

STAFF REPORT FOR CALENDAR ITEM NO.: 9
FOR THE MEETING OF: December 8, 2011

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of the audited Financial Statements of the Transbay Joint Powers Authority (TJPA) for the fiscal year ended June 30, 2011 and the Report to the Board of Directors.

SUMMARY:

Vavrinek, Trine, Day & Co (VTD) conducted an audit of the TJPA's financial statements for fiscal year ended June 30, 2011 according to Government Auditing Standards. These financial statements are the eighth audited financial statements of the TPJA and fairly represent the financial position of the TJPA for the period of July 1, 2010 to June 30, 2011.

The financial statements include the following sections:

- 1) Independent Auditor's Report—this report was prepared by the independent auditors, who rendered an unqualified opinion, which is the most favorable opinion an agency can receive in an audit. An unqualified opinion means that the financial statements are presented fairly and in accordance with accounting principles generally accepted in the United States of America.
- 2) Management's Discussion and Analysis—this section provides management's overview of TJPA's financial activities.
- 3) Basic Financial Statements—the basic financial statements include a statement of net assets; statement of revenues, expenses 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 Expenditures of Federal Awards, and the required Reports on Compliance and on Internal Control.

In addition, VTD issued a report addressed to the Board of Directors which is intended solely for the information of TJPA's Board of Directors and management. A representative of VTD will address the Board at the December 8 meeting and be available to answer any questions.

Information only.

**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, 2011

TRANSBAY JOINT POWERS AUTHORITY
For the Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

We have audited the accompanying basic financial statements of the Transbay Joint Powers Authority (TJPA), as of and for the fiscal year ended June 30, 2011, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2011 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 a report dated November 23, 2011, on our consideration of the TJPA's internal control over financial reporting and our tests of its compliance with certain provisions of law, 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 are not required parts of the 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 primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. 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 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California

November 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2011

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2011 with comparative information for the year ended June 30, 2010. Please read it in conjunction with the TJPA's basic financial statements, which follow this section.

Financial Highlights

During the year ended June 30, 2011:

- At the close of the fiscal year, assets of the TJPA exceeded its liabilities by \$491,505,247.
- The TJPA received \$187,888,211 in capital contributions. All contributions were used for the Transbay Transit Center Program (the "Program"), which consists of both the Transbay Transit Center and the Caltrain Downtown Extension ("DTX") projects.
- The TJPA purchased four properties valued at \$3,655,000 and acquired right of possession to nine additional properties valued at \$15,910,000 by eminent domain. The State of California also transferred 14 parcels to the TJPA. TJPA now possesses all right of way required for Phase 1 of the Program.

Construction Highlights

- Operation of the Temporary Terminal commenced on August 7, 2010.
- The new Transbay Transit Center building groundbreaking ceremony was held on August 11, 2010, marking the start of demolition of the former Transbay Terminal and bus ramps. The buttress, shoring and excavation construction work commenced during the spring of 2011.
- The demolition of the former Transbay Terminal, bus ramps, and adjacent buildings was completed during the summer of 2011, as was the majority of the utility relocation work.

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. Under the Joint Powers Agreement creating the TJPA, dated April 4, 2001, the new transit terminal and related facilities will be managed and operated upon their completion as an enterprise operation.

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2011

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.

Financial Statement Analysis

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

TJPA'S CONDENSED STATEMENTS OF NET ASSETS

| | <u>2011</u> | <u>2010</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|---|-----------------------|-----------------------|--------------------------|---------------------------|
| Assets: | | | | |
| Current and other assets | \$ 56,086,624 | \$ 21,152,582 | \$ 34,934,042 | 165% |
| Capital assets | 522,526,213 | 315,296,599 | 207,229,614 | 66% |
| Total assets | <u>578,612,837</u> | <u>336,449,181</u> | <u>242,163,656</u> | 72% |
| Liabilities: | | | | |
| Current and other liabilities | 51,603,169 | 16,642,849 | 34,960,320 | 210% |
| Intergovernmental liability to SFRA for re-conveyance of State transferred land | 35,504,421 | 16,683,315 | 18,821,106 | 113% |
| Total liabilities | <u>87,107,590</u> | <u>33,326,164</u> | <u>53,781,426</u> | 161% |
| Net Assets: | | | | |
| Invested in capital assets, net of related obligations | 487,021,792 | 298,613,284 | 188,408,508 | 63% |
| Restricted | 264,000 | - | 264,000 | n/a |
| Unrestricted | 4,219,455 | 4,509,733 | (290,278) | -6% |
| Total net assets | <u>\$ 491,505,247</u> | <u>\$ 303,123,017</u> | <u>\$ 188,382,230</u> | 62% |

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2011

Total net assets at June 30, 2011 include invested in capital assets, net of related obligations, which is comprised of construction in progress of \$300,624,555, land scheduled to be retained by the TJPA of \$164,768,605, and permanent easements of \$137,374. The construction in progress includes engineering and design, construction, program consulting and management, environmental and planning, and administrative costs necessary to support the development of the Transbay Transit Center and Caltrain Downtown Extension. Construction in progress also includes information technology costs for website development and labor compliance software.

The \$264,000 restriction of total current year net assets results from the restriction of the net assets of Temporary Terminal operations for an Operating and Maintenance Reserve. The Operating and Maintenance Reserve can only be used for the operations and maintenance of Program facilities, including the Temporary Terminal, the future Transbay Transit Center, or the future DTX. In addition, total current year net assets include \$4,219,455 in unrestricted net assets which are derived from TJPA's non-operating revenues and are to be used for acquisition of capital assets.

The \$34,934,042 net increase in current and other assets resulted primarily from a \$11,414,216 increase in cash and cash equivalents attributable to the receipt of a capital contribution on the last day of the fiscal year and the related disbursement occurring on the first day of the next fiscal year and a \$23,893,888 net increase in grantor receivables. The increase of \$34,960,320 in current and other liabilities resulted primarily from a \$34,871,735 increase in accounts and other payables.

The \$18,821,106 increase in the intergovernmental liability to the San Francisco Redevelopment Agency ("SFRA") is due to the TJPA's acceptance of the transfer of five additional parcels from the State of California for interim use by TJPA during construction of the Transbay Transit Center. These parcels are scheduled to be re-conveyed to the SFRA upon completion of the new Transbay Transit Center.

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2011

TJPA'S CONDENSED STATEMENTS OF CHANGES IN NET ASSETS

| | <u>2011</u> | <u>2010</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|--|-----------------------|-----------------------|--------------------------|---------------------------|
| Temporary Terminal operating income | | | | |
| Operating revenues | \$ 264,000 | \$ - | \$ 264,000 | n/a |
| Operating expenses | - | - | - | n/a |
| Operating income | <u>264,000</u> | <u>-</u> | <u>264,000</u> | n/a |
| Nonoperating revenues (expenses and losses) | | | | |
| Operating grant for Temporary Terminal | | | | |
| Revenue | 3,001,398 | - | 3,001,398 | n/a |
| Expenses | <u>(3,001,398)</u> | <u>-</u> | <u>(3,001,398)</u> | n/a |
| Net operating grant | - | - | - | n/a |
| Interest income | 90,363 | 44,612 | 45,751 | 103% |
| Rental revenues | 138,152 | 396,730 | (258,578) | -65% |
| Miscellaneous revenues | 1,504 | 2,927 | (1,423) | -49% |
| Loss on conveyance of land | - | (690,541) | 690,541 | -100% |
| Total nonoperating revenues (losses) | <u>230,019</u> | <u>(246,272)</u> | <u>476,291</u> | 193% |
| Income (loss) before capital contributions | <u>494,019</u> | <u>(246,272)</u> | <u>740,291</u> | 301% |
| Capital contributions | | | | |
| Federal government capital grants | 89,236,268 | 4,244,086 | 84,992,182 | 2003% |
| State government capital grants | 166,964 | 2,168,367 | (2,001,403) | -92% |
| State conveyed land to be retained | 53,186,468 | - | 53,186,468 | n/a |
| Local government capital grants | 45,298,511 | 68,940,255 | (23,641,744) | -34% |
| Total capital contributions | <u>187,888,211</u> | <u>75,352,708</u> | <u>112,535,503</u> | 149% |
| Change in net assets | 188,382,230 | 75,106,436 | 113,275,794 | 151% |
| Net assets- beginning | 303,123,017 | 228,016,581 | 75,106,436 | 33% |
| Net assets- ending | <u>\$ 491,505,247</u> | <u>\$ 303,123,017</u> | <u>\$ 188,382,230</u> | 62% |

Operating revenues

Operation of the Temporary Terminal commenced on August 7, 2010. The source of fiscal year 2011 operating revenues of \$264,000 was provided by lease revenue from one operator. No operating expenses were funded from operating revenues.

