

Peninsula Corridor Joint Powers Board
San Carlos, California

A Joint Exercise of Powers Agreement among:

City and County of San Francisco
San Mateo County Transit District
Santa Clara Valley Transportation Authority



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2010



**PENINSULA CORRIDOR
JOINT POWERS BOARD**

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2010

Prepared by the Finance Division

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Section I

INTRODUCTORY

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Board of Directors

Executive Management

Organization Chart

Map

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December 15, 2010

To the Executive Director, Board of Directors of the Peninsula Corridor Joint Powers Board and the Citizens of San Francisco, San Mateo and Santa Clara Counties

San Carlos, California

**Comprehensive Annual Financial Report
Year Ended June 30, 2010**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Peninsula Corridor Joint Powers Board (JPB) for the fiscal year July 1, 2009 through June 30, 2010. This transmittal letter provides a summary of the JPB's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the JPB's financial results may refer to the Management's Discussion and Analysis in the Financial Section.

Management assumes sole responsibility for all the information contained in this report, including its presentation and the adequacy of its disclosures. To the best of our knowledge, we believe this report to be complete and reliable in all material respects. To provide a reasonable basis for making this representation, we have established a comprehensive system of internal controls designed to protect the JPB's assets from loss, to identify and record transactions accurately and to compile the information necessary to produce financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not exceed the likely benefits, the JPB's internal control system intends to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement.

To test the performance of the internal control system, the JPB contracted for independent auditing services from Maze & Associates, a certified public accounting firm licensed to practice in the State of California. The auditor expressed an opinion that the JPB's financial statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This conclusion is the most favorable kind and is commonly known as an "unqualified" or "clean" opinion.

PROFILE OF THE ORGANIZATION

Basic Information

The JPB is responsible for Caltrain passenger rail service on the San Francisco Peninsula and south into Santa Clara County. Caltrain operates a rail system that has been a central part of Peninsula communities for 147 years. The rail line currently extends from San Francisco 77 miles south to Gilroy, serving 32 stations. Spanning San Francisco, San Mateo and Santa Clara counties, Caltrain provides vital links to multiple transit properties in 20 cities.

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History

After two years of negotiations, the California Department of Transportation (Caltrans) and the Southern Pacific Transportation Company (Southern Pacific) executed a purchase-of-service agreement for maintaining passenger rail service between San Francisco and San Jose. Service under this agreement began in 1980 with Southern Pacific operating the trains while receiving subsidies from state and local agencies and with Caltrans providing contract administration, service planning, marketing, engineering, scheduling, fare management, customer support and performance monitoring.

In 1988, the City and County of San Francisco (CCSF), the San Mateo County Transit District (District) and the Santa Clara Valley Transportation Authority (VTA) commissioned a study that recommended transferring responsibility for the rail service from the state to the local level. The three parties accomplished this objective in October 1991, executing a joint powers agreement that formed the JPB. Two months later, the JPB purchased the rail right of way between San Francisco and San Jose (Mainline) and perpetual trackage rights between San Jose and Gilroy (Gilroy Extension) from Southern Pacific.

The JPB member agencies and the California Transportation Commission funded this acquisition. The JPB holds title to all right of way property located in the County of San Francisco. The JPB holds title to all right of way property in the County of San Mateo as tenants in common with the District. The JPB owns title to the right of way property in the County of Santa Clara from Palo Alto station to the Tamien station in San Jose. The County of Santa Clara holds the balance of the trackage rights south to Gilroy.

In July 1992, the JPB assumed control of the line from the State and commenced Caltrain passenger rail operations through a contractor, the National Railroad Passenger Corporation (Amtrak). In November 2001, Amtrak won a competitive bid for a new contract to run through Fiscal Year 2006. The JPB Board of Directors subsequently amended the contract in January 2005 to extend the term for an additional three years through June 30, 2009. In January 2008, the Board of Directors exercised the option to extend the contract for an additional year through June 30, 2010 and again in February 2009 through June 30, 2011. The JPB is in the process of selecting a contractor for future maintenance and support services with contract award currently expected by the end of fiscal year 2011.

Governance

The joint powers agreement established a nine-person board of directors that shapes the current and future direction of Caltrain. Various entities at the local level participate in appointing three persons to represent each of the member counties: San Mateo, Santa Clara and San Francisco. The JPB also created a nine-person Citizens Advisory Committee (CAC) composed of three citizens from each JPB county. The principal objective of the CAC is to articulate the interests and needs of current and future customers.

Administration

The joint powers agreement designates the District as the managing agency to provide administrative and staff services for Caltrain under the direction and oversight of the JPB Board of Directors. The JPB reimburses the District for the direct and administrative costs incurred for Caltrain operations. Some administrative costs are determined by overhead rates approved by the Federal Transportation Administration (FTA). Currently, the District provides the following services:

The *Office of the District Secretary* is responsible for directing and overseeing all activities and for providing support to the Board of Directors.

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The *Finance and Administration Division* is responsible for financial accounting and reporting, capital and grant administration and budgeting, operational budgeting, payroll and vendor disbursements, cash and investment management, debt management, revenue control, purchasing, contract administration, risk management, information technology, security, safety and human resources.

The *Operations, Engineering and Construction Division* is responsible for the overall management of Caltrain, including contractor oversight, right of way activities, fare and schedule administration, shuttle administration, service planning and quality assurance, and accommodations for persons with mobility impairments pursuant to the requirements of the Americans with Disabilities Act (ADA), management of all capital projects including right-of-way maintenance from conceptual engineering planning through construction and acceptance. The current contract operator, Amtrak, provides train service, maintains equipment and property and prepares financial and operational reports.

The *Office of the Peninsula Rail Program* is responsible for working in conjunction with the California High Speed Rail Authority to implement the Peninsula Rail Program along the Caltrain corridor.

The *Office of Planning and Development* is responsible for strategic planning and performance and property management.

The *Office of Public Affairs* is responsible for public information, media relations, legislative activities and community outreach.

The *Office of Customer Service and Marketing* is responsible for customer service, marketing, sales, advertising, market research, website and distribution services.

Component Units

The JPB is a legally separate and financially independent entity that is not a component unit of the County of San Francisco, the County of San Mateo, the County of Santa Clara or any other organization. Furthermore, the JPB has no component unit organizations under its control. Therefore, this comprehensive annual financial report and the financial statements contained within represent solely the activities, transactions and status of the JPB.

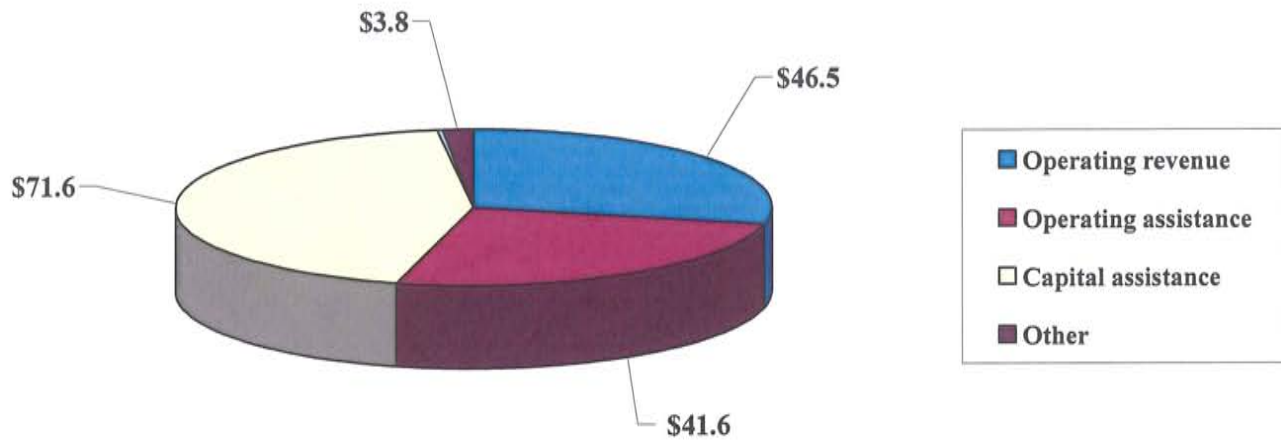
Budget

State law requires the JPB to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The Board of Directors monitors budget-to-actual performance through monthly staff reports. The Financial Section of this report includes a supplemental schedule that compares actual results on a budgetary basis of accounting to the final adopted budgets.

