TRANSBAY JOINT POWERS AUTHORITY

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

For the Year Ended
June 30, 2006

TRANSBAY JOINT POWERS AUTHORITY
For the Year Ended June 30, 2006

Table of Contents

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Transbay Joint Powers Authority (TJPA), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the TJPA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TJPA as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2007, on our consideration of the TJPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Macias Gini & O'Connell LLP
Certified Public Accountants
Walnut Creek, California

March 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2006

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2006 with selected comparative information for the year ended June 30, 2005. Please read it in conjunction with the TJPA's basic financial statements, which follow this section.

Financial Highlights

- At the close of the year, June 30, 2006, assets of the TJPA exceeded its liabilities by $89,327,061.

- The TJPA received $72,759,505 in capital contributions for the year ended June 30, 2006. All contributions were used for the Transbay Transit Center Program.

- The TJPA purchased the first right of way property for $58,267,598.

- The TJPA sold transferable development rights for $4,040,000.

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 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 though user fees and charges. The Joint Powers Agreement creating the TJPA, dated April 4, 2001, states that the "Members" intend to operate and manage the new transit terminal and related facilities upon their completion as an enterprise operation.

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

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

Notes to the Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes of the basic financial statements can be found on pages 10-17 of this report.

Financial Statement Analysis

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

TJPA'S NET ASSETS

	2006	2005	Dollar Change	Percent Change
Assets:				
Current and other assets	$7,983,184	$5,061,507	$2,921,677	57.70%
Capital assets	85,261,235	12,202,895	73,058,340	598.70%
Total assets	93,244,419	17,264,402	75,980,017	440.10%
Liabilities:				
Current and other	3,917,358	5,060,349	-1,142,991	-22.60%
Net Assets:				
Invested in capital assets	85,261,235	12,202,895	73,058,340	598.70%
Unrestricted	4,065,826	1,158	4,064,668	351007.60%
Total net assets	$89,327,061	$12,204,053	$77,123,008	631.90%

Total net assets at June 30, 2006 are comprised primarily of construction in progress of $26,993,637 and land purchased for right-of-way of $58,267,598. The construction in progress includes preliminary engineering and design, program consulting and management, environmental and planning, and administrative costs necessary to support the development of the Transbay Transit Center and Caltrain Downtown extension.

In addition, current year net assets include $4,065,826 in unrestricted net assets.

TJPA'S CHANGES IN NET ASSETS

	2006	2005	Dollar Change	Percent Change
Nonoperating revenues				
Interest income	$ 34,573	$ -	$ 34,573	n/a
Sale of transferable development rights	4,040,000	-	4,040,000	n/a
Other nonoperating revenues	288,930	-	288,930	n/a
Total nonoperating revenues	4,363,503	-	4,363,503	n/a
Capital contributions				
Federal government capital grants	2,417,962	4,366,250	(1,948,288)	-44.6%
Local government shared revenues	70,341,543	5,363,180	64,978,363	1211.6%
Total capital contributions	72,759,505	9,729,430	63,030,075	647.8%
Change in net assets	77,123,008	9,729,430	67,393,578	692.7%
Net assets- beginning	12,204,053	2,474,623	9,729,430	393.2%
Net assets- ending	$ 89,327,061	$ 12,204,053	$ 77,123,008	631.9%

For the year ended June 30, 2006, the TJPA received $72,759,505 in capital contributions all of which were expended on the Transbay Transit Center Program, which includes a new Transit Center building, new bus storage facilities, bus ramps and a 1.3 mile extension of rail lines from the Transit

Center to the Caltrain station. This was an increase of $63,030,075 over prior year's contributions. At June 30, 2006, the TJPA had capital project contract commitments of $7,159,262 for preliminary design, engineering, planning and administrative costs. Additional information on the TJPA's capital assets can be found in note 4 to the financial statements.

The TJPA purchased property which included development rights. The development rights became transferable after the acquisition as a result of actions taken by the Planning Commission and were sold to the highest bidder for $4,040,000.