Nonoperating revenues

The TJPA funds Temporary Terminal facility management and related operating expenses from an MTC operating grant. Total fiscal year 2011 operating grant revenues and expenses were \$3,001,398.

The fiscal year 2011 increase in interest income is primarily attributable to the temporary availability of short-term working capital. The decrease in rental revenues is due to properties being required for construction and no longer available for leasing.

During the year ended June 30, 2010, the TJPA conveyed a strip of land valued at \$860,541 to acquire permanent and temporary easements resulting in a loss on conveyance of land of \$690,541.

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2011

Capital contributions (See Note 2 for additional information)

For the year ended June 30, 2011, the TJPA received \$187,888,211 in capital contributions. Of the total amount contributed, \$53,186,468 is the value of TJPA's acceptance of the transfer of nine parcels from the State of California scheduled to be retained by the TJPA. The remaining fiscal year 2011 capital contributions of \$134,701,743 were expended on the Transbay Transit Center Program, which includes a new Transit Center building, new bus storage facility, bus ramps, and a 1.3 mile extension of rail lines from the existing Caltrain station at Fourth and Townsend streets to the Transit Center. At June 30, 2011, the TJPA had capital project contract commitments of \$313,630,039 for construction, design, engineering, planning and administrative costs. Additional information on the TJPA's capital assets can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The TJPA Board approved the fiscal year 2012 Capital and Operating Budgets on June 9, 2011. Several factors affecting expenditures in the TJPA's fiscal year 2012 \$220,296,000 Capital Budget include continuation of construction of the new Transbay Transit Center building; completion of the demolition of the former Transbay Terminal, bus ramps, and adjacent properties; completion of the majority of the utility relocation work; and completion of construction documents for the Transit Center and permanent bus storage facility. Approximately \$154.2 million is budgeted for construction activities and approximately \$6.4 million for construction management. The TJPA has budgeted \$14.8 million for the Transbay Transit Center building architecture and engineering contract in fiscal year 2012, and \$1.7 million for bus storage facility engineering and design. While the TJPA took possession of all properties required for the completion of Phase 1 of the Transbay program in fiscal year 2011, expenditures associated with the eminent domain process as well as relocation consultation and assistance, goodwill loss assistance and other miscellaneous costs will be incurred in fiscal year 2012. The fiscal year 2012 budget includes approximately \$5.3 million for these right of way acquisition expenditures.

The TJPA's fiscal year 2012 budget anticipates that most of the revenues to pay for these expenditures will be provided by the following sources: the funding identified in the expenditure plan approved by the voters for the half cent sales tax for transportation in San Francisco ("Prop. K"), the bridge toll increases approved in Regional Measure 1 and 2 and AB1171 ("RM-1", "RM-2" and "AB1171"), contributions of transportation sales tax revenues from the County of San Mateo, funds from the State of California via the Regional Transportation Improvement Program ("RTIP"), grants from the Federal Transit Administration ("FTA"), and an American Recovery and Reinvestment Act ("ARRA") grant from the Federal Railroad Administration ("FRA").

The approved fiscal year 2012 Capital Budget shows revenues in two categories – committed and planned. Committed revenues are those planned expenditures of grants that were allocated at the time the TJPA Board approved the 2012 fiscal year budget, and planned revenues include sources that have pending applications with funding partners or applications that are anticipated to be submitted and approved during the fiscal year. Throughout the 2012 fiscal year, TJPA will work with the funding agencies to secure grants as any additional funding needs are identified. This is explained in detail in the staff report which was submitted with the fiscal year 2012 budget and can be found on the TJPA website for the June 9, 2011 TJPA Board meeting.

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2011

With the opening of the Temporary Terminal, the TJPA began incurring operating costs for the first time in fiscal year 2011. The fiscal year 2012 Operating Budget consists of \$4,239,000 in revenues and expenditures. Expenditures include a facility management contract, security, operating support for AC Transit, and parking control officers. The majority of the revenues will be provided by an RM-2 operating grant.

On December 14, 2007, the California Transportation Commission approved the transfer of the State's right, title, and interest in and to State-owned parcels to the TJPA and to the City and County of San Francisco, per the Cooperative Agreement dated July 11, 2003 between the State of California, the City and County of San Francisco, and the TJPA. This action allows the California Department of Transportation to administratively transfer title to individual parcels to the TJPA. During the fiscal year ended June 30, 2011, fourteen parcels were transferred from the State to the TJPA. Future title transfers will occur as the parcels are required by the TJPA and the City.

Request for Information

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

BASIC FINANCIAL STATEMENTS

TRANSBAY JOINT POWERS AUTHORITY

Statement of Net Assets

June 30, 2011

Assets:

Current assets:

Cash and cash equivalents:

| | |
|---|-------------------|
| Cash in bank | \$ 14,697,427 |
| Restricted cash with fiscal agent | 15,822 |
| Equity in pooled cash and investments with the City and County of San Francisco | 1,030,836 |
| Total cash and cash equivalents | <u>15,744,086</u> |

Receivables:

| | |
|---|-------------------|
| Federal government | 27,401,407 |
| California State Transportation Improvement Program | 166,200 |
| Metropolitan Transportation Commission | 8,006,854 |
| San Francisco County Transportation Authority | 4,098,062 |
| Accounts receivable | 374,370 |
| Total receivables | <u>40,046,894</u> |

Prepaid items

| | |
|---|-------------------|
| Prepaid items | 20,000 |
| Deposit with Local Government Services | 240,000 |
| Loan receivable, San Francisco Redevelopment Agency | 35,394 |
| Security deposits held by others | 250 |
| Total current assets | <u>56,086,624</u> |

Noncurrent assets:

Capital assets, nondepreciable:

| | |
|--|--------------------|
| Land | 186,259,863 |
| Permanent easements | 137,374 |
| State transferred land to be re-conveyed to the San Francisco Redevelopment Agency | 35,504,421 |
| Construction in progress: | |
| Information technology | 112,165 |
| Transbay Transit Center | 247,187,575 |
| Caltrain Downtown Extension | 53,324,815 |
| Total nondepreciable capital assets | <u>522,526,213</u> |

Total Assets

578,612,837

(Continued)

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Net Assets (Continued)

June 30, 2011

Liabilities:

Current liabilities:

| | |
|--|-------------------|
| Accounts, contracts and intergovernmental payables | 41,876,289 |
| Relocation assistance payable | 1,825,805 |
| Retainage payable | 4,406,924 |
| Intergovernmental payables-related parties | |
| Caltrans | 3,310 |
| City and County of San Francisco | 1,295,464 |
| AC Transit | 1,942,620 |
| Unearned revenue | 20,000 |
| Deposits payable | 30,637 |
| Total current liabilities | <u>51,401,050</u> |

Noncurrent liabilities:

| | |
|--|-------------------|
| Intergovernmental liability to the San Francisco Redevelopment Agency for re-conveyance of State transferred land | 35,504,421 |
| Compensated absences, accrued vacation | 202,119 |
| Total noncurrent liabilities | <u>35,706,540</u> |

Total Liabilities

87,107,590

Net Assets:

| | |
|--|-------------|
| Invested in capital assets, net of related obligations | 487,021,792 |
| Restricted | |
| Operating and maintenance of Transbay Transit Center | 264,000 |
| Unrestricted | 4,219,455 |

