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, 2005
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Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Independent Auditor’s Report

We have audited the accompanying financial statements of the Transbay Joint Powers Authority (Authority), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority’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 Authority’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 Authority as of June 30, 2005, 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 February 15, 2006, on our consideration of the Authority’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 (Schedule) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

Certified Public Accountants
Walnut Creek, California

February 15, 2006
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information – Unaudited)

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority’s (Authority) financial activities for the year ended June 30, 2005 with selected comparative information for the two year period ended June 30, 2004. Please read it in conjunction with the Authority’s basic financial statements, which follow this section.

**Financial Highlights**

- At the close of the year ended June 30, 2005, assets of the Authority exceeded its liabilities by $12,204,053.

- The Authority received $9,729,430 in capital contributions for the year ended June 30, 2005. All contributions were used for the Transbay Terminal and Caltrain Downtown extension project.

**Overview of the Financial Statements**

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

The Authority is reported as an enterprise fund. Enterprise funds are a type of proprietary fund that is used to report information in a manner similar to a private-sector business. An enterprise fund is used to account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The Joint Powers Agreement creating the Transbay Joint Powers Authority, 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 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 Authority’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 Authority is improving or deteriorating.

The **Statement of Revenues and Changes in Fund Net Assets** presents information showing how the Authority’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 9-14 of this report.
Financial Statement Analysis

This is the second reporting period for the Authority, and the Authority has applied Governmental Accounting Standards Board (GASB) Statement No. 34. In accordance with GASB, a comparative analysis of financial data is presented.

<table>
<thead>
<tr>
<th>AUTHORITY'S NET ASSETS</th>
<th>2005</th>
<th>2004</th>
<th>Dollar Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current and other assets</td>
<td>$5,061,507</td>
<td>$1,184,974</td>
<td>$3,876,533</td>
<td>327.1%</td>
</tr>
<tr>
<td>Capital assets</td>
<td>12,202,895</td>
<td>2,473,465</td>
<td>9,729,430</td>
<td>393.4%</td>
</tr>
<tr>
<td>Total assets</td>
<td>17,264,402</td>
<td>3,658,439</td>
<td>13,605,963</td>
<td>371.9%</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current and other</td>
<td>5,060,349</td>
<td>1,183,816</td>
<td>3,876,533</td>
<td>327.5%</td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets</td>
<td>12,202,895</td>
<td>2,473,465</td>
<td>9,729,430</td>
<td>393.4%</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,158</td>
<td>1,158</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$12,204,053</td>
<td>$2,474,623</td>
<td>$9,729,430</td>
<td>393.2%</td>
</tr>
</tbody>
</table>

Total net assets at June 30, 2005 are comprised primarily of accumulated project costs (construction in progress) in the amount of $12,202,895. This is an increase of $9,729,430 from the prior year and includes capital costs associated with preliminary engineering and design activities, program consulting and management costs, environmental and planning costs, and administrative costs necessary to support the increased project activities.

<table>
<thead>
<tr>
<th>AUTHORITY'S CHANGE IN NET ASSETS</th>
<th>2005</th>
<th>2003/2004*</th>
<th>Dollar Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonoperating revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>$-</td>
<td>$1,158</td>
<td>$(1,158)</td>
<td>n/a</td>
</tr>
<tr>
<td>Capital contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal government capital grants</td>
<td>4,366,250</td>
<td>681,147</td>
<td>3,685,103</td>
<td>541.0%</td>
</tr>
<tr>
<td>Local government shared revenues</td>
<td>5,363,180</td>
<td>993,629</td>
<td>4,369,551</td>
<td>439.8%</td>
</tr>
<tr>
<td>In-kind revenue - San Francisco Redevelopment Agency</td>
<td>-</td>
<td>798,689</td>
<td>$(798,689)</td>
<td>n/a</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>9,729,430</td>
<td>2,474,623</td>
<td>7,254,807</td>
<td>293.2%</td>
</tr>
<tr>
<td>Net assets - beginning</td>
<td>2,474,623</td>
<td>-</td>
<td>2,474,623</td>
<td>n/a</td>
</tr>
<tr>
<td>Net assets - ending</td>
<td>$12,204,053</td>
<td>$2,474,623</td>
<td>$9,729,430</td>
<td>393.2%</td>
</tr>
</tbody>
</table>


For the year ended June 30, 2005, the Authority received $9,729,430 in capital contributions all of which was expended on the Transbay Terminal and Caltrain Downtown Extension project. The Authority had contract commitments of $10,069,843 with various contractors at June 30, 2005, the most significant of which relate to preliminary design and engineering for the Project. Additional information on the Authority’s capital asset and commitments can be found in note 4 to the financial statements.
The Authority has funding agreements with the Metropolitan Transportation Commission and the San Francisco County Transportation Authority to receive local funding for preliminary planning and design services for the Transbay Terminal and Caltrain Downtown Extension project. Federal and local revenues increased from the prior period due to an increase in reimbursable Project costs, see note 8 of the financial statements for additional information. In-kind revenues decreased from the prior period as the San Francisco Redevelopment Agency did not contribute materials or services to the Project during fiscal year 2005.

