB1171"), SFCTA for Proposition K ("Prop K"), and SMCTA for sales tax revenue (see Note 8). Capital funding provided under these government grants and agreements is considered earned as the related allowable expenditures are incurred.

Grants and local government shared revenues for the Program are reported in the Statement of Revenues, Expenses, and Changes in Fund Net Assets as capital contributions.

***Net Assets***
The difference between assets and liabilities in the Statement of Net Assets is labeled as Net Assets and is subdivided into the following two categories:

**Invested in capital assets, net of related obligations –** This component of net assets consists of capital assets, net of accumulated depreciation reduced by obligations to re-convey state donated land. At June 30, 2010, the TJPA has $16,683,315 in outstanding capital-related obligations, recorded as an intergovernmental liability to the San Francisco Redevelopment Agency ("SFRA") for re-conveyance of State donated land.

**Unrestricted –** This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related obligations." Restricted net assets consist of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Use of Estimates***

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

## NOTE 3 - CASH AND CASH EQUIVALENTS

The TJPA's investment policy allows the TJPA to invest cash balances in the City Treasurer's cash and investments pool and insured savings or money market accounts in a qualified public depository as established by California State law. The amounts placed on deposit with the bank and fiscal agent were covered by federal depository insurance and were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent in the TJPA's name.

The majority of the TJPA's cash is included in the City Treasurer's cash and investments pool and is considered to be cash and cash equivalents because it has the same characteristics as a demand deposit. The TJPA's investments in the pool may be deposited or withdrawn without notice or penalty. Investments made by the City Treasurer are regulated by the California Government Code and by a City investment policy approved annually by the City Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the City Board of Supervisors and by the Treasury Oversight Committee via monthly reports and an annual audit. Redeemed or sold shares are priced at book value, which includes realized investment earnings such as interest income, realized gains or losses upon sale of investments, and amortized premiums and discounts. This number may differ from the shares' fair value, which would include unrealized gains or losses based on market conditions. TJPA cash held in the City's cash and investments pool on June 30, 2010 was $3,647,676.

The following table shows the percentage distribution of the City's pooled investments (including nonnegotiable certificates of deposits and other public time deposits) by maturity:

| Investment maturities (in months) | | | |
|---|---|---|---|
| **Under 1** | **1 to less than 6** | **6 to less than 12** | **12 to 60** |
| 0.0% | 2.9% | 16.6% | 80.5% |

At June 30, 2010, the City's pooled investments have a weighted average maturity of 1.95 years.

Additional information regarding the City Treasurer's cash and investments pool is presented in the notes of the City's basic financial statements.

## NOTE 4 – CAPITAL ASSETS

The TJPA's capital assets consist of land, permanent easements, and accumulated construction in progress related to the Transbay Transit Center and Caltrain Downtown Extension. Construction in progress also includes intangible assets that are recorded as Information Technology in the statement of net assets, which consists of costs to develop the TJPA's website and labor compliance software licensing. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital asset activity for the year ended June 30, 2010 was as follows:

| | Balance at June 30, 2009 | Acquisitions | Dispositions | Balance at June 30, 2010 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 92,829,502 | $ 4,820,622 | $ (860,541) | $ 96,789,583 |
| Permanent easements | - | 137,374 | - | 137,374 |
| State donated land to be re-conveyed to SFRA | 16,683,315 | - | - | 16,683,315 |
| Construction in progress: | | | | |
| Information technology | 63,138 | 29,528 | - | 92,666 |
| Transbay Transit Center | 83,937,866 | 65,276,500 | - | 149,214,366 |
| Caltrain Downtown Extension | 46,039,854 | 6,339,441 | - | 52,379,295 |
| Total capital assets not being depreciated | 239,553,675 | 76,603,465 | (860,541) | 315,296,599 |
| Less outstanding capital related obligation: | | | | |
| Intergovernmental liability to SFRA for re-conveyance of State donated land | (16,683,315) | - | - | (16,683,315) |
| Net assets, invested in capital assets, net of related obligations | $ 222,870,360 | $ 76,603,465 | $ (860,541) | $ 298,613,284 |