Total Net Assets

\$ 491,505,247

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, 2011

| | |
|--|-----------------------|
| Operating Revenues - Temporary Terminal: | |
| Lease revenue | \$ 264,000 |
| Total operating revenues | 264,000 |
| Operating Expenses - Temporary Terminal: | |
| Total operating expenses | - |
| Operating Income - Temporary Terminal | |
| | 264,000 |
| Nonoperating Revenues and Expenses: | |
| Operating grant (MTC) for Temporary Terminal | |
| Operating grant revenue | 3,001,398 |
| Operating grant expenses: | |
| AC Transit incremental operating and maintenance costs | 1,942,620 |
| Facility Management | 845,602 |
| Utilities | 23,734 |
| Parking Control Officers | 189,442 |
| Total operating grant expenses | 3,001,398 |
| Net operating grant revenues (expenses) | - |
| Interest income | 90,363 |
| Rental revenues | 138,152 |
| Miscellaneous revenues | 1,504 |
| Total nonoperating revenues | 230,019 |
| Income Before Capital Contributions | 494,019 |
| Capital Contributions: | |
| Federal government capital grants | 89,236,268 |
| State government capital grants | 166,964 |
| State conveyed land scheduled to be retained by TJPA | 53,186,468 |
| Local government capital grants: | |
| Regional Measure, bridge tolls | 29,603,657 |
| Proposition K, half cent sales tax | 3,708,527 |
| San Mateo County, sales tax | 11,986,327 |
| Total Capital Contributions | 187,888,211 |
| Net Increase in Net Assets | 188,382,230 |
| Net Assets, Beginning of Year | 303,123,017 |
| Net Assets, End of Year | \$ 491,505,247 |

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Cash Flows
For the Year Ended June 30, 2011

Cash Flows from Operating Activities:

Temporary Terminal:

| | |
|--|----------------|
| Cash receipts from lease revenue | \$ 288,000 |
| Net cash provided by operating activities | <u>288,000</u> |

Cash Flows from Noncapital Financing Activities:

| | |
|---|----------------|
| Operating grant, net | (3,128) |
| Cash receipts from rental revenues | 133,512 |
| Receipts from repayment of loan by San Francisco Redevelopment Agency | 176,972 |
| Payments made on behalf of others for joint trench work | (90,549) |
| Other noncapital increases (decreases) | 1,504 |
| Net cash provided by noncapital financing activities | <u>218,311</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|--|-------------------|
| Federal government capital grants received | 62,244,565 |
| State government capital grants received | 883,203 |
| Local government capital grants received | 50,082,419 |
| Release of retainage related to capital assets | (533,694) |
| Acquisition of capital assets | (102,450,413) |
| Net cash provided by capital and related financing activities | <u>10,226,080</u> |

Cash Flows from Investing Activities:

| | |
|--|---------------|
| Interest income received, net of service charges | 90,766 |
| Net cash provided by investing activities | <u>90,766</u> |

| | |
|--|------------------|
| Net Change in Cash and Cash Equivalents | 10,823,158 |
| Cash and Cash Equivalents, Beginning of Year | <u>4,920,928</u> |

| | |
|---|-----------------------------|
| Cash and Cash Equivalents, End of Year | <u><u>\$ 15,744,086</u></u> |
|---|-----------------------------|

(Continued)

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Cash Flows
For the Year Ended June 30, 2011

| | |
|--|-----------------------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating income-Temporary Terminal | \$ 264,000 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Increase in refundable deposits | 24,000 |
| Net cash provided by operating activities | <u><u>\$ 288,000</u></u> |
| Supplemental disclosures of cash flow information | |
| Noncash capital financing activities: | |
| Acquisition of capital assets on accounts payable, contracts payable, intergovernmental payables, retainage payable and accrued liabilities | <u><u>\$ 50,037,710</u></u> |
| Acquisition of capital assets through transferred land | <u><u>\$ 72,007,574</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, 2011

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 U.S. Department of Transportation, the State of California and local entities including the Member Agencies.

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

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

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

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 1 - ORGANIZATION (Continued)

In fiscal year 2011, the TJPA had five major funding sources including grants from the Federal government, State of California Department of Transportation (“State”), and grants of local revenue sharing (“Capital and Operating Grants”) from Metropolitan Transportation Commission (“MTC”), San Francisco County Transportation Authority (“SFCTA”) and San Mateo County Transportation Authority (“SMCTA”).

In fiscal year 2010, TJPA closed on a \$171 million Transportation Infrastructure Finance and Innovations Act (“TIFIA”) loan. This federal program provides loans and loan guarantees to transportation infrastructure projects throughout the country. The loan is for Phase 1 Transbay Transit Center construction and is to be repaid primarily with tax increment revenues allocated to the project. The tax increment revenues allocated to the project are committed to the TJPA pursuant to an agreement with the SFRA. The first draw on the loan is not planned until fiscal year 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The TJPA is a single enterprise fund. The activities of the TJPA are reported using the economic resources measurement focus and its records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and Program capital outlay and Temporary Terminal expenses are recorded when the related liability is incurred.

The TJPA distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses result from the operation of the Temporary Terminal. Any excess of actual Temporary Terminal revenues over operating expenses is restricted for the Operating and Maintenance Reserve. The TJPA will also generate operating revenues and expenses once the Transit Center is complete and placed into service.

Nonoperating revenues result from a Temporary Terminal operating grant, interest income, miscellaneous, and rental revenue from tenants other than Temporary Terminal operators.

All active TJPA capital grants are expenditure-driven restricted grants. Restricted grant revenue is recognized only when qualifying expenditures are incurred. That is, restricted grant revenue recognition is driven by restricted grant-related expenditures being incurred.

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.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

Cash Equivalents

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

Prepaid Items

Resource outflows that do not yet meet the criteria for expenditure recognition, in that they benefit a future fiscal period, are recorded as prepaid items. At June 30, 2011, the total amount of prepaid items is \$20,000.

Deposits Payable

The TJPA may require security deposits from tenants of TJPA-owned rental property and from those leasing Temporary Terminal facilities. At June 30, 2011, the total amount of deposits payable is \$30,637.

Unearned Revenue

Resource inflows that do not yet meet the criteria for revenue recognition are recorded as unearned revenue. Capital grant contribution revenue for the TJPA's expenditure-driven grants is recognized only when qualifying expenditures are incurred. At June 30, 2011, the total amount of unearned revenue is \$20,000.

Compensated Absences

It is the policy of TJPA through the employee contract with Local Government Services ("LGS") to permit employees to accumulate earned but unused vacation and sick pay benefits. Each employee is assigned an accrual rate and allowed to accrue up to two years' worth of vacation benefits. There is no liability for unpaid accumulated sick leave since LGS does not have a policy to pay any amounts for sick leave when employees separate from service with LGS. All vacation pay is accrued when incurred because the TJPA has an obligation to reimburse LGS for vacation pay. At June 30, 2011 the amount of accrued vacation payable is \$202,119.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

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. Land, including land transferred by the State that may be re-conveyed to the SFRA, and permanent easements are recorded as non-depreciable capital assets. Information technology, Transbay Transit Center (TTC), and Caltrain Downtown Extension (DTX) capital asset costs are classified as construction in progress until such assets are completed and placed in service, at which time the TJPA will commence recording depreciation expense on depreciable capital assets.

All construction in progress costs associated with the planning and construction of the Program which are not directly associated with either the TTC or the DTX are accumulated as indirect Programwide costs. The annual increase in accumulated indirect Programwide costs is allocated to the annual increase in direct costs of the TTC and DTX based on the percent increase of annual direct costs of the TTC and DTX.

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

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Contributions

The TJPA receives expenditure-driven restricted capital grants from the Federal government. Details for the various Federal government direct capital grants are presented in the "Schedule of Expenditures of Federal Awards" ("SEFA"). In addition to the grants listed in the SEFA, during the fiscal years ended June 30, 2002 through 2008, \$8,795,355 in Federal Transit Formula Grants were passed through from the San Francisco Municipal Transportation Agency to the TJPA and disbursed.

