

**TRANSBAY JOINT
POWERS AUTHORITY**

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

For the Two-Year Period
July 1, 2002 to June 30, 2004

TRANSBAY JOINT POWERS AUTHORITY
For the Two-Year Period July 1, 2002 to June 30, 2004

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Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Independent Auditor's Report

We have audited the accompanying financial statements of the Transbay Joint Powers Authority (Authority), as of June 30, 2004 and for the two-year period July 1, 2002 to June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority'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 Authority'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 Authority as of June 30, 2004, and the changes in its financial position and its cash flows for the two-year period July 1, 2002 to June 30, 2004 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 June 24, 2005, on our consideration of the Authority'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 and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, Dini & Company LLP
Certified Public Accountants
Walnut Creek, California

June 24, 2005

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information – Unaudited)**

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's (Authority) financial activities for the two-year period July 1, 2002 to June 30, 2004. Please read it in conjunction with the Authority's basic financial statements, which follow this section.

Financial Highlights

At the close of the year, June 30, 2004, assets of the Authority exceeded its liabilities by \$2,474,623.

Overview of the Financial Statements

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

Financial Statement Analysis

This is the first reporting period for the Authority, and the Authority has applied Governmental Accounting Standards Board (GASB) Statement No. 34. In future years, a comparative analysis of financial data will be presented.

The Statement of Net Assets presents information on all of the Authority'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 Authority is improving or deteriorating. For the Authority, assets exceeded liabilities in the current period.

Total assets	\$	3,658,439
Total liabilities		<u>(1,183,816)</u>
Total net assets	\$	<u>2,474,623</u>

Total assets at June 30, 2004 comprised primarily of accumulated project costs (construction in progress) in the amount of \$2,473,465 and receivables in the amount of \$824,159 from the Metropolitan Transportation Commission related to the Transbay Terminal and Caltrain Downtown Extension project.

The following table summarizes the changes in net assets for the two-year period ended June 30, 2004.

Nonoperating revenue		
Interest income	\$	1,158
Capital contributions		
Federal government capital grants		681,147
Local government shared revenues		993,629
In-kind revenue - San Francisco Redevelopment Agency		<u>798,689</u>
Change in net assets	\$	<u>2,474,623</u>

The Authority has a funding agreement with the Metropolitan Transportation Commission to receive funding for preliminary planning and design services for the Transbay Terminal and Caltrain Downtown Extension project. See note 8 of the financial statements for additional information.

Capital Assets

For the two-year period July 1, 2002 to June 30, 2004, the Authority expended \$2.5 million on the Transbay Terminal and Caltrain Downtown Extension project. At June 30, 2004, the Authority had commitments of approximately \$3.5 million for this project. Additional information on the Authority's capital asset and commitments can be found in note 4 to the financial statements.

Economic Factors and Next Year's Budget

Several factors affecting expenditures in the Authority's fiscal year 2004-05 budget include increasing expenditures in order to continue the planning process, to establish program management and program controls, and begin the preliminary engineering phase of the project. Additionally, the acquisition of right-of-way required for the project is included in the 2004-05 budget.

The Authority anticipates that the majority of revenues to pay for these increased expenditures will be provided by two 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) and the voter-approved Regional Measure 2 bridge toll increase. The Prop. K expenditure plan includes \$290 million (in 2004 dollars) for the project and the Regional Measure 2 program includes \$150 million for the Project. Allocations of \$19.85 million in Prop. K funds and \$31.62 million in Regional Measure 2 funds were made in 2004-05. From these allocations, \$46.48 million is budgeted for 2004-05. An additional \$1.77 million will be allocated from Prop K and it and the remaining \$4.99 million previously allocated from RM-2 will be appropriated and budgeted in 2005-06.

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 1960, San Francisco, California 94105.