Economic Factors and Next Year’s Budget

Several factors affecting expenditures in the Authority’s fiscal year 2005-06 budget include increasing expenditures in order to continue the planning process for the terminal and downtown extension. Additionally, next year’s budget includes $74,250,000 for the acquisition of right-of-way required for the project.

The Authority anticipates that the majority of revenues to pay for these increased 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 transportation sales tax revenues from the County of San Mateo, and grants from the Federal Transportation Administration (FTA). The Prop K expenditure plan includes $270 million for the project, and Regional Measure 2 program includes $150 million. In fiscal year 2005-06, allocations in the amount of $32.7 million and $44.5 million in Prop K and Regional Measure 2 funds, respectively, were approved. Included in these allocations, both funding sources will contribute $29 million to the purchases of right-of-way. An additional $1.77 million from Prop K was also approved in fiscal year 2006. The San Mateo County Transportation Authority has allocated $7.28 million in transportation sales tax funds to the project in fiscal year 2006. All of the allocations noted 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.

The Authority acquired the first of a series of right-of-way properties necessary for the completion of the project. The purchase of the property in the amount of $58,000,000 was funded by Prop K and RM2 contributions. The property is temporarily leased to a third party and will generate approximately $290,783 in parking rental income in fiscal years 2006 and 2007. The Authority is also expecting to receive proceeds from the sale of transferable development rights (TDR’s) in the amount of $4,040,000.

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.
BASIC FINANCIAL STATEMENTS
ASSETS:

Cash equivalents $378,979

Receivables:

Federal Transit Agency, passed through the San Francisco Municipal Transportation Agency (MUNI) 148,587
Metropolitan Transportation Commission (MTC) 3,011,483
San Francisco County Transportation Authority (SFCTA) 1,281,300
Interest earnings on deposits 1,158
Total receivables 4,442,528

Deposits with Local Government Services (LGS) 240,000

Capital assets, nondepreciable:
Accumulated project costs 12,202,895
Total assets 17,264,402

LIABILITIES:

Accounts payable 4,820,349
Unearned revenue 240,000
Total liabilities 5,060,349

NET ASSETS:

Invested in capital assets 12,202,895
Unrestricted 1,158
Total net assets $12,204,053

See accompanying notes to the basic financial statements
CAPITAL CONTRIBUTIONS

Federal government capital grants $ 4,366,250

Local government shared revenues:
  Regional Measure 1 - bridge tolls (RM1) 166,372
  Regional Measure 2 - bridge tolls (RM2) 3,845,638
  Proposition K - half cent sales tax (Prop K) 1,351,170

  Total capital contributions 9,729,430

Change in net assets 9,729,430

Net assets, at July 1, 2004 2,474,623

Net assets, at June 30, 2005 $ 12,204,053
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Federal government capital grants $ 4,220,935
Local government shared revenues:
  Regional Measure 1 - bridge tolls (RM1) 990,531
  Regional Measure 2 - bridge tolls (RM2) 834,155
  Proposition K - half cent sales tax (Prop K) 69,870
Acquisition of capital assets (5,852,897)

Cash flows from capital financing activities 262,594

Cash equivalents, beginning of year 116,385
Cash equivalents, end of year $ 378,979

NONCASH CAPITAL ACTIVITIES

Acquisition of capital assets on accounts payable $ 4,820,349
NOTE 1 - ORGANIZATION

In April 2001, the City and County of San Francisco (City), Alameda-Contra Costa Transit District, and the Peninsula Corridor Joint Powers Board (collectively, “Member Agencies”) entered into an agreement creating the Transbay Joint Powers Authority (Authority) to design, build, develop, operate and maintain a new transportation terminal and associated facilities in San Francisco (Transbay Terminal) and links to regional transportation systems which includes the downtown extension of Caltrain from 4th and Townsend Streets to the new transportation terminal. The State has granted the Authority primary jurisdiction with respect to all matters pertaining to the financing, design, development, construction, and operation of the new Transbay Terminal and Caltrain Downtown Extension project. The Authority is governed by a five member board of directors. The City has appointed three directors and each other member appointed one director to the Board. Member Agencies have granted to the Authority most of their jointly held powers, including the authority to buy and sell property, enter into contracts, and accept and expend grants of cash and property.