The State of California provides direct expenditure-driven restricted capital grants, the details for which are presented in Note 8, Local and State Revenue Funding Agreements. Land transferred (conveyed) from the State and scheduled to be permanently retained by the TJPA is recorded as a capital contribution. Land transferred (conveyed) from the State which is scheduled to be re-conveyed to the SFRA at the end of the interim construction period is recorded as an intergovernmental liability. See Note 4, Capital Assets, for details regarding State-conveyed land.

Grants from local agency expenditure-driven restricted shared revenues for the TJPA Capital Program are provided from:

| | |
|-------|--------------------------|
| MTC | State-owned bridge tolls |
| SFCTA | Sales and use tax |
| SMCTA | Sales tax |

See Note 8, Local and State Revenue Funding Agreements, for details regarding the local government capital grants from MTC, SFCTA, and SMCTA.

Contributions of donated noncash, nonland assets are recorded at fair value in the period received as in-kind contributions. The TJPA recorded donated materials and survey and planning services during the two-year period ended June 30, 2004 from the SFRA in the amount of \$798,689.

Capital grants and contributions from external sources are recognized as capital contributions earned when the related allowable expenditures are incurred.

Federal and State grants, State-conveyed land scheduled to be retained by the TJPA, grants from local agency shared revenues, and in-kind contributions for the TJPA Capital Program are reported in the Statement of Revenues, Expenses, and Changes in Fund Net Assets as capital contributions.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Contributions (Continued)

The table below summarizes the current year and life-to-date capital contributions for each of TJPA's funding partners. In addition, the table includes TJPA nonoperating revenues used to acquire capital assets and other transactions required to provide a complete accounting of TJPA's total capital assets.

| Funding Partner | Current Fiscal Year Actual | Life-To-Date Actual | | |
|---|-----------------------------------|----------------------------|-----------------------|-------------------------|
| | | Approved Award | Actual | Unexpended Award |
| Federal government | | | | |
| Direct | \$ 89,236,268 | \$ 456,345,833 | \$ 104,311,517 | \$ 352,034,316 |
| Passed through from SFMTA | Completed | 8,795,355 | 8,795,355 | - |
| Total Federal government | <u>89,236,268</u> | <u>465,141,188</u> | <u>113,106,872</u> | <u>352,034,316</u> |
| State government | | | | |
| State conveyed land scheduled to be retained by TJPA | 53,186,468 | 53,186,468 | 53,186,468 | - |
| Capital grants | 166,964 | 10,153,000 | 7,557,200 | 2,595,800 |
| Total State government | <u>53,353,432</u> | <u>63,339,468</u> | <u>60,743,668</u> | <u>2,595,800</u> |
| Local agencies | | | | |
| MTC | 29,603,657 | 230,576,000 | 179,661,805 | 50,914,195 |
| SFCTA | 3,708,527 | 125,740,385 | 108,005,162 | 17,735,223 |
| SMCTA | 11,986,327 | 23,342,000 | 22,573,041 | 768,959 |
| SFRA in-kind contribution | Completed | 798,689 | 798,689 | - |
| Total local agencies | <u>45,298,511</u> | <u>380,457,074</u> | <u>311,038,697</u> | <u>69,418,377</u> |
| Total capital contributions | 187,888,211 | <u>\$ 908,937,730</u> | 484,889,237 | <u>\$ 424,048,493</u> |
| TJPA nonoperating revenues used to acquire capital assets | 520,298 | | 2,823,096 | |
| Loss on conveyance of land | - | | (690,541) | |
| Net assets invested in capital assets, net of related obligations | 188,408,509 | | 487,021,792 | |
| State transferred land to be reconveyed to the SFRA | 18,821,106 | | 35,504,421 | |
| Total capital assets | <u>\$ 207,229,615</u> | | <u>\$ 522,526,213</u> | |
| Percent of the total life-to-date actual contributions made by funding partners. | | | | |
| | Federal | State | Local | Total |
| Amount | 113,106,872 | 60,743,668 | 311,038,697 | 484,889,237 |
| Percent | 23% | 13% | 64% | 100% |

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The difference between assets and liabilities in the Statement of Net Assets is classified as Net Assets and is subdivided into the following three categories:

Net Assets-Invested in capital assets, net of related obligations

This component of net assets consists of capital assets, net of accumulated depreciation (when applicable) reduced by obligations to re-convey State-transferred land. At June 30, 2011, the TJPA has \$35,504,421 in outstanding capital-related obligations, recorded as an intergovernmental liability to the SFRA for re-conveyance of State-transferred land.

Net Assets-Restricted

Restricted net assets consist of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets.

Net Assets-Unrestricted

This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related obligations.”

Temporary Terminal Operating and Nonoperating Revenues and Operating and Maintenance Reserve

The Transbay Temporary Terminal provides temporary bus terminal facilities while demolition of the old Transbay Terminal and construction of the new multi-modal Transbay Transit Center takes place. Located minutes from the former Terminal on the block bounded by Main, Folsom, Beale and Howard Streets, the Temporary Terminal serves AC Transit, WestCAT Lynx, Muni, Golden Gate Transit, SamTrans and Greyhound passengers. Temporary Terminal construction began in 2008 and was completed in 2010, with operations commencing in August 2010. The Temporary Terminal will serve commuters until the new Transit Center opens in 2017.

Temporary Terminal Operating Revenue

Temporary Terminal operating revenues consist of lease revenue. For the fiscal year ended June 30, 2011, total operating lease revenue was \$264,000 and no operating and maintenance expenses were funded from operating revenues.

Temporary Terminal Nonoperating Revenue

Restricted operating assistance from local shared revenues (operating grants) are classified as nonoperating revenue and are recorded as earned revenue when the related expenses are incurred.

The TJPA receives an operating grant from MTC RM-2 state-owned bridge tolls to fund Temporary Terminal facility management expenses, including utilities, security, and primary tenant AC Transit's increased costs to operate from the Temporary Terminal.

For the year ended June 30, 2011, the MTC-approved RM-2 operating grant allocation total is \$3,322,687 of which \$3,001,398 was expended leaving an unexpended balance of \$321,289. The unexpended operating grants do not carry over to the following fiscal year. MTC approves a new operating grant for each fiscal year.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

Temporary Terminal Operating and Maintenance Reserve

The net assets of the Temporary Terminal are restricted pursuant to the September 29, 2008 TJPA Board of Directors-approved comprehensive Lease and Use Agreement that controls AC Transit's bus operations in the Temporary Terminal and future operations in the Transit Center. The net assets of the Temporary Terminal are restricted for the Operating and Maintenance Reserve for Program facilities and are not available for construction of the Transbay Transit Center or the DTX. At June 30, 2011, net assets of \$264,000 are restricted for the Operating and Maintenance Reserve.

The purpose of the Operating and Maintenance Reserve is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs. Expenditures from restricted Operating and Maintenance Reserve funds must meet at least one of the following criteria:

- ▶ Necessary for the safety or security of the public or the facility;
- ▶ Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;
- ▶ Authorized under the annual Operating and Maintenance budget approved by the Board; or
- ▶ Other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors.

In addition to the expenditures described above, the TJPA may use funds in the Transbay Transit Center Operating and Maintenance Reserve as working capital to fulfill contractual or other obligations, for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary "borrowing" of cash from this reserve. To the extent possible, the use of these funds as working capital should not result in the Operating and Maintenance Reserve balance dropping below two months of current fiscal year Temporary Terminal or Transbay Transit Center (as applicable) direct operating and maintenance costs. The use of the Operating and Maintenance Reserve funds as working capital must be authorized by the Executive Director or designee.

Nonoperating Revenue

The TJPA also receives unrestricted nonoperating rental and miscellaneous revenues from sources unrelated to the Temporary Terminal.

Rounding

One-dollar differences within and between statements and schedules are due to rounding.