BASIC FINANCIAL STATEMENTS

TRANSBAY JOINT POWERS AUTHORITY

Statement of Net Assets

June 30, 2004

ASSETS:

Cash equivalents	\$ 116,385
Receivables:	
Federal Transit Administration	3,272
Metropolitan Transportation Commission (MTC)	824,159
Interest earnings on deposits	<u>1,158</u>
Total receivables	828,589
Deposits with Local Government Services (LGS)	240,000
Capital assets, nondepreciable:	
Accumulated project costs	<u>2,473,465</u>
Total assets	<u>3,658,439</u>

LIABILITIES:

Accounts payable	943,816
Unearned revenue	<u>240,000</u>
Total liabilities	<u>1,183,816</u>

NET ASSETS:

Invested in capital assets	2,473,465
Unrestricted	<u>1,158</u>
Total net assets	<u>\$ 2,474,623</u>

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Revenues and Changes in Fund Net Assets
For the Two-Year Period July 1, 2002 to June 30, 2004

NONOPERATING REVENUES

Interest income	\$ 1,158
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CAPITAL CONTRIBUTIONS

Federal government capital grants	681,147
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Local government shared revenues	993,629
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In-kind revenue - San Francisco Redevelopment Agency	798,689
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Total capital contributions	2,473,465
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Change in net assets	2,474,623
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Net assets, at July 1, 2002	-
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Net assets, at June 30, 2004	\$ 2,474,623
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See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Cash Flows
For the Two-Year Period July 1, 2002 to June 30, 2004

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Federal government capital grants	\$ 677,875
Local government shared revenues	409,470
Acquisition of capital assets	<u>(970,960)</u>
Cash flows from capital financing activities	116,385
Cash equivalents, beginning of year	<u>-</u>
Cash equivalents, end of year	<u><u>\$ 116,385</u></u>

NONCASH CAPITAL ACTIVITIES

Acquisition of capital assets on accounts payable	<u><u>\$ 943,816</u></u>
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See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Notes to the Basic Financial Statements
For the Two-Year Period July 1, 2002 to June 30, 2004

NOTE 1 - ORGANIZATION

In April 2001, the City and County of San Francisco (City), Alameda-Contra Costa Transit District, and the Peninsula Corridor Joint Powers Board (collectively, "Member Agencies") entered into an agreement creating the Transbay Joint Powers Authority (Authority) to design, build, develop, operate and maintain a new transportation terminal and associated facilities in San Francisco (Transbay Terminal) and links to regional transportation systems which includes the downtown extension of Caltrain from 4th and Townsend Streets to the new transportation terminal. The State has granted the Authority primary jurisdiction with respect to all matters pertaining to the financing, design, development, construction, and operation of the new Transbay Terminal and Caltrain Downtown Extension project. The Authority is governed by a five member board of directors. The City has appointed three directors and each other member appointed one director to the Board. Member Agencies have granted to the Authority most of their jointly held powers, including the authority to buy and sell property, enter into contracts, and accept and expend grants of cash and property.

The Authority is legally separate and financially independent and is not a component unit of the City and County of San Francisco, Alameda-Contra Costa Transit District, and the Peninsula Corridor Joint Powers Board. Therefore, these financial statements represent solely the activities, transactions and status of the Transbay Joint Powers Authority.

Since the Authority's inception, all of its grant funding has been passed through to it from San Francisco Municipal Railway (MUNI) and from the Metropolitan Transportation Commission (MTC). MUNI has also provided administrative and financial services to the Authority on a contract basis.

These financial statements represent the initial financial statements of the Authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority 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 Authority distinguishes operating revenues from nonoperating revenues. Nonoperating revenues result from unrestricted interest income earned on the deposit with Local Government Services. The Authority did not earn any operating revenues during the two-year period ended 2004.

Under the terms of grant and revenue sharing agreements, the Authority funds project costs on a cost-reimbursement basis. Thus, when project costs are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply restricted cost-reimbursement grant and revenue sharing resources to such project costs.

The Authority has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply 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.

TRANSBAY JOINT POWERS AUTHORITY
Notes to the Basic Financial Statements
For the Two-Year Period July 1, 2002 to June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents (see Note 3).

