STAFF REPORT FOR CALENDAR ITEM NO.: 10
FOR THE MEETING OF: December 8, 2016

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:
Presentation of the audited Annual Financial Report of the Transbay Joint Powers Authority (TJPA) for the fiscal year ended June 30, 2016 and the Report to the Board of Directors.

SUMMARY:
State law, as well as various agreements in place with TJPA funders, requires that TJPA publish complete audited financial statements within six months of the close of each fiscal year. Responsibility for the preparation of the statements, the accuracy of the data, and the completeness and fairness of the presentation rests with TJPA management. The fiscal year 2015-16 financial statements are the thirteenth set of financial statements since the inception of the TJPA and fairly represent the financial position of the TJPA for the period of July 1, 2015 to June 30, 2016. The objective of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. In addition, as a recipient of federal funds, TJPA is required to undergo a Single Audit of Federal Programs. Vavrinek, Trine, Day & Co (VTD) conducted an audit, including the Single Audit, of the TJPA's financial statements for fiscal year ended June 30, 2016 according to Government Auditing Standards, and has issued an unmodified opinion.

The Annual Financial Report includes the following required sections:

1) Independent Auditor's Report—this report was prepared by the independent auditors, who rendered an unmodified opinion (formerly unqualified opinion), which is the most favorable opinion an agency can receive in an audit, and 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 (MD&A)—this section provides management's objective narrative overview of TJPA's financial activities. It includes comparisons of the current year to the prior year, and analysis of the agency's overall financial position.

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

4) Required Supplementary Information (RSI)—the Governmental Accounting Standards Board (GASB) considers certain information to be an essential part of financial reporting and has established authoritative guidelines for the presentation of this information. Auditors are required to apply certain limited procedures in reviewing RSI. MD&A is RSI, although it is presented before the basic financial statements. TJPA's other RSI is related to pension and other post-employment benefits.

5) Supplementary and Other Information—this includes the Schedule of Expenditures of Federal Awards, and the required auditor reports on internal control and compliance.

A representative of VTD will address the Board at the December 8 meeting and be available to answer any questions.

RECOMMENDATION:
Information only.

TRANSBAY JOINT POWERS AUTHORITY

Annual Financial Report

For the Year Ended June 30, 2016

TRANSBAY JOINT POWERS AUTHORITY
For the Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Report on the Financial Statements
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, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of TJPA's share of the net pension liability, schedule of TJPA pension contributions and schedule of funding progress for other post-employment benefits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TJPA's basic financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respect in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TJPA's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 1, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2016 with comparative information for the year ended June 30, 2015. Please read it in conjunction with the TJPA's basic financial statements, which follow this section.

Financial Highlights

During the year ended June 30, 2016:

- The TJPA received $68,141,517 in capital contributions. All contributions were used for the Transbay Transit Center Program (the "Program"), which consists of both the Transbay Transit Center ("TTC") and the Caltrain Downtown Extension ("DTX") projects.
- The direct senior secured term loan ("bridge loan") in the amount of $171,000,000 from Goldman Sachs Bank USA and Wells Fargo Securities LLC that closed in fiscal year 2015 was redeemed.
- Land sales proceeds totaled $403,076,028 for the fiscal year, from the sales of Block 5, Block 8, and Parcel F. These proceeds will be used for Phase 1 construction of the TTC, and the future property tax increment from the developments is a source of repayment of TJPA's federal TIFIA loan.
- At the close of the fiscal year, assets and deferred outflows of the TJPA exceeded its liabilities and deferred inflows by $1,788,424,367.

Construction Highlights

- The TTC construction work continued, with 2,395,878 craft hours completed through June 2016. The final train box lid concrete pour occurred on June 30. Structural steel installation and welding was completed; the TTC superstructure consists of nearly 25,000 tons of steel and its assembly involved approximately 225,000 craft hours with no lost time injuries. Installation of glass curtain walls and the aluminum 'Penrose pattern' exterior awning commenced.
- Construction of the bus ramp continued. Design work for the bus storage facility was nearly completed during the fiscal year.
- Five of six utility relocation packages are complete. The remaining trade package had scope added at the request of the City and County of San Francisco ("City"); it is not on the critical path, and is scheduled to be completed in fiscal year 2017.

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.

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

> The *Statement of Net Position* presents information on all of the TJPA's assets, deferred outflows of resources, deferred inflows of resources, and liabilities, with the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported as net position. Over time, increases or decreases in net position 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 Position* presents information showing how the TJPA's net position changed during the most recent fiscal year. All changes in net position 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 POSITION

	2016	2015	Dollar Change	Percent Change
Assets:				
Current and other assets	$ 28,748,537	$ 51,998,029	$ (23,249,492)	-45%
Restricted assets	228,457,418	236,628,426	(8,171,008)	-3%
Capital assets	1,617,941,436	1,310,456,841	307,484,595	23%
Total assets	1,875,147,391	1,599,083,296	276,064,095	17%
Deferred outflows of resources:				
Pension related	692,675	381,477	311,198	82%
Derivative instrument-interest rate cap	-	585,962	(585,962)	-100%
Total deferred outflows of resources	692,675	967,439	(274,764)	-28%
Liabilities:				
Current and other liabilities	68,700,395	82,623,520	(13,923,125)	-17%
Notes payable	-	171,000,000	(171,000,000)	-100%
Intergovernmental liability to the City for re-conveyance of State transferred land	18,414,675	27,584,421	(9,169,746)	-33%
Total liabilities	87,115,070	281,207,941	(194,092,871)	-69%
Deferred inflows of resources:				
Pension related	300,628	249,489	51,139	20%
Net Position:				
Net investment in capital assets	1,525,036,717	1,208,382,376	316,654,341	26%
Restricted				
O&M Reserve for Transbay Transit Center	4,763,312	4,281,615	481,697	11%
Construction of Transbay Transit Center	252,359,978	76,952,748	175,407,230	228%
Debt service	2,509,708	22,863,847	(20,354,139)	-89%
Unrestricted	3,754,653	6,112,720	(2,358,067)	-39%
Total net position	$ 1,788,424,368	$ 1,318,593,306	$ 469,831,062	36%

Total net position at June 30, 2016 includes invested in capital assets, net of related debt, which is comprised of construction in progress of $1,413,313,697, land scheduled to be permanently and temporarily retained by the TJPA of $186,075,690, and permanent easements of $137,374. The construction in progress includes construction, construction management, program management, and administrative costs necessary to support the development of the TTC and DTX, as well as information technology costs for website development and labor compliance software.

$2,509,708 of current year net position is net tax increment funds restricted for debt service, although with the redemption of the bridge loan at the end of the fiscal year these funds were transferred out of the debt service account in fiscal year 2017. A $4,763,312 restriction of total current year net position results from the restriction of the net position 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 TTC, or the future DTX. The $481,697 increase in restricted assets for the operating and maintenance reserve resulted from operating revenues.

In addition, $252,359,978 is restricted for construction of the TTC as a result of land sales proceeds (see Note 4 for additional information). Total current year net position also includes $3,754,653 in unrestricted net position which is derived from TJPA's non-operating revenues and is to be used for acquisition of capital assets.

The $23,249,492 net decrease in current and other assets resulted primarily from a $23,559,089 decrease in grantor receivables outstanding at fiscal year-end. The $8,171,009 decrease in restricted assets resulted primarily from a lower balance in the City Treasurer's investment pool and the write-down of the fair market value of the interest rate cap, given that it no longer qualifies for hedge accounting with the redemption of the associated bridge loan. The changes in deferred outflows of resources and deferred inflows of resources are due to accounting treatment of pension amounts, and the removal of the prior year deferral associated with the interest rate cap.

The net decrease of $13,923,125 in current and other liabilities resulted primarily from a $13,422,244 decrease in accounts payable and an $815,898 decrease in accrued interest payable, offset primarily by a $1,092,883 increase in intergovernmental payables to the City. In addition, liabilities decreased by $171,000,000 with the redemption of the bridge loan during the fiscal year.