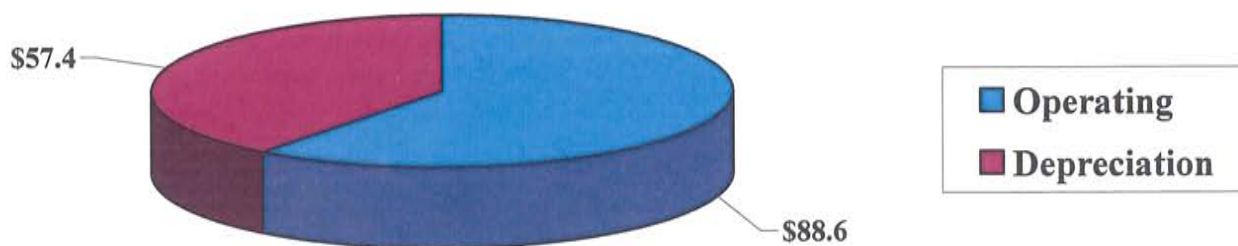
Once adopted, the Board of Directors has the authority to amend the budget. While the legal level of budgetary control is at the entity level, the JPB maintains stricter control at division, departmental and line item levels to serve various needs. Cost center managers monitor budget-to-actual performance monthly on an accrual basis. The Board has delegated the authority to transfer budget amounts between divisions and departments to the Executive Director or his designee. However, any increase to the expenditure budget as a whole requires the approval of the Board. In addition, the JPB uses the encumbrance system to reduce budget balances by issuing purchase orders to avoid over-commitment of resources.

The JPB employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses, depreciation and inter-fund transfers are not included in the budget. As a special purpose organization established pursuant to joint powers legislation, the JPB is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The following pie charts show actual results for the major revenue and expense categories for fiscal year 2010.

**Peninsula Corridor Joint Powers Board
 2010 Revenues
 (\$ in millions)**



**Peninsula Corridor Joint Powers Board
 2010 Expenses
 (\$ in millions)**



ECONOMIC CONDITION

Local Economy

Unemployment rates in the counties of San Francisco, San Mateo and Santa Clara remain high ranging from 9.2 to 11.3 percent as of June 2010, which has moved slightly from a range of 9.0 to 11.6 percent in June 2009 and more significantly from 4.8 to 5.9 percent in June 2008. This compares to 12.2 percent in June 2010 in the state of California and 11.6 and 6.9 percent in June 2009 and 2008, respectively. The JPB's farebox revenues were down slightly by 1.2 percent to \$42.7 million in Fiscal Year 2010 from \$43.3 million in Fiscal Year 2009, but still up 1.1 percent or \$4.3 million over Fiscal Year 2008.

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San Francisco, San Mateo and Santa Clara counties are consistently ranked among the most affluent in California. With an extremely diverse employment market in various industries, Caltrain's service area is not dependent on any one employment sector. This diversity of industry helps to ensure financial strength and stability for residents along the Caltrain corridor. However, the JPB continues to face a structural deficit in its operating budget. Each of the Member Agencies provide operating contributions to the JPB, which are intended to make up the amount necessary to cover deficits in the operating budget. This contribution has become increasingly more difficult for each member agency to make as individual funding sources become more limited.

According to the National Bureau of Economic Research's Business Cycle Dating Committee, the recession which began in December 2007 has ended as of June 2009. However by the end of Fiscal Year 2010, the three counties making up the Caltrain service area were all still feeling the affects. Nationally, the recession is said to have eliminated more than seven million jobs, reduced economic output by 4.1 percent and decreased household net worth by 21 percent over 18 months. It is likely that the recovery will be very slow moving with continued slow growth and high unemployment.

Long-term Financial and Strategic Planning

The JPB strategic plan is an integral element in a partnership effort with the three member agencies to address Caltrain service levels and improvements. With this purpose, the JPB is committed to the on-going improvement of the Caltrain system for customers and their communities. Acknowledging that the JPB must overcome financial constraints to succeed in delivering quality service, the strategic plan provides five policy goals as follows:

1. Satisfy passengers and build ridership
2. Invest wisely in system improvements
3. Promote regional connectivity and cooperation with other transportation providers
4. Partner with communities and broaden communication with the public
5. Develop a solid financial foundation that ensures long-term sustainability

The strategic plan was adopted in 2004. Moving forward, the strategic plan will be updated to address the challenges to face the JPB. The California High Speed Rail (HSR) program was approved by the voters in 2008. The definition of how the HSR program will need to be integrated with the Caltrain system is being defined while Caltrain continues with its projects related to infrastructure rehabilitation and improvements, station access, passenger comfort and operational efficiencies.

In Fiscal Year 2010, Caltrain carried 12.0 million riders, down 5.7 percent from Fiscal Year 2009 as a result of an increase in unemployment resulting primarily from the recession. In comparison, Caltrain carried 12.7 million riders in Fiscal Year 2009, up 6.1 percent from Fiscal Year 2008 marking the highest annual ridership in the railroad's 147-year history. Fiscal Year 2009 was the fourth year in a row that Caltrain had experienced record-breaking increases in ridership and an increase in farebox revenue. In Fiscal Year 2008, Caltrain carried 12.0 million riders, up 8.6 percent from Fiscal Year 2007.

In Fiscal Year 2009, Caltrain was operating a 98 train per weekday schedule. Faced with a budget deficit in Fiscal Year 2010, Caltrain cut service to a 90-trains per weekday schedule in August 2009 and anticipated additional cuts to an 86-trains per weekday schedule in Fiscal Year 2011. For Fiscal Year 2012, staff expects to go through an extensive budget balancing exercise with the Board of Directors, which could include looking at a wide variety of service model alternatives which can range from a 90-trains per weekday schedule down to levels as low as half that amount. Caltrain ultimately intends to restore and increase service to 114 trains per weekday following electrification of the right of way and introduction of new rolling stock, to its operations once a financially sustainable model is developed.

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The recession impacted not only Caltrain's operating budget, but also its capital improvement program (CIP). Two major components of the capital program are the State of Good Repair and the Peninsula Rail Programs. The State of Good Repair component supports rehabilitation and replacement projects to maintain the railroad at a maximum state of efficiency and effectiveness avoiding substantial deferred maintenance. The Peninsula Rail Program integrates the Caltrain system enhancements with future High Speed Rail development in the Caltrain corridor.

Both the operating budget and the capital program are funded in part by the three member agencies. The member agencies contribute to the operating budget based on and provide equal shares of local capital matching funds for system-wide improvement projects. Funding from the respective partners comes from their local sales tax measures, among other sources. In addition, each JPB member agency has committed \$60 million towards the electrification project. The most recent CIP totals \$2.6 billion, a portion of which is currently unfunded. Significant work is needed to develop alternative funding strategies with the member agencies and regional partners in order to address the projected shortfall as the partners cannot currently meet both the projected long-term operating and capital needs.

In the near term, Caltrain will focus on its State of Good Repair Program, including the replacement and rehabilitation of infrastructure, communication and control systems and rolling stock in order to continue to provide safe, quality service to its customers. Some of the more recent projects completed by Caltrain include the rebuild of the Palo Alto and California Avenue stations, the grade crossing safety improvement program, a station safety and improvement project in Burlingame, installation at ten Caltrain stations of mini-high boarding platforms for persons with disabilities and the procurement of eight Bombardier passenger rail cars.

Major Initiatives

Regional Service Coordination

Caltrain is at the heart of the Peninsula transportation network and it collaborates with other Bay Area transit agencies to provide connections between systems. These connections are with the District, the San Francisco Municipal Transportation Agency (SFMTA/Muni), the Bay Area Rapid Transit District (BART), VTA, Capitol Corridor, Altamont Commuter Express (ACE), Dumbarton Express and the Alameda-Contra Costa Transit District (AC Transit) as follows:

- *SamTrans Bus Service*: Passengers may connect to SamTrans at most stations in San Mateo County.
- *Muni Light Rail*: Passengers may connect to the Muni light rail N-Judah and T-Third lines across from the San Francisco Caltrain Station.
- *BART*: Passengers may connect to BART at the Millbrae Transit Center.
- *VTA Light Rail*: Caltrain passengers may connect to the VTA system at the Mountain View station and the Diridon and Tamien stations in San Jose.
- *VTA Bus Service*: Passengers may connect to VTA buses at most stations in Santa Clara County.
- *Amtrak's Capitol Corridor*: Passengers may connect to Caltrain at the San Jose Diridon station.
- *ACE*: Passengers may connect to Caltrain at the Santa Clara (temporarily suspended) and San Jose Diridon stations.
- *Dumbarton Express*: Passengers may connect to the DB Express at the Palo Alto station.
- *AC Transit*: Passengers may connect to the M-line at the Caltrain Hillsdale station.

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In addition to service connectivity, the JPB is actively participating with the Metropolitan Transportation Commission (MTC) in implementing the Clipper program, a regional fare collection program that allows passengers to use one smart card to purchase fare media from various Bay Area transit systems. In September 2010, Caltrain implemented a full “hard” launch of the Clipper program offering the smart card to all of its customers. Paper 8-ride tickets and monthly passes will be eliminated in early 2011 in lieu of Clipper.

