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, 2007

TRANSBAY JOINT POWERS AUTHORITY
For the Year Ended June 30, 2007

Table of Contents

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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, 2007, 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, 2007, 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 December 28, 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

December 28, 2007

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2007

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2007 with comparative information for the year ended June 30, 2006. 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, 2007, assets of the TJPA exceeded its liabilities by $104,647,707.
- The TJPA received $14,681,707 in capital contributions for the year ended June 30, 2007. All contributions were used for the Transbay Transit Center Program (the "Program").
- The TJPA did not purchase additional right of way property during the year ended June 30, 2007.

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

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

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

Notes to the Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11-19 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

	2007	2006	Dollar Change	Percent Change
Assets:				
Current and other assets	$ 10,687,849	$ 7,983,184	$ 2,704,665	33.9%
Capital assets	99,786,614	85,261,235	14,525,379	17.0%
Total assets	110,474,463	93,244,419	17,230,044	18.5%
Liabilities:				
Current and other	5,826,756	3,917,358	1,909,398	48.7%
Net Assets:				
Invested in capital assets	99,786,614	85,261,235	14,525,379	17.0%
Unrestricted	4,861,093	4,065,826	795,267	19.6%
Total net assets	$ 104,647,707	$ 89,327,061	$ 15,320,646	17.2%

Total net assets at June 30, 2007 are comprised primarily of construction in progress of $41,761,603 and land purchased for right-of-way of $58,025,011. 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.

The $2,704,665 increase in current and other assets is primarily attributable to a $2,668,771 increase in federal capital grants and local government shared revenues receivable. The net increase of $1,909,398 in current and other liabilities from the prior year is due to several factors: accounts and other payables increased $2,115,475 primarily because of a higher level of business activity in fiscal year 2007; the liability for accrued vacation increased $33,923 due to more employees with compensated absences, higher rates of compensation, and an adjustment to the prior year accrual for fringe benefits on accrued vacation; and unearned revenue decreased by $240,000 as the final portion of Regional Measure 1 (RM 1) funds was recognized as revenue in fiscal year 2007.

In addition, current year net assets include $4,861,093 in unrestricted net assets.

TJPA'S CHANGES IN NET ASSETS

	2007	2006	Dollar Change	Percent Change
Nonoperating revenues				
Interest income	$ 204,765	$ 34,573	$ 170,192	492.3%
Sale of transferable development rights	-	4,040,000	(4,040,000)	-100.0%
Other nonoperating revenues	434,175	288,930	145,245	50.3%
Total nonoperating revenues	638,940	4,363,503	(3,724,563)	-85.4%
Capital contributions				
Federal government capital grants	3,548,381	2,417,962	1,130,419	46.8%
Local government shared revenues	11,133,325	70,341,543	(59,208,218)	-84.2%
Total capital contributions	14,681,706	72,759,505	(58,077,799)	-79.8%
Change in net assets	15,320,646	77,123,008	(61,802,362)	-80.1%
Net assets- beginning	89,327,061	12,204,053	77,123,008	631.9%
Net assets- ending	$ 104,647,707	$ 89,327,061	$ 15,320,646	17.2%

<u>Nonoperating revenues</u>

The fiscal year 2007 increase in interest income is primarily attributable to a higher invested principal balance during fiscal year 2007 resulting from the one-time sale of transferable development rights in fiscal year 2006. The fiscal year 2007 increase in other nonoperating revenues is due to the fact that rental revenues were collected for the entire 2007 fiscal year whereas rental revenue was collected for only a portion of fiscal year 2006.

<u>Capital contributions</u>

For the year ended June 30, 2007, the TJPA received $14,681,706 in capital contributions that were expended on the Transbay Transit Center Program, which includes a new Transit Center building, new bus storage facilities, bus ramps and a 1.3 mile extension of rail lines from the Transit Center to the Caltrain station. There was a decrease of $58,077,799 from prior year's contributions attributed to land purchased for right-of-way. During fiscal year 2007, there was no comparable sale of transferable development rights associated with the land purchased for right-of-way in the prior year. At June 30, 2007, the TJPA had capital project contract commitments of $40,501,843 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.

