THIS STAFF REPORT COVERS CALENDAR ITEM NO.: 9
FOR THE MEETING OF: December 10, 2009

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of the audited Financial Statements of the Transbay Joint Powers Authority (TJPA) for the fiscal year ended June 30, 2009 and the Report to the Board of Directors.

SUMMARY:

Macias Gini & O'Connell LLP (MGO) conducted an audit of the TJPA's financial statements for fiscal year ended June 30, 2009. These financial statements are the sixth audited financial statements of the TPJA and fairly represent the financial position of the TJPA for the period of July 1, 2008 to June 30, 2009. The consolidation of the financial information was made possible by a collaborative effort between the staff and consultants of the TJPA.

The financial statements include the following sections:

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

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

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

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

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

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, 2009

TRANSBAY JOINT POWERS AUTHORITY
For the Year Ended June 30, 2009

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Board of Directors
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Independent Auditor's Report

We have audited the accompanying basic financial statements of the Transbay Joint Powers Authority (TJPA), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the TJPA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TJPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TJPA as of June 30, 2009, 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.

As discussed in Notes 2, 4 and 11 to the basic financial statements, the TJPA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Pollution Remediation Obligations*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2009, on our consideration of the TJPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 10, 2009

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2009

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2009 with comparative information for the year ended June 30, 2008. Please read it in conjunction with the TJPA's basic financial statements, which follow this section.

Financial Highlights

- At the close of the year, June 30, 2009, assets of the TJPA exceeded its liabilities by $228,016,581.
- The TJPA received $81,433,768 in capital contributions for the year ended June 30, 2009. All contributions were used for the Transbay Transit Center Program (the "Program"), which consists of both the Transbay Transit Center and the Caltrain Downtown Extension.
- During the year ended June 30, 2009:
    - The TJPA purchased five additional right of way properties.
    - The State of California Department of Transportation ("State") transferred to the TJPA four properties. The TJPA will hold title to these four parcels for a temporary period and then the four parcels will be transferred to the San Francisco Redevelopment Agency ("SFRA").
    - Construction began on the Temporary Terminal. Operations are planned to commence in the third or fourth quarter of fiscal year 2010.

Overview of the Financial Statements

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

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

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

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

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

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

Financial Statement Analysis

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

TJPA'S NET ASSETS

	2009	2008	Dollar Change	Percent Change
Assets:				
Current and other assets	$ 26,706,879	$ 11,220,737	$ 15,486,142	138%
Capital assets	239,553,675	140,714,819	98,838,856	70%
Total assets	266,260,554	151,935,556	114,324,998	75%
Liabilities:				
Current and other liabilities	21,560,658	6,042,660	15,517,998	257%
Intergovernmental liability to SFRA for re-conveyance of State donated land	16,683,315	-	16,683,315	n/a
Total liabilities	38,243,973	6,042,660	32,201,313	533%
Net Assets:				
Invested in capital assets, net of related obligations	222,870,360	140,714,819	82,155,541	58%
Unrestricted	5,146,221	5,178,077	(31,856)	-1%
Total net assets	$ 228,016,581	$ 145,892,896	$ 82,123,685	56%

Total net assets at June 30, 2009 are comprised of construction in progress of $130,040,858 and land of $92,829,502. 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. The information technology cost is for website development and labor compliance software. In addition, current year net assets include $5,146,221 in unrestricted net assets.

The $15,486,142 net increase in current and other assets is primarily attributable to a $14,626,826 increase in grantor receivables and a $784,461 increase in retainage escrow. The net increase of $15,517,998 in current and other liabilities from the prior year resulted primarily from a $15,518,869 increase in accounts and other payables due to a higher level of business activity in fiscal year 2009.

The increase of $16,683,315 in the intergovernmental liability to the SFRA is due to the TJPA's acceptance of the transfer of four parcels from the State of California for interim use by TJPA during construction of the Transbay Transit Center. These four parcels will be re-conveyed to the SFRA upon completion of the Center.