Caltrain Bicycle Program

Caltrain offers a comprehensive bicycle program that helps provide options for last-mile connection to the train station as well as on board the train. Caltrain offers a range of bicycle options at the station, including more than 400 rack spaces, 1,100 lockers and staffed parking facilities. In September 2008, Caltrain adopted a Bicycle Access and Parking Plan, which identified bicycle programs and innovative strategies to improve bicycle access to the stations. Caltrain’s strategy is to encourage and promote bicycle access to stations by increasing and improving bicycle parking and pursuing innovative approaches to managing demand of the onboard bicycle program.

Caltrain maintains the most generous onboard bicycle program of all U.S. commuter rail operators. Every train has a guaranteed 40-bike space capacity with some trains having as many as 80 bike slots per train. There are no peak hour or direction restrictions, other than capacity. According to a 2010 bicycle demand and dwell time survey, approximately 7 percent of bicycle commuters, or 2,574 bicyclists each weekday, bring their bicycles onboard the train. ¹To accommodate demand for bicycles onboard the train, in Fiscal Year 2009, the JPB Board of Directors authorized a staff plan to increase bicycle capacity by about 30 percent. All capacity increases were completed in 2009. In 2010, Caltrain formed a Bicycle Advisory Committee that serves as the primary venue for the interests of bicyclists to be integrated into Caltrain’s planning processes.

State-of-Good-Repair Program

This program includes system-wide, scheduled improvements on infrastructure and tracks, bridges and signals and communication equipment, ticket vending and validation equipment, and preventative maintenance and strategic replacement of the Caltrain rolling stock. In order to ensure these assets are kept in a state of good repair, replacement and rehabilitation of these assets must be done at intervals as recommended either by industry or manufacturer standards. Otherwise, the cost of operating these assets would likely be much higher due to a potentially higher outlay in their maintenance and costs associated with operational delays due to the assets increasingly being out of service or in a state of disrepair.

Caltrain Station Safety Improvement Program

The Caltrain Station Safety Improvement Program includes station redesign, grade crossing improvements and right of way fencing. The purpose of the program is to remove the “hold-out” rule at a number of Caltrain stations. These stations have narrow center island platforms, which have several negative impacts on Caltrain service, including customer safety concerns and schedule delays. Improvements to the stations will include demolition of existing narrow center platforms and construction of new outside boarding platforms, installation of center fencing between the existing mainline tracks through the platform area and installation of new signalized pedestrian at-grade crossings with pedestrian gates. In 2009, projects were completed at the Burlingame and California Avenue stations. In fiscal year 2010, the Santa Clara station improvement project was initiated and, once completed, will leave only four hold-out rule stations on the Caltrain line, including Atherton, Broadway, College Park and South San Francisco.

The grade crossing improvement program was developed to make grade crossings in San Mateo County safer for both vehicular and pedestrian traffic. This project has been completed in San Mateo County with improvements made at 25 crossing locations. Improvements include striping, signage, signalized gates and roadway improvements such as medians. A companion project to improve the Santa Clara County grade crossing began its construction phase in June 2010.

¹ Caltrain 2010 Annual Passenger Count

FUTURE OF CALTRAIN – SYSTEM EXPANSION AND CONNECTIONS

Peninsula Rail Program

The Peninsula Rail Program was established to integrate Caltrain's plans towards ensuring a vital commuter rail system throughout the 21st century, with the program to be coordinated with the California High Speed Rail Authority to achieve synergies between the commuter rail and high speed rail services in the Caltrain corridor. A number of projects that will support Caltrain's service enhancements and interface with the eventual operation of High Speed Rail (HSR) service on the corridor include, but are not limited to, the following:

- Electrification
- Positive Train Control
- Terminal Station Upgrades
- Grade Separations

Electrification consists of converting the existing Caltrain diesel engine mode of propulsion to electric power and rehabilitating the Caltrain right of way to accommodate electrification. The installation of a positive train control system, which is a federal mandate required to be in place by 2015, will help reduce the risk of train-to-train collisions and prevent trains from exceeding authorized speed limits. The upgrade of terminal stations will allow for improvements to accommodate both HSR and upgraded Caltrain service. Finally, grade separations at select locations will improve safety by eliminating conflicts between trains and vehicular and pedestrian traffic.

Other System Expansion and Connections

Dumbarton Bridge Rail Service: This project is being administered by the JPB staff at the request of the San Mateo County Transportation Authority, one of the regional project partners for the service. The project will extend commuter rail service across the Bay between the Peninsula and the East Bay by rehabilitating and reconstructing rail facilities on an existing railroad alignment and right of way. Service will consist of six trains originating from the East Bay and traveling west in the morning peak and six trains returning in the evening peak. The 10.7-mile West Bay portion of the project, which is currently under the ownership of the District, includes extending from Redwood City to the west approach of the Dumbarton Rail Bridge and building a Menlo Park station, the Dumbarton Bridge and extending from the east abutment of the bridge, across the Newark Slough Bridge to the Newark Junction and building a Newark station. The 9.8-mile East Bay portion of the project, which is under Union Pacific Railroad (UPRR) ownership, includes the following segments: Newark Junction to Jarvis Road; Maple Road to Riverwalk Drive including the Centerville station; and the Shinn Connection to Hayward, including the Union City station. A Niles Junction Connection Track is also an optional addition to the project. Environmental reviews on this project are taking longer than expected. This project has also encountered significant funding and implementation issues. As of September 30, 2010, engineering design stands at more than 75 percent complete.

Transbay Transit Center/Caltrain Downtown Extension Project: The purpose of this project, headed by the Transbay Joint Powers Authority (TJPA), is to design, build, operate and maintain the new Transbay Transit Center and associated facilities in downtown San Francisco, including the extension of Caltrain 1.3 miles into the new Transit Center, and to make accommodations for HSR. This extension will link Caltrain to San Francisco's Transbay Terminal providing Caltrain's customers easier access to the center of San Francisco.

San Jose Diridon Station: The San Jose Diridon Station is the transit hub of Silicon Valley, located adjacent to the HP Pavilion at the western edge of Downtown San Jose, and two miles from Mineta San Jose International Airport. The station currently serves Caltrain, Amtrak Capitol Corridor trains, Amtrak Coast Starlight, Altamont Commuter Express trains and regional bus services, as well as local Valley Transportation Authority (VTA) light-rail and bus lines. The Diridon station complex is slated for significant expansion by the City of San Jose to accommodate direct connections with BART, VTA bus rapid transit and high-speed rail. The land area surrounding the station has strong potential for redevelopment as a vibrant, high-density, urban center. The focus of the Diridon Station Design Integration Project is to establish a strong but flexible planning and design

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framework that incorporates all the anticipated uses proposed for the station. While the City of San Jose is taking the lead in the planning effort, Caltrain is a strategic partner in the process since Caltrain owns the right of way to the San Jose Diridon Station, as well as serving as the operator of commuter rail service in the area.

AWARDS AND ACKNOWLEDGMENTS

The employees of the JPB and its contracted service providers bring an effective combination of skill, experience and dedication to carrying out the agency's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. Although we expect the recovery from the recession to be very slow moving with continued slow growth and high unemployment, the JPB expects the continued enthusiasm and dedication of its transit professionals to meet the transportation challenges of the future.

The Government Finance Officers Association (GFOA) recognized the JPB's 2009 Comprehensive Annual Financial Report for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our 2010 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm, Maze & Associates, for its timely and expert guidance in this matter.

A comprehensive annual financial report requires the dedicated effort of many individuals working together as a team. We would like to extend our grateful recognition to all the individuals who assisted in both the preparation of this report and the processing of financial transactions throughout the fiscal year. Finally, we wish to thank the Executive Director and the Board of Directors for their interest and support in the development of a reliable financial management and reporting system.

Respectfully submitted,



Virginia Harrington
Deputy CEO

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Peninsula Corridor
Joint Powers Board
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized, handwritten signature in black ink, appearing to be "JRE".

President

A handwritten signature in black ink, appearing to be "Jeffrey R. Emer".