Economic Factors and Next Year's Budget

Several factors affecting expenditures in the TJPA's fiscal year 2008 budget include increased expenditures by the TJPA for the engineering and design phase of the temporary bus terminal, permanent bus storage facilities and the Transbay Transit Center building. The TJPA plans to issue an architecture and engineering contract for the design of the Transbay Transit Center building in fiscal year 2008. As of the date of this report, the contract has not yet been entered into. The TJPA has budgeted approximately $8.8 million for this work in fiscal year 2008. Also, approximately $4.3 million was budgeted for the temporary terminal and bus storage facility engineering and design contracts. The TJPA plans to acquire right of way in fiscal year 2008 that is required for the completion of Phase 1 of the Transbay program, as well as the preservation of several parcels for Phase 2. The fiscal year 2008 budget includes approximately $62.4 million for right of way activities

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

The approved fiscal year 2008 budget shows revenues in two categories – committed and planned. These two categories are further subdivided between sources which have been identified and, within planned revenues, "Other Planned Revenues." The identified sources are those planned expenditures of grants that were allocated or had pending applications with funding partners at the time the TJPA Board approved the 2008 fiscal year budget in June 2007. The "Other Planned Revenues" makes up the balance of the revenues required to fund fully the fiscal year 2008 budgeted expenditures. Throughout the 2008 fiscal year, TJPA will work with the funding agencies to secure grants as funding needs are identified. This is explained in detail in the staff report which was submitted with the fiscal year 2008 budget and can be found on the TJPA website for the May 17, 2007 TJPA Board meeting.

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

TRANSBAY JOINT POWERS AUTHORITY
Statement of Net Assets
June 30, 2007

ASSETS:	
Current assets:	
Cash and cash equivalents*:*	
Cash in bank, non-interest bearing	$ 11,783
Cash in bank, interest bearing	57,411
Equity in pooled cash and investments City and County of San Francisco	4,274,717
Total cash and cash equivalents	4,343,911
Receivables:	
Federal Transit Administration, pass through from the San Francisco Municipal Transportation Agency	658,398
Federal Transit Administration	330,988
Metropolitan Transportation Commission	757,798
San Francisco County Transportation Authority	2,631,431
San Mateo County Transportation Authority	1,431,512
Interest earnings on deposits	1,819
Total receivables	5,811,946
Prepaid expenses	8,837
Deposit with Local Government Services	240,000
Loan receivable - San Francisco Redevelopment Agency	283,155
Total current assets	10,687,849
Noncurrent assets:	
Capital assets, nondepreciable:	
Land	58,025,011
Construction in progress - Transbay Transit Center and Caltrain Downtown Extension	41,761,603
Total capital assets	99,786,614
Total assets	$ 110,474,463

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Net Assets (Continued)

June 30, 2007

LIABILITIES:	
Current liabilities:	
Payables:	
Accounts and contracts payable	$ 5,464,810
Retainage payable	16,211
Intergovernmental payable to City and County of San Francisco	84,375
Intergovernmental payable to Local Government Services	94,076
Intergovernmental payable to San Francisco Bay Area Water Transit Authority	60,000
Deposit payable	36,180
Total payables	5,755,652
Compensated absences - accrued vacation	71,104
Total liabilities	5,826,756
NET ASSETS:	
Invested in capital assets	99,786,614
Unrestricted	4,861,093
Total net assets	104,647,707
Total liabilities and net assets	$ 110,474,463