Economic Factors and Next Year's Budget

Several factors affecting expenditures in the TJPA's fiscal year 2006-07 budget include the increasing of expenditures to enable the TJPA to proceed into the engineering and design phase of the temporary bus facilities, permanent bus storage facilities and the Transbay Transit Center building. The TJPA will be hosting an Architecture and Engineering Competition in fiscal year 2006-07. There is $650,000 budgeted for the costs of the competition. Also, $3,000,000 was budgeted for the temporary terminal engineering and design contract. Additionally, next year's budget includes $57,116,000 for acquisition of right-of-way required for the Program.

The TJPA anticipates that most of the revenues to pay for these expenditures will be provided by four sources: the funding identified in the expenditure plan approved by the voters for the half cent sales tax for transportation in San Francisco (Prop. K), the voter-approved Regional Measure 2 bridge toll increase (RM2), contributions of County of San Mateo transportation sales tax revenues, and grants from the Federal Transportation Administration (FTA). The Prop. K expenditure plan includes $148,000,000 and the Regional Measure 2 program includes $150,000,000 over the life of the Program. The budget for fiscal year ending June 30, 2007 includes $15,251,200 in FTA funds, $4,999,900 in RM2 funds, $34,004,000 in Prop. K funds, and $6,639,500 in the County of San Mateo sales tax funds. These allocations are multi-year, and do not lapse at the end of a fiscal year. Revenues that are unspent at the end of one year will carry forward into the following year.

In addition, a small portion of the revenue budget includes estimated TJPA earnings for rental revenue on TJPA owned property that is temporarily leased to a third party and interest income on cash balances.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Transbay Joint Powers Authority, 201 Mission Street, Suite 1960, San Francisco, California 94105.

THIS PAGE INTENTIONALLY LEFT BLANK.

BASIC FINANCIAL STATEMENTS

TRANSBAY JOINT POWERS AUTHORITY
Statement of Net Assets
June 30, 2006

ASSETS:	
Current assets:	
Cash and cash equivalents:	
Cash in bank, non-interest bearing	$ 163
Cash in bank, interest bearing	85,695
Equity in pooled cash and investments City and County of San Francisco	4,500,401
Total cash and cash equivalents	4,586,259
Receivables:	
Federal Transit Agency, pass through from the San Francisco Municipal Transportation Agency	77,923
Metropolitan Transportation Commission	2,106,754
San Francisco County Transportation Authority	126,324
San Mateo County Transportation Authority	830,355
Interest earnings on deposits	7,581
Total receivables	3,148,937
Prepaid expenses	7,988
Deposit with Local Government Services	240,000
Noncurrent assets:	
Capital assets, nondepreciable:	
Land	58,267,598
Construction in progress - Transbay Transit Center and Caltrain Downtown Extension	26,993,637
Total capital assets	85,261,235
Total assets	$ 93,244,419

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Net Assets (Continued)

June 30, 2006

LIABILITIES:	
Current liabilities:	
Payables:	
Accounts and contracts payable	$ 3,331,551
Intergovernmental payable to City and County of San Francisco	69,684
Intergovernmental payable to San Francisco Redevelopment Agency	202,762
Deposit payable	36,180
Total payables	3,640,177
Compensated absences - accrued vacation	37,181
Unearned revenue	240,000
Total liabilities	3,917,358
NET ASSETS:	
Invested in capital assets	85,261,235
Unrestricted	4,065,826
Total net assets	89,327,061
Total liabilities and net assets	$ 93,244,419

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2006

NONOPERATING REVENUES	
Interest income:	
Cash in bank, interest bearing	$ 1,307
Equity in pooled cash and investments City and County of San Francisco	25,685
Interest on deposit	7,581
Total interest income	34,573
Rental revenues	288,903
Sale of transferable development rights	4,040,000
Miscellaneous revenues	27
Total nonoperating revenues	4,363,503
CAPITAL CONTRIBUTIONS	
Federal government capital grants	2,417,962
Local government shared revenues:	
Regional Measure 2- bridge tolls	38,137,358
Proposition K- half cent sales tax	31,373,830
San Mateo County sales tax	830,355
Total capital contributions	72,759,505
Change in net assets	77,123,008
Net assets, at July 1, 2005	12,204,053
Net assets, at June 30, 2006	$ 89,327,061