TJPA'S CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2016	2015	Dollar Change	Percent Change
Temporary Terminal operating income				
Operating revenues	$ 481,697	$ 406,662	$ 75,035	18%
Operating expenses	-	-	-	0%
Operating income	481,697	406,662	75,035	18%
Nonoperating revenues (expenses)				
Operating grant for Temporary Terminal				
Revenue	3,817,607	3,644,073	173,534	5%
Expenses	(3,817,607)	(3,644,073)	(173,534)	5%
Net operating grant	-	-	-	0%
Investment income	876,211	292,357	583,854	200%
Loss on interest rate cap	(4,660,288)			
Rental revenues	114,110	96,906	17,204	18%
Miscellaneous revenues	39	27,912	(27,873)	-100%
Net tax increment revenue	1,631,749	2,419,979	(788,230)	-33%
Gain on conveyance of land	403,076,028	43,651,000	359,425,028	823%
Gain on conveyance of air rights	170,000	-	170,000	n/a
Total nonoperating revenues	401,207,849	46,488,154	359,379,983	773%
Income before capital contributions	401,689,546	46,894,816	359,455,018	767%
Capital contributions				
Federal government capital grants	7,324,826	38,393,123	(31,068,297)	-81%
State government capital grants	21,882,281	5,585,732	16,296,549	292%
Local government capital grants	38,286,442	55,218,072	(16,931,630)	-31%
Other capital contributions	647,968	4,467,981	(3,820,013)	-85%
Total capital contributions	68,141,517	103,664,908	(35,523,391)	-34%
Change in net position	469,831,063	150,559,724	323,931,627	215%
Net position- beginning	1,318,593,304	1,168,033,580	150,559,724	13%
Net position- ending	$ 1,788,424,367	$ 1,318,593,304	$ 469,831,063	36%

Operating revenues

Operation of the Temporary Terminal commenced on August 7, 2010. The source of fiscal year 2016 operating revenues of $481,697 was lease and advertising revenues. The increase in operating revenues of $75,034 is due to CPI increases in Temporary Terminal rental and advertising contracts. No operating expenses were funded from operating revenues.

Nonoperating revenues

The TJPA funds Temporary Terminal facility management and related operating expenses from a Metropolitan Transportation Commission ("MTC") Regional Measure 2 ("RM-2") operating grant. Total fiscal year 2016 operating grant revenues and expenses were $3,817,607.

The fiscal year 2016 increase in investment income of $876,211 is attributable to higher investment balances of land sales proceeds. The decrease in miscellaneous revenues is attributable to the inherent variability of revenues earned in this category. The decrease in net tax increment revenue is due to an overpayment by the City in the prior year and subsequent clawback in this fiscal year. The increase in the gain on the conveyance of land of $359,425,028 is due to the sale of three parcels in fiscal year 2016, versus one parcel in the prior fiscal year.

Capital contributions (See Note 2 for additional information)
For the year ended June 30, 2016, the TJPA received $68,141,517 in capital contributions. The decrease in capital contributions from the prior fiscal year reflects the shifting nature of TJPA's funding sources from capital grants to land sales proceeds and debt. Capital contributions were expended on the Transbay Transit Center Program, which includes a new Transit Center building, new bus storage facility, bus ramps, and a 1.95 mile extension of rail lines for Caltrain and future California High Speed Rail to the Transit Center. At June 30, 2016, the TJPA had capital project contract commitments of $521,403,186 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 2017 Capital Budget on June 9, 2016. The main component of the TJPA's fiscal year 2017 $484,920,300 Capital Budget is the continuation of construction of the new TTC. Approximately $428 million is budgeted for construction activities and $12.3 million for construction management. The TJPA has budgeted approximately $7 million for the TTC building architect to continue construction administration activities in fiscal year 2017.

The TJPA's fiscal year 2017 budget anticipates that most of the revenues to pay for these expenditures will be provided by the following sources: land sales proceeds, unspent proceeds from the bridge loan, additional financing provided by the TIFIA loan and the City, the funding identified in the expenditure plan approved by the voters for the half cent sales tax for transportation in San Francisco ("Prop K"), and to a lesser extent the bridge toll increases approved in Regional Measure 1 and 2 and AB1171 ("RM-1", "RM-2" and "AB1171"), federal and state grants passed through from AC Transit, 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 2017 Capital Budget shows revenues in two categories–committed and planned. Committed revenues are those planned expenditures of grants that were allocated, or land sales and debt proceeds already received, at the time the TJPA Board approved the 2017 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 2017 fiscal year, TJPA will work with the funding agencies to secure grants and financing as any additional funding needs are identified. This is explained in detail in the staff reports which were submitted with the fiscal year 2017 budget presentations and can be found on the TJPA website for the May 12 and June 9, 2016 TJPA Board meetings.

The fiscal year 2017 Operating Budget was approved June 9, 2016, and consists of $5,187,168 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 the RM-2 operating grant.

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.

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BASIC FINANCIAL STATEMENTS

TRANSBAY JOINT POWERS AUTHORITY
Statement of Net Position
June 30, 2016

Assets:	
Current assets:	
Cash and cash equivalents:	
Cash in bank	$ 950,201
Restricted cash for operations and maintenance of the Transbay Transit Center	265,311
Restricted cash for construction of the Transbay Transit Center	669,265
Equity in pooled cash and investments with the City and County of San Francisco	5,669,886
Equity in pooled cash and investments with the City and County of San Francisco - restricted for operations and maintenance of the Transbay Transit Center	4,549,265
Equity in pooled cash and investments with the State of California	500,748
Total cash and cash equivalents	12,604,675
Receivables:	
Federal government	1,551,146
Metropolitan Transportation Commission	4,676,731
San Francisco County Transportation Authority	7,811,049
Alameda-Contra Costa Transit District	1,764,422
Accounts receivable	277,762
Total receivables	16,081,111
Other current assets:	
Prepaid items	55,000
Security deposits held by others	7,751
Total other current assets:	62,751
Total current assets	28,748,537
Noncurrent assets:	
Restricted assets:	
Cash	751
Equity in pooled cash and investments with the City and County of San Francisco	3,177,226
Investments	223,465,805
Interest receivable	233,923
Interest rate cap	1,579,712
Total restricted assets	228,457,418
Capital assets, nondepreciable:	
Land	186,075,690
Permanent easements	137,374
State transferred land to be re-conveyed to the City and County of San Francisco	18,414,675
Construction in progress:	
Information technology	158,965
Transbay Transit Center	1,357,765,184
Caltrain Downtown Extension	55,389,548
Total nondepreciable capital assets	1,617,941,436
Total noncurrent assets	1,846,398,853
Total Assets	**1,875,147,390**

(Continued)

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Net Position (Continued)
June 30, 2016

Deferred Outflows of Resources:	
Pension related	692,675
Total Deferred Outflows of Resources	**692,675**
Liabilities:	
Current liabilities:	
Accounts, contracts and intergovernmental payables	38,332,675
Accrued payroll	76,703
Retainage payable	27,623,648
Intergovernmental payables-related parties	
Caltrans	92,274
City and County of San Francisco	1,360,812
AC Transit	543,074
Accrued interest payable	-
Unearned revenue	82,264
Deposits payable	32,900
Total current liabilities	68,144,350
Noncurrent liabilities:	
Intergovernmental liability to the City and County of San Francisco for re-conveyance of State transferred land	18,414,675
Compensated absences, accrued vacation	161,290
Net pension liability	394,755
Net other postemployment benefit obligation	-
Total noncurrent liabilities	18,970,720
Total Liabilities	**87,115,070**
Deferred Inflows of Resources:	
Pension related	300,628
Total Deferred Inflows of Resources	**300,628**
Net Position:	
Net investment in capital assets	1,525,036,717
Restricted	
Operations and maintenance of Transbay Transit Center	4,763,312
Construction of Transbay Transit Center	252,359,978
Debt Service	2,509,708
Unrestricted	3,754,653
Total Net Position	**$ 1,788,424,367**