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, 2007

NONOPERATING REVENUES	
Interest income:	
Cash in bank, interest bearing	$ 1,016
Equity in pooled cash and investments City and County of San Francisco	201,930
Interest on deposit	1,819
Total interest income	204,765
Rental revenues	434,160
Miscellaneous revenues	15
Total nonoperating revenues	638,940
CAPITAL CONTRIBUTIONS	
Federal government capital grants:	
Pass through from the San Francisco Municipal Transportation Agency	1,303,047
Federal Transit Administration	2,245,334
Local government shared revenues*:*	
Regional Measure 1 and 2- bridge tolls	4,118,171
Proposition K- half cent sales tax	3,206,774
San Mateo County sales tax	3,808,380
Total capital contributions	14,681,706
Change in net assets	15,320,646
Net assets, beginning of year	89,327,061
Net assets, end of year	$ 104,647,707

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Cash Flows
For the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from parking lease agreement	$ 434,160
Deposit with Local Government Services	(240,000)
Other cash receipts	15
Net cash provided by operating activities	194,175
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Federal government capital grants	2,636,069
Proceeds from local government shared revenues	9,376,017
Acquisition of capital assets	(12,375,981)
Net cash used in capital and related financing activities	(363,895)
CASH FLOWS FROM INVESTING ACTIVITIES	
Loan to San Francisco Redevelopment Agency	(283,155)
Interest income received	210,527
Net cash used in investing activities	(72,628)
Net decrease in cash and cash equivalents	(242,348)
Cash equivalents, beginning of year	4,586,259
Cash equivalents, end of year	$ 4,343,911
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ -
Nonoperating revenues	434,175
Deposit with Local Government Services	(240,000)
Net cash provided by operating activities	$ 194,175
Noncash capital financing activities	
Acquisition of capital assets on accounts payable, contracts payable, retainage payable and accrued liabilities	$ 5,719,471

See accompanying notes to the basic financial statements.

NOTE 1 - ORGANIZATION

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

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

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

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 Transit 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 is both sent

NOTE 1 - ORGANIZATION (Continued)

directly to the TJPA and 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 and rental revenue. 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 MTA under which MTA passes through Federal awards from the FTA for the Program. In addition, the TJPA has direct capital grant agreements with the FTA, MTC for Regional Measure 2 (RM2), SFCTA for Proposition K (Prop K), and 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, 2007.

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, 2007.

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, 2007, the TJPA has $4,861,093 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)

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.

In June 2007, GASB issued Statement No. 51, *Accounting and Reporting for Intangible Assets*. This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. This statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The TJPA will be required to implement the statement for the fiscal year ending June 30, 2010. Retroactive application to prior years is required.

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 investments pool on June 30, 2007 was $4,274,718, which had a weighted average maturity of less than 1 year. Additional information regarding the City Treasurer's cash and investments pool is presented in the notes of the City's basic financial statements.

NOTE 4 – CAPITAL ASSETS

The TJPA's capital assets consist of accumulated Program costs related to the Transbay Transit Center and Caltrain Downtown Extension. Accumulated Program costs of $99,786,614 include the following:

Project Task	Balance at June 30, 2006	Additions	Transfers	Balance at June 30, 2007
Downtown Extension Preliminary Engineering and Design	$ 6,760,320	$ 4,529,999	$ -	$ 11,290,319
Program Consulting and Management Costs	11,175,852	6,794,431	-	17,970,283
Environmental and Planning Costs	2,090,697	445,207	202,762	2,738,666
Other Professional Services	5,041,186	1,693,446	39,825	6,774,457
Administrative Costs	1,925,582	1,062,296	-	2,987,878
Land	58,267,598	-	(242,587)	58,025,011
Total	$ 85,261,235	$ 14,525,379	$ -	$ 99,786,614

At year-end the TJPA had contract commitments of $40,501,843 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, 2007 expenses for contract employees and related administrative costs were $923,346.

NOTE 6 – OFFICE LEASE

The TJPA leases office space under an operating lease that expires during fiscal year 2009. Total costs for this lease were $102,202 for the year ended June 30, 2007. 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:

2008		$ 95,774
2009		40,537
	Total	$ 136,311

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	$500	$2,500,000
Auto Liability	$1,000	$2,500,000
Property Coverage	$2,000	$350,000,000
Boiler and Machinery	$1,000	$100,000,000
Earthquake	N/A	none
Errors and Omissions Liability	$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, 2007 was $15,819 and no insurance claims were filed for the five years ended June 30, 2007.