TJPA'S CHANGES IN NET ASSETS

	2009	2008	Dollar Change	Percent Change
Nonoperating revenues				
Interest income	$ 104,291	$ 172,935	$ (68,644)	-40%
Other nonoperating revenues	585,626	501,808	83,818	17%
Total nonoperating revenues	689,917	674,743	15,174	2%
Capital contributions				
Federal government capital grants	5,278,597	3,334,180	1,944,417	58%
State government capital grants	1,522,229	3,699,639	(2,177,410)	-59%
Local government shared revenues	74,632,942	33,536,627	41,096,315	123%
Total capital contributions	81,433,768	40,570,446	40,863,322	101%
Change in net assets	82,123,685	41,245,189	40,878,496	99%
Net assets- beginning	145,892,896	104,647,707	41,245,189	39%
Net assets- ending	$ 228,016,581	$ 145,892,896	$ 82,123,685	56%

<u>Nonoperating revenues</u>
The fiscal year 2009 decrease in interest income is primarily attributable to declining interest rates and increased working capital requirements related to the State grant that reduced the average bank balance. The fiscal year 2009 increase in other nonoperating revenues is due to increased rental revenue from additional properties acquired by the TJPA during fiscal year 2009.

<u>Capital contributions</u>
For the year ended June 30, 2009, the TJPA received $81,433,768 in capital contributions that were expended on the Transbay Transit Center Program, which includes a new Transit Center building, new bus storage facilities, bus ramps and a 1.3 mile extension of rail lines from the Transit Center to the Caltrain station. At June 30, 2009, the TJPA had capital project contract commitments of $139,002,084 for construction, design, engineering, planning and administrative costs. Additional information on the TJPA's capital assets can be found in note 4 to the financial statements.

Economic Factors and Next Year's Budget

Several factors affecting expenditures in the TJPA's fiscal year 2010 budget include increased expenditures by the TJPA for the construction phase of the temporary bus terminal, and engineering and design for the permanent bus storage facilities and the Transbay Transit Center building. The TJPA has budgeted approximately $39.3 million for the Transbay Transit Center building architecture and engineering contract in fiscal year 2010, and approximately $2.1 million for bus storage facility engineering and design contracts. Approximately $12 million is budgeted for the temporary terminal construction and construction management. In fiscal year 2009, the TJPA issued a construction management/general contractor services contract for the Transbay Transit Center building and the TJPA has budgeted $8.7 million for this work in fiscal year 2010. The TJPA plans to acquire right of way in fiscal year 2010 that is required for the completion of Phase 1 of the Transbay program, as well as the preservation of several parcels for Phase 2. The fiscal year 2010 budget includes approximately $45 million for right of way acquisition.

The TJPA's fiscal year 2010 budget anticipates that most of the revenues to pay for these expenditures will be provided by five sources: the funding identified in the expenditure plan approved by the voters for the half cent sales tax for transportation in San Francisco ("Prop. K"), the voter-approved Regional Measure 1 and 2 bridge toll increases ("RM1" and "RM2"), contributions of transportation sales tax revenues from the County of San Mateo, funds from the State of California via the Regional Transportation Improvement Program ("RTIP"), and grants from the Federal Transit Administration ("FTA").

The approved fiscal year 2010 budget shows revenues in two categories – committed and planned. Planned revenues are further subdivided between sources which have been identified and "Other Planned Revenues." The identified sources are those planned expenditures of grants that were allocated or had pending applications with funding partners at the time the TJPA Board approved the 2010 fiscal year budget in July 2009. The "Other Planned Revenues" makes up the balance of the revenues required to fund fully the fiscal year 2010 budgeted expenditures. Throughout the 2010 fiscal year, TJPA will work with the funding agencies to secure grants as funding needs are identified. This is explained in detail in the staff report which was submitted with the fiscal year 2010 budget and can be found on the TJPA website for the July 31, 2009 TJPA Board meeting. Since the adoption of the budget, the TJPA has applied for American Recovery and Reinvestment Act ("ARRA") funding through the Federal Railroad Administration ("FRA"). Should this funding be awarded, it is likely that a significant portion of fiscal year 2010 expenditures would be funded by this new source.

