

**THIS STAFF REPORT COVERS CALENDAR ITEM NO.: 8  
FOR THE MEETING OF: January 8, 2009**

**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, 2008 and the Report to the Board of Directors.

**SUMMARY:**

Macias Gini & O'Connell LLP conducted an audit of the TJPA's financial statements for fiscal year ended June 30, 2008. These financial statements are the fifth audited financial statements of the TPJA and fairly represent the financial position of the TJPA for the period of July 1, 2007 to June 30, 2008. 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, Macias Gini & O'Connell LLP 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 discussion 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, Macias Gini & O'Connell issued a report addressed to the Board of Directors which is intended solely for the information of TJPA's Board of Directors and management.

**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, 2008

**TRANSBAY JOINT POWERS AUTHORITY**  
For the Year Ended June 30, 2008

*Table of Contents*

	<i>Page(s)</i>
<b>Independent Auditor's Report</b> .....	1-2
<b>Management's Discussion and Analysis (Required Supplementary Information - Unaudited)</b> ....	3-6
<b>Basic Financial Statements:</b>	
Statement of Net Assets.....	7-8
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	9
Statement of Cash Flows .....	10
Notes to the Basic Financial Statements.....	11-22
<b>Supplementary Information:</b>	
Schedule of Expenditures of Federal Awards .....	23
Notes to Schedule of Expenditures of Federal Awards .....	24
<b>Other Reports:</b>	
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 <i>Government Auditing Standards</i> .....	25-26
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	27-28
Schedule of Findings and Questioned Costs .....	29



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

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, 2008, 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, 2008, 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 December 15, 2008, 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.

  
Certified Public Accountants  
Walnut Creek, California

December 15, 2008

**TRANSBAY JOINT POWERS AUTHORITY**  
Management's Discussion and Analysis  
(Required Supplementary Information-Unaudited)  
For the Year Ended June 30, 2008

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2008 with comparative information for the year ended June 30, 2007. 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, 2008, assets of the TJPA exceeded its liabilities by \$145,892,896.
- The TJPA received \$40,570,446 in capital contributions for the year ended June 30, 2008. All contributions were used for the Transbay Transit Center Program (the "Program").
- The TJPA purchased three additional right of way properties during the year ended June 30, 2008.

***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 11-22 of this report.

**TRANSBAY JOINT POWERS AUTHORITY**  
Management's Discussion and Analysis  
(Required Supplementary Information-Unaudited)  
For the Year Ended June 30, 2008

***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.

<b>TJPA'S NET ASSETS</b>				
	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>				
Current and other assets	\$ 11,220,737	\$ 10,687,849	\$ 532,888	5%
Capital assets	140,714,819	99,786,614	40,928,205	41%
<b>Total assets</b>	<u>151,935,556</u>	<u>110,474,463</u>	<u>41,461,093</u>	<u>38%</u>
<b>Liabilities:</b>				
Current and other	<u>6,042,660</u>	<u>5,826,756</u>	<u>215,904</u>	<u>4%</u>
<b>Net Assets:</b>				
Invested in capital assets	140,714,819	99,786,614	40,928,205	41%
Unrestricted	<u>5,178,077</u>	<u>4,861,093</u>	<u>316,984</u>	<u>7%</u>
<b>Total net assets</b>	<u>\$ 145,892,896</u>	<u>\$ 104,647,707</u>	<u>\$ 41,245,189</u>	<u>39%</u>

Total net assets at June 30, 2008 are comprised primarily of construction in progress of \$60,652,570 and land purchased for right-of-way of \$80,062,249. The construction in progress includes preliminary engineering and design, program consulting and management, environmental and planning, and administrative costs necessary to support the development of the Transbay Transit Center and Caltrain Downtown extension.

The \$532,888 increase in current and other assets is primarily attributable to a \$441,738 increase in cash equivalents. The net increase of \$215,904 in current and other liabilities from the prior year is due to several factors: accounts and other payables increased \$160,225 primarily because of a higher level of business activity in fiscal year 2008; the liability for accrued vacation increased \$37,051 due to more employees with compensated absences and higher rates of compensation; and a \$18,628 increase in unearned revenue for prepaid rent.