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2016

Operating Revenues - Temporary Terminal:	
Lease revenue	$ 427,422
Advertising revenue	54,275
Total operating revenues	481,697
Operating Expenses - Temporary Terminal:	
Total operating expenses	-
Operating Income - Temporary Terminal	481,697
Nonoperating Revenues and Expenses:	
Operating grant (MTC) for Temporary Terminal	
Operating grant revenue	3,817,607
Operating grant expenses:	
AC Transit incremental operating and maintenance costs	2,600,000
Facility Management	1,041,315
Utilities	-
Parking Control Officers	124,992
Insurance	51,300
Total operating grant expenses	3,817,607
Net operating grant revenues (expenses)	-
Contribution from AC Transit for O&M reserve	-
Unrealized loss on interest rate cap	(4,660,288)
Investment income	876,211
Rental revenues	114,110
Miscellaneous revenues	39
Net tax increment revenue	1,631,749
Gain (Loss) on sale of land	403,076,028
Gain (Loss) on sale of easement	170,000
Total nonoperating revenues	401,207,848
Income Before Capital Contributions	401,689,545
Capital Contributions:	
Federal government capital grants	7,324,826
State government capital grants	21,882,281
Local government capital grants:	
Regional Measures, bridge tolls	6,598,351
Proposition K, half cent sales tax	31,688,091
Other capital contributions	647,968
Total Capital Contributions	68,141,517
Change in Net Position	469,831,062
Net Position, Beginning of Year	1,318,593,305
Net Position, End of Year	**$ 1,788,424,367**

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Cash Flows

For the Year Ended June 30, 2016

Cash Flows from Operating Activities:		
Temporary Terminal:		
Cash receipts from lease revenue	$	427,902
Cash receipts from advertising revenue		54,275
Net cash provided by operating activities		482,177
Cash Flows from Noncapital Financing Activities:		
Operating grant, net		3,433
Cash receipts from rental revenues		103,224
Other noncapital increases (decreases)		266
Net cash provided by noncapital financing activities		106,923
Cash Flows from Capital and Related Financing Activities:		
Principal paid on capital debt		(171,000,000)
Federal government capital grants received		22,377,446
State government capital grants received		22,663,612
Local government capital grants received		45,154,605
Other capital contributions received		591,090
Net tax increment revenue received		1,631,749
Proceeds from sale of land		403,094,170
Proceeds from sale of air rights easement		170,000
Acquisition of capital assets		(329,970,095)
Net cash used for capital and related financing activities		(5,287,423)
Cash Flows from Investing Activities:		
Purchases of investment securities		(1,077,608,813)
Proceeds from maturities of investment securities		1,076,995,700
Investment income received		921,381
Net cash provided by investing activities		308,267
Net Decrease in Cash and Cash Equivalents		(4,390,055)
Cash and Cash Equivalents, Beginning of Year		20,172,707
Cash and Cash Equivalents, End of Year	**$**	**15,782,651**
Cash and Cash Equivalents, End of Year:		
Cash and cash equivalents, unrestricted	$	12,604,675
Cash and cash equivalents, restricted		3,177,977
Cash and cash equivalents, end of year	**$**	**15,782,651**

(Continued)

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income-Temporary Terminal	$	481,697
Adjustments to reconcile operating income to net cash provided by operating activities		
Increase in unearned revenue		480
Net cash provided by operating activities	$	482,177
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	$	67,408,157
Acquisition of capital assets from capital debt	$	-

See accompanying notes to the basic financial statements.

NOTE 1 - ORGANIZATION

In April 2001, the 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 ("TTC" or "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 Municipal Transportation Agency
Peninsula Corridor Joint Powers Board
State of California Department of Transportation (ex-officio)

The State of California ("State") 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, 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 is a ramp 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 DTX as Phase 2. Phase 1 has completed major milestones including commencement of construction. Phase 2 is at approximately a 30 percent design level; 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's major funding sources include grants from the federal government; grants of local revenue sharing ("Capital and Operating Grants") from AC Transit, MTC, and the San Francisco County Transportation Authority ("SFCTA"); and proceeds from sale of land parcels formerly owned by the State. In addition, financing was provided in fiscal year 2015 through a direct loan from Goldman Sachs Bank USA and Wells Fargo Securities LLC, and additional debt proceeds from a TIFIA loan and the City are anticipated to be available and utilized in fiscal year 2017. The federal TIFIA program provides loans and loan guarantees to transportation infrastructure projects throughout the country. TJPA closed on a TIFIA loan in January 2010 for Phase 1 Transbay Transit Center construction which is to be repaid primarily with net tax increment revenues allocated to the project. The net tax increment revenues allocated to the project are committed to the TJPA pursuant to an agreement with the City.

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 operating expenses result from the operation of the Temporary Terminal. Any excess of actual Temporary Terminal revenues over expenses is restricted for the Operating and Maintenance Reserve. Expenses funded by an operating grant are also incurred in the operation of the Temporary Terminal but are considered nonoperating expenses as they are grant funded. The TJPA will generate Transit Center operating revenues and operating expenses once the Transit Center is complete and placed into service.

Nonoperating revenues result from a Temporary Terminal operating grant, investment income, rent from property tenants other than Temporary Terminal operators, and miscellaneous revenue.

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.

When Program costs are incurred, if there is both restricted and unrestricted net position available to finance the costs, it is the TJPA's policy to first apply restricted grant and revenue sharing resources to such Program costs.

Cash Equivalents and Investments

The TJPA reports all highly liquid investments with a maturity of twelve months or less when purchased as cash equivalents or investments at cost. The deposits in the City and State investment pools are considered to be cash equivalents as the pools function as demand deposit accounts. Investments that are not highly liquid, or had maturities longer than twelve months at purchase, would be reported at fair value derived from the investment account statements. TJPA did not hold any such investments at June 30, 2016 (see Note 3).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, the total amount of prepaid items is $55,000.

Deposits Payable
The TJPA may require deposits from tenants of TJPA-owned rental property and the Temporary Terminal, as well as from developers during negotiations. At June 30, 2016, the TJPA had a deposit payable for a rental property totaling $8,900, and a deposit payable of $24,000 for a Temporary Terminal operating lease.

Unearned Revenue
Resource inflows that do not yet meet the criteria for revenue recognition are recorded as unearned revenue. Capital contribution revenue from the TJPA's expenditure-driven grants and from other contributors such as adjacent property developers or tenants is recognized only when qualifying expenditures are incurred or the rental period begins. At June 30, 2016, the total amount of unearned revenue is $82,264.

Compensated Absences
It is the policy of TJPA 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. Vacation pay is accrued when earned. At June 30, 2016 the amount of accrued vacation payable is $161,290. There is no limit on accrual of sick leave, but also no liability for unpaid accumulated sick leave since TJPA does not have a policy to pay any amounts for sick leave when employees separate from service.

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 City or the Office of Community Investment and Infrastructure ("OCII") for future use or sale, and permanent easements are recorded as non-depreciable capital assets. Information technology, TTC, and 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 that are not directly associated with either the TTC or the DTX are accumulated as indirect program-wide costs. The annual increase in accumulated indirect program-wide costs is allocated to the TTC and DTX based on the respective percentage 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 including demolition.

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 active federal government direct and pass-through 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. Other FTA, FRA and Federal Emergency Management Agency ("FEMA") grants now closed and not included in the SEFA total $27,399,823, which was spent on Program capital expenditures in prior fiscal years.

The State provides direct and pass-through 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 City or OCII during or 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 and pass-through grants for the TJPA Capital Program are provided from:

AC Transit	Federal and State pass through grants
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 AC Transit, MTC, SFCTA, and San Mateo County Transportation Authority ("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 former San Francisco Redevelopment Agency (now OCII) 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 Position as capital contributions.

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.