With the opening of the Temporary Terminal, the TJPA will begin incurring operating costs for the first time in fiscal year 2010. As such, an operating budget was also approved at the July 31, 2009 Board meeting consisting of $3,365,000 in revenues and expenditures. Expenditures include a facility management contract, security, operating support for AC Transit, and parking control officers. The majority of the revenues will be provided by RM2.

On December 14, 2007, the California Transportation Commission approved the transfer of the State's right, title, and interest in and to State-owned parcels to the TJPA and to the City and County of San Francisco, per the Cooperative Agreement dated July 11, 2003 between the State of California, the City and County of San Francisco, and the TJPA. This action allows the California Department of Transportation to administratively transfer title to individual parcels to the TJPA. During the fiscal year ended June 30, 2009, four parcels were transferred from the State to the TJPA. Future title transfers are planned as the parcels are required by TJPA and the City. No further parcel transfers are expected until Spring 2010.

On October 15, 2008, TJPA submitted an application for a Transportation Infrastructure Finance and Innovations Act (TIFIA) loan. This federal program provides loans and loan guarantees to transportation infrastructure projects throughout the country. The loan application is for 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. On September 17, 2009, the U.S. Department of Transportation Credit Council recommended approval of a $171 million loan to the Secretary of Transportation. Loan approval is anticipated to occur in late 2009 and the first draw on the loan is planned in fiscal year 2013.

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, 2009

ASSETS:	
Current assets:	
Cash and cash equivalents*:*	
Cash in bank	$ 687,630
Restricted cash with fiscal agent	784,461
Equity in pooled cash and investments with the City and County of San Francisco	4,202,263
Total cash and cash equivalents	5,674,354
Receivables:	
Federal Transit Administration	461,873
California State Transportation Improvement Program	339,007
Metropolitan Transportation Commission	12,800,855
San Francisco County Transportation Authority	6,905,856
Interest earnings on deposits	1,679
Total receivables	20,509,270
Deposit with Local Government Services	240,000
Loan receivable-San Francisco Redevelopment Agency	106,183
Security deposits held by others	100
Total current assets	26,529,907
Noncurrent assets:	
Loan receivable - San Francisco Redevelopment Agency	176,972
Capital assets, nondepreciable:	
Land	92,829,502
State donated land to be re-conveyed to the San Francisco Redevelopment Agency	16,683,315
Construction in progress -	
Information technology	63,138
Transbay Transit Center	83,937,866
Caltrain Downtown Extension	46,039,854
Total capital assets	239,553,675
Total noncurrent assets	239,730,647
Total assets	$ 266,260,554

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Net Assets (Continued)
June 30, 2009

LIABILITIES:	
Current liabilities:	
Payables:	
Accounts, contracts and intergovernmental payables	$ 18,362,485
Relocation assistance payable	943,940
Retainage payable	1,323,519
Intergovernmental payable to the City and County of San Francisco	760,540
Deposits payable	44,262
Total payables	21,434,746
Intergovernmental liability to the San Francisco Redevelopment Agency for re-conveyance of State donated land	16,683,315
Compensated absences - accrued vacation	125,912
Total liabilities	38,243,973
NET ASSETS:	
Invested in capital assets, net of related obligations	222,870,360
Unrestricted	5,146,221
Total net assets	$ 228,016,581