Of the total $96,789,583 in land, the TJPA will permanently retain title to land valued at $75,315,933. The TJPA will hold title to the remaining parcels valued at $21,473,650 for a temporary or interim period. These parcels are needed only for the construction of the Transbay Program and then will be transferred to the SFRA. During the year ended June 30, 2010, the TJPA conveyed a strip of land valued at $860,541 to acquire permanent and temporary easements resulting in a loss on conveyance of land of $690,541. The temporary easements are included as part of Transbay Transit Center and Caltrain Downtown Extension projects.

The TJPA will apply one of two valuation methods for each land parcel transferred from the State to the TJPA. Parcels that the State was leasing to third parties prior to transfer to the TJPA will be valued by the TJPA using the lease rate. For parcels that are not being leased by the State at or near the date of transfer, the TJPA will use the sale price of comparable parcel(s) sold in the vicinity of the Transbay Transit Center.

During the year ended June 30, 2009, the State transferred title to parcels O, O', O" and M, which will be re-conveyed to the SFRA at the end of the interim construction period. TJPA used the lease rate method to calculate a fair value of $16,683,315 for these parcels. During the year ended June 30, 2010, there were no parcels transferred from the State to the TJPA.

At year-end, the TJPA had contract commitments of $137,489,113 for construction, design, engineering, planning and administrative costs. The TJPA has unexpended approved allocations from existing sources as well as committed revenues in its funding plan to cover the costs of these contract commitments.

## NOTE 5 – CONTRACT EMPLOYEES

The TJPA has entered into an agreement with LGS to provide employee services for all of the TJPA's staff positions. For the year ended June 30, 2010, expenses for contract employees and related administrative costs were $2,016,857.

## NOTE 6 – OFFICE LEASE

The TJPA leases office space under an operating lease which expires during fiscal year 2016. Total costs for this lease were $604,048 for the year ended June 30, 2010. These costs represent direct Program management costs related to the Transbay Transit Center and Caltrain Downtown Extension and as such are capitalized as part of accumulated Program costs. The future minimum lease payments are as follows:

| | | |
|---|---|---|
| 2011 | $ | 622,152 |
| 2012 | | 640,817 |
| 2013 | | 660,029 |
| 2014 | | 679,879 |
| 2015 | | 700,256 |
| 2016 | | 295,338 |
| | $ | 3,598,471 |

In the event that the TJPA terminates a contract held with URS Corporation, the Program Management & Program Control consultants, the TJPA will assume the URS Corporation lease, or cover any termination costs associated with early termination of the lease. The lease expires during fiscal year 2016 and the future minimum lease payments are as follows:

| | | |
|---|---|---|
| 2011 | $ | 231,686 |
| 2012 | | 252,434 |
| 2013 | | 259,350 |
| 2014 | | 266,266 |
| 2015 | | 273,182 |
| 2016 | | 115,267 |
| | $ | 1,398,185 |

## NOTE 7 - RISK MANAGEMENT

The TJPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The TJPA participates in the Special District Risk Management Authority (SDRMA), a joint powers agency (risk-sharing pool) established in 1986 to provide pooled joint protection programs among the members of SDRMA. The purpose of SDRMA is to reduce the amount and frequency of losses and to decrease the cost incurred by its members in the handling and litigation of claims and to purchase excess or re-insurance as a group, thereby reducing costs. The TJPA's deductibles and maximum coverages under the SDRMA pool are as follows:

| Coverage Description | Deductibles | Commercial Insurance Coverage |
|---|---|---|
| General Liability | $500 | $10,000,000 |
| Auto Liability | $1,000 | $10,000,000 |
| Property Coverage | $2,000 | $1,000,000,000 |
| Boiler and Machinery Coverage | $1,000 | $100,000,000 |
| Errors and Omissions Liability | $0 | $10,000,000 |
| Employee Dishonesty | $0 | $400,000 |
| Personal Liability for Board | $500 | $500,000 |

There were no reductions in insurance coverage from the previous year. The TJPA pays an annual contribution, determined by the Board of Directors of SDRMA, and any additional amounts which the SDRMA Board of Directors deems necessary in accordance with bylaws of SDRMA. The TJPA's annual contribution for the fiscal year ended June 30, 2010 was $27,082 and no insurance claims were filed for the eight years ended June 30, 2010.