Funding Partner	Current Fiscal Year Actual	Life-To-Date Actual: Approved Award	Life-To-Date Actual: Actual	Life-To-Date Actual: Unexpended Award
Federal government				
Capital grants	$ 7,324,826	$ 475,779,260	$ 465,431,799	$ 10,347,461
Total Federal government	7,324,826	475,779,260	465,431,799	10,347,461
State government				
Capital grants	21,882,281	44,213,279	44,069,852	143,427
Total State government	21,882,281	44,213,279	44,069,852	143,427
Local agencies				
MTC	6,598,351	353,200,327	348,200,189	5,000,138
SFCTA	31,688,091	184,885,416	172,019,148	12,866,268
SMCTA	Completed	23,359,514	23,359,514	-
SFRA in-kind contribution	Completed	798,689	798,689	-
Total local agencies	38,286,442	562,243,946	544,377,539	17,866,407
Total grantor contributions	67,493,549	$ 1,082,236,485	1,053,879,191	$ 28,357,294
Other capital contributions	647,968		6,554,702	
Total capital contributions	$ 68,141,517		$ 1,060,433,893	

Percent of the total life-to-date actual grantor contributions made by funding partners:

	Federal	State	Local	Total
Amount	$ 465,431,799	$ 44,069,852	$ 544,377,539	$ 1,053,879,191
Percent	44%	4%	52%	100%

Net Position

The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the Statement of Net Position is classified as Net Position and is subdivided into the following three categories:

<u>Net Position-Net investment in capital assets</u>

This component of net position consists of capital assets, net of related debt and of accumulated depreciation (when applicable), reduced by obligations to re-convey State-transferred land. At June 30, 2016, the TJPA has no debt related to acquisition of capital assets, and $18,414,675 recorded as an intergovernmental liability to the City for re-conveyance of State-transferred land. Total invested in capital assets net of related debt is $1,525,036,717.

<u>Net Position-Restricted</u>

Restricted net position has 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 position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net position at June 30, 2016 is as follows:

Restricted for operations and maintenance of TTC	$	4,763,312
Restricted for construction		252,359,978
Restricted for debt service		2,509,708
Total restricted net position	$	259,632,998

Net Position-Unrestricted
This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets". At June 30, 2016, unrestricted net position is $3,754,653.

Temporary Terminal Operating and Nonoperating Revenues and Operating and Maintenance Reserve
The Transbay Temporary Terminal provides temporary bus terminal facilities while construction of the new multi-modal TTC 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, SF 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 TTC opens in 2017.

Temporary Terminal Operating Revenue
Temporary Terminal operating revenues consist of lease and advertising revenue. For the fiscal year ended June 30, 2016, total operating revenue was $481,697 and no operating and maintenance expenses were funded from operating revenues.

Temporary Terminal Nonoperating Revenue
Restricted operating assistance from local shared revenues (operating grants) is classified as nonoperating revenue and 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, 2016, the MTC-approved RM-2 operating grant allocation total is $4,533,205 of which $3,817,607 was expended leaving an unexpended balance of $715,598. The unexpended operating grants do not carry over to the following fiscal year. MTC approves a new operating grant for each fiscal year.

Temporary Terminal Operating and Maintenance Reserve
The net position of the Temporary Terminal is 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 position of the Temporary Terminal is restricted for the Operating and Maintenance Reserve for Program facilities and is not available for construction of the TTC or the DTX. At June 30, 2016, net position of $4,763,312 is restricted for the Operating and Maintenance Reserve.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 costs. Disbursements 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 criteria described above, the TJPA may use funds in the TTC 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 TTC (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.

Pensions
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees Retirement System (“CalPERS”) plans and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Derivative Instruments
In fiscal year 2015, TJPA’s interest rate cap was accounted for in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (“GASB 53”), and the change in fair value of the hedging derivative instrument was reported as a deferral in the Statement of Net Position. At the end of fiscal year 2016, the interest rate cap was no longer considered a derivative instrument as the associated debt was no longer outstanding, and the change in fair value is reported as a loss on the Statement of Revenues, Expenses and Changes in Fund Net Position.

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.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The TJPA's investment policy allows the TJPA to invest cash balances in insured savings or money market accounts in a qualified public depository as established by California state law, the City Treasurer's investment pool, the State's Local Agency Investment Fund ("LAIF"), or through trust accounts required by agreements, including the 2003 Cooperative Agreement with the State and financing agreements such as the TIFIA loan agreement with the USDOT, for the deposit of various types of revenues and debt proceeds.

TJPA's cash held in the City and State investment pools is considered to be cash and cash equivalents because it has the same characteristics as a demand deposit. The TJPA's investments in the pools may be deposited or withdrawn without notice or penalty. Because the TJPA's short-term position in these pools is considered to be a demand deposit, the TJPA does not record any allocated share of unrealized gains or losses. TJPA cash held in the City and State pools on June 30, 2016 is $13,897,124 and is classified in the statement of net position as follows:

Account Name	City Pool	State LAIF Pool
Restricted cash for O&M	$ 4,549,265	$ -
Restricted cash for construction	3,177,226	-
Equity in pooled cash and investments	5,669,886	500,748
Total	$ 13,396,377	$ 500,748

TJPA participation in the City and State pools is voluntary. Additional information regarding the City pool is presented in the notes of the City's basic financial statements. Additional information regarding LAIF is available online at www.treasurer.ca.gov/pmia-laif/laif.asp.

As of June 30, 2016, the TJPA had investments of $223,465,805 in U.S. Treasury notes, U.S. Treasury bills, commercial paper, negotiable certificates of deposit and money market funds, all considered highly liquid with a term to maturity at purchase of less than one year. Accordingly, all investments below are reported at cost, rather than fair market value:

Type	Value	Credit Ratings S&P	Percent of Total Portfolio
Cash Equivalents			
Commercial paper	$ 61,390,631	A-1	26%
Negotiable certificates of deposit	9,500,000	N/A	4%
Money market mutual funds	12,455,904	AAAm	5%
Investments			
U.S. Treasury notes	31,019,433	N/A	13%
U.S. Treasury bills	109,099,837	N/A	46%
Total investments	223,465,805		93%
Cash and pooled investments	15,781,901	N/A	7%
Total Portfolio	$ 239,247,706		100%

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

If any of the investments were reported at fair value rather than at cost, TJPA would categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 inputs are quoted prices in active markets for identical assets. Level 1 assets may include debt and equity securities that are traded in an active exchange market, are highly liquid, and are actively traded in over-the-counter markets.

Level 2 inputs are significant other observable inputs such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads.

Level 3 inputs are unobservable and should be developed using the best information available under the circumstatnces; TJPA does not have any Level 3 investments at June 30, 2016. TJPA's fair value measurements would be categorized as follows at June 30, 2016:

- U.S. Treasury securities are Level 1, valued using quoted market prices
- Commercial paper is Level 2, valued using a matrix pricing model
- Certificates of deposit are Level 2, valued using market prices
- Money market mutual funds are Level 2, valued at $1 per share

TJPA's investments in the City and State investment pools are uncategorized; they are not measured using the input levels described above because TJPA's transactions are based on a stable net asset value of $1 per share.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. Certificates of deposit are insured by the Federal Deposit Insurance Corporation up to $250,000; all TJPA certificates of deposit are $250,000 or less in value. The credit ratings of other TJPA investments are disclosed above.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The issuer and amount of investments representing 5 percent or more of total investments are disclosed in the table below:

Issuer	Type	Amount	Percent of Total Portfolio
Abbey Natl Treasury	commercial paper	$ 17,439,961	7%
Credit Agricole	commercial paper	13,990,114	6%
Natixis NY	commercial paper	19,969,511	8%
U.S. Treasury	notes and bills	140,117,270	59%

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. California Government Code limits investments in U.S. Treasury Obligations, commercial paper, and negotiable certificates of deposit to a maximum maturity of five years, 270 days, and five years, respectively, which helps to mitigate this risk since the prices of fixed-income securities with a longer time to maturity tend to be more sensitive to changes in interest rates. At June 30, 2016, TJPA had a series of investments in U.S. Treasury Notes and Bills that matured by October 31, 2016; commercial paper that matured by November 21, 2016; and negotiable certificates of deposit with the latest maturity by February 6, 2017.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. TJPA investment policy limits deposits to qualified public depositories as established by 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.

Custodial credit risk for investments is the risk that, in the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2016, $140,117,270 of U.S. Treasuries and $61,390,631 in commercial paper were held by the same broker-dealer (counterparty) that was used to purchase the securities.

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 City, 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 position, 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 at the time of acquisition.