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, 2009

NONOPERATING REVENUES		
Interest income	$	104,291
Rental revenues		576,920
Miscellaneous revenues		8,706
Total nonoperating revenues		689,917
CAPITAL CONTRIBUTIONS		
Federal Transit Administration grants		5,278,597
State government capital grants		1,522,229
Local government shared revenues:		
Regional Measure 2- bridge tolls		44,960,321
Proposition K- half cent sales tax		29,435,961
San Mateo County sales tax		236,660
Total capital contributions		81,433,768
Change in net assets		82,123,685
Net assets, beginning of year		145,892,896
Net assets, end of year	$	228,016,581

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Cash Flows
For the Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from rental revenues	$559,642
Other cash receipts	5,528
Net cash provided by operating activities	565,170
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Federal government capital grants	5,344,563
Proceeds from State government capital grants	1,453,047
Proceeds from local government shared revenues	60,035,139
Construction and acquisition of capital assets	(66,615,397)
Net cash provided by capital and related financing activities	217,352
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received, net of service charges	106,183
Net cash provided by investing activities	106,183
Net increase in cash and cash equivalents	888,705
Cash and cash equivalents, beginning of year	4,785,649
Cash and cash equivalents, end of year	$ 5,674,354
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ -
Nonoperating revenues (rental and miscellaneous)	585,626
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	1,350
Decrease in security deposits held by others	340
Decrease in refundable rental deposits	(3,518)
Decrease in unearned revenue	(18,628)
Total adjustments	(20,456)
Net cash provided by operating activities	$ 565,170
Noncash capital financing activities	
Acquisition of capital assets on accounts payable, contracts payable, intergovernmental payables, retainage payable and accrued liabilities	$ 21,516,396
Acquisition of capital assets through donated land	16,683,315

See accompanying notes to the basic financial statements.

NOTE 1 - ORGANIZATION

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

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

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

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

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

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 Rail Foundations as Phase 1, and the design and construction of the Caltrain Downtown Extension (DTX) as Phase 2. Phase 1 (Transbay Transit Center Building and Rail Foundations) is funded fully with committed revenues, and has completed major milestones. Phase 2 (DTX) final design and construction will commence when the required revenues and financing have been secured.

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

NOTE 1 - ORGANIZATION (Continued)

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

The grant funding from the FTA has been sent both directly to the TJPA and passed through to the TJPA from the San Francisco Municipal Transportation Agency ("MTA"). The pass through FTA grants were completed and closed out during the year ended June 30, 2008, and all remaining funding is sent directly to the TJPA. Funding from MTC, SFCTA and SMCTA is sent directly to the TJPA and is managed and reported by the TJPA.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. The TJPA did not have any prepaid expenses as of June 30, 2009.

Compensated Absences

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

Capital Assets

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

The TJPA implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, during the fiscal year to include intangible assets as part of capital assets. As a phase 3 government, the TJPA elected to not report intangible assets retroactively. The TJPA recorded intangible assets of $63,138, which includes licensing costs for labor compliance software, and website development and programming costs.

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

Capital Contributions

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

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

Net Assets

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

Invested in capital assets, net of related obligations – This component of net assets consists of capital assets, net of accumulated depreciation reduced by obligations to re-convey state donated land. At June 30, 2009, the TJPA has $16,683,315 in outstanding capital-related obligations, recorded as an intergovernmental liability to the San Francisco Redevelopment Agency ("SFRA") for re-conveyance of State donated land.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 3 - CASH AND CASH EQUIVALENTS

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

The majority of the TJPA's cash is included in the City Treasurer's cash and investments pool and is considered to be cash and cash equivalents because it has the same characteristics as a demand deposit. The TJPA's investments in the pool may be deposited or withdrawn without notice or penalty. Investments made by the City Treasurer are regulated by the California Government Code and by a City investment policy approved annually by the City Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the City Board of Supervisors and by the Treasury Oversight Committee via monthly reports and an annual audit. Redeemed or sold shares are priced at book value, which includes realized investment earnings such as interest income, realized gains or losses upon sale of investments, and amortized premiums and discounts. This number may differ from the shares' fair value, which would include unrealized gains or losses based on market conditions. The cash held in the City's cash and investments pool on June 30, 2009 was $4,202,263, which had a weighted average maturity of approximately 1.5 years. Additional information regarding the City Treasurer's cash and investments pool is presented in the notes of the City's basic financial statements.