The Authority 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, and the Peninsula Corridor Joint Powers Board. Therefore, these financial statements represent solely the activities, transactions and status of the Transbay Joint Powers Authority.

The Authority has three 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) and San Francisco County Transportation Authority (SFCTA). The grant funding from the FTA and the local match from MTC has been passed through to the Authority from San Francisco Municipal Transportation Agency (MUNI). MUNI has also provided administrative and financial services to the Authority on a contract basis. Additional funding from MTC and all funding provided by SFCTA is sent directly to the Authority and is managed and reported by the Authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority 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 Authority distinguishes operating revenues from nonoperating revenues. Nonoperating revenues result from unrestricted interest income earned on the deposit with Local Government Services. The Authority did not earn any operating revenues since its inception. The Authority will generate operating revenues once the projects are complete and placed into service.

Under the terms of grant and revenue sharing agreements, the Authority funds project costs on a cost-reimbursement basis. Thus, when project costs are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority’s policy to first apply restricted cost-reimbursement grant and revenue sharing resources to such project costs.
NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority 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 Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents (see Note 3).

Capital Assets
The Authority 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. The costs of acquisition, planning and construction of the Transbay Terminal and Caltrain Downtown Extension Project are recorded as accumulated project costs until such assets are completed and placed in service, at which time the Authority will commence recording depreciation expense.

Capital Contributions
The Authority has grant contracts with the San Francisco Municipal Transportation Agency (MUNI) under which MUNI passes through federal awards from the U.S. Department of Transportation, Federal Transit Administration for the Transbay Terminal and Caltrain Downtown Extension project. In addition, the Authority has an agreement with Metropolitan Transportation Commission (MTC) for Regional Measure 1, which is used to match Federal Transit Administration grants. The Authority has an additional agreement with the Metropolitan Transportation Commission (MTC) for Regional Measure 2 (RM2) and an agreement with the San Francisco County Transportation Authority (SFCTA) for Proposition K (Prop K) (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 Transbay Terminal and Caltrain Downtown Extension Project are reported in the Statement of Revenues 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 and 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. The Authority had no outstanding capital-related debt at June 30, 2005.

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 Authority had no restricted net assets at June 30, 2005.
NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 3 - CASH AND CASH EQUIVALENTS

The Authority’s cash, passed through MUNI related to the FTA and RM1 agreements, is held in the City Treasurer’s cash and investments pool. Investments made by the 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 by the City on June 30, 2005 was $378,979, 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 to the City’s basic financial statements.

In addition, the Authority has an agreement with Union Bank of California for banking services and has opened a checking account to manage the receipt and disbursement of RM2 and Prop K funds. The balance of this account on June 30, 2005 was $0.

NOTE 4 – CAPITAL ASSETS

The Authority’s capital assets consist of accumulated project costs related to the Transbay Terminal and Caltrain Downtown Extension project. Accumulated project costs of $12,202,895 include the following:

<table>
<thead>
<tr>
<th>Project Task</th>
<th>Balance at July 1, 2004</th>
<th>Additions</th>
<th>Balance at June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown Extension Preliminary Engineering and Design</td>
<td>$</td>
<td>$ 2,185,067</td>
<td>$ 2,185,067</td>
</tr>
<tr>
<td>Program Consulting &amp; Management Costs</td>
<td>-</td>
<td>$ 3,414,998</td>
<td>$ 3,414,998</td>
</tr>
<tr>
<td>Environmental and Planning Costs</td>
<td>639,917</td>
<td>1,442,165</td>
<td>2,082,082</td>
</tr>
<tr>
<td>Other Professional Services</td>
<td>1,456,373</td>
<td>1,976,065</td>
<td>3,432,438</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>377,175</td>
<td>711,135</td>
<td>1,088,310</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,473,465</strong></td>
<td><strong>$ 9,729,430</strong></td>
<td><strong>$ 12,202,895</strong></td>
</tr>
</tbody>
</table>

At year-end the Authority had contract commitments of $10,069,843 for preliminary design, engineering, planning and administrative costs.
NOTE 5 – CONTRACT EMPLOYEES

The Authority has entered into an agreement with Local Government Services (LGS) to provide employee services for all of the Authority’s staff positions. For the year ended June 30, 2005, expenses for contract employees and related administrative costs were $618,111.