The coverage for property insurance was reduced from $1 billion in the prior year to $350 million. The property market dictates the available capacity. For the fiscal year 2007 renewal, the maximum capacity (limits available) was $350 million. This was a direct result of Hurricane Katrina. The TJPA's insured values are much less than $350 million. Accordingly, the change in limits for the program did not affect the TJPA.

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 million per accident.

NOTE 8 – LOCAL REVENUE FUNDING AGREEMENTS

A. RM2 Revenues

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

The MTC approved allocations totaling $51,960,000 of which $45,861,166 has been expended leaving an unexpended balance of $6,098,834, which was appropriated for the year ending June 30, 2008.

Approval Date	Activity	Allocation	Total Expended	Balance at June 30, 2007
9/22/04	Preliminary Engineering	$ 15,495,000	$ 15,158,917	$ 336,083
11/17/04	Right of Way Acquisition	16,125,000	16,125,000	-
10/26/05	Right of Way Acquisition	12,875,000	12,875,000	-
5/24/06	Preliminary Engineering	2,735,000	1,378,038	1,356,962
2/28/07	Preliminary Engineering	4,730,000	324,211	4,405,789
	Total Allocations	$ 51,960,000	$ 45,861,166	$ 6,098,834

B. Prop K Revenues

On November 4, 2003 the voters approved Prop K which imposes one-half of one percent of additional sales and use tax to be used for the planning, maintenance and rehabilitation of, and improvement to, the City of San Francisco's multi-modal transportation system. The SFCTA is responsible for allocating, administering and overseeing the expenditures of Prop K.

The SFCTA approved allocations totaling $47,554,000 of which $35,931,775 has been expended leaving an unexpended balance of $11,622,225, which was appropriated for the fiscal year ending June 30, 2008.

Approval Date	Activity	Allocation	Total Expended	Balance at June 30, 2007
9/28/04	Right of Way Acquisition	$ 16,125,000	$ 16,125,000	$ -
9/28/04	Preliminary Engineering	3,725,000	3,725,000	-
10/25/05	Right of Way Acquisition	12,875,000	12,875,000	-
9/26/06	Preliminary Engineering	4,004,000	1,864,486	2,139,514
2/27/07	Preliminary Engineering	10,825,000	1,342,289	9,482,711
	Total Allocations	$ 47,554,000	$ 35,931,775	$ 11,622,225

NOTE 8 – LOCAL REVENUE FUNDING AGREEMENTS (Continued)

C. SMCTA Measure A Revenues

In June of 1988, San Mateo County voters approved Measure A, which established a program to fund transportation projects by an increase in sales tax of .5%. The SMCTA is an independent agency formed to administer the proceeds of the sales tax increase.

On April 11, 2006, the SMCTA agreed to allocate $7,280,000 for preliminary engineering of the Caltrain downtown extension and agency costs. As of June 30, 2007, $4,638,735 was expended and the remaining amount of $2,641,265 was appropriated for the year ending June 30, 2008.

NOTE 9 – RELOCATION ASSISTANCE

The TJPA is in the process of acquiring real property for the implementation of Phase 1 of the Transbay Transit Center Program. Private property acquisitions will potentially affect businesses, parking vendors, and investment property businesses. The TJPA will provide relocation assistance to eligible occupants.

The TJPA receives federal and state financial assistance, and is therefore required to provide relocation assistance in accordance with the Federal Uniform Relocation Assistance and Real Property Acquisition Policies Act (Uniform Act), 42 U.S.C. Sections 4601 et seq., and its implementing regulations, 49 CFR Part 24; and the California Relocation Act, Govt. Code Sections 7260 et seq., and its implementing regulations, 25 Cal. Code Regs. Sections 6000 et seq.