Capital Assets

The Authority 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. The costs of acquisition, planning and construction of the Transbay Terminal and Caltrain Downtown Extension Project are recorded as accumulated project costs until such assets are completed and placed in service, at which time the Authority commences recording depreciation expense.

Donated Materials and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills and would otherwise need to be purchased, are recorded at fair value in the period received. The Authority recorded donated materials and survey and planning services during the two-year period ended June 30, 2004 from the San Francisco Redevelopment Agency in the amount of \$798,689.

Capital Contributions

The Authority has grant contracts with the U.S. Department of Transportation through the Federal Transit Administration for the Transbay Terminal and Caltrain Downtown Extension project. The Authority also has agreements with the Metropolitan Transportation Commission (MTC) for Regional Measure 1, which are used to match Federal Transit Administration grants. Capital funding provided under these government grants and agreements is considered earned as the related allowable expenditures are incurred.

Grants for facility development are reported in the statement of revenues and changes in 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 and 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. The Authority had no outstanding capital-related debt at June 30, 2004.

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 Authority had no restricted assets at June 30, 2004.

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.”

TRANSBAY JOINT POWERS AUTHORITY
Notes to the Basic Financial Statements
For the Two-Year Period July 1, 2002 to June 30, 2004

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 Authority's cash is included in the City Treasurer's cash and investments pool. Investments made by the 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. Additional information regarding insurance, collateralization, and custodial credit risk categorization of the City's cash and investments is presented in the notes of the City's basic financial statements.

NOTE 4 - CAPITAL ASSETS

The Authority's capital assets consist of accumulated project costs related to the Transbay Terminal and Caltrain Downtown Extension project. At June 30, 2004, the Authority had commitments of approximately \$3.5 million for preliminary planning and design costs.

NOTE 5 - CONTRACT EMPLOYEES

The Authority has entered into an agreement with Local Government Services (LGS) to provide employee services for all of the Authority's staff positions.

NOTE 6 - OFFICE LEASE

The Authority leases office space under an operating lease. Total costs for this lease were \$45,819 for the two-year period ended June 30, 2004. These costs represent direct project management costs related to the Transbay Terminal and Caltrain Downtown Extension project and as such are capitalized as part of accumulated project costs. The future minimum lease payments for this lease are as follows:

Year ending June 30,	
2005	\$ 84,863
2006	88,500
2007	92,137
2008	95,774
2009	40,537
Total	\$ 401,811

TRANSBAY JOINT POWERS AUTHORITY
Notes to the Basic Financial Statements
For the Two-Year Period July 1, 2002 to June 30, 2004

NOTE 7 - RISK MANAGEMENT

The Authority 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 Authority carries commercial insurance for risks of loss. There have been no significant reductions in insurance coverage from the previous year. There were no insurance claims filed for the two year period July 1, 2002 to July 30, 2004.

The Authority's deductibles and maximum coverage are as follows:

<u>Coverage Description</u>	<u>Deductibles</u>	<u>Insurance Coverage</u>
General Liability and Automobile	\$500	\$2,500,000
All Risk Property	\$2,000	\$750,000,000
Earthquake	N/A	none
Errors and Omissions Liability	\$0	\$2,500,000
Employee dishonesty	\$0	\$400,000

NOTE 8 - AGREEMENT BETWEEN THE TRANSBAY JOINT POWERS AUTHORITY AND METROPOLITAN TRANSPORTATION COMMISSION (MTC)