In addition, the TJPA purchased an excess liability policy to provide additional coverage of $10,000,000. The premium for the fiscal year ended June 30, 2010 for this policy was $20,645. There is no deductible under this policy. The TJPA does not maintain earthquake insurance coverage.

The TJPA does not maintain workers' compensation insurance as LGS is responsible for providing workers' compensation insurance to cover all of its employees at its sole expense. LGS maintains Statutory Workers' Compensation Insurance and Employer's Liability Insurance. The Workers' Compensation Insurance is in compliance with statutory limits and the Employer's Liability Insurance is provided with limits of not less than $1,000,000 per accident.

During the year ended June 30, 2010, the TJPA received a payment and performance bond from Webcor Builders/Obayashi Corporation, the joint venture awarded the Construction Manager/General Contractor (CM/GC) contract. The bond provides a $600 million guarantee that the CM/GC will complete the Transit Center and Related Structures in accordance with their contract and that they will pay their subcontractors, labor and suppliers. The TJPA reimbursed the CM/GC $5.4 million for the bond premium.

## NOTE 8 – LOCAL AND STATE REVENUE FUNDING AGREEMENTS

A. MTC Revenues

***RM-2***
On March 2, 2004, voters approved RM-2, which increased the state-owned bridge toll in the San Francisco Bay Area by $1.00 for each vehicle. RM-2 assigns the administrative duties and responsibilities associated with this additional toll revenue to the MTC. The additional toll revenues are earmarked for transportation projects within the region that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors and are incorporated into the Regional Traffic Relief Plan, which is also administered by the MTC.

The MTC-approved RM-2 allocations total $150,000,000 of which $131,970,132 has been expended leaving an unexpended balance of $18,029,868 which was appropriated for the year ending June 30, 2011.

***RM-1***
The RM-1 funds from MTC are derived from Regional Measure 1, approved by California voters in 1989, which authorized toll increases on all state-owned bridges in the northern and southern bay area bridge groups. On June 24, 2009, MTC approved a $5,200,000 allocation from the RM-1 Rail Extension Reserves West Bridge Toll Revenues to TJPA to be used for program management and project control services for the Transbay Terminal and Caltrain Downtown Extension project. The TJPA has expended $5,173,493 with the remaining amount of $26,507 appropriated for the fiscal year ending June 30, 2011.

***AB 1171***
MTC's Resolution 3434 includes $150,000,000 in AB 1171 funds for the Transit Center Program. This source results from the adoption of AB 1171 by the California legislature for a plan to fund the cost of seismic retrofit of Bay Area toll bridges. The Transbay program is eligible for these funds under a provision that makes the money available to projects consistent with the purposes of the voter-approved RM-1 program.

The MTC-approved AB 1171 allocations total $150,000,000 of which $11,514,524 has been expended leaving an unexpended balance of $138,485,476 which was appropriated for the year ending June 30, 2011.

B. SFCTA Prop K Revenues
On November 4, 2003, the voters approved Prop K, which imposes one-half of one percent of additional sales and use tax to be used for the planning, maintenance and rehabilitation of, and improvement to, the City's multi-modal transportation system. The SFCTA is responsible for allocating, administering and overseeing the expenditures of Prop K.

The SFCTA-approved allocations total $147,073,006, of which $104,296,635 has been expended leaving an unexpended balance of $42,776,371. The unexpended balance was appropriated for the fiscal year ending June 30, 2011.

## NOTE 8 – LOCAL AND STATE REVENUE FUNDING AGREEMENTS (Continued)

C. SMCTA Measure A Revenues

In June of 1988, San Mateo County voters approved Measure A, which established a program to fund transportation projects by an increase in sales tax of 0.5%. The SMCTA is an independent agency formed to administer the proceeds of the sales tax increase.