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, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS

The TJPA's investment policy allows the TJPA to invest cash balances in the City Treasurer's cash and investments pool and insured savings or money market accounts in a qualified public depository as established by California State law. The amounts placed on deposit with the bank were covered by federal depository insurance and were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent but not in the TJPA's name.

TJPA's cash held in the City Treasurer's cash and investments pool 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. Because the TJPA's short-term position in the City Treasurer's cash and investment pool is considered to be a demand deposit, the TJPA does not record its allocated share of unrealized gains or losses as reported by the City Treasurer. TJPA cash held in the City's cash and investments pool on June 30, 2011 is \$1,030,836.

The total fair value of the City's investment pool on June 30, 2011 is \$4.1 billion.

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

| Investment maturities (in months) | | | |
|--|--------------------------------|---------------------------------|------------------------|
| <u>Under 1</u> | <u>1 to less than 6</u> | <u>6 to less than 12</u> | <u>12 to 60</u> |
| 1.3% | 13.2% | 13.4% | 72.1% |

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, 2011

NOTE 4 – CAPITAL ASSETS

The TJPA’s capital assets consist of land, including land transferred by the State that may be re-conveyed to the SFRA, permanent easements, and accumulated construction in progress related to the Transbay Transit Center and Caltrain Downtown Extension. Construction in progress also includes intangible assets that are recorded as Information Technology in the statement of net assets, which consists of costs to develop the TJPA’s website and labor compliance software licensing. Capital assets are recorded at historical cost if purchased or constructed. Capital assets not purchased or constructed are recorded at estimated fair value.

Capital Asset Activity for the Fiscal Year Ended June 30, 2011

| | Beginning of Fiscal Year | Current Year Acquisitions | End of Fiscal Year |
|---|---|--|-----------------------------------|
| Capital assets not being depreciated: | | | |
| Land | \$ 96,789,583 | \$ 89,470,280 | \$ 186,259,863 |
| Permanent easements | 137,374 | - | 137,374 |
| State transferred land to be re-conveyed to SFRA | 16,683,315 | 18,821,106 | 35,504,421 |
| Construction in progress: | | | |
| Information technology | 92,665 | 19,500 | 112,165 |
| Transbay Transit Center | 149,214,366 | 97,973,209 | 247,187,575 |
| Caltrain Downtown Extension | 52,379,295 | 945,520 | 53,324,815 |
| Total capital assets not being depreciated | 315,296,598 | 207,229,615 | 522,526,213 |
| Less outstanding capital related obligation: | | | |
| Intergovernmental liability to SFRA for re-conveyance of State transferred land | (16,683,315) | (18,821,106) | (35,504,421) |
| Net assets, invested in capital assets, net of related obligations | <u>\$ 298,613,283</u> | <u>\$ 188,408,509</u> | <u>\$ 487,021,792</u> |

No capital assets were disposed of during the fiscal year ended June 30, 2011.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 4 – CAPITAL ASSETS (Continued)

Land Acquisition Summary

| Scheduled Disposition: | Parcels | Land Value | Additional Costs | Total Land Value |
|-------------------------------|----------------|-------------------|-------------------------|-------------------------|
| Retained for: | | | | |
| Transbay Transit Center | 18 | \$ 129,769,427 | \$ 19,094,523 | \$ 148,863,950 |
| Downtown Extension | 11 | 14,265,000 | 1,639,654 | 15,904,654 |
| Total to be retained | 29 | 144,034,427 | 20,734,177 | 164,768,604 |
| Transfer to SFRA | 3 | 20,628,720 | 862,539 | 21,491,259 |
| Total Value | 32 | \$ 164,663,147 | \$ 21,596,716 | \$ 186,259,863 |

The total land value at June 30, 2011 of \$186,259,863 is made up of thirty-two parcels of land acquired by purchase, eminent domain, or transfer from the State of California over the life of the Program. The additional costs included in the land value are primarily for demolition of the old terminal and bus ramps, relocation and loss of goodwill for relocated businesses, appraisals, surveying, environmental remediation and monitoring, garage easement interests, and title and closing costs.

TJPA is scheduled to permanently retain title to twenty-nine parcels valued at \$164,768,604. The TJPA will hold title to the remaining three parcels with a land value of \$20,628,720 for a temporary period. These three parcels are needed only during the construction of the Transbay Transit Center and then will be conveyed to the SFRA, along with an additional nine parcels transferred by the State of California, with a total value of \$35,504,421, upon completion of the new Transbay Transit Center. In the fiscal year the TJPA transfers parcels to SFRA, the TJPA will record a loss on conveyance of land for the total land value of the three parcels, plus the additional costs of \$862,539 associated with the three parcels and the nine former State-owned parcels to be conveyed.

Land Acquisition Current Fiscal Year Activity-Scheduled to be Retained

| | # | Total Value | # of Parcels Scheduled to be Retained for: | | | |
|-------------------------|----|---------------|--|---------------|-----|---------------|
| | | | TTC | | DTX | |
| | | | # | Value | # | Value |
| Acquired By: | | | | | | |
| Purchase | 4 | \$ 3,655,000 | 0 | \$ - | 4 | \$ 3,655,000 |
| Eminent Domain | 9 | 15,910,000 | 3 | 8,550,000 | 6 | 7,360,000 |
| | 13 | 19,565,000 | 3 | 8,550,000 | 10 | 11,015,000 |
| State Transferred | 9 | 53,186,468 | 9 | 53,186,468 | 0 | - |
| Total Acquired | 22 | 72,751,468 | 12 | \$ 61,736,468 | 10 | \$ 11,015,000 |
| Additional Costs | | 16,718,812 | | | | |
| Total FY 2011 Additions | | \$ 89,470,280 | | | | |

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 4 – CAPITAL ASSETS (Continued)

Land Acquisition Current Fiscal Year Activity-Scheduled to be Retained (Continued)

During the year ended June 30, 2011, the TJPA acquired twenty-two parcels of land scheduled to be retained valued at \$72,751,468 and incurred additional land costs of \$16,718,812 for a total increase in land value of \$89,470,280.

In addition to the parcels scheduled to be retained by the TJPA, the State conveyed five parcels valued at \$18,821,106 during the current fiscal year which are scheduled to be re-conveyed to the SFRA at the end of the interim construction period.

Summary of Land transferred to TJPA from the State by fiscal year and Land scheduled to be transferred to SFRA

The TJPA is applying one of two valuation methods for each land parcel transferred from the State to the TJPA. Parcels that the State was leasing to third parties prior to transfer to the TJPA are valued by the TJPA using the lease rate. For parcels that were not being leased by the State at or near the date of transfer, the TJPA is using the sale price of comparable parcel(s) sold in the vicinity of the Transbay Transit Center. This valuation is for purposes of compliance with GASB Statement No. 34 accounting and reporting requirements only, and should not be construed as market value for the parcels.

| | Total Transferred | | Scheduled | | Scheduled to be | |
|--|--------------------------|----------------------|-----------------------|----------------------|----------------------------|----------------------|
| | From the State | | To be Retained | | Transferred To SFRA | |
| | # | Value | # | Value | # | Value |
| FY 2009 | 4 | \$ 16,683,315 | 0 | \$ - | 4 | \$ 16,683,315 |
| FY 2010 | 0 | - | 0 | - | 0 | - |
| FY 2011 | 14 | 72,007,574 | 9 | 53,186,468 | 5 | 18,821,106 |
| Total Transferred | <u>18</u> | <u>\$ 88,690,889</u> | <u>9</u> | <u>\$ 53,186,468</u> | 9 | 35,504,421 |
| TJPA acquired land scheduled to be transferred to SFRA | | | | | 3 | 20,628,720 |
| Additional costs for all parcels scheduled to be transferred to SFRA | | | | | | 862,539 |
| Total land scheduled to be transferred to SFRA | | | | | <u>12</u> | <u>\$ 56,995,680</u> |

Land parcels transferred from the State of California which are scheduled to be retained by the TJPA are recorded as a capital contribution and included as a component of the land capital asset account. At June 30, 2011, the value of the land transferred from the State which is scheduled to be retained by the TJPA is \$53,186,468 according to the described valuation methodology. A portion of one of the nine retained parcels transferred from the State in FY 2011 will be sold to a private developer for construction of the Transit Tower adjacent to the Transbay Transit Center.