NOTE 4 - CAPITAL ASSETS (Continued)

Capital Asset Activity for the Fiscal Year Ended June 30, 2016

	Beginning of Fiscal Year	Current Year Acquisitions	Current Year Dispositions	End of Fiscal Year
Capital assets not being depreciated:				
Land	$ 186,129,510	$ 22,213	$ (76,033)	$ 186,075,690
Permanent easements	137,374	-	-	137,374
State transferred land to be re-conveyed to the City	27,584,421	-	(9,169,746)	18,414,675
Construction in progress:				
Information technology	155,965	3,000	-	158,965
Transbay Transit Center	1,041,360,754	316,404,430	-	1,357,765,184
Caltrain Downtown Extension	55,088,817	300,731	-	55,389,548
Total capital assets not being depreciated				
Less outstanding capital related obligation:				
Intergovernmental liability to the City for re-conveyance of State transferred land	(27,584,421)	-	9,169,746	(18,414,675)
Invested in capital assets, net of related obligations	1,282,872,420	316,730,374	(76,033)	1,599,526,761
Capital assets acquired with debt proceeds	(74,490,044)	-	-	(74,490,044)
Invested in capital assets, net of related debt	**$ 1,208,382,376**	**$ 316,730,374**	**$ (76,033)**	**$ 1,525,036,717**

Land Acquisition

The total land value at June 30, 2016 of $186,075,690 is made up of thirty-two parcels of land acquired by purchase, eminent domain, or transfer from the State 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 assistance and loss of goodwill for relocated businesses, appraisals, surveying, environmental remediation and monitoring, garage easement interests, and title and closing costs.

No property was acquired during the year ended June 30, 2016. Additional net land costs total ($53,820) incurred during the fiscal year.

Land Acquisition Summary

Scheduled Disposition:	**Parcels**	**Land Value**	**Additional Costs**	**Total Land Value**
Retained for:				
Transbay Transit Center	18	$ 125,409,458	$ 21,600,826	$ 147,010,284
Downtown Extension	11	15,691,890	1,886,957	17,578,847
Total to be retained	29	141,101,348	23,487,783	164,589,131
Transfer to the City or OCII	3	20,628,720	857,839	21,486,559
Total Value	32	$ 161,730,068	$ 24,345,622	$ 186,075,690

NOTE 4 – CAPITAL ASSETS (Continued)

TJPA is scheduled to permanently retain title to twenty-nine parcels valued at $164,589,131. 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 TTC and the operation of the Temporary Terminal and then will be conveyed to the City or OCII, along with an additional four parcels transferred by the State, with a total value of $18,414,675, when no longer needed for Temporary Terminal operations. In the fiscal year the TJPA transfers parcels to the City or OCII, the TJPA will record a loss on conveyance of land for the total land value of the three parcels, plus the additional costs of $857,839 associated with the three parcels and the seven former State-owned parcels to be conveyed.

<u>Land transferred from the State by fiscal year and Land scheduled to be transferred to the City</u>
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 has used 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 current market value for the parcels.

On September 23, 2015 the sale of portions of formerly State-owned Parcels N and N', comprising Redevelopment Block 5, closed. TJPA received $172,590,000 in proceeds. On December 15, 2015, Redevelopment Block 8, made up of former State Parcel C, was sold for $71,000,000. The proceeds from the sales will be used for Phase 1 construction of the TTC. On June 22, 2016, the sale of Redevelopment/State Parcel F closed, for total proceeds of $159,504,052, the majority of which was used to redeem the bridge loan. The future net property tax increment from each of the properties is a source of repayment of TJPA's federal TIFIA loan.

The TJPA disposed of former State-owned Parcel F and portions of N and N', removing a net book value of $9,187,888 from its accounting records. The sale of Block 8 did not change the number of State parcels held by TJPA, as Parcel C did not transfer to TJPA prior to sale to the developer.

	Total Transferred From the State		Scheduled To be Retained		Scheduled To be Transferred To City/OCII For Sale	
	No.	Value	No.	Value	No.	Value
FY 2009	4	$ 16,683,315	0	$ -	4	$ 16,683,315
FY 2011	14	72,007,574	9	53,186,468	5	18,821,106
FY 2013	0	(6,985,999)	0	(6,985,999)	0	-
FY 2014	1	7,476,962	0	-	1	7,476,962
Total Transferred	19	$ 89,181,852	9	$ 46,200,469	10	42,981,383
Total State Parcels transferred to the City/OCII					(6)	(24,566,708)
Remaining State Parcels to be transferred to the City/OCII					4	18,414,675
TJPA acquired land scheduled to be transferred to the City/OCII					3	20,628,720
Additional costs for all parcels scheduled to be transferred to the City/OCII						857,839
Total land scheduled to be transferred to the City/OCII					7	$ 39,901,234

NOTE 4 - CAPITAL ASSETS (Continued)

Land parcels transferred from the State 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, 2016, the value of the land transferred from the State which is scheduled to be retained by the TJPA is $46,200,469 according to the described valuation methodology.

At June 30, 2016, the TJPA held title to seven land parcels valued at $39,901,234 which are temporarily needed by the TJPA only for the construction of the Transbay Program—three acquired by purchase and four via transfer from the State. Upon completion of the construction period, these parcels are scheduled to be transferred to the City or OCII for future sale.

Land parcels transferred from the State which are scheduled to be re-conveyed to the City or OCII upon completion of the new TTC are recorded as an intergovernmental liability to the City and as State-transferred land to be re-conveyed to City capital asset account. At June 30, 2016, the total value of the land to be re-conveyed to the City recorded in these liability and capital asset accounts is $18,414,675.

In the fiscal year the TJPA transfers the parcels to be re-conveyed to the City or OCII, the TJPA will record the liquidation of the intergovernmental liability to the City 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 or development. Three parcels are scheduled to be transferred directly from the State to the City or OCII and will not be recorded in the TJPA's accounting records. However, one or more of these four parcels could potentially come to the TJPA first on an interim basis and then be re-conveyed from TJPA to the City or OCII.

Contract Commitments
At year end, the TJPA had contract commitments of $521,403,186 for construction, design, engineering, planning and administrative costs.

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS

A. Pension Plan

Plan Description and Benefits Provided
All full-time employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined-Benefit Pension Plan administered by CalPERS. CalPERS acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement, disability, and death benefits based upon the employee's years of service, age, and final compensation. Benefit provisions under the Plan are established by State statute and TJPA resolution. Employees vest after five years of service.

TJPA contracted with CalPERS effective January 1, 2012. Until that date, full-time employees participated in the CalPERS pension plan via Local Government Services ("LGS"), previously TJPA's employer of record under contract. CalPERS processed a merger, transferring TJPA employees from LGS' plan to TJPA's plan. TJPA participates in two CalPERS risk pools—the Miscellaneous Employee "2% at 55" risk pool for "Classic" CalPERS employees, and the

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. Pension Plan (Continued)

Miscellaneous Employee "2% at 62" risk pool for employees hired after January 1, 2013 who are not already CalPERS members, per the California Public Employees' Pension Reform Act ("PEPRA").

Detailed information about the pension plan's fiduciary net position is publicly available in separately issued CalPERS reports. The reports and other details referenced below may be obtained from CalPERS, www.calpers.ca.gov.

Contributions
The contribution requirements of plan members are established by State statute, and the employer contribution rate is actuarially established and may be amended by CalPERS. PEPRA members are required to contribute 6.25% of their annual covered salary, and Classic members are required to contribute 7% of their annual covered salary. TJPA pays this required contribution on behalf of Classic employees, amounting to $134,675 for the year ended June 30, 2016. The actuarially determined employer contribution rate is currently 8.88% of covered payroll costs for Classic employees, amounting to $163,765 for fiscal year 2016, and 6.555% for PEPRA employees, amounting to $8,267 for fiscal year 2016. The employer contribution, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, TJPA employer contributions that are included in the calculation of net pension expense were $174,033.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
TJPA implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, ("GASB 68") in fiscal year 2015. GASB 68 requires employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement to record the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position. Net pension liability is the plan's total pension liability based on entry age normal actuarial cost method less the plan's fiduciary net position.

Pension expense is the change in net pension liability from the previous fiscal year to the current fiscal year less adjustments. Deferred outflows and deferred inflows of resources related to pensions are certain changes in total pension liabilities and fiduciary net position that are to be recognized in future pension expense. Under GASB 68, each participating cost-sharing employer, such as TJPA, is required to report its proportionate share of the collective net pension liability, pension expense, and deferred outflows/deferred inflows of resources in their financial statements. The disclosures below are thus based on an actuarial valuation provided by CalPERS.