The SMCTA-approved sales tax allocations total $11,080,000 of which $10,586,714 has been expended leaving an unexpended balance of $493,286 which was appropriated for the year ending June 30, 2011.

D. State of California Regional Transportation Improvement Program (RTIP) Revenues

On January 2, 2007, the State and the TJPA entered into Program Master Agreement No. 64A0184 for a $32,341,000 planned State financial allocation for locally administered rail and transit projects. From this total allocation, program supplements are entered into subject to all of the terms and conditions of the Master Agreement.

The State-approved program supplements total $7,391,000, of which $7,390,236 has been expended leaving an unexpended balance of $764.

## NOTE 9 – RELOCATION ASSISTANCE AND LOSS OF GOODWILL COMPENSATION

The TJPA is in the process of acquiring real property for the implementation of the Transbay Transit Center Program. Private property acquisitions will potentially affect various business and residential occupants of those properties.

The TJPA receives federal and state financial assistance, and is therefore required to provide relocation assistance to eligible occupants in accordance with the Federal Uniform Relocation Assistance and Real Property Acquisition Policies Act (Uniform Act), 42 U.S.C. Sections 4601 et seq., and its implementing regulations, 49 CFR Part 24; and the California Relocation Act, Govt. Code Sections 7260 et seq., and its implementing regulations, 25 Cal. Code Regs. Sections 6000 et seq.

As stated in 49 CFR Part 24, Section 24.203 (b) Notice of relocation eligibility, "Eligibility for relocation assistance shall begin on the date of a notice of intent to acquire (described in section 24.203(d)), the initiation of negotiations (defined in section 24.2(a)(15)), or actual acquisition, whichever occurs first." The TJPA has issued multiple notices of intent to acquire real estate to property owners. Thus, the TJPA has a financial liability for relocation assistance costs once the underlying property is acquired.

Relocation assistance costs are estimated by Associated Right of Way Services, Inc. ("ARWS"), under contract with the TJPA. Estimates are revised as additional occupant-specific data is collected by ARWS. The total current anticipated high estimate of relocation payments is $2,910,115.

## NOTE 9 – RELOCATION ASSISTANCE AND LOSS OF GOODWILL COMPENSATION (Continued)

The notices of intent to acquire are contingent liabilities and do not become actual liabilities until the TJPA acquires the underlying property or if an eligible occupant moves before the TJPA acquires the property and files a claim for reimbursement of eligible relocation expenses. At June 30, 2010, the TJPA had acquired nine private properties, an easement for one private property, and two State donated parcels for which notices of intent to acquire had been issued. In addition, nine eligible occupants of property not yet acquired by the TJPA have incurred and filed claims for relocation expenses. The total relocation liability for the properties acquired and donated, and the nine occupants, total $1,797,415 of which $921,478 remained unpaid at June 30, 2010.

| | Estimated Liability | Contingent Liability | High Estimate |
|---|---|---|---|
| Total Current High Estimate | $ 1,797,415 | $ 1,112,700 | $ 2,910,115 |
| Disbursed through June 30, 2010 | (875,937) | - | (875,937) |
| Balance at June 30, 2010 | $ 921,478 | $ 1,112,700 | $ 2,034,178 |

The TJPA is also required under the State Code of Civil Procedure (Title 7, Chapter 9, Article 6, Sections 1263.510 et seq.) to provide compensation for the loss of business goodwill if the business owner proves that the loss is caused by the TJPA's acquisition of the property. The business owner has the burden of proof for loss of goodwill. The TJPA has engaged appraisers to complete goodwill valuations for affected businesses and that work is ongoing. As of June 30, 2010, TJPA has capitalized $541,090 of goodwill loss payments to three business owners.