NOTE 4 – CAPITAL ASSETS

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

NOTE 4 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance at June 30, 2008	Additions	Balance at June 30, 2009
Capital assets not being depreciated:			
Land	$ 80,062,249	$ 12,767,253	$ 92,829,502
State donated land to be re-conveyed to SFRA	-	16,683,315	16,683,315
Construction in progress:			
Information technology	-	63,138	63,138
Transbay Transit Center	23,617,642	60,320,224	83,937,866
Caltrain Downtown Extension	37,034,928	9,004,926	46,039,854
Total capital assets not being depreciated	140,714,819	98,838,856	239,553,675
Less outstanding capital related obligation:			
Intergovernmental liability to SFRA for			
re-conveyance of State donated land	-	(16,683,315)	(16,683,315)
Net assets, invested in capital assets, net of related obligations	$ 140,714,819	$ 82,155,541	$ 222,870,360

Of the total $92,829,502 in land, the TJPA will permanently retain title to land valued at $71,277,974. The TJPA will hold title to the remaining parcels valued at $21,551,528 for a temporary or interim period. These parcels are needed only for the construction of the Transbay Program and then will be transferred to the SFRA.

The TJPA will apply one of three valuation methods for each land parcel transferred from the State to the TJPA. Parcels that the State was leasing to third parties prior to transfer to the TJPA will be valued by the TJPA using the lease rate. For parcels that are not being leased by the State at or near the date of transfer, the TJPA will use the sale price of a comparable parcel sold in 2007 in the vicinity of the Transbay Transit Center. For the one parcel that the TJPA will sell to a private developer, the TJPA will value the land at the price to be paid by the developer.

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

At year-end, the TJPA had contract commitments of $139,002,084 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, see Note 8 for further details on the unexpended approved allocations.

NOTE 5 – CONTRACT EMPLOYEES

The TJPA has entered into an agreement with LGS to provide employee services for all of the TJPA's staff positions. For the year ended June 30, 2009, expenses for contract employees and related administrative costs were $1,945,024.

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 $358,346 for the year ended June 30, 2009. 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:

2010	$	604,053
2011		622,152
2012		640,817
2013		660,029
2014		679,879
2015 - 2016		995,593
	$	4,202,523

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 all termination costs associated with the termination of the lease. The annual base rate of the lease is $214,396 with a termination date of December 2010.

NOTE 7 - RISK MANAGEMENT

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

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

There were no reductions in insurance coverage from the previous year. The TJPA pays an annual contribution, determined by the Board of Directors of SDRMA, and any additional amounts which the SDRMA Board of Directors deems necessary in accordance with bylaws of SDRMA. The TJPA's annual contribution for the fiscal year ended June 30, 2009 was $24,811 and no insurance claims were filed for the seven years ended June 30, 2009.

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, 2009 for this policy was $10,333. 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.

In the fiscal year ending June 30, 2010, the TJPA will request a payment and performance bond from Webcor Builders/Obayashi Corporation, the joint venture awarded the Construction Manager/General Contractor (CM/GC) contract. The bond shall provide 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 will reimburse the CM/GC up to $5.4 million for the bond premium.

NOTE 8 – LOCAL AND STATE REVENUE FUNDING AGREEMENTS

A. MTC Revenues

RM2

On March 2, 2004, voters approved RM2, which increased the state-owned bridge toll in the San Francisco Bay Area by $1.00 for each vehicle. RM2 assigns the administrative duties and responsibilities associated with this additional toll revenue to the MTC. The additional toll revenues are earmarked for transportation projects within the region that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors and are incorporated into the Regional Traffic Relief Plan, which is also administered by the MTC.