In addition, current year net assets include \$5,178,077 in unrestricted net assets.

<b>TJPA'S CHANGES IN NET ASSETS</b>				
	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Nonoperating revenues</b>				
Interest income	\$ 172,935	\$ 204,765	\$ (31,830)	-16%
Other nonoperating revenues	501,808	434,175	67,633	16%
<b>Total nonoperating revenues</b>	<u>674,743</u>	<u>638,940</u>	<u>35,803</u>	<u>6%</u>
<b>Capital contributions</b>				
Federal government capital grants	3,334,180	3,548,381	(214,201)	-6%
State government capital grants	3,699,639	-	3,699,639	n/a
Local government shared revenues	<u>33,536,627</u>	<u>11,133,325</u>	<u>22,403,302</u>	<u>201%</u>
<b>Total capital contributions</b>	<u>40,570,446</u>	<u>14,681,706</u>	<u>25,888,740</u>	<u>176%</u>
<b>Change in net assets</b>	41,245,189	15,320,646	25,924,543	169%
Net assets- beginning	<u>104,647,707</u>	<u>89,327,061</u>	<u>15,320,646</u>	<u>17%</u>
<b>Net assets- ending</b>	<u>\$ 145,892,896</u>	<u>\$ 104,647,707</u>	<u>\$ 41,245,189</u>	<u>39%</u>

**TRANSBAY JOINT POWERS AUTHORITY**  
Management's Discussion and Analysis  
(Required Supplementary Information-Unaudited)  
For the Year Ended June 30, 2008

Nonoperating revenues

The fiscal year 2008 decrease in interest income is primarily attributable to declining interest rates and increased working capital requirements related to the State grant that reduced the average bank balance. The fiscal year 2008 increase in other nonoperating revenues is due to increased rental revenue from additional properties acquired by the TJPA during fiscal year 2008.

Capital contributions

For the year ended June 30, 2008, the TJPA received \$40,570,446 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. There was an increase of \$21,759,937 from prior year's contributions attributed to land purchased for right-of-way. At June 30, 2008, the TJPA had capital project contract commitments of \$163,408,409 for preliminary 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 2009 budget include increased expenditures by the TJPA for the construction phase of the temporary bus terminal, and engineering and design for the permanent bus storage facilities and the Transbay Transit Center building. The TJPA has budgeted approximately \$38.3 million for the Transbay Transit Center building architecture and engineering contract in fiscal year 2009, and approximately \$2.3 million for bus storage facility engineering and design contracts. Also, approximately \$16.9 million is budgeted for the temporary terminal construction and construction management. Also, the TJPA plans to issue a construction management/general contractor services contract for the Transbay Transit Center building in fiscal year 2009. As of the date of this report, the contract has not yet been entered into. The TJPA has budgeted approximately \$4 million for this work in fiscal year 2009. The TJPA plans to acquire right of way in fiscal year 2009 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 2009 budget includes approximately \$44.9 million for right of way activities

The TJPA anticipates that most of the revenues to pay for these expenditures will be provided by five 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 voter-approved Regional Measure 2 bridge toll increase ("RM2"), 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"), and grants from the Federal Transit Administration ("FTA").

The approved fiscal year 2009 budget shows revenues in two categories – committed and planned. These two categories are further subdivided between sources, which have been identified, and, within planned revenues, "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 2009 fiscal year budget in June 2008. The "Other Planned Revenues" makes up the balance of the revenues required to fund fully the fiscal year 2009 budgeted expenditures. Throughout the 2009 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 2009 budget and can be found on the TJPA website for the June 20, 2008 TJPA Board meeting.

**TRANSBAY JOINT POWERS AUTHORITY**  
Management's Discussion and Analysis  
(Required Supplementary Information-Unaudited)  
For the Year Ended June 30, 2008

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. On October 31, 2008, the State of California conveyed Parcel O' to the TJPA for Temporary Terminal construction. On November 5, 2008, Parcel M was conveyed, and will be used for Temporary Terminal construction staging. Future title transfers are planned as the parcels are required by TJPA and the City.