## NOTE 10 – RELATED PARTY TRANSACTIONS

A. <u>City and County of San Francisco</u>

During the year ended June 30, 2010, the City provided legal, project planning and review services to the TJPA. Such services totaled $1,878,059 and were provided by the following organizations/departments:

| | |
|---|---|
| Office of the City Attorney | $ 152,720 |
| Department of Building & Inspection | 112,635 |
| Department of Real Estate | 4,959 |
| Department of Public Works | 136,831 |
| Department of Telecommunications and Information Services | 6,116 |
| San Francisco Fire Department | 12,755 |
| Municipal Transportation Agency | 596,965 |
| Office of Economic and Workforce Development | 39,558 |
| Planning Department | 555,025 |
| Public Utilities Commission | 2,927 |
| San Francisco Art Commission | 255,852 |
| San Francisco Tax Collector | 1,716 |
| Total | $ 1,878,059 |

At June 30, 2010, the TJPA reported $369,307 due to the City.

## NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

B. San Francisco Redevelopment Agency (SFRA)

During the year ended June 30, 2010, the SFRA did not provide any services to the TJPA and the TJPA reported $0 due to the SFRA.

The TJPA agreed to loan the SFRA up to $2,500,000 over three fiscal years beginning in fiscal year 2006 for costs related to the planning of public infrastructure. The SFRA borrowed $283,155, and there will be no further drawdowns. Beginning December 31, 2009, the SFRA is obligated to repay the $283,155 loan in eight quarterly payments. During the year ended June 30, 2010, the SFRA made two of three scheduled payments totaling $70,789. At June 30, 2010, the remaining loan receivable from the SFRA is $212,366. The loan does not accrue interest.

At June 30, 2010, the TJPA held title to land parcels which are temporarily needed by the TJPA only for the construction of the Transbay Program (see Note 4 for more information). Upon completion of the construction period, these parcels will be transferred to the SFRA.

| | |
|---|---|
| Cost of land acquired by TJPA | $ 21,473,650 |
| Value of State donated parcels | 16,683,315 |
| Total to be transferred | $ 38,156,965 |

C. Alameda-Contra Costa Transit District

AC Transit provides bus services between Alameda and Contra Costa counties and the City and County of San Francisco. Under the Program, AC Transit will make the Temporary Terminal and the Transbay Transit Center the point of destination/departure for its bus services in San Francisco. AC Transit will be the TJPA's only Primary Tenant in the Temporary Terminal for the life of the Temporary Terminal, and will be the Primary Tenant in the Transit Center from its planned opening until Caltrain begins service.

On September 29, 2008, the TJPA Board of Directors approved a comprehensive Lease and Use Agreement that will control AC Transit's bus operations in the Temporary Terminal and the Transit Center through at least the year 2050. The Agreement sets forth all the rights and obligations of the parties with respect to the two facilities. It addresses payments AC Transit will make for its share of operating and maintenance costs in the Temporary Terminal and in the Transbay Transit Center, as well as its contribution in the sum of $57,000,000 (in 2011 dollars) to the capital cost of the new Transit Center. The Agreement allows for subtenant agreements, where subtenants can be allocated a share of the primary tenant's operating and maintenance costs.

On October 8, 2009, the TJPA Board of Directors approved a Memorandum of Understanding (MOU) between the TJPA and AC Transit for the performance of a Bay Bridge Corridor Congestion Study. AC Transit agrees to pass through $350,000 in FTA section 5339 funds to TJPA to fund the Study. Expenditures made according to this MOU are neither TJPA program costs nor liabilities and are not included in construction in progress. Inception to date payments made by the TJPA on behalf of and funded by AC Transit through fiscal year ended June 30, 2010 totaled $44,639.

## NOTE 11 - OTHER CONTINGENCIES

Amounts received or receivable from the Federal and State governments, MTC, SFCTA and SMCTA are subject to audit and adjustment by these agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by these agencies cannot be determined at this time although the TJPA expects such amounts, if any, to be immaterial.