In June 2001, the San Francisco Municipal Railway (MUNI) received two funding allocations totaling \$1,400,000 on the Authority's behalf from the Metropolitan Transportation Commission (MTC) to provide preliminary planning and preliminary design services for the Transbay Terminal and Caltrain Downtown Extension project. The funds from MTC are derived from Regional Measure 1, approved by California voters in 1989, which authorized a toll increase on all state-owned bridges in the northern and southern bay area bridge groups. The funding allocation instructions from MTC state that the funds being granted are associated with federal funds provided through the Transportation Improvement Project. The Authority included the anticipated MTC funding in its fiscal year 2003-04 budget as local matching funds that are required by its grant with the Federal Transit Administration. The end of the allocation term was June 30, 2004. For the two-year period ended June 30, 2004, MTC committed to the Authority \$1,229,713, \$406,372 of which was for eligible costs that had not yet been incurred as of that date. However, the Authority was under a binding contract for services at that date that were delivered during fiscal year 2004-05 by the contractor, and paid during fiscal year 2004-05 by the Authority, under that binding contract. This binding contract met the requirements of MTC that the Authority have a financial obligation at June 30, 2004 to pay out the unearned portion of the grant funds.

TRANSBAY JOINT POWERS AUTHORITY
 Schedule of Expenditures of Federal Awards
 For the Two-Year Period July 1, 2002 to June 30, 2004

Program Description	Federal CFDA Number	Grant Number	Program Award	EXPENDITURES - FEDERAL SHARE			RECEIPTS		
				Cumulative Prior to July 1, 2003	July 1, 2003 through June 30, 2004	Cumulative through June 30, 2004	Cumulative Prior to July 1, 2003	July 1, 2003 through June 30, 2004	Cumulative through June 30, 2004
U.S. DEPARTMENT OF TRANSPORTATION									
Federal Transit Formula Grants Passed Through from the San Francisco Municipal Railway									
General Capital Assistance									
- Capital Assistance	20.507	CA-90-0124	\$ 7,840,636	\$ 117,809	\$ 466,958	\$ 584,767	\$ 116,396	\$ 561,479	\$ 677,875

TRANSBAY JOINT POWERS AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Two-Year Period July 1, 2002 to June 30, 2004

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 Authority) for the two-year period July 1, 2002 to June 30, 2004. Federal awards passed through from other governmental agencies are included on the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The Schedule is presented using the cash 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 revenues and expenditures agree to or can be reconciled with the amounts reported in the Authority’s basic financial statements. The expenditure reconciliation is as follows:

Total expenditures per schedule of expenditures of federal awards	\$ 584,767
FTA expenditure accruals	<u>96,380</u>
Total FTA expenditures, accrual basis	681,147
Less FTA expenditure capitalized as part of construction in progress	<u>(681,147)</u>
Total FTA expenses per statement of revenues and changes in net assets	<u><u>\$ -</u></u>

The revenue reconciliation is as follows:

Total cash receipts per schedule of expenditures of federal awards	\$ 677,875
FTA revenue accruals	<u>3,272</u>
Total FTA revenues per statement of revenues and changes in net assets	<u><u>\$ 681,147</u></u>

NOTE 5 – FISCAL YEAR 2005 FEDERAL TRANSPORTATION ADMINISTRATION GRANTS

On October 1, 2002, the FTA agreed to fund grant number FTA Grant CA-90-Y212-C in the amount of \$954,719 to build, design and operate the Transbay Terminal and Caltrain Downtown Extension project. The Authority plans to draw down on this grant during fiscal year 2005.

OTHER REPORTS



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

We have audited the basic financial statements of the Transbay Joint Powers Authority (Authority), as of June 30, 2004 and for the two-year period July 1, 2002 to June 30, 2004, and have issued our report thereon dated June 24, 2005. 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 Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted certain additional matters involving the internal control over financial reporting, which we have reported to management of the Authority in a separate letter dated June 24, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 Authority's Board of Directors and management, 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.

Macias, Dini & Company LLP
Certified Public Accountants
Walnut Creek, California

June 24, 2005



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Board of Directors
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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, California (the Authority), 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 two-year period July 1, 2002 to June 30, 2004. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority'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 Authority'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 Authority's compliance with those requirements.

In our opinion, the Authority 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, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Authority's Board of Directors, management, 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.