At June 30, 2011, the TJPA held title to twelve land parcels valued at \$56,995,680 which are temporarily needed by the TJPA only for the construction of the Transbay Program—three acquired by purchase and nine via transfer from the State. Upon completion of the construction period, these parcels are scheduled to be transferred to the SFRA.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 4 – CAPITAL ASSETS (Continued)

Summary of Land transferred to TJPA from the State by fiscal year and Land scheduled to be transferred to SFRA (Continued)

Land parcels transferred from the State of California which are scheduled to be re-conveyed to the SFRA upon completion of the new Transbay Transit Center are recorded as an intergovernmental liability to the SFRA and as State-transferred land to be re-conveyed to SFRA capital asset account. At June 30, 2011, the total value of the land to be re-conveyed to the SFRA recorded in these liability and capital asset accounts is \$35,504,421.

In the fiscal year the TJPA transfers the parcels to be re-conveyed to the SFRA, the TJPA will record the liquidation of the intergovernmental liability to SFRA and accordingly reduce the State-transferred land capital asset account.

Future Transfers of State Parcels

One remaining State parcel is scheduled to be transferred to the TJPA when required for construction purposes. Six parcels are scheduled to be transferred directly from the State to SFRA and will not be recorded in the TJPA's accounting records. However, one or more of these six parcels could potentially come to the TJPA first on an interim basis and then be re-conveyed from TJPA to SFRA.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 4 – CAPITAL ASSETS (Continued)

Eminent Domain Proceedings

In December 2010, the City and County of San Francisco (“City”), a member agency of the TJPA acting for the benefit of the TJPA and the Transbay Program, initiated condemnation actions to acquire by eminent domain eleven properties and thirteen garage easement interests for the new Transbay Transit Center and the Caltrain Downtown Extension projects. The City filed motions for immediate possession of the properties and garage easement interests with the court, so that TJPA could secure possession of the properties and garage easement interests and move forward with construction while the court considers the value of the properties and easements. As required by law, TJPA deposited with the State Treasurer the amount of probable compensation for the properties and garage easement interests at the time the TJPA filed the motions for immediate possession. As of June 30, 2011, the court had granted the motions and issued the orders by which the TJPA acquired full and exclusive right to possess the properties and garage easement interests. Demolition of properties acquired by eminent domain proceedings commenced in June 2011 and was completed during September 2011.

The probable compensation for the properties and garage easement interests is based on the TJPA’s appraisal of the fair value of the properties and easements. The TJPA has already appraised the properties and easements and has determined the amount of probable compensation. Funds have been deposited with the State Treasurer. MTC, SFCTA, and SMCTA remitted deposits to the State Treasurer on behalf of TJPA totaling \$18,350,000 during the fiscal year ended June 30, 2011.

Based on the court orders awarding TJPA full and exclusive right to possess the properties and easements, the TJPA recorded the \$18,350,000 deposited with the State as contributed capital revenue.

When litigation concludes, funds may be required to pay the court judgment. This represents the difference, if any, between the initial deposit and the final determination of compensation. Alternatively, an owner could choose to settle with the TJPA, in which case additional funds may be required from the TJPA to cover the title and closing costs associated with a standard purchase and sale agreement. Relocation claims may be made up to 18 months after occupants vacate the premises. (See Note 9-Relocation Assistance and Loss of Goodwill Compensation)

Through June 30, 2011, TJPA has acquired title to two properties that were the subject of the eminent domain actions via voluntary settlements with the owners, with the remaining nine properties and garage easement interests awaiting final judgment. TJPA provided an additional \$80,366 to pay the full amount of the final settlements and closing costs for the two units. The amount, if any, of future expenditures for additional final court judgments and closing costs on the remaining nine properties and garage easement interests cannot be determined at this time; however, the TJPA has included contingency for additional amounts in its right of way acquisition budget.

Contract Commitments

At year-end, the TJPA had contract commitments of \$313,630,039 for construction, design, engineering, planning and administrative costs. The TJPA has unexpended approved allocations from existing sources as well as committed revenues in its funding plan to cover the costs of these contract commitments.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 5 – CONTRACT EMPLOYEES

The TJPA has an agreement with LGS to provide employee services for all of the TJPA's staff positions. For the year ended June 30, 2011, expenditures for contract employees and related administrative costs were \$2,225,663.

NOTE 6 – OFFICE LEASE

The TJPA leases office space under an operating lease which expires during fiscal year 2016. Total costs for this lease were \$625,862 for the year ended June 30, 2011. 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:

| | | |
|------|----|---------------------|
| 2012 | \$ | 640,817 |
| 2013 | | 660,029 |
| 2014 | | 679,879 |
| 2015 | | 700,256 |
| 2016 | | 295,338 |
| | | <u>\$ 2,976,319</u> |

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

| | | |
|------|----|---------------------|
| 2012 | \$ | 252,434 |
| 2013 | | 259,350 |
| 2014 | | 266,266 |
| 2015 | | 273,182 |
| 2016 | | 115,267 |
| | | <u>\$ 1,166,499</u> |

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 7 - RISK MANAGEMENT

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

| <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 Coverage | \$1,000 | \$100,000,000 |
| Errors and Omissions Liability | \$0 | \$10,000,000 |
| Employee Dishonesty | \$0 | \$400,000 |
| Personal Liability for Board | \$500 | \$500,000 |

There were no reductions in insurance coverage from the previous year. The TJPA pays an annual contribution, determined by the Board of Directors of SDRMA, and any additional amounts which the SDRMA Board of Directors deems necessary in accordance with bylaws of SDRMA. The TJPA’s annual contribution for the fiscal year ended June 30, 2011 was \$61,191 and no insurance claims were filed for the nine years ended June 30, 2011.

In addition, the TJPA purchased an excess liability policy to provide additional coverage of \$10,000,000. The premium for the fiscal year ended June 30, 2011 for this policy was \$22,303. There is no deductible under this policy. The TJPA does not maintain earthquake insurance coverage.

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

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

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 8 – LOCAL AND STATE CAPITAL REVENUE FUNDING AGREEMENTS

A. MTC Revenues

RM-1

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

In June 2001, the San Francisco Municipal Transportation Agency received two funding allocations totaling \$1,400,000 on the TJPA's behalf from the MTC to provide preliminary planning and preliminary design services for the Transbay Terminal and Caltrain Downtown Extension project. During the fiscal years ended June 30, 2002 through 2005, \$1,400,000 in RM-1 funds were passed through from the San Francisco Municipal Transportation Agency to the TJPA and disbursed.

RM-2

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

The MTC-approved RM-2 allocations total \$150,000,000 of which \$141,165,861 has been expended leaving an unexpended balance of \$8,834,139 which was appropriated for the fiscal year ending June 30, 2012.

AB 1171

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

The MTC-approved AB 1171 allocations total \$73,976,000 of which \$31,895,944 has been expended leaving an unexpended balance of \$42,080,056 which was appropriated for the fiscal year ending June 30, 2012.

[NOTE: The original allocation was \$150,000,000. On May 12 and May 25, 2011, the TJPA Board and MTC, respectively, approved the rescission of AB 1171 Bridge Toll Funds in the amount of \$76,024,000 which is reflected in the above allocation total.]

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

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

A. MTC Revenues (Continued)

| Summary of MTC Allocations Life- To- Date | | | |
|--|-----------------------|-----------------------|----------------------|
| | Allocations | Expended | Unexpended |
| RM-1 Direct | \$ 5,200,000 | \$ 5,200,000 | \$ - |
| RM-1 Pass Through | 1,400,000 | 1,400,000 | - |
| RM-2 | 150,000,000 | 141,165,861 | 8,834,139 |
| AB 1171 | 73,976,000 | 31,895,944 | 42,080,056 |
| Life- To- Date Total | <u>\$ 230,576,000</u> | <u>\$ 179,661,805</u> | <u>\$ 50,914,195</u> |

B. SFCTA Prop K Revenues

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

The SFCTA-approved allocations total \$125,740,385 of which \$108,005,162 has been expended leaving an unexpended balance of \$17,735,223. The unexpended balance was appropriated for the fiscal year ending June 30, 2012.