TJPA has been and will conduct pollution remediation activities as a matter of course in the demolition required to prepare the various project sites for construction. The outlays associated with these activities are capitalizable as outlays to prepare for use property acquired with suspected pollution that was expected to be remediated. As such, the TJPA capitalizes remediation outlays as incurred and does not record a pollution remediation liability or expense. Remediation expenditures inception to date through June 30, 2010 total $888,865 and are associated with the following project components:

| | |
|---|---|
| Temporary Terminal | $ 877,804 |
| Transbay Transit Center | 10,053 |
| Caltrain Downtown Extension | 1,008 |
| Total | $ 888,865 |

## NOTE 12 – SUBSEQUENT EVENTS

A. New Federal Grant Awards
On August 11, 2010, a Federal Railroad Administration (“FRA”) American Recovery and Reinvestment Act grant was executed in the amount of $400 million, for design and construction costs (including program control and administrative costs) associated with the Train Box.

B. New State Grant Awards
On August 12, 2010, the California Transportation Commission approved an allocation of $2.762 million in State Transportation Improvement Program funds for the Transbay Transit Center Project, contingent upon passage of the State of California budget. This grant is for final design of the Transit Center.

C. State Conveyed Land
On August 6, 2010, the State of California transferred 14 parcels of land to the TJPA under the 2003 Cooperative Agreement. Using the valuation methods described in Note 4, the value of the transferred parcels has been calculated at $72,007,574. Of the total conveyed parcels, nine parcels, with a calculated value of $53,186,468, are scheduled to be retained by the TJPA. A portion of one of those parcels will be sold to a private developer for construction of the Transit Tower adjacent to the Transbay Transit Center. Five parcels, with a calculated value of $18,821,106, are scheduled to be re-conveyed to the San Francisco Redevelopment Agency after construction of the Transbay Transit Center is completed.

D. October 2010 SMCTA Allocation for acquisition of 85 Natoma
On October 7, 2010, the SMCTA approved a grant of $12,262,000 for the acquisition of 85 Natoma, a condominium building with ten units that is required for construction of the Train Box. TJPA has issued written offers to purchase to the owners of all ten units, and two units, valued at $2,106,911, closed on October 20, 2010. Negotiations for the remaining eight units are on-going with all units expected to close during fiscal year 2011.

## SUPPLEMENTARY INFORMATION

**TRANSBAY JOINT POWERS AUTHORITY**
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

| | | | | EXPENDITURES - FEDERAL SHARE | | | REVENUES - FEDERAL | | |
|---|---|---|---|---|---|---|---|---|---|
| Program Description | Federal CFDA Number | Grant Number | Program Award | Cumulative through June 30, 2009 | July 1, 2009 through June 30, 2010 | Cumulative through June 30, 2010 | Cumulative through June 30, 2009 | July 1, 2009 through June 30, 2010 | Cumulative through June 30, 2010 |
| **U.S. DEPARTMENT OF TRANSPORTATION** | | | | | | | | | |
| **Federal Transit - Capital Investment Grants:** | | | | | | | | | |
| Federal Transit Formula Grants | | | | | | | | | |
| General Capital Assistance | 20.500 | CA-04-0010 | $ 6,649,751 | $ 6,393,878 | $ 185,396 | $ 6,579,274 | $ 6,393,878 | $ 185,396 | $ 6,579,274 |
| General Capital Assistance | 20.500 | CA-04-0040 | 7,008,960 | 4,432,285 | 1,223,311 | 5,655,596 | 4,432,285 | 1,223,311 | 5,655,596 |
| General Capital Assistance | 20.500 | CA-04-0087 | 7,593,040 | 5,000 | 2,832,176 | 2,837,176 | 5,000 | 2,832,176 | 2,837,176 |
| General Capital Assistance | 20.500 | CA-04-0140 | 7,885,080 | - | - | - | - | - | - |
| Total Federal Transit - Capital Investment Grants | | | 29,136,831 | 10,831,163 | 4,240,883 | 15,072,046 | 10,831,163 | 4,240,883 | 15,072,046 |
| **Highway Planning and Construction:** | | | | | | | | | |
| General Capital Assistance | 20.205 | CA-70-X011 | 24,459,002 | - | 3,203 | 3,203 | - | 3,203 | 3,203 |
| **TOTAL U.S. DEPARTMENT OF TRANSPORTATION** | | | 53,595,833 | 10,831,163 | 4,244,086 | 15,075,249 | 10,831,163 | 4,244,086 | 15,075,249 |
| **DEPARTMENT OF HOMELAND SECURITY** | | | | | | | | | |
| **Federal Emergency Management Agency (FEMA)** | | | | | | | | | |
| **Rail and Transit Security Grant Program:** | | | | | | | | | |
| Capital Grant | | | | | | | | | |
| FY2009 Transit Security Grant Program | 97.075 | 2009-RA-T9-K021 | 100,000 | - | - | - | - | - | - |
| **TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** | | | $ 53,695,833 | $ 10,831,163 | $ 4,244,086 | $ 15,075,249 | $ 10,831,163 | $ 4,244,086 | $ 15,075,249 |