Executive Director

BOARD OF DIRECTORS

Representing City and County of San Francisco:

José Cisneros

Sean Elsbernd, Chair

Nathaniel Ford

Representing San Mateo County Transit District:

Omar Ahmad

Mark Church, Vice Chair

Arthur L. Lloyd

Representing Santa Clara Valley Transportation Authority:

Don Gage

Ash Kalra

Ken Yeager

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

EXECUTIVE OFFICERS

Bob Doty – Peninsula Rail Program Director

Virginia Harrington – Deputy CEO

Chuck Harvey – Deputy CEO

Rita Haskin – Executive Officer, Customer Service and Marketing

Marian Lee – Executive Officer, Planning and Development

Martha Martinez – JPB Secretary

Mark Simon – Executive Officer, Public Affairs

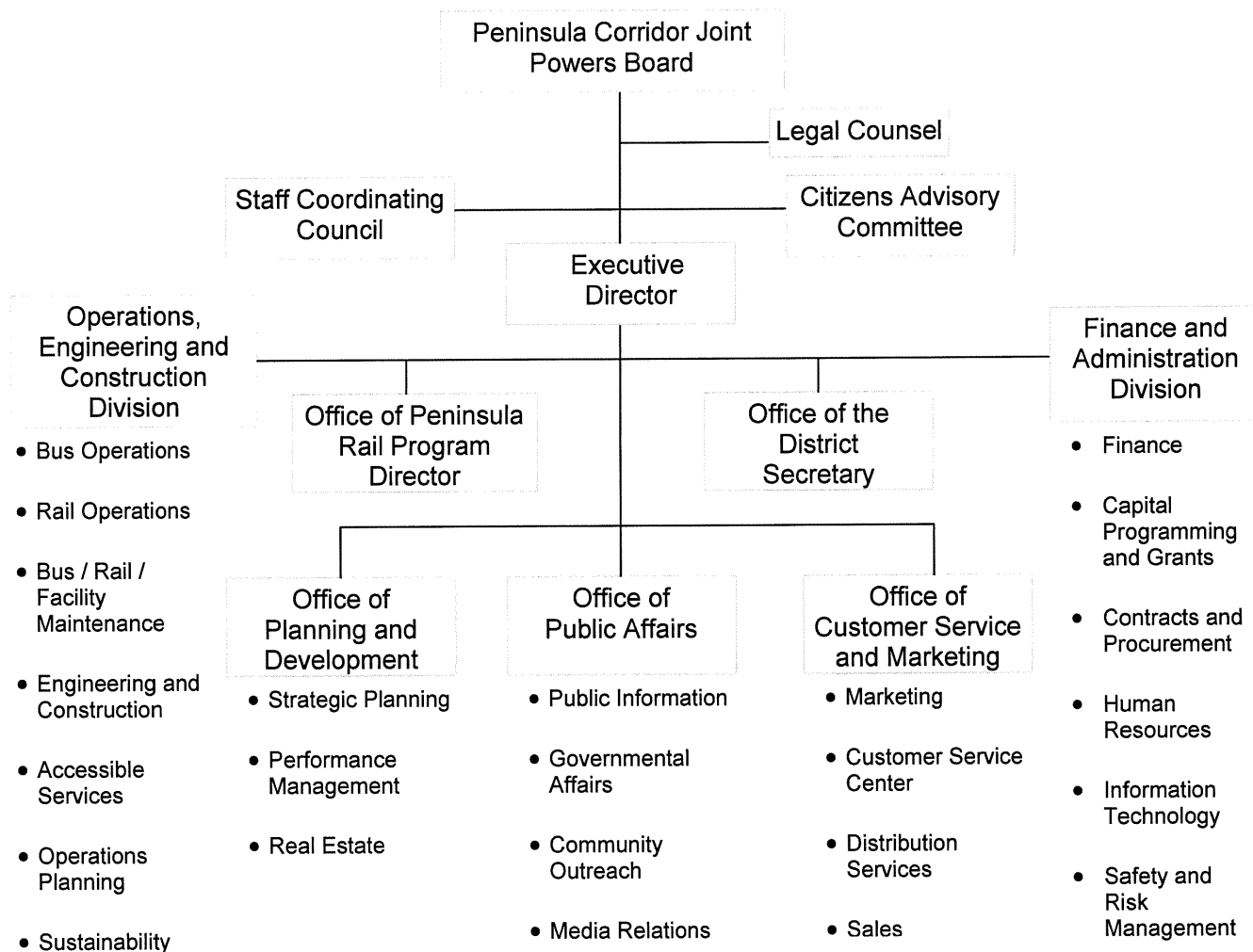
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Joan Cassman, Esq.

ORGANIZATION CHART



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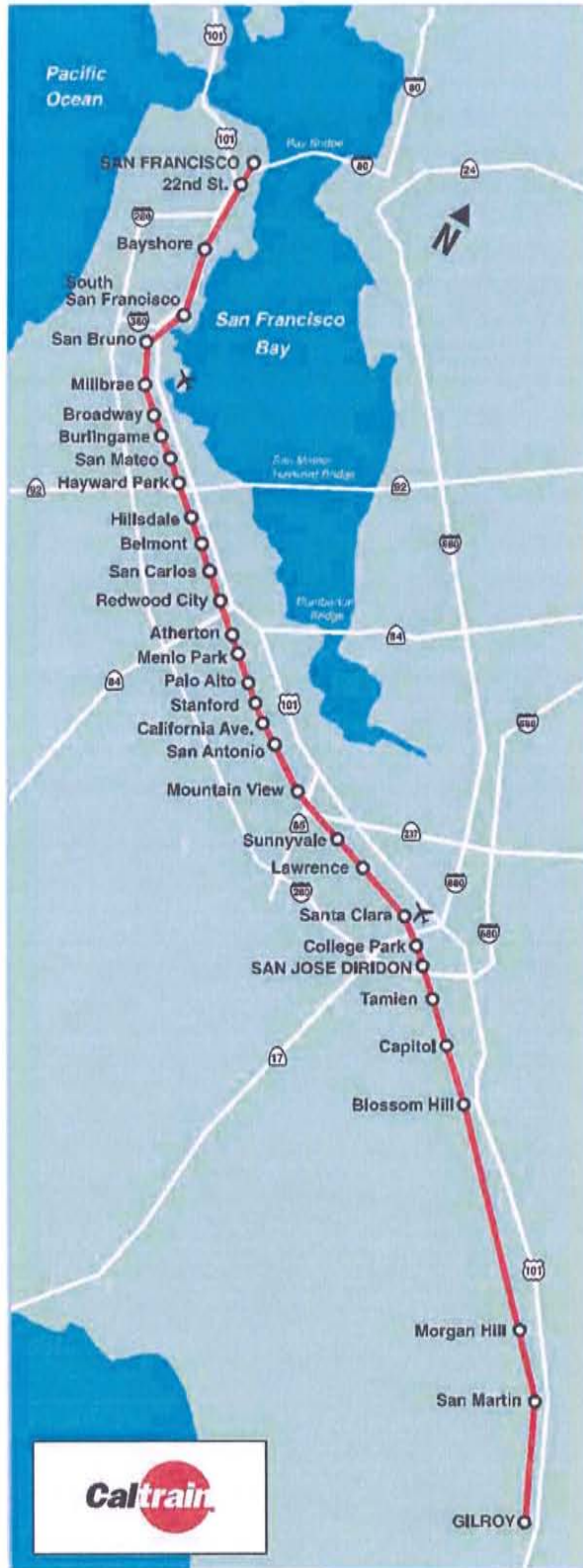


TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2010 Comprehensive Annual Financial Report:

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	Vikki C. Rodriguez

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Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to the Financial Statements

Supplementary Information

- Supplementary Schedule of Revenues and Expenses - Comparison of Budget to Actual (Budgetary Basis)
- Notes to Supplementary Schedule

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Peninsula Corridor Joint Powers Board
San Carlos, California

We have audited the basic financial statements of the business-type activities and the major fund of the Peninsula Corridor Joint Powers Board (JPB) as of and for the year ended June 30, 2010, which collectively comprise the JPB's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the JPB's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the JPB's 2009 financial statements which were audited by other auditors whose unqualified opinion was dated November 30, 2009.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and the major fund of the Peninsula Corridor Joint Powers Board at June 30, 2010 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of the Peninsula Corridor Joint Powers Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 financial statements that collectively comprise the basic financial statements. The Supplemental Information and Schedule of Expenditures of Federal Awards listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedure applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ware & Associates