As stated in 49 CFR Part 24, Section 24.203 (b) Notice of relocation eligibility, “Eligibility for relocation assistance shall begin on the date of a notice of intent to acquire (described in section 24.203(d)), the initiation of negotiations (defined in section 24.2(a)(15)), or actual acquisition, whichever occurs first.” In fiscal year 2007, the TJPA issued multiple notices of intent to acquire real estate to property owners. Thus, the TJPA has a financial liability for relocation assistance costs once the underlying property is acquired.

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

The high estimate of relocation costs associated with properties for which notices of intent to acquire have been issued is $555,000. In addition, the high estimate of relocation costs associated with notices of intent to acquire issued on August 1, 2007 is $435,000.

The notices of intent to acquire are contingent liabilities and will not become actual liabilities until the TJPA acquires the underlying property. At June 30, 2007, the TJPA had not acquired the underlying property for which notices of intent to acquire had been issued.

NOTE 10 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2007, the City provided accounting, legal, real estate, procurement, and project planning services to the TJPA. Such services totaled $155,425 and were provided by the following organizations/departments.

Office of the City Attorney	$	58,957
Real Estate Department		6,700
DPW Bureau of Street-Use and Mapping		31,011
Department of Telecommunications and Information Services		3,093
Municipal Transportation Agency		55,663
Total	$	155,425

At June 30, 2007, the TJPA reported $84,375 due to the City. In addition, the TJPA agreed to loan the San Francisco Redevelopment Agency ("RDA") up to $2,500,000 over three fiscal years beginning in fiscal year 2006 for costs related to the planning of public infrastructure. The $2,500,000 has been reserved for this purpose. At June 30, 2007, the loan receivable from the RDA is $283,155. Beginning December 31, 2009, the RDA is obligated to repay the loan in eight quarterly payments. The loan does not accrue interest.

NOTE 11 - OTHER 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.

SUPPLEMENTARY INFORMATION

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Program Description	Federal CFDA Number	Grant Number	Program Award	EXPENDITURES - FEDERAL SHARE Cumulative through July 1, 2006	July 1, 2006 through June 30, 2007	Cumulative through June 30, 2007	REVENUES - FEDERAL Cumulative through July 1, 2006	July 1, 2006 through June 30, 2007	Cumulative through June 30, 2007
U.S. DEPARTMENT OF TRANSPORTATION									
Federal Transit Cluster:									
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	$ 7,465,359	$ 375,277	$ 7,840,636	$ 7,465,359	$ 375,277	$ 7,840,636
- Capital Assistance	20.507	CA-90-0212	954,719	-	927,770	927,770	-	927,770	927,770
Total Pass Through Grants			8,795,355	7,465,359	1,303,047	8,768,406	7,465,359	1,303,047	8,768,406
Federal Transit Formula Grants									
General Capital Assistance	20.500	CA-04-0010	6,649,751	-	2,245,334	2,245,334	-	2,245,334	2,245,334
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			$ 15,445,106	$ 7,465,359	$ 3,548,381	$ 11,013,740	$ 7,465,359	$ 3,548,381	$ 11,013,740

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

TRANSBAY JOINT POWERS AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

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, 2007. Federal awards received directly as well as passed through from other governmental agencies are included on the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

NOTE 4 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

OTHER REPORTS

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Board of Directors
Transbay Joint Powers Authority
San Francisco, California

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

We have audited the accompanying financial statements of the Transbay Joint Powers Authority (the TJPA) as of and for the year ended June 30, 2007, and have issued our report thereon dated December 28, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TJPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TJPA's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TJPA's financial statements are free of material misstatement, we performed tests of 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 these 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

December 28, 2007

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

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Board of Directors
Transbay Joint Powers Authority
San Francisco, California

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

Compliance

We have audited the compliance of the Transbay Joint Powers Authority (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, 2007. The TJPA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the TJPA's management. Our responsibility is to express an opinion on the TJPA's compliance based on our audit.

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

In our opinion, the TJPA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

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

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

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

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

This report is intended solely for the information and use of the Board of Directors, TJPA management and federal awarding agencies and 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

December 28, 2007

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section I Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of major programs:	
CFDA Nos. 20.500 and 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.