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Cash Flows
For the Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from parking lease agreement	$ 325,083
Other cash receipts	27
Net cash provided by operating activities	325,110
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Federal government capital grants	2,480,638
Proceeds from local government shared revenues	71,570,893
Proceeds from sale of transferable development rights	4,040,000
Acquisition of capital assets	(74,237,511)
Net cash provided by capital and related financing activities	3,854,020
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received	28,150
Net cash provided by investing activities	28,150
Net increase in cash and cash equivalents	4,207,280
Cash equivalents, beginning of year	378,979
Cash equivalents, end of year	$ 4,586,259

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ -
Rental revenues	288,930
Changes in liabilities -	
Deposit payable	36,180
Net cash provided by operating activities	$ 325,110
Noncash capital financing activities	
Acquisition of capital assets on accounts payable and accrued liabilities	$ 3,641,178

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - ORGANIZATION

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

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

Alameda-Contra Costa Transit District
City and County of San Francisco, Board of Supervisors
City and County of San Francisco, Mayor's Office
San Francisco's Municipal Transportation Agency
Peninsula Corridor Joint Powers Board

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

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

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

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

NOTE 1 - ORGANIZATION (Continued)

has been passed through to the TJPA from the San Francisco Municipal Transportation Agency (MTA). MTA has also provided administrative and financial services to the TJPA on a contract basis. Funding from MTC, SFCTA and SMCTA is sent directly to the TJPA and is managed and reported by the TJPA.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The TJPA distinguishes operating revenues from nonoperating revenues. Nonoperating revenues result from interest income, rental revenue and the sale of transferable development rights. The TJPA did not earn any operating revenues since its inception. The TJPA will generate operating revenues once the Program is complete and placed into service.

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

The TJPA has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash Equivalents
The TJPA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All investments in the City and County of San Francisco's investment pool are considered to be cash equivalents (see Note 3).

Prepaid Expenses
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Contributions
The TJPA has grant contracts with the San Francisco Municipal Transportation Agency (MTA) under which MTA passes through Federal awards from the U.S. Department of Transportation, Federal Transit Administration for the Program. In addition, the TJPA has agreements with the Metropolitan Transportation Commission (MTC) for Regional Measure 2 (RM2) and SFCTA for Proposition K (Prop K) and San Mateo County Transportation Authority (SMCTA) for sales tax revenue (Note 8). Capital funding provided under these government grants and agreements is considered earned as the related allowable expenditures are incurred.

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

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

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation. This balance is also reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets; however, the TJPA had no outstanding capital-related debt at June 30, 2006.

Restricted – This component of net assets consists of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets. The TJPA did not have any restricted assets on June 30, 2006.

Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." As of June 30, 2006 the TJPA has $4,065,826 of unrestricted net assets.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effects of New Pronouncements

In November 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. In the current year, TJPA did not identify any events or changes resulting in impairment of capital assets.

Future Pronouncements

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup activities and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and how to measure that liability. This statement also requires governments to disclose information about their pollution remediation obligations associated with cleanup efforts in the notes to the financial statements. GASB Statement No. 49 is effective for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The TJPA will be required to implement the statement for the fiscal year ending June 30, 2009.

NOTE 3 - CASH AND CASH EQUIVALENTS

The TJPA's investment policy allows the TJPA to invest cash balances in the City Treasurer's cash and investments pool and insured savings or money market accounts in a qualified public depository as established by California State law.

The majority of the TJPA's cash is included in the City Treasurer's cash and investments pool and is considered to be cash and cash equivalents because it has the same characteristics as a demand deposit. The TJPA's investments in the pool may be deposited or withdrawn without notice or penalty. Investments made by the City Treasurer are regulated by the California Government Code and by a City investment policy approved annually by the City Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the City Board of Supervisors and by the Treasury Oversight Committee via monthly reports and an annual audit. Redeemed or sold shares are priced at book value, which includes realized investment earnings such as interest income, realized gains or losses upon sale of investments, and amortized premiums and discounts. This number may differ from the shares' fair value, which would include unrealized gains or losses based on market conditions. The cash held in the City's cash and investment pool on June 30, 2006 was $4,500,401, which had a weighted average maturity of less than 1 year. Additional information regarding the City's Treasurer's cash and investments pool is presented in the notes of the City's basic financial statements.