October 15, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the JPB's financial performance provides an overview of the JPB's activities for the fiscal year ended June 30, 2010 with comparisons to prior fiscal years ended June 30, 2009 and June 30, 2008. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- Total assets on June 30, 2010 stand at \$1,222.4 million, an increase of \$30.9 million or 2.6 percent compared to June 30, 2009 and increased \$16.0 million or 1.4 percent on June 30, 2009 compared to June 30, 2008, primarily due to an increase in capital assets in both years.
- Total liabilities increased by \$14.3 million or 23.4 percent to \$75.4 million at June 30, 2010 compared to June 30, 2009 and decreased by \$3.1 million or 4.8 percent to \$61.1 million at June 30, 2009 compared to June 30, 2008. The Fiscal Year 2010 increase was mainly due to increases in deferred revenue and deferred member contributions. The Fiscal Year 2009 decrease was due to a decrease in accounts payable and accrued liabilities partially offset by increases in deferred revenue, deferred member contributions and long-term self-insurance claims and liabilities.
- Total operating revenues in Fiscal Year 2010 were \$46.5 million, a decrease of \$0.3 million or 0.6 percent compared to Fiscal Year 2009 and an increase of \$3.0 million or 6.8 percent in Fiscal Year 2009 compared to Fiscal Year 2008. The Fiscal Year 2010 decrease was mainly due to the reduction in farebox revenues during the year. The Fiscal Year 2009 increase was a result of increases in both ridership and farebox revenues during the year.
- Total operating expenses in 2010 were \$88.6 million, a decrease of \$1.7 million or 1.8 percent compared to 2009 and an increase of \$3.3 million or 3.8 percent in Fiscal Year 2009 over Fiscal Year 2008. The Fiscal Year 2010 decrease was mainly due to a decrease in contract services. The Fiscal Year 2009 increase was primarily due to an increase in contract services offset by a decrease in fuel costs.
- Nonoperating revenues, net of nonoperating expenses, increased \$3.1 million or 7.6 percent to \$44.5 million in Fiscal Year 2010 from Fiscal Year 2009 and decreased \$1.8 million or 4.2 percent to \$41.4 million in Fiscal Year 2009 compared to Fiscal Year 2008. The Fiscal Year 2010 increase was due to a combined increase in the federal, state and local operating assistance, interest income and other income. The Fiscal Year 2009 decrease was mainly due to investment losses.
- In Fiscal Year 2010 the JPB recognized \$71.6 million in capital contributions, an increase of \$0.3 million or less than 0.1 percent from Fiscal Year 2009. In Fiscal Year 2009, the JPB recognized \$71.2 million in capital contributions, a decrease of \$11.3 million or 13.7 percent from Fiscal Year 2008. Increases in Fiscal Year 2010 represent increased activity on the San Bruno Grade Separation project which is partially offset by decreases in Bridge Repairs and Replacement, Station Platform Improvements and Station Improvements and Repairs project costs. Decreases in Fiscal Year 2009 are mostly due to the decrease in costs of Right of Way Improvement and the Centralized Equipment Maintenance and Operations Facility (CEMOF) project.
- Net assets at June 30, 2010 were \$1,147.0 million, up \$16.6 million or 1.5 percent from June 30, 2009 and net assets at June 30, 2009 were \$1,130.4 million up \$19.1 million or 1.7 percent from June 30, 2008, as capital assets, net of accumulated depreciation and amortization increased \$15.3 million and \$25.1 million during fiscal years 2010 and 2009, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents the JPB's financial statements as two components: basic financial statements and notes to the financial statements. It also includes supplemental information.

Basic Financial Statements

The *Statement of Net Assets* presents information on assets and liabilities, with the difference between the two reported as *net assets*. Changes in net assets over time may provide an indicator as to whether the financial position of the JPB is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* reports how net assets have changed during the year. It compares related operating revenues and operating expenses connected with the JPB's principal business of providing rail service. Operating expenses include the cost of direct services to passengers, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses are reported as nonoperating.

The *Statement of Cash Flows* reports inflows and outflows of cash, classified into four major categories:

- *Cash flows from operating activities* include transactions and events reported as components of operating income in the statement of revenues, expenses and changes in net assets.
- *Cash flows from non-capital financing activities* include operating grant proceeds as well as operating subsidy payments from third parties as well as other non-operating items.
- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- *Cash flows from investing activities* include proceeds from sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

Various notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are found immediately following the financial statements to which they refer.

Other Information

This report also presents certain *supplementary* information concerning compliance with the JPB's annual budget. This *supplementary* information, as well as associated notes are found immediately following the *basic financial statements* and the accompanying notes.

**PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010**

Analysis of Basic Financial Statements

Total assets increased by \$30.9 million or 2.6 percent to \$1,222.4 million at June 30, 2010 compared to June 30, 2009 due to right of way improvement projects and increased by \$16.0 million or 1.4 percent at June 30, 2009 compared to June 30, 2008, due to right of way improvement projects and the acquisition of rail cars. Current assets increased by \$14.2 million or 31.6 percent to \$59.3 million in 2010 mainly due to an increase in restricted cash set aside for capital projects. In 2009, current assets decreased by \$14.3 million or 24.1 percent compared to 2008, primarily due to fluctuations in cash and cash equivalents as a result of a change in the investment program and a decrease in receivables.

Total capital assets, net of accumulated depreciation and amortization increased \$15.3 million or 1.3 percent at June 30, 2010 to \$1,156.1 million from \$1,140.9 million on June 30, 2009, and increased \$25.1 million or 2.2 percent from \$1,115.8 million in Fiscal Year 2008 compared to Fiscal Year 2009. Investments in capital assets, before depreciation, consist of acquisitions and improvements to the right of way (\$879.9 million or 59.9 percent), rail vehicles (\$280.2 million or 19.1 percent), facilities and equipment (\$121.7 million or 8.3 percent), intangible asset – trackage rights (\$8.0 million or 0.6 percent) and construction in progress (\$178.0 million or 12.1 percent) in Fiscal Year 2010. In Fiscal Year 2009, investments in capital assets, before depreciation, consist of acquisition and improvements for the right of way (\$823.1 million or 58.8 percent), rail vehicles (\$275.3 million or 19.7 percent), facilities and equipment (\$118.9 million or 8.5 percent), intangible asset – trackage rights (\$8.0 million or 0.6 percent) and construction in progress (\$173.5 million or 12.4 percent).

Total liabilities increased by \$14.3 million or 23.4 percent to \$75.4 million at June 30, 2010 compared to June 30, 2009 and decreased \$3.1 million or 4.8 percent to \$61.1 million at June 30, 2009 compared to June 30, 2008. The Fiscal Year 2010 increase was primarily due to increases in Deferred member contributions and Deferred revenue. The Fiscal Year 2009 decrease was largely due to a decrease in accounts payable and accrued liabilities.

Total net assets were \$1,147.0 million at June 30, 2010 which represents an increase of \$16.6 million or 1.5 percent from June 30, 2009 and \$1,130.4 million at June 30, 2009, which represents an increase of \$19.1 million or 1.7 percent from June 30, 2008. Investments in capital assets, net of related debt was \$1,133.8 million at June 30, 2010, representing 98.8 percent of the total net assets, \$1,119.1 million at June 30, 2009, representing 99.0 percent of total net assets and \$1,099.5 million at June 30, 2008, representing 98.9 percent of total net assets.

PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010

PENINSULA CORRIDOR JOINT POWERS BOARD

NET ASSETS

(in thousands)

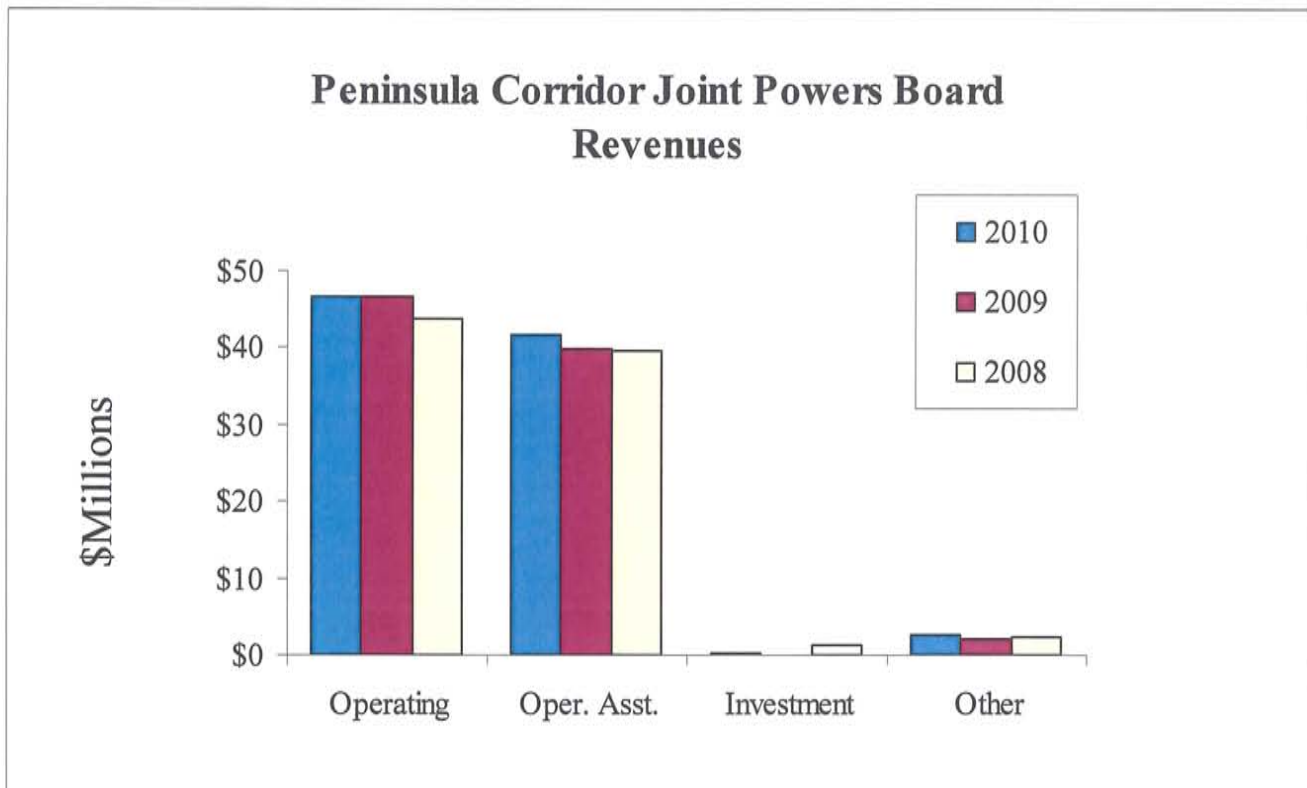
	2010	2009	2008
Current assets	\$ 59,274	\$ 45,058	\$ 59,364
Noncurrent assets	6,977	5,559	332
Capital assets, net of depreciation/amortization	1,156,128	1,140,876	1,115,795
Total assets	1,222,379	1,191,493	1,175,491
Current liabilities	48,957	35,082	39,235
Long-term liabilities	26,423	26,005	24,922
Total liabilities	75,380	61,087	64,157
Net assets			
Invested in capital assets, net of related debt	1,133,772	1,119,056	1,099,455
Restricted	11,098	1,318	529
Unrestricted	2,129	10,032	11,350
Total net assets	\$ 1,146,999	\$ 1,130,406	\$ 1,111,334

**PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010**

Revenues

Operating revenues declined slightly to \$46.5 million in Fiscal Year 2010, a \$0.3 million or 0.6 percent decrease from Fiscal Year 2009 primarily due to decrease in passenger fares and increased to \$46.7 million in Fiscal Year 2009, a \$3.0 million or 6.8 percent increase over Fiscal Year 2008 due to the continued success of Baby Bullet express service, the reinvention of Caltrain service and a fare increase in Fiscal Year 2009.

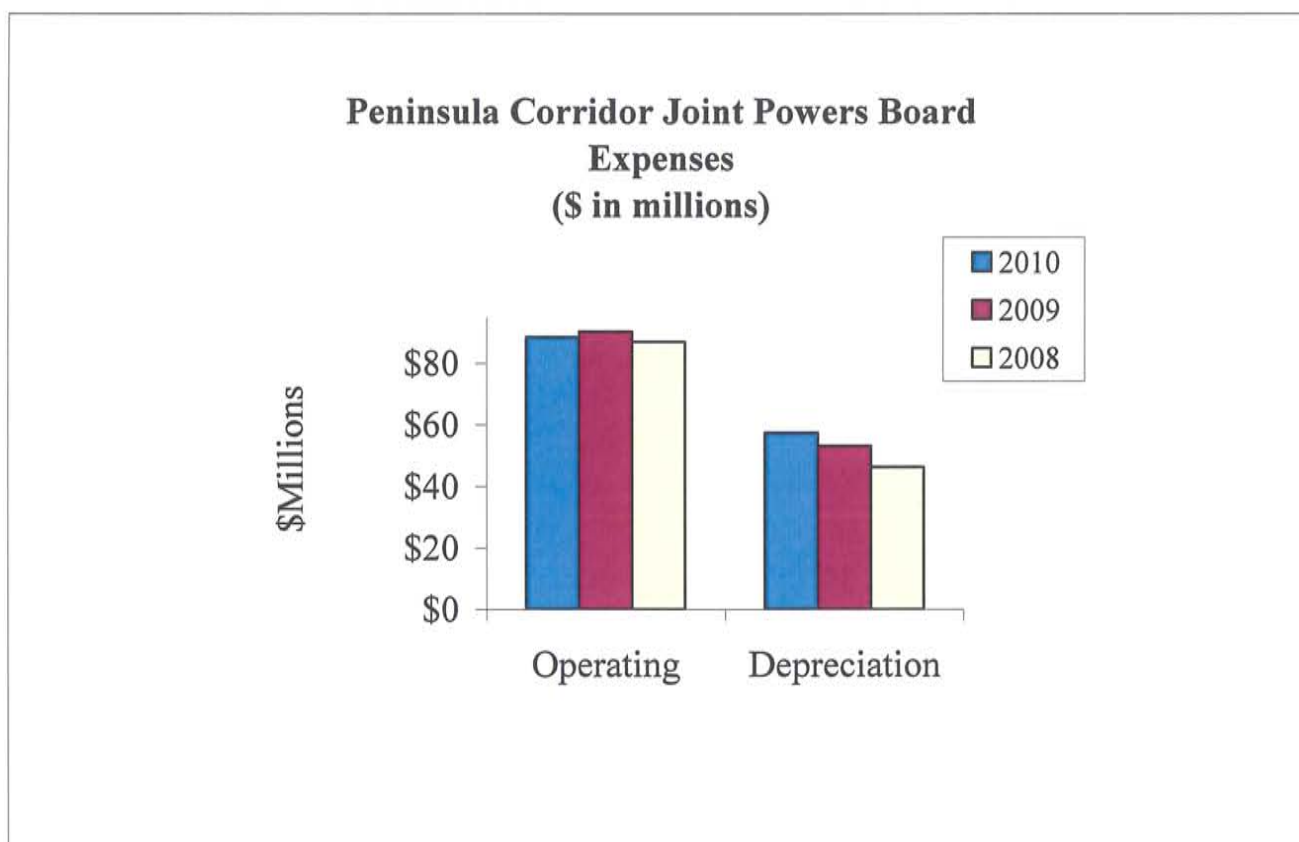
Nonoperating revenues increased \$3.5 million or 8.3 percent to \$45.7 million at June 30, 2010 compared to June 30, 2009 and decreased \$1.2 million or 2.7 percent in Fiscal Year 2009 compared to Fiscal Year 2008.



Expenses

Total operating expenses of \$88.6 million in Fiscal Year 2010 were \$1.7 million or 1.8 percent lower than Fiscal Year 2009, and in Fiscal Year 2009 \$3.3 million or 3.8 percent higher than Fiscal Year 2008. Total operating expenses in Fiscal Year 2010 consisted of \$59.4 million or 67.0 percent for rail operator contract services, \$10.3 million or 11.6 percent for fuel and \$18.9 million or 21.4 percent for other expenses combined. The largest component of Fiscal Year 2009 and Fiscal Year 2008 operating expenses was rail operator contract services at \$61.2 million and \$55.3 million which represent 67.8 percent and 63.6 percent of the total expenses respectively.

Depreciation and amortization for Fiscal Year 2010 was \$57.4 million, a \$4.2 million or 7.9 percent increase over Fiscal Year 2009. In Fiscal Year 2009, depreciation and amortization was \$53.2 million, a \$6.9 million or 14.9 percent increase over Fiscal Year 2008.



PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010

PENINSULA CORRIDOR JOINT POWERS BOARD
CHANGES IN NET ASSETS
(in thousands)

	2010	2009	2008
Operating revenues:			
Passenger fares	\$ 42,732	\$ 43,272	\$ 38,399
Parking, shuttle and pass revenues	3,452	3,112	4,972
Other	278	335	389
Total operating revenues	46,462	46,719	43,760
Operating expenses:			
Contract services	59,404	61,172	55,341
Insurance	5,035	4,537	3,641
Fuel	10,309	10,742	14,377
Parking, shuttle and pass revenues	3,850	3,941	3,904
Professional service	826	916	780
Wages and benefits	5,928	5,384	5,708
Utilities and supplies	1,268	1,462	1,295
Maintenance services	268	252	308
Temporary services, rent and other	1,721	1,861	1,604
Total Operating expenses	88,609	90,267	86,958
Operating loss before depreciation and amortization	(42,147)	(43,548)	(43,198)
Depreciation and amortization	(57,374)	(53,183)	(46,290)
Operating loss	(99,521)	(96,731)	(89,488)
Nonoperating revenues			
Federal, state and local operating assistance	41,556	39,826	39,661
Rental income	1,729	1,661	1,577
Investment income (loss)	291	(486)	1,260
Other income	2,099	1,173	832
Total Nonoperating revenues	45,675	42,174	43,330
Nonoperating expenses	(1,140)	(767)	(111)
Net loss before capital contributions	(54,986)	(55,324)	(46,269)
Capital contributions	71,579	71,241	82,552
Change in net assets	16,593	15,917	36,283
Net assets - beginning of year	1,130,406	1,111,334	1,075,051
Prior Period adjustment per GASB 51 (Note 4)	-	3,155	-
Net assets - end of year	\$1,146,999	\$ 1,130,406	\$ 1,111,334

Capital Projects

The JPB incurred capital expenditures of \$72.6 million and recognized related revenue in the form of capital contributions of \$71.6 million in Fiscal Year 2010, which is \$0.3 million or 0.6 percent increase in capital contributions in Fiscal Year 2010 over Fiscal Year 2009. The Fiscal Year 2010 capital sources consist of federal grants (\$29.5 million or 40.6 percent), state grants (\$5.3 million or 7.3 percent), local assistance including the three member agencies (\$36.8 million or 50.7 percent), and debt financing (\$1.0 million or 1.4 percent). The JPB incurred capital expenditures of \$76.9 million and recognized related revenue in the form of capital contributions of \$71.2 million in Fiscal Year 2009, which was \$11.3 million or 13.7 percent less than in Fiscal Year 2008. The Fiscal Year 2009 capital sources consist of federal grants (\$33.8 million or 44.0 percent), state grants (\$4.5 million or 5.8 percent), local assistance including the three member agencies (\$33.0 million or 42.8 percent) and debt financing (\$5.7 million or 7.4 percent).