During the fiscal year ended June 30, 2011, the TJPA was awarded a \$400,000,000 American Recovery and Reinvestment Act (“ARRA”) Federal grant. The award of the ARRA grant enabled the TJPA to return \$23,492,117 in Prop K funds to SFCTA for future re-allocation to the TJPA Capital Program. The returned funds were for Train Box charges funded by the SFCTA in fiscal years 2009 and 2010. Of the total \$23,492,117 remitted to SFCTA, \$21,332,621 was de-obligated and \$2,159,496 was not de-obligated so as to fund on-going final design work.

The table below accounts for the change in allocations and current and life-to-date expenditures (equal to revenues) at June 30, 2011 resulting from the returned Prop K funds.

| | FY11 | Life- To- Date | | |
|--------|---------------------|-----------------------|-----------------------|----------------------|
| | Expenditures | Allocations | Expended | Unexpended |
| Before | \$ 27,200,644 | \$ 147,073,006 | \$ 131,497,279 | \$ 15,575,727 |
| Return | (23,492,117) | (21,332,621) | (23,492,117) | 2,159,496 |
| After | <u>\$ 3,708,527</u> | <u>\$ 125,740,385</u> | <u>\$ 108,005,162</u> | <u>\$ 17,735,223</u> |

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

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

C. SMCTA Measure A Revenues

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

The SMCTA-approved sales tax allocations total \$23,342,000 of which \$22,573,041 has been expended leaving an unexpended balance of \$768,959 which was appropriated for the fiscal year ending June 30, 2012.

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

In January 2007, the State and the TJPA entered into a Program Master Agreement for future planned State financial allocations for locally administered rail and transit projects. Pursuant to the Master Agreement, program supplements are entered into subject to all of the terms and conditions of the Master Agreement.

The State-approved program supplements total \$10,153,000, of which \$7,557,200 has been expended leaving an unexpended balance of \$2,595,800 which was appropriated for the fiscal year ending June 30, 2012.

NOTE 9 – RELOCATION ASSISTANCE AND LOSS OF GOODWILL COMPENSATION

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

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

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

The notices of intent to acquire are contingent liabilities and do not become actual liabilities until the TJPA acquires the underlying property, or if an eligible occupant moves before the TJPA acquires the property and files a claim for reimbursement of eligible relocation expenses. At June 30, 2011, the TJPA has acquired all properties for which notices of intent to acquire had been issued.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

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

Relocation assistance costs are estimated by Associated Right of Way Services, Inc. (“ARWS”), under contract with the TJPA. Estimates are revised as additional occupant-specific data is collected by ARWS. The total current high estimate of relocation liability is \$2,856,263 of which \$1,825,805 remained unpaid at June 30, 2011.

| | Estimated Liability | Contingent Liability | High Estimate |
|---------------------------------|------------------------|-------------------------|---------------------|
| Total Current High Estimate | \$ 2,856,263 | \$ - | \$ 2,856,263 |
| Disbursed through June 30, 2011 | <u>(1,030,458)</u> | <u>-</u> | <u>(1,030,458)</u> |
| Balance at June 30, 2011 | <u>\$ 1,825,805</u> | <u>\$ -</u> | <u>\$ 1,825,805</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 loss of goodwill valuations for affected businesses and that work is ongoing. As of June 30, 2011, TJPA has capitalized \$983,383 of loss of business goodwill payments to three business owners.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 10 – RELATED PARTY TRANSACTIONS

Note 10 identifies agencies of State and local government that appoint members to the TJPA Board of Directors. The TJPA also purchases goods and services from these TJPA Board Member Agencies and these Agencies are therefore considered to be related parties to the TJPA. Below is a summary of goods and services purchased by the TJPA from these related parties during the fiscal year ended June 30, 2011.

A. City and County of San Francisco

During the year ended June 30, 2011, the City provided legal, project planning and review services to the TJPA. Such services totaled \$3,227,364 and were provided by the following organizations/departments:

| | |
|---------------------------------------|----------------------------|
| Office of the City Attorney | \$ 260,296 |
| Department of Building & Inspections | 1,357,695 |
| Department of Real Estate | 8,437 |
| Department of Public Works | 181,997 |
| Department of Technology | 41,996 |
| San Francisco Fire Department | 14,685 |
| Municipal Transportation Agency | 651,244 |
| San Francisco Redevelopment Agency | 150,683 |
| Planning Department | 115,317 |
| Public Utilities Commission | 308,776 |
| San Francisco Arts Commission | 134,274 |
| San Francisco Tax Collector | 1,638 |
| Office of Labor Standards Enforcement | 326 |
| Total | <u>\$ 3,227,364</u> |

At June 30, 2011, the TJPA reported \$1,295,464 due to the City.

In addition, the TJPA agreed to loan the SFRA up to \$2,500,000 over three fiscal years beginning in fiscal year 2006 for costs related to the planning of public infrastructure. The SFRA borrowed \$283,155, and there will be no further drawdowns. As of December 31, 2009, the SFRA was obligated to begin repaying the \$283,155 loan in eight quarterly payments. During the year ended June 30, 2011, the SFRA made the one payment due from the prior fiscal year and all four scheduled current fiscal year payments totaling \$176,972. At June 30, 2011, the remaining loan receivable from the SFRA is \$35,394. The loan does not accrue interest.

At June 30, 2011, the TJPA held title to land parcels which are temporarily needed by the TJPA only for the construction of the Transbay Program. Upon completion of the construction period, these parcels will be transferred to the SFRA. See Note 4, Capital Assets, for more information.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

B. Alameda-Contra Costa Transit District (AC Transit)

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

On September 29, 2008, the TJPA Board of Directors approved a comprehensive Lease and Use Agreement that will control AC Transit's bus operations in the Temporary Terminal and the Transit Center through at least the year 2050. The Agreement sets forth all the rights and obligations of the parties with respect to the two facilities. It addresses payments AC Transit will make for its share of operating and maintenance costs in the Temporary Terminal and in the Transbay Transit Center should operating expenses exceed revenues, as well as its contribution in the sum of \$57,000,000 (discounted to 2011 dollars) to the capital cost of the new Transit Center. The Agreement allows for subtenant agreements, where subtenants can be allocated a share of the primary tenant's operating and maintenance costs. See Note 2, Summary of Significant Accounting Policies.

For the fiscal year ended June 30, 2011, expenses incurred by the TJPA to reimburse AC Transit for its incremental operating and maintenance costs in the Temporary Terminal totaled \$1,942,620 and the TJPA reported \$1,942,620 due to AC Transit.

On October 8, 2009, the TJPA Board of Directors approved a Memorandum of Understanding (MOU) between the TJPA and AC Transit for the performance of a Bay Bridge Corridor Congestion Study. AC Transit agreed to pass through \$350,000 in FTA section 5339 funds to TJPA to fund the Study. Expenditures made according to this MOU were neither TJPA program costs nor liabilities and are not included in construction in progress. This transaction was completed during Fiscal Year 2011 and the life-to-date payments made by the TJPA on behalf of and funded by AC Transit totaled \$342,515.

C. State of California (State) Department of Transportation (Caltrans)

See Note 4, Capital Assets, for State-conveyed land to be retained by the TJPA and re-conveyed to SFRA.

For the fiscal year ended June 30, 2011 the TJPA expended \$86,818 for Caltrans Attorney parking for displaced parking formerly located in the Transbay Terminal, as required by the 2003 Cooperative Agreement.

The TJPA has also entered into an agreement with Caltrans for their design review of the bus storage, bus ramps and DTX projects for a total of \$300,000. The agreement requires the TJPA to provide, within the total agreement amount, payment for a revolving invoice reserve of \$20,000 which the TJPA has recorded as a prepaid item. The total life-to-date-payments made by the TJPA to Caltrans for the cost of this service is \$83,310 and the remaining unexpended contract balance at June 30, 2011 is \$216,690. At June 30, 2011, the TJPA reported \$3,310 due to Caltrans.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

NOTE 11 – CONTINGENT LIABILITIES

Due from Grantors

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.