NOTE 6 – OFFICE LEASE

The Authority leases office space under an operating lease which expires in fiscal year 2009. Total costs for this lease were $85,237 for the year ended June 30, 2005. These costs represent direct project management costs related to the Transbay Terminal and Caltrain Downtown Extension project and as such are capitalized as part of accumulated project costs. The future minimum lease payments for this lease are as follows:

<table>
<thead>
<tr>
<th>Year ending June 30</th>
<th>2006</th>
<th>88,500</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>92,137</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>95,774</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>40,537</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$316,948</td>
</tr>
</tbody>
</table>

NOTE 7 - RISK MANAGEMENT

The Authority 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 Authority 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 Authority’s deductibles and maximum coverage are as follows:

<table>
<thead>
<tr>
<th>Coverage Descriptions</th>
<th>Deductibles</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Liability and Automobile</td>
<td>$250-$1,000</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Property Coverage</td>
<td>$2,000</td>
<td>$750,000,000</td>
</tr>
<tr>
<td>Boiler &amp; Machinery</td>
<td>$1,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Earthquake</td>
<td>N/A</td>
<td>none</td>
</tr>
<tr>
<td>Errors and Omissions Liability</td>
<td>$0</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Employee Dishonesty</td>
<td>$0</td>
<td>$400,000</td>
</tr>
<tr>
<td>Personal Liability for Board</td>
<td>$500</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

The Authority pays an annual contribution, determined by the Board of Directors of SDMRA, and any additional amounts which the Board of Directors deems necessary in accordance with bylaws of SDMRA. The Authority’s annual contribution for the fiscal year ended June 30, 2005 was $14,000 and there have been no insurance claims filed for the three years ended June 30, 2005. There have been no significant reductions in insurance coverage from the previous year.
NOTE 8 – LOCAL REVENUE FUNDING AGREEMENTS

In June 2001, the San Francisco Municipal Transportation Agency (MUNI) received two funding allocations totaling $1,400,000 on the Authority’s behalf from the Metropolitan Transportation Commission (MTC) to provide preliminary planning and preliminary design services for the Transbay Terminal and Caltrain Downtown Extension project. 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.

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 allocation to the Authority to be used for the preliminary engineering of the Transbay Terminal and Caltrain Downtown Extension project. During fiscal year 2005, the Authority expended $3,845,638 with the remaining amount of $6,659,362 appropriated for the year ending June 30, 2006.

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 Authority. As of June 30, 2005 $1,351,170 was expended by the Authority with the remaining $2,373,830 appropriated for the year ending June 30, 2006.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2005, the City provided accounting, legal and project planning services to the Authority. Such services totaled $1,033,388 and were provided by the following City departments:

<table>
<thead>
<tr>
<th>Department</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the City Attorney</td>
<td>$ 962,576</td>
</tr>
<tr>
<td>Planning Department</td>
<td>31,303</td>
</tr>
<tr>
<td>Municipal Transportation Agency</td>
<td>39,509</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,033,388</strong></td>
</tr>
</tbody>
</table>

NOTE 10 – CONTINGENCIES

Amounts received or receivable from the federal government, MTC, and SFCTA 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 Authority expects such amounts, if any, to be immaterial.
NOTE 11 – SUBSEQUENT EVENT