At June 30, 2016, TJPA reported a liability of $394,755 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. TJPA's proportion of the net pension liability was based on a projection of TJPA's long-term share of contributions to the pension plan relative to the projected contributions of all participating local governments, actuarially determined. TJPA's proportionate share of the net pension liability for the plan as of June 30, 2014 and 2015 was as follows:

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. Pension Plan (Continued)

Proportion - June 30, 2014	0.0171%
Proportion - June 30, 2015	0.0217%
Change - Increase (Decrease)	0.0046%

The annual pension expense under GASB 68 is now equal to the change in the net pension liability from the beginning of the year to the end of the year, adjusted for the deferred recognition of actual contributions and items such as investment gains and losses, changes in actuarial assumptions, and changes in plan benefits. For the year ended June 30, 2016, TJPA recognized net pension credit of ($114,668). At June 30, 2016, TJPA also reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
TJPA contributions subsequent to the measurement date	$ 174,033	$ -
Differences between actual and expected experience	16,313	-
Changes in assumptions	-	(154,337)
Contributions in excess of employer share	203,664	-
Changes in TJPA proportion	298,666	(68,920)
Net differences between projected and actual earnings on pension plan investments	-	(77,371)
Total	$ 692,676	$ (300,628)

Of the $692,676 total deferred outflows of resources, $174,033 resulting from TJPA employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Total Deferred Outflows (Inflows)
2017	$ 49,257
2018	56,915
2019	12,945
2020	98,899
Total	$ 218,015

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Expenses
Mortality Rate Table	Based on 2010 CalPERS Experience Study and Society of Actuaries Scale AA

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, CalPERS has determined that using the 7.65% long-term expected rate of return gross of administrative expenses for all plans in the Public Employees Retirement Fund is appropriate and compliant with GASB 68. The stress test results are presented in the "GASB Crossover Testing Report" available on the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to this calculated single equivalent rate and rounded down to the nearest one quarter of one percent.

Sensitivity of TJPA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents TJPA's proportionate share of the net pension liability for the plan, calculated using the discount rate of 7.65%, as well as what TJPA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. Pension Plan (Continued)

	Discount Rate -1 (6.65%)	Discount Rate (7.65%)	Discount Rate +1 (8.65%)
TJPA's net pension liability	$ 644,559	$ 394,754	$ 189,317

Payable to the Pension Plan
At June 30, 2016, TJPA reported a payable of $11,923 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

B. Defined Contribution Retirement Plan

TJPA participates in the California Public Agencies Self-Directed Tax-Advantaged Retirement System Plan (the "STARS Plan"), which provides retirement benefits for employees of the member public agencies. The STARS Plan includes a deferred compensation plan in accordance with Internal Revenue Code Section 457(b), whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement, and a defined contribution plan in accordance with Internal Revenue Code Section 401(a), whereby TJPA matches employee contributions up to two percent of the employee's base annual salary. All employees are eligible for plan participation. Plan assets are invested in each individual's name with a deferred compensation plan provider. The STARS Plan deferred compensation and defined contribution assets are not reflected in these financial statements. Each of the STARS Plan's participants directs the investments of their separate accounts. Employer contributions vest immediately. Distributions are made upon the participant's termination, retirement, death or total disability. During the year ended June 30, 2016, the TJPA and participating employees made contributions to the STARS Plan totaling $34,575 and $125,993, respectively. At June 30, 2016, TJPA had a payable of $5,648 for the outstanding amount of contributions to the defined contribution plan required for the fiscal year.

C. Other Post-Employment Benefits

Plan Description and Funding Policy
TJPA contracts with CalPERS under the Public Employees' Medical and Hospital Care Act ("PEMHCA"), which provides healthcare insurance programs for both active and retired employees of public employer contracting agencies. TJPA has a program in place to partially pay CalPERS medical insurance premiums for eligible retiring employees. Retiree benefit provisions are established and amended through agreements between TJPA and its employees; at a minimum TJPA will contribute the amount required by PEMHCA, which is $125 per month per employee in calendar year 2016 and $128 in 2017. Medical insurance premiums for retiree's spouses or dependents are not covered under these agreements, nor are dental or vision premiums. The plan does not issue a separate financial report.

Annual OPEB Cost and Net OPEB Obligation
TJPA's annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"). The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. An actuarial valuation has been performed as of January 1, 2015 to calculate the ARC and related information.

NOTE 5 – RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

C. Other Post-Employment Benefits (Continued)

The following table shows the components of TJPA's annual OPEB cost, the amount actually contributed to the plan, and changes in TJPA's net OPEB obligation to the plan:

Annual required contribution	$ 30,494
Interest on net OPEB obligation	12,348
Adjustment to annual required contribution	(10,926)
Annual OPEB cost	31,916
Contributions made	237,711
Change in net OPEB obligation	(205,795)
Net OPEB obligation - beginning of year	205,795
Net OPEB obligation - end of year	$ -

TJPA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30 for the past four fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$ 54,724	0%	$ 109,559
6/30/2014	54,612	0%	164,171
6/30/2015	41,624	0%	205,795
6/30/2016	31,916	100%	-

Funded Status and Funding Progress
The funded status of the plan as of January 1, 2015, the most recent actuarial valuation, was as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
$ -	$ 209,284	$ 209,284	0%	$ 2,101,029	10.0%

Subsequent to the valuation, TJPA joined the California Employers' Retiree Benefit Trust ("CERBT"), an irrevocable trust established to fund OPEB. CERBT is administered and managed by CalPERS, and issues a financial report available on the CalPERS website. For fiscal year 2016, TJPA contributed $237,711 to CERBT, pre-funding 100% of its net OPEB obligation. TJPA participates on the CERBT Strategy 3 portfolio, the most conservative of the three available investment strategies, and the ending trust balance at June 30, 2016 was $240,534 following TJPA's June 10 deposit.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

NOTE 5 – RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

C. Other Post-Employment Benefits (Continued)

Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information following the notes to the financial statements is designed to present trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between TJPA and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The 2015 actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal Cost
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.25%, used only to allocate cost of benefits between service years

The underlying mortality assumptions and all other demographic actuarial assumptions used in the valuation were based on the results of the January 2014 CalPERS actuarial experience study for the period 1997 to 2011, except for a different basis used to project future mortality improvements.

Healthcare cost trend rate – Medical plan premiums are assumed to increase once each year, at levels varying from 4.5% to 8.0%. The PEMHCA minimum required contribution is assumed to increase annually by 4.5%.

NOTE 6 - LEASES

The TJPA leases office space under an operating lease which expires during fiscal year 2021. Total costs for this lease were $466,943 for the year ended June 30, 2016. These costs represent direct Program management costs related to the TTC and DTX and as such are capitalized as part of accumulated Program costs. In the event that the TJPA terminates a contract held with the Program Management & Program Control consultant, the TJPA will assume the AECOM lease of office trailers, or cover any termination costs associated with early termination of the lease. That lease expires during fiscal year 2018. The future minimum lease payments for both leases are as follows:

	TJPA Lease	AECOM Lease
2017	$ 689,814	$ 71,191
2018	710,509	35,596
2019	731,824	-
2020	753,779	-
2021	579,909	-
	$ 3,465,835	$ 106,787

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	$1,000	$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, 2016 was $75,848 and no insurance claims were filed for the fourteen years ended June 30, 2016.

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, 2016 for this policy was $46,079. There is no deductible under this policy. The TJPA does not maintain earthquake insurance coverage.

NOTE 7 - RISK MANAGEMENT (Continued)

The TJPA maintains workers' compensation insurance in compliance with statutory limits. The premium for the fiscal year ended June 30, 2016 for this coverage was $20,216. TJPA also holds a public officials bond purchased for $613 for a two year term ending December 28, 2016.

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 its contract and that it will pay its subcontractors, labor and suppliers. The TJPA reimbursed the CM/GC $5.4 million for the original bond premium. In fiscal years 2014 and 2015, the bond amount was increased to $889 million, for premiums totaling $2,594,064. During the year ended June 30, 2016, the TJPA accrued an additional $4,017,442 for a bond rider that increased the bond amount to $1,336,575,975.