On October 15, 2008, TJPA submitted an application for a 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 application is for up to \$172 million 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 San Francisco Redevelopment Agency. On October 14, 2008, Fitch Ratings provided an investment grade rating for up to \$172 million in support of the TIFIA loan. Loan approval is anticipated to occur in early 2009 and the first draw on the loan is planned in 2012.

***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**

**THIS PAGE INTENTIONALLY LEFT BLANK.**

**TRANSBAY JOINT POWERS AUTHORITY**

Statement of Net Assets

June 30, 2008

**ASSETS:**

Current assets:

Cash and cash equivalents:

Cash in bank, non-interest bearing	\$ 1
Cash in bank, interest bearing	56,605
Equity in pooled cash and investments City and County of San Francisco	4,729,043
<i>Total cash and cash equivalents</i>	<u>4,785,649</u>

Receivables:

Federal Transit Administration	515,820
California State Transportation Improvement Program	269,824
Metropolitan Transportation Commission	886,932
San Francisco County Transportation Authority	4,056,725
San Mateo County Transportation Authority	151,464
Accounts receivable	1,350
Interest earnings on deposits	3,571
<i>Total receivables</i>	<u>5,885,686</u>

Prepaid expenses	25,807
Deposit with Local Government Services	240,000
Security deposits held by others	440
<i>Total current assets</i>	<u>10,937,582</u>

Noncurrent assets:

Loan receivable - San Francisco Redevelopment Agency	283,155
Capital assets, nondepreciable:	
Land	80,062,249
Construction in progress -	
Transbay Transit Center and Caltrain Downtown Extension	60,652,570
<i>Total capital assets</i>	<u>140,714,819</u>
<i>Total noncurrent assets</i>	<u>140,997,974</u>

<b>Total assets</b>	<u><u>\$ 151,935,556</u></u>
---------------------	------------------------------

See accompanying notes to the basic financial statements.

**TRANSBAY JOINT POWERS AUTHORITY**

Statement of Net Assets (Continued)

June 30, 2008

**LIABILITIES:**

Current liabilities:

Payables:

Accounts and contracts payable	\$ 4,659,174
Relocation assistance payable	280,000
Retainage payable	121,766
Intergovernmental payable to City and County of San Francisco	677,653
Intergovernmental payable to Local Government Services	129,504
Deposits payable	47,780
<i>Total payables</i>	<u>5,915,877</u>

Unearned revenue	18,628
Compensated absences - accrued vacation	<u>108,155</u>

**Total liabilities** 6,042,660

**NET ASSETS:**

Invested in capital assets	140,714,819
Unrestricted	<u>5,178,077</u>
<b>Total net assets</b>	<u>145,892,896</u>

**Total liabilities and net assets** \$ 151,935,556

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, 2008

**NONOPERATING REVENUES**

Interest income:

Cash in bank, interest bearing	\$ 1,312
Equity in pooled cash and investments City and County of San Francisco	168,052
Interest on deposit	3,571
<i>Total interest income</i>	172,935

Rental revenues	499,172
Miscellaneous revenues	2,636

<b>Total nonoperating revenues</b>	<b>674,743</b>
------------------------------------	----------------

**CAPITAL CONTRIBUTIONS**

Federal government capital grants:

Pass through from the San Francisco Municipal Transportation Agency	26,948
Federal Transit Administration	3,307,232
State government capital grants	3,699,639

Local government shared revenues:

Regional Measure 2- bridge tolls	18,119,248
Proposition K- half cent sales tax	13,015,712
San Mateo County sales tax	2,401,667

<b>Total capital contributions</b>	<b>40,570,446</b>
------------------------------------	-------------------

Change in net assets	41,245,189
Net assets, beginning of year	104,647,707

Net assets, end of year	<b>\$ 145,892,896</b>
-------------------------	-----------------------

See accompanying notes to the basic financial statements.