The Authority determined that certain properties must be acquired for the construction of the Transbay Terminal and extension of Caltrain to the new Terminal (the Project). On September 28, 2004, the City’s Board of Supervisors voted to condemn one such property, known as 80 Natoma Street. The owner of the site, Myers Natoma Venture, LLC (“MNV”) claimed that it intended to build a 50-story condominium tower on the site. In October 2004, the City filed an eminent domain action to acquire 80 Natoma in San Francisco Superior Court. In July 2004, MNV sued the Authority, the Peninsula Corridor Joint Powers Board (“JPB”) and the City and County of San Francisco (collectively “the Agencies”) in San Francisco Superior Court challenging the validity of the Environmental Impact Report for the Project (“CEQA Action”). MNV also filed a separate suit against the City in July 2004 for damages for a violation of its civil rights based on the City’s suspension of MNV’s site permit for its condominium project. In September 2004, MNV dismissed the civil rights suit and re-filed it in federal court. To facilitate settlement discussions, MNV dismissed the civil rights suit without prejudice in the Spring of 2005. On May 26, 2005, the Superior Court ruled in favor of MNV in the CEQA Action and halted all work on the Project. The Court of Appeal, however, stayed that order and allowed the Project to proceed while it ruled on the merits of the Agencies’ appeal, indicating that the appeal had probable merit. In October 2005, the Agencies approved a settlement of all litigation between the Agencies and MNV for $58 million, which settlement included the Authority’s purchase of the 80 Natoma land and the marketable portion of MNV’s investment in its development project, and dismissal of the CEQA Action and a release of all civil rights claims. On November 2, 2005, the purchase was completed with funding obtained from MTC RM 2 and SFCTA Prop K monies, each contributing $29 million. All litigation pertaining to 80 Natoma is now terminated.
SUPPLEMENTARY INFORMATION
<table>
<thead>
<tr>
<th>Program Description</th>
<th>Federal CFDA Number</th>
<th>Grant Number</th>
<th>Program Award</th>
<th>EXPENDITURES - FEDERAL SHARE</th>
<th>REVENUES - FEDERAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cumulative through June 30, 2004</td>
<td>Cumulative through June 30, 2005</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cash to accrual basis through July 1, 2004</td>
<td>Cash to accrual basis through July 1, 2004</td>
</tr>
<tr>
<td>U.S. DEPARTMENT OF TRANSPORTATION</td>
<td></td>
<td></td>
<td></td>
<td>Cumulative through June 30, 2005</td>
<td>Cumulative through June 30, 2005</td>
</tr>
<tr>
<td>Federal Transit Formula Grants Passed Through from the San Francisco Municipal Transportation Agency</td>
<td></td>
<td></td>
<td></td>
<td>Cash to accrual basis through June 30, 2004</td>
<td>Cash to accrual basis through June 30, 2004</td>
</tr>
<tr>
<td>- Capital Assistance</td>
<td></td>
<td></td>
<td></td>
<td>$677,875</td>
<td>$3,272</td>
</tr>
</tbody>
</table>
NOTE 1 – GENERAL

The Schedule of Expenditures of Federal Awards (the Schedule) presents the cumulative activity of all federal award programs of the Transbay Joint Powers Authority (the Authority) through the year ended June 30, 2005.

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 revenues and expenditures agree to or can be reconciled with the amounts reported in the Authority’s basic financial statements.
OTHER REPORTS
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 (Authority) as of and for the year ended June 30, 2005, and have issued our report thereon dated February 15, 2006. 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 Authority’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 Authority 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 Authority’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*.

We noted a matter that we have reported to management of the Authority in a separate letter dated February 15, 2006

This report is intended solely for the information and use of the Board of Directors, Authority 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.

Certified Public Accountants
Walnut Creek, California

February 15, 2006
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 Authority) 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,
2005. The Authority’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 Authority’s management. Our responsibility is to express an opinion on the
Authority’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
Authority’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 Authority’s compliance with those
requirements.

In our opinion, the Authority 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, 2005.
Internal Control Over Compliance

The management of the Authority 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 Authority’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 Authority 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, Authority 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.

Marcia, Jini & Company
Certified Public Accountants
Walnut Creek, California

February 15, 2006
## Section I
### Summary of Auditor’s Results

**Financial Statements**

Type of auditor’s report issued on the basic financial statements of the Authority: We issued an unqualified opinion.

Internal control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? No
- Noncompliance material to the financial statements noted? No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None reported

Type of auditor’s report issued on compliance for major programs: We issued an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of major programs? U.S. Department of Transportation Federal Transit Formula Grants CFDA Number 20.507

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as a low-risk auditee? No
Section II
Financial Statement Findings

None reported.

Section III
Federal Award Findings and Questioned Costs

None reported.
TRANSBAY JOINT POWERS AUTHORITY

Status of Prior Year Findings
For the Year Ended June 30, 2005

Reference Number: FINDING 04-01

Summary of Reportable Condition: The Transbay Joint Powers Authority (Authority) did not timely record two significant types of transactions and had not yet developed or acquired the in-house staffing capacity to produce summarized financial management reports on a timely basis.

Status of Corrective Action: In process.

The Authority hired a part time Finance Manager to oversee transaction processing and preparation of the financial statements. While this has significantly improved the Authority’s audit readiness and financial reporting process, during our audit we noted an error related to capture and cut-off of fiscal year 2004 activity. An invoice for $360,578 for services provided by the City Attorney’s office during fiscal year 2004 was not reported until fiscal year 2005. This error resulted in an understatement of revenues and capital assets as of June 30, 2004. Though we agree with management that this error is not material to the financial statements, we recommend that management continue to focus on proper transaction capture and cut-off for accurate and timely financial reporting.