NOTE 8 - LOCAL AND STATE CAPITAL REVENUE FUNDING AGREEMENTS

A. <u>MTC Revenues</u>

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

The MTC-approved RM-1 allocations direct to TJPA total $53,000,000 which has been fully expended as of the end of the fiscal year.

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 $147,705,264 has been expended leaving an unexpended balance of $2,294,736 which was appropriated for the fiscal year ending June 30, 2017.

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.

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

The MTC-approved AB 1171 allocations total $148,800,327 of which $146,094,924 has been expended leaving an unexpended balance of $2,705,403 which was appropriated for the fiscal year ending June 30, 2017.

Summary of MTC Allocations Life-To-Date

	Allocations	Expended	Unexpended
RM-1 Direct	$ 53,000,000	$ 53,000,000	$ -
RM-1 Pass Through	1,400,000	1,400,000	-
RM-2	150,000,000	147,705,264	2,294,736
AB 1171	148,800,327	146,094,924	2,705,403
Life-To-Date Total	$ 353,200,327	$ 348,200,188	$ 5,000,139

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 $184,885,416 of which $172,019,148 has been expended leaving an unexpended balance of $12,866,268. The unexpended balance was appropriated for the fiscal year ending June 30, 2017.

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 $23,359,514 and the funds were disbursed during the fiscal years ending June 30, 2006 through June 30, 2013.

D. AC Transit Revenues

In September 2011, AC Transit passed through two security grants from the Federal Emergency Management Agency and two security grants from the California Emergency Management Agency ("Cal-EMA") totaling $7,697,323. In January 2013, AC Transit passed through an additional security grant from Cal-EMA totaling $2,149,588. In February 2014, AC Transit passed through another security grant from Cal-EMA totaling $2,149,596. In February 2015, a Proposition 1B, or Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) Program grant from Caltrans in the amount of $21,164,990 was passed through, and in fiscal year 2016 AC Transit notified TJPA of two additional Cal-EMA grants to be passed through totaling $4,296,855 as well. These pass-throughs are being credited towards AC Transit's required capital contribution under the Lease and Use Agreement (see Note 10) and are for construction.

Of the $37,458,352 allocated thus far, $37,314,924 has been expended leaving an unexpended balance of $143,427 which was appropriated for the fiscal year ending June 30, 2017. Because these

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

grants are pass-throughs from the federal and state governments, they are not included as local agency contributions in Note 2, Capital Contributions (see also below).

E. State of California Revenues

RTIP
In January 2007, the State and the TJPA entered into a Program Master Agreement for future planned State financial allocations of Regional Transportation Improvement Program ("RTIP") funds 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, and the funds were disbursed during the fiscal years ending June 30, 2008 through June 30, 2013.

E. State of California Revenues (Continued)

Cal-EMA
A portion of the AC Transit revenue discussed above is six grants totaling $12,895,290 being passed through from Cal-EMA. $12,894,957 has been expended, leaving an unexpended balance of $332 which was appropriated for the fiscal year ending June 30, 2017.

PTMISEA
A portion of the AC Transit revenue discussed above is for a Public Transportation Modernization, Improvement, and Service Enhancement Account ("PTIMSEA") grant totaling $21,164,990 being passed through from Caltrans. $21,021,895 has been expended, leaving an unexpended balance of $143,095 which was appropriated for the fiscal year ending June 30, 2017.

NOTE 9 - RELOCATION ASSISTANCE AND LOSS OF GOODWILL COMPENSATION

The TJPA has acquired real property for the implementation of the Transbay Transit Center Program, affecting various business and residential occupants of those properties. Recipients of federal and state financial assistance such as TJPA are 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. Relocation assistance costs were estimated for eligible businesses and residents, and the estimates periodically revised, by Associated Right of Way Services, Inc. ("ARWS"), under contract with the TJPA. The final deadline for relocation claims passed during fiscal year 2016 and the total relocation liability reduced to $0.

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, and TJPA engaged appraisers to complete its own loss of goodwill valuations for affected businesses. As of June 30, 2014, TJPA had capitalized $1,248,383 of loss of business goodwill payments to five business owners, and no additional claims were received in fiscal years 2015 or 2016.

NOTE 10 - NOTES PAYABLE AND DERIVATIVE INSTRUMENT

Notes Payable

In fiscal year 2015, TJPA executed two Notes Payable under a Credit Agreement for a direct bridge loan from Goldman Sachs Bank USA and Wells Fargo Securities LLC totaling $171,000,000. The bridge loan has provided cash in the interim until TJPA draws down on its TIFIA loan. TJPA capitalized interest expense of $4,897,151 for the fiscal year ended June 30, 2016. Capitalized interest equaled interest expense for the period because the bridge loan proceeds were used exclusively to fund the construction of the TTC. The bridge loan was redeemed from the proceeds of Parcel F on June 22, 2016.

Derivative Instrument - Interest Rate Cap

TJPA purchased an interest rate cap as a hedge against rising interest rates for the bridge loan. The Interest Rate Cap Agreement limits TJPA's variable interest rate exposure by providing that Goldman Sachs Bank USA, as cap provider counterparty, will make quarterly payments to TJPA to the extent that the three-month LIBOR rate exceeds 50 basis points. The interest rate cap has a notional amount of $171 million and it is in effect through December 31, 2018.

TJPA paid $6,240,000 for the interest rate cap and the fair value was $1,579,712 at June 30, 2016. The fair value of the cap is derived from the Dodd Frank Regulatory Daily Mark value provided by Goldman Sachs Bank; the change in the fair value was $4,660,288. Because the associated debt is no longer outstanding, the interest rate cap no longer qualifies for hedge accounting and the reduction in fair value was recorded as an unrealized loss on the Statement of Revenues, Expenses and Changes in Fund Net Position.

<u>Credit Risk</u>

Credit risk is the risk that a counterparty will not fulfill its obligations. The maximum loss that would be recognized at the reporting date if the counterparty failed to perform as contracted is $1,579,712, which is the fair value of the interest rate cap at year-end. To minimize TJPA's exposure to credit risk, the Interest Rate Cap Agreement requires the difference between the termination value of the interest rate cap and certain negotiated threshold levels for certain counterparty rating levels set forth in a credit support annex be collateralized by the counterparty with cash or U.S. Treasury Securities should the counterparty's credit rating decrease to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2016, there is no requirement for collateral posting for the interest rate cap as the counterparty is rated A/A1/A+.

<u>Termination Risk</u>

Termination risk is the possibility that a derivative may end earlier than expected, depriving TJPA of the protection from interest rate risk. TJPA or its counterparty may terminate the interest rate cap in accordance with the terms of the Interest Rate Cap Agreement. The Interest Rate Cap Agreement was entered into under the International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement"). The ISDA Master Agreement together with the Confirmation of the Interest Rate Cap Agreement provide the terms and conditions upon which each party may terminate the Interest Rate Cap Agreement. Included in such terms and conditions is the right of TJPA to terminate the Interest Rate Cap Agreement on any business day and the right of TJPA to terminate the Interest Rate Cap Agreement if the counterparty's senior, unsecured, unenhanced debt rating is withdrawn, suspended or reduced below BBB in the case of Standard & Poor's or Baa2 in the case of Moody's, and the right of the counterparty to terminate the Interest Rate Cap Agreement upon the failure of TJPA to comply with the terms of the Credit Support Annex or upon the bankruptcy of TJPA. No payment would be due from TJPA to the counterparty in any instance of termination.

NOTE 11 - RELATED PARTY TRANSACTIONS

Note 11 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, 2016.

A. City and County of San Francisco

During the year ended June 30, 2016, the City provided legal, project planning and review services including construction management, administration and inspection to the TJPA. Such services totaled $1,782,917 and were provided by the following organizations/departments:

Office of the City Attorney	$	14,946
Office of Community Investment and Infrastructure		20,000
Department of Building Inspection		760,326
Department of Public Works		289,065
Department of Technology		11,417
Municipal Transportation Agency		485,078
Planning Department		25,819
Public Utilities Commission		81,880
San Francisco Arts Commission		94,386
Total	$	1,782,917

In addition, tax related payments of $60,427 were paid to the San Francisco Tax Collector during the fiscal year. At June 30, 2016, the TJPA reported $1,360,812 due to the City. Also at June 30, 2016, 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 City or OCII (see Note 4).