The MTC-approved RM2 allocations total $148,678,000 of which $108,940,735 has been expended leaving an unexpended balance of $39,737,265, which was appropriated for the year ending June 30, 2010.

RM1

The RM1 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 RM1 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. During the fiscal year ended June 30, 2009, TJPA expended $0 with the remaining amount of $5,200,000 appropriated for the fiscal year ending June 30, 2010.

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 totaling $128,873,006, of which $78,383,448 has been expended through June 30, 2009, leaving an unexpended balance of $50,489,558. The unexpended balance was appropriated for the fiscal year ending June 30, 2010.

C. SMCTA Measure A Revenues

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

On April 11, 2006, the SMCTA agreed to allocate $7,280,000 for preliminary engineering of the Caltrain downtown extension and agency costs. As of June 30, 2009, $7,277,061 was expended and the remaining amount of $2,939 has not been appropriated.

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

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

The State-approved program supplements total $7,391,000, of which $5,221,869 has been expended leaving an unexpended balance of $2,169,131, which was appropriated for the fiscal year ending June 30, 2010.

NOTE 9 – RELOCATION ASSISTANCE AND LOSS OF GOODWILL COMPENSATION

The TJPA is in the process of acquiring real property for the implementation of Phase 1 of the Transbay Transit Center Program. Private property acquisitions will potentially affect businesses, parking vendors, and investment property businesses. Early implementation of Phase 2 will potentially affect residents.

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." During fiscal years 2007 and 2008, the TJPA issued multiple notices of intent to acquire real estate to property owners. Thus, the TJPA has a financial liability for relocation assistance costs once the underlying property is acquired.

Relocation assistance costs have been estimated by Associated Right of Way Services, Inc. ("ARWS"), under contract with the TJPA. The initial relocation assistance cost estimates for Phase 1 are documented in the Final Relocation Impact Study adopted by the TJPA Board of Directors on September 20, 2007. The total initial anticipated high estimate of relocation payments for Phase 1 cited in the study was $3,410,000.

The total current anticipated high estimate of relocation payments for Phase 1 is $3,736,865. This revised estimate is based on the monthly ARWS relocation assistance update meeting and project status report, which documents ARWS's most current estimate of probable relocation assistance. This updated estimate differs in some cases from the initial estimate cited in the Final Relocation Impact Study as more occupant specific data is collected.

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

The notices of intent to acquire are contingent liabilities and will not become actual liabilities until the TJPA acquires the underlying property or occupants elect to move before the property is acquired by the TJPA. At June 30, 2009, the TJPA had acquired eight private properties and two State donated parcels for which notices of intent to acquire had been issued. In addition, six eligible occupants have elected to move before the underlying property is acquired by the TJPA. The total relocation liability for the properties acquired and donated, and the six occupants total $1,336,865 of which $943,940 remained unpaid at June 30, 2009.

	Estimated Liability	Contingent Liability	Expected Total
Total Current High Estimate	$ 1,336,865	$ 2,400,000	$ 3,736,865
Disbursed through June 30, 2009	(392,925)	-	(392,925)
Balance at June 30, 2009	$ 943,940	$ 2,400,000	$ 3,343,940

The TJPA is also required under the State Code of Civil Procedure (Title 7, Chapter 9, Article 6, Sections 1263.510 et seq.) to provide compensation for the loss of business goodwill if the business owner proves that the loss is caused by the TJPA's acquisition of the property. The business owner has the burden of proof for loss of goodwill. The TJPA has engaged appraisers to complete goodwill valuations for affected businesses and that work is ongoing. As of June 30, 2009, TJPA has made a goodwill loss payment of $90 total to one business owner.