Following is a summary of the JPB's major capital expenditures for Fiscal Year 2010:

- Cost for grade crossing and separation along the Caltrain line (\$24.8 million)
- Communication equipment to improve the reliability, quality and speed of signal, data and voice transmissions (\$10.0 million)
- System-wide track rehabilitation, signal, bridge and tunnel work (\$8.4 million)
- Station improvements and repairs (\$7.9 million)
- Peninsula rail program (\$5.3 million)
- Caltrain passenger cars, accessories and improvements (\$4.2 million)
- Bridge repairs and replacements (\$3.0 million)
- Maintenance facility improvements (\$2.7 million)
- Station platform improvements (\$2.6 million)
- Safety related features at stations, grade crossings and along the tracks (\$3.7 million)

Additional information about the JPB's capital activities appear in Note 6 - Capital Assets in the Notes to the Financial Statements.

Debt

At the end of Fiscal Year 2010, the JPB had \$23.1 million in outstanding farebox revenue bonds representing no change from the \$23.1 million outstanding at the end of Fiscal Year 2009 and 2008. During Fiscal Year 2008, the JPB issued 2007 Series A bonds to finance the purchase of eight new rail cars and refinance the balance of the 1999 farebox revenue bonds. Principal payments are not scheduled to begin on the 2007 Series A bonds until Fiscal Year 2019. More information regarding the JPB's long-term debt activity can be found in Note #9 – *Farebox Revenue Bonds Payable* in the notes to the financial statements.

Economic Factors

In September 2009, the National Bureau of Economic Research's Business Cycle Dating Committee announced that the recession, which began in December 2007 and lasted 18 months, ended in June 2009. However, the unemployment rates in the region remain high ranging from 9.2 to 11.3 percent at June 2010 in the three counties which has moved slightly from a range of 9.0 to 11.6 percent as of June 2009. The JPB continues to feel the affects of the recession not only from decreased farebox revenues, which is a consequence of the high unemployment, but also from the challenge each member agency undergoes when trying to fund the JPB operating deficit. Each member agency has experienced their own declines in revenues due to various economic factors. Without a dedicated funding source, Caltrain continues to struggle to meet the demands of the operating budget.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the JPB's finances and to demonstrate accountability for the funds it manages. Please direct any questions about this report or requests for additional information about JPB finances to: Peninsula Corridor Joint Powers Board, attn: Deputy CEO, Finance and Administration, 1250 San Carlos Avenue, San Carlos, California, 94070-1306.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENT OF NET ASSETS
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 25,428,764	\$ 15,352,827
Restricted cash (Note 3)	11,098,261	942,268
Total Cash and Cash Equivalents	<u>36,527,025</u>	<u>16,295,095</u>
Investments (Note 3)	3,010,224	4,750,970
Due from other governmental agencies	13,609,533	16,310,759
Receivables from member agencies (Note 14)	1,384,373	2,047,126
Accounts receivable - other, net of allowance	1,203,048	2,726,537
Inventory	2,879,489	2,713,086
Prepaid expenses	476,112	30,000
Restricted investment with fiscal agents (Note 3)	183,813	183,933
Total Current Assets	<u>59,273,617</u>	<u>45,057,506</u>
Noncurrent Assets:		
Investments (Note 3)	6,689,485	5,249,158
Capital assets (Note 6):		
Right-of-way improvements	652,968,384	596,170,264
Rail vehicles	280,200,602	275,326,181
Facilities and equipment	121,036,879	118,197,410
Office equipment	693,205	726,327
Capital assets, gross	<u>1,054,899,070</u>	<u>990,420,182</u>
Less accumulated depreciation	(311,623,264)	(257,925,138)
Construction in progress (Note 2)	177,959,231	173,488,156
Right-of-way	226,892,731	226,892,731
Intangible asset - trackage rights (Note 4)	<u>8,000,000</u>	<u>8,000,000</u>
Total capital assets, net	1,156,127,768	1,140,875,931
Bond issuance costs, net	<u>287,722</u>	<u>310,047</u>
Total noncurrent assets	<u>1,163,104,975</u>	<u>1,146,435,136</u>
Total Assets	<u>1,222,378,592</u>	<u>1,191,492,642</u>

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENT OF NET ASSETS (Continued)
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 17,156,955	\$ 16,245,744
Interest payable	275,719	275,719
Self-insurance claims liabilities (Note 10)	608,325	421,866
Deferred member contributions (Note 14)	15,725,475	11,399,645
Deferred revenue	15,117,186	6,665,607
Other	72,893	73,326
	<u>48,956,553</u>	<u>35,081,907</u>
Noncurrent Liabilities:		
Farebox revenue bonds payable (Note 9)	23,140,000	23,140,000
Self-insurance claims liabilities (Note 10)	3,282,801	2,864,981
	<u>26,422,801</u>	<u>26,004,981</u>
	<u>75,379,354</u>	<u>61,086,888</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,133,772,117	1,119,056,387
Restricted for:		
Capital projects	11,098,261	942,268
Debt service	-	375,300
Unrestricted	2,128,860	10,031,799
	<u>\$1,146,999,238</u>	<u>\$1,130,405,754</u>

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Passenger fares	\$ 42,732,343	\$ 43,271,656
Parking, shuttle and pass revenues	3,451,743	3,111,782
Other	277,519	335,167
Total Operating Revenues	<u>46,461,605</u>	<u>46,718,605</u>
OPERATING EXPENSES		
Contract services	59,403,957	61,172,061
Insurance	5,035,000	4,536,943
Fuel	10,309,130	10,741,684
Parking, shuttle and pass expenses	3,849,816	3,941,404
Professional services	825,734	915,697
Wages and benefits	5,928,256	5,383,557
Utilities and supplies	1,267,992	1,462,238
Maintenance services	267,923	251,728
Temporary services, rent and other	1,721,086	1,861,472
Total Operating Expenses	<u>88,608,894</u>	<u>90,266,784</u>
Operating loss before depreciation and amortization	(42,147,289)	(43,548,179)
Depreciation and amortization	<u>(57,373,927)</u>	<u>(53,182,998)</u>
OPERATING (LOSS)	<u>(99,521,216)</u>	<u>(96,731,177)</u>
NON-OPERATING REVENUES (EXPENSES)		
Federal, state, and local operating assistance (Note 7)	41,556,202	39,825,655
Rental income	1,729,433	1,660,773
Investment income (loss)	291,163	(486,376)
Interest expense	(1,140,265)	(766,596)
Other income	2,098,760	1,173,395
Total Non-Operating Revenues, net	<u>44,535,293</u>	<u>41,406,851</u>
Net Loss Before Capital Contributions	<u>(54,985,923)</u>	<u>(55,324,326)</u>
Capital contributions (Note 11)	<u>71,579,407</u>	<u>71,240,636</u>
Change in Net Assets	<u>16,593,484</u>	<u>15,916,310</u>
NET ASSETS		
Beginning of Year	1,130,405,754	1,111,334,245
Prior period adjustment per implementation of GASB 51 (Note 4)	<u>-</u>	<u>3,155,199</u>
End of Year	<u>\$1,146,999,238</u>	<u>\$1,130,405,754</u>