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, the Temporary Terminal and the future TTC are the point of destination/departure for AC Transit's bus services in San Francisco. AC Transit is the TJPA's only Primary Tenant in the Temporary Terminal, for the life of the Temporary Terminal, and will be a Primary Tenant in the Transit Center. On September 29, 2008, the TJPA Board of Directors approved a comprehensive Lease and Use Agreement that controls 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 TTC 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 (see Note 8). The Agreement allows for subtenant agreements, where subtenants can be allocated a share of the primary tenant's operating and maintenance costs.

For the fiscal year ended June 30, 2016, expenses incurred by the TJPA to reimburse AC Transit for its incremental operating and maintenance costs in the Temporary Terminal totaled $2,600,000 and the TJPA reported $543,074 due to AC Transit at June 30, 2016.

NOTE 11 - RELATED PARTY TRANSACTIONS (Continued)

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

Caltrans provides design review and construction support services to the TJPA. Such services totaled $137,765 during the year ended June 30, 2016, and the TJPA reported $92,274 due to Caltrans at June 30, 2016. The agreements with Caltrans require the TJPA to provide, within the total agreement amounts, payment for revolving invoice reserves. The payment of these deposits totals $55,000, which the TJPA has recorded as prepaid items.

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

NOTE 12 - CONTINGENT LIABILITIES

A. Due from Grantors

Amounts received or receivable from federal, state, and local funders 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.

B. Pollution Remediation

TJPA has conducted pollution remediation activities as a matter of course in its demolition and construction. The expenditures associated with these activities are capitalized as costs to prepare property for use. 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, 2016 total $15,998,507 and are associated with the following project components:

Temporary Terminal	$ 948,283
Transbay Transit Center	15,049,216
Caltrain Downtown Extension	1,008
Total	$ 15,998,507

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF TJPA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CalPERS Public Agency Cost-Sharing Multiple-Employer Plan

	June 30, 2015[1]	June 30, 2014[2]
TJPA's proportion of the net pension liability	0.0022%	0.0068%
TJPA's proportionate share of the net pension liability	$394,755	$423,396
TJPA's covered-employee payroll	$2,215,123	$2,087,405
TJPA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	17.82%	20.28%
Plan fiduciary net position as a percentage of the total pension liability	88.95%	83.03%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable. TJPA currently has only two years of data to present in the schedule. As future years' data is calculated, it will be added to the schedule until ten years of data is presented.

[2] TJPA covered payroll figure for fiscal year 2014 is the figure used by CalPERS in its GASB 68 valuation report for that fiscal year, versus the actual pensionable earnings reported by TJPA, as displayed in the next schedule.

SCHEDULE OF TJPA PENSION CONTRIBUTIONS

	FY 2016[1,2]	FY 2015	FY 2014	FY 2013
Actuarially determined contribution	$ 174,033	$ 254,524	$ 228,308	$ 194,665
Contributions in relation to the actuarially determined contribution	(174,033)	(254,524)	(228,308)	(194,665)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
TJPA's covered-employee payroll	$ 1,932,209	$ 2,215,123	$ 2,125,171	$ 1,976,776
Contributions as a percentage of covered-employee payroll	9.01%	11.49%	10.74%	9.85%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable. TJPA currently has four years of data to present in the schedule. As future years' data is calculated, it will be added to the schedule until ten years of data is presented.

[2] TJPA covered payroll figure for fiscal year 2016 is the amount for Classic employees only, as the PEPRA employees will not be included in the GASB 68 valuation report provided by CalPERS until the next fiscal year.

Changes of Benefit Terms and Assumptions

The figures in the schedule of contributions above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. The discount rate was changed from 7.5% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expenses.

SCHEDULE OF FUNDING PROGRESS FOR OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	$ -	$ 253,655	$ 253,655	0%	$ 1,760,761	14.4%
1/1/2015	-	209,284	209,284	0%	2,101,029	10.0%

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SUPPLEMENTARY INFORMATION

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Program Description	Federal CFDA Number	Grant Number	Program Award	EXPENDITURES - FEDERAL SHARE Cumulative through June 30, 2015	EXPENDITURES - FEDERAL SHARE July 1, 2015 through June 30, 2016	EXPENDITURES - FEDERAL SHARE Cumulative through June 30, 2016	REVENUES - FEDERAL SHARE Cumulative through June 30, 2015	REVENUES - FEDERAL SHARE July 1, 2015 through June 30, 2016	REVENUES - FEDERAL SHARE Cumulative through June 30, 2016
U.S. DEPARTMENT OF TRANSPORTATION									
Federal Transit - Capital Investment Grants:									
Federal Transit Formula Grants:									
General Capital Assistance	20.522	CA-39-0009	$ 1,240,000	$ 792,141	$ 128,180	$ 920,321	$ 792,141	$ 128,180	$ 920,321
General Capital Assistance	20.500	CA-04-0140	7,885,080	5,502,680	906,721	6,409,401	5,502,680	906,721	6,409,401
Total Federal Transit - Capital Investment Grants			9,125,080	6,294,821	1,034,901	7,329,722	6,294,821	1,034,901	7,329,722
Federal Railroad Administration (FRA) Capital Grants:									
American Recovery and Reinvestment Act (ARRA)	20.319	FR-HSR-0007-10-01-00	400,000,000	393,581,134	3,961,792	397,542,926	393,581,134	3,961,792	397,542,926
Highway Planning and Construction Grant:									
General Capital Assistance	20.205	CA-70-X011	24,459,002	22,035,840	2,328,133	24,363,973	22,035,840	2,328,133	24,363,973
General Capital Assistance	20.205	CA-95-X321	6,000,000	-	-	-	-	-	
Total Highway Planning and Construction Grants			30,459,002	22,035,840	2,328,133	24,363,973	22,035,840	2,328,133	24,363,973
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			439,584,082	421,911,795	7,324,826	429,236,621	421,911,795	7,324,826	429,236,621
TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS			$ 439,584,082	$ 421,911,795	$ 7,324,826	$ 429,236,621	$ 421,911,795	$ 7,324,826	$ 429,236,621

NOTE 1 - GENERAL

The Schedule of Expenditures of Federal Awards (the "Schedule") presents the current fiscal year and life-to-date activity of all direct and pass-through federal award programs of the Transbay Joint Powers Authority (the "TJPA") that were active or closed out during fiscal year 2016.

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

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

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, in accordance with the 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, the financial statements of the Transbay Joint Powers Authority (TJPA), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the TJPA's basic financial statements, and have issued our report thereon dated December 1, 2016.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the TJPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the TJPA's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the TJPA's financial statements are free from 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*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 1, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Report on Compliance for Each Major Federal Program
We have audited Transbay Joint Powers Authority (TJPA)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of TJPA's major Federal programs for the year ended June 30, 2016. TJPA's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance of TJPA's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the TJPA's compliance.

Opinion on Each Major Federal Program
In our opinion, the TJPA complied, in all material respects, with the types of 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, 2016.

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Report on Internal Control Over Compliance

Management of TJPA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered TJPA's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 1, 2016

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
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:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	No
Identification of major programs:	
CFDA No. 20.319 - ARRA	High-Speed Rail Corridors and Intercity Passenger Rail Service
Dollar threshold used to distinguish between Type A and Type B programs	$750,000
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.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

December 1, 2016

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

We have audited the financial statements of the Transbay Joint Powers Authority (the TJPA) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards,* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 10, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the TJPA are described in Note 2 to the financial statements. 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 TJPA's financial statements were:

> Management's estimates used in: fair values of investments and the valuation of pension and other postemployment benefit liabilities and disclosures. We evaluated the key factors and assumptions used to develop these estimates in determining that they appeared reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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.

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 1, 2016.

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.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the schedule of TJPA's share of the net pension liability, schedule of pension contributions and the schedule of funding progress for other postemployment benefits, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Expenditures of Federal Awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of governing board and management of the TJPA 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
December 1, 2016