**TRANSBAY JOINT POWERS AUTHORITY**

Statement of Cash Flows

For the Year Ended June 30, 2008

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from rental revenues	\$ 497,822
Other cash receipts	32,424
<b>Net cash provided by operating activities</b>	<u>530,246</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from Federal government capital grants	3,804,562
Proceeds from State government capital grants	3,429,815
Proceeds from local government shared revenues	33,248,459
Acquisition of capital assets	(40,742,528)
<b>Net cash used in capital and related financing activities</b>	<u>(259,692)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income received	171,184
<b>Net cash provided by investing activities</b>	<u>171,184</u>

Net increase in cash and cash equivalents	441,738
Cash equivalents, beginning of year	<u>4,343,911</u>
Cash equivalents, end of year	<u><u>\$ 4,785,649</u></u>

**Reconciliation of operating income to net cash provided by operating activities**

Operating revenues	\$ -
Nonoperating revenues (rental and miscellaneous)	501,808
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) in accounts receivable	(1,350)
(Increase) in security deposits held by others	(440)
Increase in refundable rental deposits	11,600
Increase in unearned revenue	18,628
Total adjustments	<u>28,438</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 530,246</u></u>

**Noncash capital financing activities**

Acquisition of capital assets on accounts payable, contracts payable, retainage payable and accrued liabilities	<u><u>\$ 5,976,252</u></u>
--	----------------------------

See accompanying notes to the basic financial statements.

## TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

### 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 transportation 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 and storage area 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 may 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 Bay to Alameda County.

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

The TJPA has 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”).

## TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

### NOTE 1 - ORGANIZATION (Continued)

The grant funding from the FTA is both sent directly to the TJPA and passed through to the TJPA from the San Francisco Municipal Transportation Agency (“MTA”). The pass through FTA grants were completed and closed out during the year ended June 30, 2008. MTA has also provided administrative and financial services to the TJPA on a contract basis. Funding from MTC, SFCTA and SMCTA is sent directly to the TJPA and is managed and reported by the TJPA.

### 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 did not earn any operating revenues since its inception. The TJPA will generate operating revenues once the Program is complete and placed into service.

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. All investments in the City’s investment pool are considered to be cash equivalents (see Note 3).

#### *Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

#### *Compensated Absences*

It is the policy of TJPA through the employee contract with Local Government Services (“LGS”) to permit LGS 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 when employees separate from service with the LGS. All vacation pay is accrued when incurred because the TJPA has an obligation to reimburse LGS for vacation pay.

## TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

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

#### *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.

#### *Capital Contributions*

The TJPA has grant contracts with the MTA under which MTA passes through Federal awards from the FTA for the Program. In addition, the TJPA has direct capital grant agreements with the FTA, State, MTC for Regional Measure 2 ("RM2"), SFCTA for Proposition K ("Prop K"), and SMCTA for sales tax revenue (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 three categories as follows:

**Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, net of accumulated depreciation. This balance is also reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets; however, the TJPA had no outstanding capital-related debt at June 30, 2008.

**Restricted** – This component of net assets consists 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. The TJPA did not have any restricted assets on June 30, 2008.

**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 debt." As of June 30, 2008, the TJPA has \$5,178,077 of unrestricted net assets.

#### *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.

## TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

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

#### *Future Pronouncements*

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup activities and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and how to measure that liability. This statement also requires governments to disclose information about their pollution remediation obligations associated with cleanup efforts in the notes to the financial statements. GASB Statement No. 49 is effective for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The TJPA will be required to implement the statement for the fiscal year ending June 30, 2009 and is currently evaluating the potential impact it may have on its financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Reporting for Intangible Assets*. This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. This statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The TJPA will be required to implement the statement for the fiscal year ending June 30, 2010. Retroactive application to prior years is required.

### 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 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. The cash held in the City's cash and investments pool on June 30, 2008 was \$4,729,043, which had a weighted average maturity of approximately 1 year. Additional information regarding the City Treasurer's cash and investments pool is presented in the notes of the City's basic financial statements.

## TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

### NOTE 4 – CAPITAL ASSETS

The TJPA's capital assets consist of accumulated Program costs related to the Transbay Transit Center and Caltrain Downtown Extension. Accumulated Program costs of \$140,714,819 include the following:

Project Task	Balance at June 30, 2007	Additions	Transfers	Balance at June 30, 2008
Downtown Extension Preliminary Engineering and Design	\$ 11,290,319	\$ 2,531,238	\$ -	\$ 13,821,557
Program Consulting and Management Costs	17,970,283	11,324,314	-	29,294,597
Environmental and Planning Costs	2,738,666	826,115	(21,522)	3,543,259
Other Professional Services	6,774,457	2,857,435	(255,779)	9,376,113
Administrative Costs	2,987,878	1,629,166	-	4,617,044
Land	58,025,011	21,759,937	277,301	80,062,249
Total	<u>\$ 99,786,614</u>	<u>\$ 40,928,205</u>	<u>\$ -</u>	<u>\$ 140,714,819</u>

At year-end the TJPA had contract commitments of \$163,408,409 for preliminary design, engineering, planning and administrative costs.

### 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, 2008 expenses for contract employees and related administrative costs were \$1,399,190.

### NOTE 6 – OFFICE LEASE

The TJPA leases office space under an operating lease which expires during fiscal year 2016. The lease was amended during the fiscal year to extend the term of the lease for seven years upon TJPA's transition to a larger office. Total costs for this lease were \$109,436 for the year ended June 30, 2008. 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:

2009	\$ 386,841
2010	604,053
2011	622,152
2012	640,817
2013	660,029
2014 - 2016	<u>1,675,473</u>
	<u>\$ 4,589,365</u>

In the event that the TJPA terminates a contract held with URS Corporation, the Program Management and Program Control consultants, the TJPA will assume the URS Corporation lease or cover all termination costs associated with the termination of the lease. The annual base rate of the lease is \$214,396 with a termination date of December 2010.

## TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

### 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 coverage are as follows:

<u>Coverage Description</u>	<u>Deductibles</u>	<u>Commercial Insurance Coverage</u>
General Liability	\$500	\$10,000,000
Auto Liability	\$1,000	\$10,000,000
Property Coverage	\$2,000	\$1,000,000,000
Boiler and Machinery	\$1,000	\$100,000,000
Earthquake	N/A	none
Errors and Omissions Liability	\$0	\$10,000,000
Employee Dishonesty	\$0	\$400,000
Personal Liability for Board	\$500	\$500,000

The TJPA pays an annual contribution, determined by the Board of Directors of SDRMA, and any additional amounts, which the Board of Directors deems necessary in accordance with bylaws of SDRMA. The TJPA's annual contribution for the year ended June 30, 2008 was \$25,531 and no insurance claims were filed for the six years ended June 30, 2008.

There were no reductions in insurance coverage from the previous year. The coverage for property insurance was increased from \$350 million in the prior year to \$1 billion. The property market dictates the available capacity. For fiscal year 2007 the maximum capacity was limited as a direct result of Hurricane Katrina. For the fiscal year 2008 renewal, market conditions were more favorable and coverage was increased. The coverage for general, auto, and errors and omissions liabilities were also increased from \$2.5 million in the prior year. These increases were at the recommendation of Alliant Insurance Services, the TJPA's broker, given the growth in the Program.

The TJPA does not maintain workers' compensation insurance because 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 million per accident.

**TRANSBAY JOINT POWERS AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

**NOTE 8 – LOCAL AND STATE REVENUE FUNDING AGREEMENTS**

**A. RM2 Revenues**

On March 2, 2004, voters approved RM2, which increased the state-owned bridge toll in the San Francisco Bay Area by \$1.00 for each vehicle. RM2 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 allocations total \$114,778,000 of which \$63,980,414 has been expended leaving an unexpended balance of \$50,797,586, which was appropriated for the year ending June 30, 2009.

