



Certified Public Accountants and Business Consultants

UNION STATION GATEWAY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2001

UNION STATION GATEWAY, INC.

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
Union Station Gateway, Inc.**

We have audited the accompanying statement of financial position of Union Station Gateway, Inc., a California not-for-profit corporation, as of June 30, 2001, and the related statements of changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Union Station Gateway, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union Station Gateway, Inc. as of June 30, 2001 and the change in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 2002 on our consideration of Union Station Gateway, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Vasquez & Company LLP

**Los Angeles, California
March 6, 2002**



UNION STATION GATEWAY, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2001

ASSETS

Cash	\$ 286,953
Unbilled receivable from LACMTA (Note 2)	2,115,784
Project development costs (Notes 1 and 2)	<u>298,857,858</u>
Total assets	<u>\$301,260,595</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 2,332,931
Contingencies (Note 4)	-
Net assets	<u>298,927,664</u>
Total liabilities and net assets	<u>\$301,260,595</u>

See notes to financial statements

UNION STATION GATEWAY, INC.
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2001

Fund balance, beginning of year		\$295,716,279
Prior year refunds		-
LACMTA contributions (Note 2):		
- Cash	\$ 1,136,990	
- Unbilled receivable:		
- Beginning of year	(41,389)	
- End of year	<u>2,115,784</u>	<u>3,211,385</u>
Net assets, end of year		<u>\$ 298,927,664</u>

See notes to financial statements

UNION STATION GATEWAY, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2001

Cash flows from investing activities:

Cash paid for construction in progress	\$ (1,158,573)
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Cash flows from financing activities:

LACMTA contributions	<u>1,136,990</u>
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Net decrease in cash	(21,583)
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Cash, beginning of year	<u>308,536</u>
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Cash, end of year	\$ <u><u>286,953</u></u>
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See notes to financial statements

UNION STATION GATEWAY, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

NOTE 1: **FORMATION AND OPERATIONS**

The Los Angeles County Metropolitan Transportation Authority (LACMTA) formerly the Southern California Rapid Transit District, a California public corporation, and Catellus Development Corporation (Catellus), a Delaware corporation, entered into a development agreement dated October 30, 1991 for the design and construction of a project to be located in downtown Los Angeles, California, and known as the Union Station Gateway Center Project (the "project"). The project consists primarily of a headquarters building for LACMTA with retail space available for lease and certain public transit improvements. For the year ended June 30, 2001, approximately \$1,100,000 for public transit improvements was funded by LACMTA.

On December 12, 1991, LACMTA and Catellus formed Union Station Gateway, Inc. (USG), a California not-for-profit organization. The specific purposes of USG are to provide services and resources essential for the design and construction of the project, which includes the headquarters facility, public parking, and public transportation center. As of June 30, 2001, ownership of these improvements is vested with LACMTA and upon completion of construction, USG will be liquidated by transferring its assets to LACMTA.

The project is intended to be financed under the direction of LACMTA. Proceeds from the issuance of tax-exempt and/or taxable certificates of participation (COP) or similar instruments are expected to total \$170 million and will be used for the design and construction of the 628,000 gross square foot headquarters facility for LACMTA, including an associated 800 space parking facility. LACMTA has applied for grants and other funds from various federal, state and local sources to finance the project. As of June 30, 2001, LACMTA has received federal grants of \$79,745,694 to finance certain specific public transit improvements. There were no federal grants received for the fiscal year ended June 30, 2001.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The accounts of USG are maintained on the accrual basis of accounting for financial reporting purposes.

UNION STATION GATEWAY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Year Ended June 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes

USG is exempt from federal income tax under section 501(c)(4) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701f. Accordingly, no provision for income taxes has been made in these financial statements.

Project Development Costs

All costs incurred by USG are deemed to be for the development of the project and are capitalized as project development costs. As of June 30, 2001, project development costs include total costs of \$6,250,636 received from the LACMTA and considered as part of the pre-development costs related to the project. Of these costs, \$1,124,305 was expended by Catellus prior to the formation of USG. The remaining \$5,126,331 was expended by USG under the preliminary project budget and prior to the submission of the final budget used as a basis for obtaining federal grants.

Unbilled Receivable from LACMTA

Unbilled receivable from LACMTA is the difference between total development costs incurred through June 30, 2001, and the total draw requests from LACMTA related to such costs.

As of June 30, 2001, the net assets of \$298,927,664 include \$2,115,784 to be received from LACMTA.

NOTE 3: RELATED PARTY TRANSACTIONS

USG entered into a construction management agreement dated June 30, 1992 with Catellus. Catellus serves as construction manager for which it receives a basic fee equal to 4.5% of soft costs (as defined in the agreement) and 1.5% of hard costs (as defined in the agreement), up to a limit of \$3,766,000. This limit can be adjusted as defined. In addition, if actual hard costs are lower than estimated hard costs, Catellus is entitled to a performance fee equal to 50% of the difference between estimated and actual hard costs. Catellus also receives reimbursement of its direct personnel cost (as defined) and reimbursable expenses. As of June 30, 2001, payments to Catellus under this agreement totaled approximately \$8,969,641. A total of \$2,201,422 is outstanding as of June 30, 2001 which represents accrual of basic fee, personnel fee and performance fee and retention to be paid upon completion of the project. Payable to Catellus is included in the accounts payable account in the balance sheet.

UNION STATION GATEWAY, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Year Ended June 30, 2001

NOTE 4: **CONTINGENCIES**

Local and Federal Funds

USG has received local and federal funds for specific purposes that are subject to review and audit by the contracting agencies. Although such audits could generate expenditure disallowances under terms of the grants or contracts, it is believed that any required reimbursements will not be material.

Litigation

Union Station Gateway, Inc. is involved in litigation arising in the normal course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse affect on Union Station Gateway, Inc.'s future financial position or results of operations.

NOTE 5: **CONCENTRATION OF CREDIT RISK**

Union Station Gateway, Inc. maintains cash balances at a banking financial institution located in Los Angeles, California. Accounts in this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. During the year ended and at June 30, 2001, Union Station Gateway, Inc.'s cash on deposit exceeded the insured limit.

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

**Board of Directors
Union Station Gateway, Inc.**

We have audited the financial statements of Union Station Gateway, Inc. (a not-for-profit organization) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 6, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Compliance

As a part of obtaining reasonable assurance about whether Union Station Gateway, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non compliance 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 an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Union Station Gateway, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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


Los Angeles, California
March 6, 2002