Macias, Gini & Company LLP
Certified Public Accountants
Walnut Creek, California

June 24, 2005

TRANSBAY JOINT POWERS AUTHORITY

Schedule of Findings and Questioned Costs
For the Two-Year Period July 1, 2002 to June 30, 2004

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the basic financial statements of the Authority: We issued an unqualified opinion.

Internal control over financial reporting:

- ◆ Material weakness(es) identified? No
- ◆ Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: We issued an unqualified opinion.

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

Identification of major programs? U.S. Department of Transportation
Federal Transit Formula Grants
CFDA Number 20.507

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? No

TRANSBAY JOINT POWERS AUTHORITY

Schedule of Findings and Questioned Costs (Continued)
For the Two-Year Period July 1, 2002 to June 30, 2004

Section II Financial Statement Findings

FINDING 04-1

In April 2001, the City and County of San Francisco (City), Alameda-Contra Costa Transit District, and the Peninsula Corridor Joint Powers Board created the Transbay Joint Powers Authority (Authority). During its start-up period, we noted the Authority did not timely record two significant types of transactions and had not yet developed or acquired the in-house staffing capacity to produce summarized financial management reports on a timely basis. Specifically, we noted the Authority experienced difficulties in the following areas:

- *Application of the Accrual Basis of Accounting* – Under the accrual basis of accounting, expenditures should be recognized and reported when incurred. During our review of the Authority’s cash disbursements, we noted \$817,469 of expenditures incurred in fiscal year 2004, but not included in its financial statements. In addition, we noted that the Authority did not capture a noncash contribution in the amount of \$798,689 provided by the San Francisco Redevelopment Agency. These mistakes were due to a lapse in coordinating the year-end accounting activities between several City departments involved in processing and accounting for the Authority’s financial transactions. Failure to properly coordinate year-end closing activities can result, if not timely detected, in material misstatements.
- *Timely Financial Reporting* – The Authority did not have financial personnel in place during its start up period to timely produce periodic financial statements. Although the City did routinely provide detailed transaction level reports, without timely period summarized financial reports, the Authority’s management does not have access to current information to track and adequately control the development costs of the Transbay Terminal and Caltrain Downtown Extension project.

Given the implications to the Authority’s accounting and financial reporting processes, adequate finance personnel are essential to enhance controls over the Authority’s financial reporting and accounting processes. We recommend the Authority temporarily contract with or hire a financial manager with the demonstrated ability to manage and coordinate the financial accounting and reporting activities of the Authority.

Management Response:

During the fiscal years FY04 and FY05 the Authority’s Board, Executive Director and Staff and the Authority’s consultants took the following significant steps to strengthen the Authority’s system of internal accounting controls and financial management practices:

- Development of the following Authority Board approved comprehensive fiscal policies:
 - Board Policy No. 001 Procurement Policy;
 - Board Policy No. 003 Budget Policy;
 - Board Policy No. 006 Credit Card Policy; and
 - Board Policy No. 007 Internal Accounting Control Policy.

TRANSBAY JOINT POWERS AUTHORITY

Schedule of Findings and Questioned Costs (Continued)
For the Two-Year Period July 1, 2002 to June 30, 2004

FINDING 04-1 (Continued)

- Development of the Authority Internal Accounting Control Procedures for Regional Measure 2 and San Francisco's Proposition K Transportation Sales Tax.
- Development of the Authority Internal Accounting Control Procedure for consultant invoice processing.
- The Executive Director and Authority staff have all been trained on the nature, purpose, significance, and application of the above internal control policy and procedures.
- Development of the Authority Governmental Accounting System (accrual basis) to initially account for and report on Regional Measure 2 and San Francisco's Proposition K Transportation Sales Tax allocated to the Authority.
- Contracted with a financial management consultant to provide professional accounting services until a permanent financial manager can be hired.
- A permanent Financial Manager is in the process of being hired.
- The CFO decided to have a member of the Controller's Office staff prepare the FY05 Financial Statements.

Section III

Federal Award Findings and Questioned Costs

None reported.