NOTE 10 – RELATED PARTY TRANSACTIONS

A. City and County of San Francisco

During the year ended June 30, 2009, the City provided legal, procurement, and project planning services to the TJPA. Such services totaled $2,030,897 and were provided by the following organizations/departments:

Office of the City Attorney	$ 190,814
Permits and Fees issued by various City Departments	150,600
Department of Public Works	151,215
San Francisco Redevelopment Agency	501,390
Planning Department	397,419
Department of Telecommunications and Information Services	5,966
Municipal Transportation Agency	534,272
Office of Economic and Workforce Development	7,796
San Francisco Art Commission	91,425
Total	$ 2,030,897

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

At June 30, 2009, the TJPA reported $760,540 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. At June 30, 2009, the loan receivable from the SFRA is $283,155 and there will be no further drawdowns. Beginning December 31, 2009, the SFRA is obligated to repay the loan in eight quarterly payments. The loan does not accrue interest.

At June 30, 2009, the TJPA held title to land parcels which are temporarily needed by the TJPA only for the construction of the Transbay Program (see Note 4 for more information). Upon completion of the construction period, these parcels will be transferred to the SFRA.

Cost of land acquired by TJPA	$ 21,551,528
Value of State donated parcels	16,683,315
Total to be transferred	$ 38,234,843

B. Alameda-Contra Costa Transit District

AC Transit provides bus services between Alameda and Contra Costa counties and the City and County of San Francisco. Under the Program, AC Transit will make the Temporary Terminal and the Transbay Transit Center the point of destination/departure for its bus services in San Francisco. AC Transit will be the TJPA's only Primary Tenant in the Temporary Terminal for the five-year life of the Temporary Terminal, and will be the Primary Tenant in the Transit Center from its planned opening in 2014 until Caltrain begins service in 2018.

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

NOTE 11 - OTHER CONTINGENCIES

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

The TJPA adopted the provisions of GASB Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations,* effective July 1, 2008. Under GASB Statement No. 49, state and local governments are required to account for and disclose information about their pollution remediation obligations. TJPA has been and will conduct pollution remediation activities as a matter of course in the demolition required to prepare the various project sites for construction. The outlays associated with these activities are capitalizable as outlays to prepare for use property acquired with suspected pollution that was expected to be remediated. In accordance with GASB Statement No. 49, the TJPA capitalizes remediation outlays as incurred and does not record a pollution remediation liability or expense. Remediation expenditures incurred through June 30, 2009 total $741,574 and are associated with demolition to prepare the Temporary Terminal site.

NOTE 12 – SUBSEQUENT EVENTS

A. New Federal Grant Awards

On August 28, 2009, an FTA grant was executed by the TJPA in the amount of $24,459,002. On September 30, 2009, an FTA grant was executed by the TJPA in the amount of $7,885,080. Both grants are for final design activities for Phase 1, including architectural design and engineering, site evaluation, utility engineering, interface with rail alignment, project management, program control and administrative costs.

B. Transportation Infrastructure Finance and Innovations Act Loan

On October 15, 2008, TJPA submitted an application for a Transportation Infrastructure Finance and Innovations Act (TIFIA) loan. This federal program provides loans and loan guarantees to transportation infrastructure projects throughout the country. The loan application is for 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. On September 17, 2009, the U.S. Department of Transportation Credit Council recommended approval of a $171 million loan to the Secretary of Transportation. Loan approval is anticipated to occur in late 2009 and the first draw on the loan is planned in fiscal year 2013.

NOTE 12 – SUBSEQUENT EVENTS (Continued)

C. Conveyance of 90 Natoma Easements

On July 31, 2009, the TJPA board approved the acquisition of temporary and permanent easements over portions of 90 Natoma for the Transbay Transit Center Program. The TJPA shall convey a 6.5 foot wide strip of 80 Natoma and cash consideration in the amount of $234,875 in exchange for a temporary construction easement and two permanent easements, and escrow closed on October 2, 2009.