Approval Date	Activity	Allocation	Total Expended	Balance at June 30, 2008
9/22/04	Preliminary Engineering	\$ 10,505,000	\$ 10,505,000	\$ -
9/22/04	Preliminary Engineering	4,990,000	4,879,094	110,906
11/17/04	Right of Way Acquisition	16,125,000	16,125,000	-
10/26/05	Right of Way Acquisition	12,875,000	12,875,000	-
5/24/06	Preliminary Engineering	2,735,000	2,413,045	321,955
2/28/07	Preliminary Engineering	4,730,000	1,297,371	3,432,629
9/26/07	Final Design	1,319,000	809,007	509,993
1/23/08	Preliminary Design	2,654,000	-	2,654,000
1/23/08	Program Management & Controls	1,900,000	766,740	1,133,260
1/23/08	Right of Way Acquisition	23,745,000	14,151,344	9,593,656
3/26/08	Final Design & Construction Management	11,400,000	158,813	11,241,187
5/28/08	Preliminary Engineering	21,800,000	-	21,800,000
	Total Allocations	<u>\$ 114,778,000</u>	<u>\$ 63,980,414</u>	<u>\$ 50,797,586</u>

**B. 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.

**TRANSBAY JOINT POWERS AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

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

The SFCTA approved allocations total \$103,763,006 of which \$48,947,487 has been expended leaving an unexpended balance of \$54,815,519, which was appropriated for the fiscal year ending June 30, 2009.

Approval Date	Activity	Allocation	Total Expended	Balance at June 30, 2008
9/28/04	Right of Way Acquisition	\$ 16,125,000	\$ 16,125,000	\$ -
9/28/04	Preliminary Engineering	3,725,000	3,725,000	-
10/25/05	Right of Way Acquisition	12,875,000	12,875,000	-
9/26/06	Preliminary Engineering	4,004,000	2,803,713	1,200,287
2/27/07	Preliminary Engineering	10,825,000	8,604,378	2,220,622
10/30/07	Right of Way Acquisition	3,103,006	3,103,006	-
12/5/07	Right of Way Relocation	3,407,000	461,390	2,945,610
2/20/08	Right of Way Acquisition	17,155,000	-	17,155,000
2/20/08	Preliminary Engineering	18,350,000	-	18,350,000
3/12/08	Preliminary Engineering	2,654,000	-	2,654,000
3/12/08	Preliminary Engineering	1,200,000	-	1,200,000
4/28/08	Preliminary Engineering	10,340,000	1,250,000	9,090,000
	Total Allocations	<u>\$ 103,763,006</u>	<u>\$ 48,947,487</u>	<u>\$ 54,815,519</u>

**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.

On April 11, 2006, the SMCTA agreed to allocate \$7,280,000 for preliminary engineering of the Caltrain downtown extension and agency costs. As of June 30, 2008, \$7,040,402 was expended and the remaining amount of \$239,598 was appropriated for the year ending June 30, 2009.

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

On January 2, 2007, the State of California, Department of Transportation (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.

**TRANSBAY JOINT POWERS AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

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

The State approved program supplements total \$7,391,000 of which \$3,699,639 has been expended leaving an unexpended balance of \$3,691,361, which was appropriated for the fiscal year ending June 30, 2009.

<u>Approval Date</u>	<u>Activity</u>	<u>Program Supplements</u>	<u>Total Expended</u>	<u>Balance at June 30, 2008</u>
6/7/07	Right of Way Acquisition	\$ 3,391,000	\$ 3,391,000	\$ -
2/16/08	Preliminary Engineering	4,000,000	308,639	3,691,361
	Total Program Supplements	<u>\$ 7,391,000</u>	<u>\$ 3,699,639</u>	<u>\$ 3,691,361</u>

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

The TJPA is in the process of acquiring real property for the implementation of Phase 1 of the Transbay Transit Center Program. Private property acquisitions will potentially affect businesses, parking vendors, and investment property businesses. The TJPA will provide relocation assistance to eligible occupants.

The TJPA receives federal and state financial assistance, and is therefore required to provide relocation assistance 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.” During fiscal years 2007 and 2008, the TJPA 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 have been estimated by Associated Right of Way Services, Inc. (“ARWS”), under contract with the TJPA. The initial relocation assistance cost estimates are documented in the Final Relocation Impact Study adopted by the TJPA Board of Directors on September 20, 2007. The total initial anticipated high estimate of relocation payments for Phase I cited in the study was \$3,410,000.