See accompanying notes to the Schedule of Expenditures of Federal Awards.

## NOTE 1 – GENERAL

The Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all federal award programs of the Transbay Joint Powers Authority (the “TJPA”) for the year ended June 30, 2010. Federal awards received directly are included on the Schedule.

## NOTE 2 – BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting.

## NOTE 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.

## NOTE 4 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award and expenditures agree to or can be reconciled with the amounts reported in the TJPA’s basic financial statements.

# OTHER REPORTS

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

**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***

We have audited the accompanying financial statements of the Transbay Joint Powers Authority (TJPA) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 29, 2010. We conducted our audit 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.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the TJPA's internal control over financial reporting as a basis for designing our auditing procedures 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 TJPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TJPA's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the TJPA's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, TJPA management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 29, 2010

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

**Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

***Compliance***

We have audited the compliance of the Transbay Joint Powers Authority (TJPA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The TJPA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the TJPA's management. Our responsibility is to express an opinion on the TJPA'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 OMB Circular A-133. Those standards and OMB Circular A-133 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 TJPA'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 TJPA's compliance with those requirements.

In our opinion, the TJPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

***Internal Control Over Compliance***

The management of the TJPA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the TJPA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 TJPA'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 will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, TJPA management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 29, 2010

**TRANSBAY JOINT POWERS AUTHORITY**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

## Section I Summary of Auditor's Results

*Financial Statements:*

| | |
|---|---|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| • Material weaknesses identified? | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | No |

*Federal Awards:*

| | |
|---|---|
| Internal control over major programs: | |
| • Material weaknesses identified? | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |
| Identification of major programs: | |
| CFDA No. 20.500 | Federal Transit - Capital Investment Grants |
| Dollar threshold used to distinguish between Type A and Type B programs | $300,000 |
| Auditee qualified as low-risk auditee? | Yes |

## Section II Financial Statement Findings

No matters were reported.

## Section III Federal Award Findings and Questioned Costs

No matters were reported.

# TRANSBAY JOINT POWERS AUTHORITY

Report to the Board of Directors

For the Year Ended June 30, 2010

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

We have audited the basic financial statements of the Transbay Joint Powers Authority (TJPA) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 29, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We communicated such information in our letter to you dated July 12, 2010. Professional standards also require that we communicate to you the following information related to our audit.

**SIGNIFICANT AUDIT FINDINGS**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the TJPA are described in Note 2 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2010. We noted no transactions entered into by the TJPA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the development of the liability for relocation assistance and the determination of the fair value of land donated by the State of California Department of Transportation (Caltrans). Management's estimate of the relocation assistance is based on the work performed by Associated Right of Way Services, Inc. (ARWS). ARWS has identified the parties subject to relocation and their relocation needs and applied the rules governing the TJPA's responsibility to provide relocation assistance to calculate this estimate. TJPA used rental rates that existed between Caltrans and the former occupants of the land and applied a capitalization rate to the rental revenues to determine the appropriate fair value of the parcels. We evaluated the key factors and assumptions used to develop these estimates in determining its reasonableness in relation to the financial statements taken as a whole.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments during our engagement.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 29, 2010.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the TJPA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of TJPA and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 29, 2010