The entire surface of 90 Natoma shall be temporarily used for construction staging and other activities related to development of the new Transit Center. Subsurface improvements, including the Transit Center train box, shall be permanently installed in the southeast corner of 90 Natoma. The value of the temporary easement is $270,000 and shall be capitalized as part of the cost of the Transit Center. The value of the permanent easements is $144,875. Permanent easements shall be classified as intangible assets under GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, and as they have an indefinite useful life they shall not be amortized. The appraised value of the strip of 80 Natoma that TJPA is conveying is $170,000.

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SUPPLEMENTARY INFORMATION

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Program Description	Federal CFDA Number	Grant Number	Program Award	EXPENDITURES - FEDERAL SHARE Cumulative through June 30, 2008	July 1, 2008 through June 30, 2009	Cumulative through June 30, 2009	REVENUES - FEDERAL Cumulative through June 30, 2008	July 1, 2008 through June 30, 2009	Cumulative through June 30, 2009
U.S. DEPARTMENT OF TRANSPORTATION									
Federal Transit Cluster:									
Federal Transit Formula Grants									
General Capital Assistance	20.500	CA-04-0010	$ 6,649,751	$ 5,026,424	$ 1,367,454	$ 6,393,878	$ 5,026,424	$ 1,367,454	$ 6,393,878
General Capital Assistance	20.500	CA-04-0040	7,008,960	526,142	3,906,143	4,432,285	526,142	3,906,143	4,432,285
General Capital Assistance	20.500	CA-04-0087	7,593,040	-	5,000	5,000	-	5,000	5,000
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			$ 21,251,751	$ 5,552,566	$ 5,278,597	$ 10,831,163	$ 5,552,566	$ 5,278,597	$ 10,831,163

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

TRANSBAY JOINT POWERS AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

NOTE 1 – GENERAL

The Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal award programs of the Transbay Joint Powers Authority (the "TJPA") for the year ended June 30, 2009. Federal awards received directly as well as passed through from other governmental agencies are included on the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

NOTE 4 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

OTHER REPORTS

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OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

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

We have audited the accompanying financial statements of the Transbay Joint Powers Authority (TJPA) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009, which included the TJPA's adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Pollution Remediation Obligations*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2008, as discussed in Notes 2, 4 and 11 to the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 10, 2009

MACIAS GINI & O'CONNELL LLP
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SAN DIEGO

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of the Transbay Joint Powers Authority (TJPA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The TJPA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the TJPA's management. Our responsibility is to express an opinion on the TJPA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the TJPA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the TJPA's compliance with those requirements.

In our opinion, the TJPA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the TJPA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the TJPA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the TJPA's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 10, 2009

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

Section II Financial Statement Findings

No matters were reported.

Section III Federal Award Findings and Questioned Costs

No matters were reported.

TRANSBAY JOINT
POWERS AUTHORITY

Report to the Board of Directors

For the Year Ended
June 30, 2009

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

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SACRAMENTO

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LOS ANGELES

NEWPORT BEACH

SAN DIEGO

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

We have audited the basic financial statements of the Transbay Joint Powers Authority (TJPA) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009. Professional auditing standards require auditors to communicate with those charged with governance (i.e., the Board of Directors) on a number of subjects. The memorandum that accompanies this letter summarizes our communications with the Board of Directors as required by professional auditing standards.

The accompanying required communications are intended solely for the information and use of the Board of Directors, management and others within TJPA and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MACIAS GINI & O'CONNELL LLP

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 10, 2009

REQUIRED COMMUNICATIONS

I. Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 3, 2009, our responsibility, as described by professional standards, is to express an opinion 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.

In planning and performing our audit, we considered the Transbay Joint Powers Authority's (TJPA) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U. S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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 grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the TJPA's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* applicable to its major federal program for the purpose of expressing an opinion on the TJPA's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the TJPA's compliance with those requirements.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 3, 2009.

III. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the TJPA are described in Note 2 to the financial statements. As discussed in Notes 2, 4, and 11 to the basic financial statements, the TJPA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Pollution Remediation Obligations*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. We noted no transactions entered into by the TJPA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The disclosures in the financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 10, 2009.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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