The total current anticipated high estimate of relocation payments for Phase I is \$3,810,000. This revised estimate is based on the monthly ARWS relocation assistance update meeting and project status report, which documents ARWS’s most current estimate of probable relocation assistance. This updated estimate differs in some cases from the initial estimate cited in the Final Relocation Impact Study as more occupant specific data is collected.

**TRANSBAY JOINT POWERS AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

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

The notices of intent to acquire are contingent liabilities and will not become actual liabilities until the TJPA acquires the underlying property or occupants elect to move before the property is acquired by TJPA. At June 30, 2008, the TJPA had acquired four properties for which notices of intent to acquire had been issued and two occupants elected to move before the underlying property was acquired by the TJPA. The total liability for the four properties and two occupants total \$340,000 of which \$280,000 remained unpaid at June 30, 2008.

	Estimated Liability	Contingent Liability	Total
Total Current High Estimate	\$ 340,000	\$ 3,470,000	\$ 3,810,000
Disbursed through June 30, 2008	(60,000)	-	(60,000)
Balance at June 30, 2008	<u>\$ 280,000</u>	<u>\$ 3,470,000</u>	<u>\$ 3,750,000</u>

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, 2008, TJPA has agreed to a goodwill loss payment of \$90 total to one business owner.

**NOTE 10 – RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2008, the City provided legal, procurement, and project planning services to the TJPA. Such services totaled \$1,399,867 and were provided by the following organizations/departments.

Office of the City Attorney	\$ 225,757
Permits and Fees issued by various City Departments	34,168
Department of Public Works	220,250
San Francisco Redevelopment Agency	171,310
Planning Department	197,697
Department of Telecommunications and Information Services	6,867
Municipal Transportation Agency	543,818
Total	<u>\$ 1,399,867</u>

At June 30, 2008, the TJPA reported \$677,653 due to the City. In addition, the TJPA agreed to loan the San Francisco Redevelopment Agency ("RDA") up to \$2,500,000 over three fiscal years beginning in fiscal year 2006 for costs related to the planning of public infrastructure. At June 30, 2008, the loan receivable from the RDA is \$283,155 and there will be no further drawdowns. Beginning December 31, 2009, the RDA is obligated to repay the loan in eight quarterly payments. The loan does not accrue interest.

## TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

### 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.

### NOTE 12 - SUBSEQUENT EVENTS

#### A. Exclusive Negotiations Agreement with Hines Transbay Tower LLC

On October 21, 2008, the TJPA Board approved an Exclusive Negotiations Agreement (“ENA”) with Hines Transbay Tower LLC, for the disposition of the north half of Caltrans Transfer Parcel T for the Transit Tower. The ENA outlines the following essential terms of a purchase and sale agreement for Parcel T: (a) \$160 million in cash within 90 days following closing at final Project entitlement, (b) the net present value of \$15 million in five installments over the five years following the closing, (c) up to \$50 million for actual construction costs of the Transit Center rooftop public park, and (d) a participation payment equal to 0.5% of net operating income from the Tower for a period of 66 years following Tower Project stabilization, with an estimated net present value of \$10 million. These four payments equal a total purchase price of \$235 million.

Hines will pay TJPA costs to negotiate the purchase and sale agreement. TJPA will draw from a \$500,000 deposit made by Hines to cover such costs. Hines will also make payments for Hines’ share of consultant studies prepared to support the environmental evaluation for the Transit Center District Plan, either directly to the environmental consultant or reimbursing TJPA for any payments TJPA has made. Execution of a binding purchase and sale agreement is currently expected to occur within six months of completion of environmental review for the Tower Project, anticipated to be in Summer or Fall of 2009. Closing would occur within 90 days after final Tower Project entitlement.

#### B. Terminal Lease and Use Agreement with Alameda-Contra Costa Transit District

On September 29, 2008, the TJPA Board approved a Lease and Use Agreement for the Temporary Terminal and the new Transit Center with AC Transit. The agreement sets forth the parties’ rights and obligations up to the year 2050 with respect to: (a) AC Transit’s bus operations in the Temporary Terminal and the new Transit Center; (b) AC Transit’s contribution to offset annual Operating Costs for the Temporary Terminal and Transit Center, and (c) AC Transit’s Capital Contribution to build the Transit Center in the sum of \$57,000,000 (in 2011 dollars).