NOTE 4 – CAPITAL ASSETS

The TJPA's capital assets consist of accumulated Program costs related to the Transbay Transit Center and Caltrain Downtown Extension. Accumulated Program costs of $85,261,235 include the following:

Project Task	Balance at June 30, 2005	Additions	Balance at June 30, 2006
Downtown Extension Preliminary Engineering and Design	$ 2,185,067	$ 4,575,253	$ 6,760,320
Program Consulting and Management Costs	3,414,998	7,760,854	11,175,852
Environmental and Planning Costs	2,082,082	8,615	2,090,697
Other Professional Services	3,432,438	1,608,748	5,041,186
Administrative Costs	1,088,310	837,272	1,925,582
Land	-	58,267,598	58,267,598
Total	$ 12,202,895	$ 73,058,340	$ 85,261,235

At year-end the TJPA had contract commitments of $7,159,262 for preliminary design, engineering, planning and administrative costs.

NOTE 5 – CONTRACT EMPLOYEES

The TJPA has entered into an agreement with Local Government Services (LGS) to provide employee services for all of the TJPA's staff positions. For the year ended June 30, 2006 expenses for contract employees and related administrative costs were $762,054.

NOTE 6 – OFFICE LEASE

The TJPA leases office space under an operating lease which expires during fiscal year 2009. Total costs for this lease were $93,622 for the year ended June 30, 2006. These costs represent direct Program management costs related to the Transbay Transit Center and Caltrain Downtown Extension and as such are capitalized as part of accumulated Program costs. The future minimum lease payments for this lease are as follows:

2007	$	92,137
2008		95,774
2009		40,537
Total	$	228,448

In the event that the TJPA does not extend or terminates a contract held with URS Corporation, the Program Management and Program Control consultants, the TJPA will assume the URS Corporation lease or cover all termination costs associated with the early termination of the lease. Early termination costs are approximately $53,598. The annual base rate of the lease is $214,396 with a termination date of December 2010.

NOTE 7 - RISK MANAGEMENT

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

Coverage Description	Deductibles	Commercial Insurance Coverage
General Liability and Automobile	$250-$1,000	$2,500,000
Property Coverage	$2,000	$1,000,000,000
Boiler and Machinery	$1,000	$100,000,000
Earthquake	N/A	none
Errors and Omissions Liablility	$0	$2,500,000
Employee Dishonesty	$0	$400,000
Personal Liability for Board	$500	$500,000

The TJPA pays an annual contribution, determined by the Board of Directors of SDRMA, and any additional amounts, which the Board of Directors deems necessary in accordance with bylaws of SDRMA. The TJPA's annual contribution for the year ended June 30, 2006 was $15,711 and no insurance claims were filed for the four years ended June 30, 2006. There were no reductions in insurance coverage from the previous year.

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

NOTE 8 – LOCAL REVENUE FUNDING AGREEMENTS

In June 2001, the San Francisco Municipal Transportation Agency (MTA) received two funding allocations totaling $1,400,000 on the TJPA's behalf from the Metropolitan Transportation Commission (MTC) to provide preliminary planning and preliminary design services for the Transbay Transit Center Program. The funds from MTC are derived from Regional Measure 1, approved by California voters in 1989, which authorized a toll increase on all state-owned bridges in the northern and southern bay area bridge groups. The funding allocation instructions from MTC state that the funds being granted are associated with Federal funds provided through the Transportation Improvement Project. As of June 30, 2005, all available funds have been received from the MTC and disbursed.

NOTE 8 – LOCAL REVENUE FUNDING AGREEMENTS (Continued)

On March 2, 2004, voters approved Regional Measure 2 (RM2) which increased the state-owned bridge toll in the San Francisco Bay Area by $1.00 for each vehicle. RM2 assigns the administrative duties and responsibilities associated with this additional toll revenue to 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. On September 22, 2004, MTC approved a $10,505,000 and a $4,990,000 allocation to the TJPA to be used for the preliminary engineering of the Program. During fiscal year 2006, the TJPA expended the remaining $6,659,363 of $10,505,000 allocation and $2,401,628 of the $4,990,000. MTC also approved an allocation of $29,000,000 for a right of way purchase, which represented 50% of the purchase price. This allocation has been fully expended. In addition, on May 24, 2006, $2,735,000 was approved for allocation of which $76,367 was expended. The remaining allocations were appropriated for the year ending June 30, 2007.