Pollution Remediation

TJPA has been and will conduct pollution remediation activities as a matter of course in the demolition required to prepare the various project sites for construction. The expenditures associated with these activities are capitalized as costs to prepare for use property acquired with suspected pollution that require remediation. As such, the TJPA capitalizes remediation outlays as incurred and does not record a pollution remediation liability. Life-to-date remediation expenditures through June 30, 2011 total \$3,053,682 and are associated with the following project components:

| | |
|-----------------------------|---------------------|
| Temporary Terminal | \$ 948,283 |
| Transbay Transit Center | 2,104,391 |
| Caltrain Downtown Extension | 1,008 |
| Total | <u>\$ 3,053,682</u> |

NOTE 12 – SUBSEQUENT EVENTS

A. New Grant Awards

In September 2011, AC Transit passed through three security grants from the Federal Emergency Management Agency and the California Emergency Management Agency totaling \$5,546,460. These pass-throughs will be credited towards AC Transit's required capital contribution under the Lease and Use Agreement and are for security-related scope, including site protection and final design and construction of elements related to security.

In October 2011, the Federal Transit Administration announced the award of \$1.24 million in Alternatives Analysis funds, which TJPA will use for supplemental environmental work related to Phase 2 of the Transit Center Program.

B. Gross Sales Proceeds from Parcel B

Under the 2003 Cooperative Agreement gross sales proceeds from the former State-owned parcels are to be placed in a trustee account and used solely for capital construction costs. Parcel B was not transferred to TJPA as it is slated for development of affordable housing by SFRA, and as such would have generated no gross sales proceeds. However, pursuant to an agreement between the City and an adjacent property owner, a land swap was negotiated to create regularly-shaped parcels for both parties. The adjacent property owner received a piece of land with a greater value than the land he transferred to the City, and the difference of \$69,104 was deposited into the TJPA's trust account as gross sales proceeds on October 12, 2011.

C. Employee Transition

As of January 1, 2012, TJPA will become its own employer of record, transitioning away from LGS.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2011

Consequently, TJPA will begin accounting for pensions and other post-employment benefits (OPEB) per GASB standards in the year ending June 30, 2012. TJPA will contract for pensions and health benefits with the California Public Employees Retirement System (CalPERS).

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SUPPLEMENTARY INFORMATION

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

| Program Description | Federal CFDA Number | Grant Number | Program Award | EXPENDITURES - FEDERAL SHARE | | | REVENUES - FEDERAL SHARE | | |
|--|---------------------------|----------------------|-----------------------|--|--|--|--|--|--|
| | | | | Cumulative through June 30, 2010 | July 1, 2010 through June 30, 2011 | Cumulative through June 30, 2011 | Cumulative through June 30, 2010 | July 1, 2010 through June 30, 2011 | Cumulative through June 30, 2011 |
| U.S. DEPARTMENT OF TRANSPORTATION | | | | | | | | | |
| Federal Transit - Capital Investment Grants: | | | | | | | | | |
| Federal Transit Formula Grants: | | | | | | | | | |
| General Capital Assistance | 20.500 | CA-04-0010 | \$ 6,649,751 | \$ 6,579,274 | \$ 70,477 | \$ 6,649,751 | \$ 6,579,274 | \$ 70,477 | \$ 6,649,751 |
| General Capital Assistance | 20.500 | CA-04-0040 | 7,008,960 | 5,655,595 | 1,106,454 | 6,762,049 | 5,655,595 | 1,106,454 | 6,762,049 |
| General Capital Assistance | 20.500 | CA-04-0087 | 7,593,040 | 2,837,177 | 4,091,501 | 6,928,678 | 2,837,177 | 4,091,501 | 6,928,678 |
| General Capital Assistance | 20.500 | CA-04-0140 | 7,885,080 | - | 1,851,733 | 1,851,733 | - | 1,851,733 | 1,851,733 |
| Total Federal Transit - Capital Investment Grants | | | <u>29,136,831</u> | <u>15,072,046</u> | <u>7,120,165</u> | <u>22,192,211</u> | <u>15,072,046</u> | <u>7,120,165</u> | <u>22,192,211</u> |
| Federal Railroad Administration (FRA) Capital Grants: | | | | | | | | | |
| American Recovery and Reinvestment Act (ARRA) | 20.319 | FR-HSR-0007-10-01-00 | 400,000,000 | - | 79,762,395 | 79,762,395 | - | 79,762,395 | 79,762,395 |
| Rail Line Relocation and Improvement | 20.320 | FR-LR1-0021-11-01-00 | 2,650,000 | - | 2,229,622 | 2,229,622 | - | 2,229,622 | 2,229,622 |
| Total Federal Railroad Administration Grants | | | <u>402,650,000</u> | <u>-</u> | <u>81,992,016</u> | <u>81,992,016</u> | <u>-</u> | <u>81,992,016</u> | <u>81,992,016</u> |
| Highway Planning and Construction Grant: | | | | | | | | | |
| General Capital Assistance | 20.205 | CA-70-X011 | 24,459,002 | 3,203 | 39,087 | 42,290 | 3,203 | 39,087 | 42,290 |
| TOTAL U.S. DEPARTMENT OF TRANSPORTATION | | | <u>456,245,833</u> | <u>15,075,249</u> | <u>89,151,268</u> | <u>104,226,517</u> | <u>15,075,249</u> | <u>89,151,268</u> | <u>104,226,517</u> |
| DEPARTMENT OF HOMELAND SECURITY | | | | | | | | | |
| Federal Emergency Management Agency (FEMA) | | | | | | | | | |
| Rail and Transit Security Grant Program: | | | | | | | | | |
| Capital Grant | | | | | | | | | |
| FY2009 Transit Security Grant Program | 97.075 | 2009-RA-T9-K021 | 100,000 | - | 85,000 | 85,000 | - | 85,000 | 85,000 |
| TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 456,345,833</u> | <u>\$ 15,075,249</u> | <u>\$ 89,236,268</u> | <u>\$ 104,311,517</u> | <u>\$ 15,075,249</u> | <u>\$ 89,236,268</u> | <u>\$ 104,311,517</u> |

TRANSBAY JOINT POWERS AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

NOTE 1 – GENERAL

The Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all direct federal award programs of the Transbay Joint Powers Authority (the “TJPA”) life-to-date and for the year ended June 30, 2011.

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.

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OTHER REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

We have audited the financial statements of the Transbay Joint Powers Authority (TJPA) as of and for the year ended June 30, 2011, and have issued our report thereon, dated November 23, 2011. 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 TJPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TJPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TJPA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended for the information of the Board of Directors, management, federal granting agencies and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 23, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Compliance

We have audited the compliance of the Transbay Joint Powers Authority (TJPA) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each its major Federal programs for the year ended June 30, 2011. The TJPA's major federal programs are 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 each of its major Federal programs is the responsibility of TJPA's management. Our responsibility is to express an opinion on 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 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 on TJPA's compliance with those requirements.

In our opinion, the TJPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the TJPA is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for purposes of expressing an opinion on the effectiveness of the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the TJPA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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, management, the State Controller's Office, 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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 23, 2011

TRANSBAY JOINT POWERS AUTHORITY
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2011

Section I Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

| | |
|--|----------------------------------|
| Internal control over major programs: | |
| • Material weaknesses identified? | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |
| Identification of major programs: | |
| CFDA No. 20.319 | Federal Rail Road Administration |
| Dollar threshold used to distinguish between Type A and Type B programs | \$2,677,088 |
| 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.



November 23, 2011

The Board of Directors of the
Transbay Joint Powers Authority
San Francisco, California

We have audited the basic financial statements of the Transbay Joint Powers Authority (TJPA) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 23, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated in the engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by TJPA are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 23, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 23, 2011