#### C. State Conveyance of Land for Temporary Terminal Construction

On October 31, 2008, the State of California conveyed Parcel O’ to the TJPA for Temporary Terminal construction. On November 5, 2008, Parcel M was conveyed, and will be used for Temporary Terminal construction staging. These two parcel transfers were conducted in accordance with the Cooperative Agreement between the TJPA, State of California and the City dated July 11, 2003, and the implementing action taken by the California Transportation Commission on December 14, 2007.

**TRANSBAY JOINT POWERS AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended June 30, 2008

**NOTE 12 – SUBSEQUENT EVENTS (Continued)**

D. Transportation Infrastructure Finance and Innovations Act Loan

On October, 15, 2008, TJPA submitted an application for a 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 application is for up to \$172 million 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 RDA. On October 14, 2008, Fitch Ratings provided an investment grade rating for up to \$172 million in support of the TIFIA loan. Loan approval is anticipated to occur in early 2009 and the first draw on the loan is planned in 2012.

E. Purchase of 77-83 Natoma

On November 13, 2008, the TJPA board approved the purchase of 77-83 Natoma for the Transbay Transit Center Program. These properties were planned for acquisition as part of Phase 1 of the Program. The total purchase price is \$3,725,000, and the escrow is planned to close on December 16, 2008.

**SUPPLEMENTARY INFORMATION**

**THIS PAGE LEFT INTENTIONALLY BLANK**

**TRANSBAY JOINT POWERS AUTHORITY**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Program Description				EXPENDITURES - FEDERAL SHARE			REVENUES - FEDERAL		
	Federal CFDA Number	Grant Number	Program Award	Cumulative	through	Cumulative	Cumulative	through	Cumulative
				through June 30, 2007	June 30, 2008	through June 30, 2008	through June 30, 2007	June 30, 2008	through June 30, 2008
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>									
<b>Federal Transit Cluster:</b>									
Federal Transit Formula Grants Passed Through from the									
San Francisco Municipal Transportation Agency									
General Capital Assistance									
- Capital Assistance	20.507	CA-90-0124	\$ 7,840,636	\$ 7,840,636	\$ -	\$ 7,840,636	\$ 7,840,636	\$ -	\$ 7,840,636
- Capital Assistance	20.507	CA-90-0212	954,719	927,771	26,948	954,719	927,771	26,948	954,719
Total Pass Through Grants			8,795,355	8,768,407	26,948	8,795,355	8,768,407	26,948	8,795,355
Federal Transit Formula Grants									
General Capital Assistance	20.500	CA-04-0010	6,649,751	2,245,334	2,781,090	5,026,424	2,245,334	2,781,090	5,026,424
General Capital Assistance	20.500	CA-04-0040	7,008,960	-	526,142	526,142	-	526,142	526,142
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>\$ 22,454,066</u>	<u>\$ 11,013,741</u>	<u>\$ 3,334,180</u>	<u>\$ 14,347,921</u>	<u>\$ 11,013,741</u>	<u>\$ 3,334,180</u>	<u>\$ 14,347,921</u>

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

**TRANSBAY JOINT POWERS AUTHORITY**  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

**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, 2008. Federal awards received directly as well as passed through from other governmental agencies 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**

**THIS PAGE INTENTIONALLY LEFT BLANK**



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

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 (the TJPA) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. 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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 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 these 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 pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants  
Walnut Creek, California

December 15, 2008



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

Board of Directors  
Transbay Joint Powers Authority  
San Francisco, California

**Independent Auditor's Report on Compliance with Requirements  
Applicable to 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 (the TJPA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

### ***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, 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 *control deficiency* in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants  
Walnut Creek, California

December 15, 2008

**TRANSBAY JOINT POWERS AUTHORITY**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2008

---



---

**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 Nos. 20.500 and 20.507	Federal Transit Cluster
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.