On November 4, 2003 the voters approved Proposition K (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 of San Francisco's multi-modal transportation system. The San Francisco County Transportation Authority (SFCTA) is responsible for allocating, administering and overseeing the expenditures of Prop K. On September 28, 2004, the SFCTA authorized the allocation of $3,725,000 to the TJPA. The remaining balance of $2,373,830 was fully expended in the year ending June 30, 2006. The SFCTA also approved an allocation for 50% of the right of way purchase amount or $29,000,000. This allocation has been fully expended.

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 .5%. The San Mateo County Transportation Authority (SMCTA) is an independent agency formed to administer the proceeds of the sales tax increase. On April 11, 2006, the SMCTA agreed to allocate $7,280,000 for preliminary engineering of the Caltrain downtown extension and agency costs. As of June 30, 2006, $830,355 was expended and the remaining amount of $6,449,645 was appropriated for the year ending June 30, 2007.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2006, the City and the City and County of San Francisco Redevelopment Agency (RDA) provided accounting, legal, real estate, procurement, and project planning services to the TJPA. Such services totaled $501,547 and were provided by the following organizations/departments.

Office of the City Attorney	$ 183,653
Redevelopment Agency	202,762
Real Estate Department	15,912
Planning Department	28,121
San Francisco Airport	26,947
Municipal Transporation Agency	44,152
Total	$ 501,547

NOTE 9 – RELATED PARTY TRANSACTIONS (Continued)

At June 30, 2006, the TJPA reported $68,684 due to the City and $202,762 due to the RDA. The RDA provides services to the TJPA for the preparation and sale of State-owned parcels which will be transferred from the California State Department of Transportation (Caltrans) and for planning of public infrastructure in the area surrounding the Transbay Transit Center. On March 16, 2006, the TJPA entered into two agreements with the RDA. The TJPA agreed to pay for the services related to the preparation and sale of State-owned parcels. The cost of these services is shown in the above table. In addition, the TJPA agreed to loan the RDA up to $2,500,000 over the next three fiscal years for costs related to the planning of public infrastructure. The $2,500,000 has been reserved for this purpose. Beginning December 31, 2009, the RDA is obligated to repay the loan in eight quarterly payments. The loan does not accrue interest.

NOTE 10- CONTINGENCIES

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

THIS PAGE INTENTIONALLY LEFT BLANK.

SUPPLEMENTARY INFORMATION

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

				EXPENDITURES - FEDERAL SHARE			REVENUES - FEDERAL		
Program Description	Federal CFDA Number	Grant Number	Program Award	Cumulative through July 1, 2005	July 1, 2005 through June 30, 2006	Cumulative through June 30, 2006	Cumulative through July 1, 2005	July 1, 2005 through June 30, 2006	Cumulative through June 30, 2006
U.S. DEPARTMENT OF TRANSPORTATION									
Federal Transit Formula Grants Passed Through from the									
San Francisco Municipal Transportation Agency									
General Capital Assistance									
- Capital Assistance	20.507	CA-90-0124	$7,840,636	$ 5,047,397	$ 2,417,962	$ 7,465,359	$ 5,047,397	$ 2,417,962	$ 7,465,359

TRANSBAY JOINT POWERS AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

NOTE 1 – GENERAL

The Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the Transbay Joint Powers Authority (the TJPA) for the year ended June 30, 2006. Federal awards passed through from other governmental agencies are included on the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

NOTE 4 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

THIS PAGE INTENTIONALLY LEFT BLANK.

OTHER REPORTS

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

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

We have audited the financial statements of the Transbay Joint Powers Authority (the TJPA) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

March 20, 2007

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

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

Compliance

We have audited the compliance of Transbay Joint Powers Authority (the TJPA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The TJPA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the TJPA's management. Our responsibility is to express an opinion on the TJPA's compliance based on our audit.

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

In our opinion, the TJPA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the TJPA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the TJPA's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

March 20, 2007

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section I Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions 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
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of major programs:	
CFDA No. 20.507	Federal Transit Cluster
Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee?	Yes

Section II Financial Statement Findings

No matters were reported.

Section III Federal Award Findings and Questioned Costs

No matters were reported.