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares, passes and other	\$ 47,392,386	\$ 46,776,689
Payments to vendors for services	(77,362,107)	(83,931,402)
Payments to employees	(5,928,256)	(5,383,557)
Payments for insurance claims and premiums	(4,430,721)	(3,315,952)
Net cash (used for) operating activities	<u>(40,328,698)</u>	<u>(45,854,222)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	43,965,515	39,131,960
Rental and other income	3,728,279	2,850,054
Net cash provided by noncapital and financing activities	<u>47,693,794</u>	<u>41,982,014</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	86,069,454	73,879,617
Property additions	(72,625,764)	(75,109,003)
Interest and fiscal charges paid	(1,110,952)	(773,964)
Net cash provided by capital and related financing activities	<u>12,332,738</u>	<u>(2,003,350)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	7,471,793	185,001
Purchase of investment	(7,265,130)	(10,015,024)
Interest received	327,433	(496,965)
Net cash provided investing activities	<u>534,096</u>	<u>(10,326,988)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	20,231,930	(16,202,546)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>16,295,095</u>	<u>32,497,641</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 36,527,025</u>	<u>\$ 16,295,095</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED		
Operating (loss)	\$ (99,521,216)	\$ (96,731,177)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	57,373,927	53,182,998
Effect of changes in:		
Receivables	504,406	(202,804)
Prepaid expenses	(612,815)	(2,102,049)
Accounts payable, accrued liabilities and claims liabilities	1,446,760	(253,018)
Deferred revenue	480,240	257,970
Other liabilities	-	(6,142)
Net cash (used for) operating activities	<u>\$ (40,328,698)</u>	<u>\$ (45,854,222)</u>
NONCASH INVESTING ACTIVITIES:		
Increase (decrease) in fair value of investments	<u>\$ (191,912)</u>	<u>\$ 350,147</u>

See accompanying notes to basic financial statements

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PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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Notes are essential to present fairly the information contained in the overview level of the basic financial statements. Narrative explanations are intended to communicate information that is not readily apparent or cannot be included in the statements and schedules themselves, and to provide additional disclosures as required by the Governmental Accounting Standards Board.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - ORGANIZATION

In 1987, representatives of the City and County of San Francisco (CCSF), the San Mateo County Transit District (District) and the Santa Clara Valley Transportation Authority (VTA) formed the Peninsula Corridor Joint Powers Board (JPB) to transfer administrative responsibility for the Caltrain rail service from the State of California to the local level. In October 1991, a Joint Powers Agreement (Agreement) signed by the three parties (Member Agencies) stipulated the JPB membership and powers, specified financial commitments for each member, and detailed other administrative procedures, including designating the District as the managing agency.

The JPB acquired the rail corridor right of way between San Francisco and San Jose (Mainline) and perpetual trackage rights between San Jose and Gilroy (Gilroy Extension) from Southern Pacific Transportation Company in December 1991, with contributions provided by the District, the San Mateo County Transportation Authority, VTA, and the California Transportation Commission. The JPB holds title to portions of the Mainline located in San Francisco and Santa Clara County. During fiscal year 1992, the District provided the initial contribution in the amount of \$8,294,000 and \$34,652,000 on behalf of the CCSF and VTA, respectively, to facilitate completion of the acquisition of the right of way. As a result, the JPB and the District are tenants in common as to all right of way property located in San Mateo County.

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both CCSF and VTA have agreed to reimburse the District through a combination of gasoline tax “spillover” funds and population based “spillover” funds, to be paid directly to the District from the Metropolitan Transportation Commission, and revenue based “spillover” funds to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties have agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than ten years. When all payments have been received by the District, the District will reconvey to the JPB all of its interest in the title to the right of way.

The JPB assumed an expanded role in July 1992 as the State of California Department of Transportation (Caltrans) and the District coordinated the transfer of Caltrain operations and administration to the JPB. The JPB selected the National Railroad Passenger Corporation (Amtrak) as the contract operator and began operating the rail service on July 1, 1992.

The JPB is governed by a nine-member Board representing the three Member Agencies. The Agreement establishing the JPB expired in 2001 but continues on a year-to-year basis, with withdrawal requiring one-year advance notice.

To ensure public involvement, the JPB established a Citizens Advisory Committee (CAC) comprised of three representatives from each of the JPB counties. The CAC’s principal function is to assist the JPB by articulating the interests and needs of transit users and potential customers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements include the financial activities of the JPB only.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Implementation of Governmental Accounting Standards Board Statements (GASB)

GASB Statement No. 51 – In June 2008, the GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This Statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The JPB has implemented the provision of this Statement by restating intangible asset amortization in fiscal year 2009.

GASB Statement No. 53 – In June 2008, the GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. This Statement is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirement and is effective for financial statements with reporting periods beginning after June 15, 2009, with earlier application encouraged. This Statement did not have an impact on the JPB's financial statements.

GASB Statement No. 58 – In March 2009, the GASB issued Statement No. 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies. This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. This Statement did not have an impact on the JPB's financial statements.

C. Basis of Accounting

The accrual basis of accounting is utilized by the JPB. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The JPB 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.

D. Cash Equivalents

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

E. Accounts Receivable - Other

During the course of normal operations, the JPB carries various receivable balances for services and rent. At June 30, 2010 and 2009, the allowance for doubtful accounts included in Accounts receivable – other, are \$423,971 and \$424,437, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Inventory

Inventory consists principally of spare parts that are recorded when purchased and expensed when used. Inventory is recorded at the lower of cost or market and is maintained by Amtrak as part of their contractual agreement.

G. Investments

Investment transactions are recorded on the trade date at fair value. Fair value is defined as the amount that the JPB could reasonably expect to receive for an investment in a current sale from a willing buyer and is based on current market prices.

H. Restricted Investments with Fiscal Agents

Provisions of the JPB's trust agreements related to its farebox revenue bonds require that certain restricted investments accounts be established. These accounts are held by the fiscal agent and include funds for payment of principal and interest.

I. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for the same purpose (e.g. construction projects), the JPB's policy is to use all available restricted resources first before unrestricted resources are utilized.

J. Property and Equipment

Property and equipment is recorded at cost or appraised value. The JPB defines capital assets as assets with a cost greater than \$5,000 and an estimated useful life in excess of one year. Donated assets are recorded at estimated market value on the date donated. Major additions and replacements are capitalized. Maintenance repairs and additions of a minor nature are expensed as incurred.

K. Depreciation and Amortization

Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives:

- Right of way improvements – 3 to 40 years
- Rail vehicles – 10 to 36 years
- Facilities and equipment – 4 to 35 years
- Office equipment – 3 to 5 years

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Construction in Progress

Construction in progress consists of the following projects at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Grade crossing and separations	\$ 43,302,703	\$ 27,711,120
Station improvements	23,422,550	34,401,402
Electrification	22,891,103	23,432,723
Communications	22,300,970	12,857,485
System-wide track improvements	18,703,264	21,783,191
Bridge improvements	13,033,874	12,357,256
Peninsula rail program	10,944,826	5,642,850
Platform improvements	6,054,449	18,275,005
Rolling stock-purchase/ improvements	4,266,277	5,059,267
Other	13,039,215	11,967,857
Total Construction in progress	<u>\$ 177,959,231</u>	<u>\$ 173,488,156</u>

Interest is capitalized on construction in progress in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing, net of any allowable interest earned on temporary investments of the proceeds of those borrowings until specified asset is ready for its intended use. The net interest capitalized in fiscal year 2010 and 2009 is \$0 and \$309,364 respectively.

M. Bond Issuance Costs

Bond issuance costs are being amortized on a straight-line basis over the life of the related debt.

N. Deferred Member Contributions

Deferred member contributions are the result of advances from the Member Agencies. To the extent that these amounts exceed committed funds (see Note 14), they may be refunded to the Member Agencies or used to offset future required contributions.

O. Deferred Revenue

Deferred revenue represents fares, rents, and State assistance amounts received which have not yet been earned. Advance ticket sales are included as deferred revenue until earned.

P. Member Agency Assistance

Amounts received from Member Agencies for operations are recognized as revenues when operating and administrative expenses are incurred. Amounts received from Member Agencies for acquisition of assets or matching grants are recognized as capital contributions when capital expenditures are incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Federal, State and Local Operating Assistance

Federal, State and local operating assistance are recorded as revenue when operating expenses are incurred.

R. Wages and Benefits

Personnel costs of the JPB represent allocated costs of the District's employees serving in the capacity as managing agency. Participation in pension plans, compensated absences, and postretirement health care benefits for these employees is administered by the District (see Note 14).

S. Operating/Nonoperating Revenues and Expenses

The JPB distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from directly providing services in connection with the JPB's principal operations of commuter rail service. These revenues are primarily passenger fares, parking, shuttle, and pass revenues. Operating expenses include the cost of sales and services, administrative expenses, contracted services, and depreciation on capital assets. All other revenues and expenses (including member contributions) not meeting this definition are reported as nonoperating revenues and expenses.

T. Use of Estimates

The JPB's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses, and the disclosures of contingent liabilities to prepare these financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results may differ from those estimates.

U. Reclassifications

Certain comparative financial statement amounts from the prior year may have been reclassified to conform to the current year presentation.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 – CASH AND INVESTMENTS

The JPB’s investments are carried at fair value, as required by GAAP. The JPB adjusts the carrying value of its investments to reflect their fair value at each fiscal year end and includes the effects of these adjustments in income for that fiscal year.

The JPB is in compliance with the Board approved Investment Policy and California Government Code requirements.

The JPB’s cash and investments as of June 30 are classified in the Statement of Net Assets as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 25,428,764	\$ 15,352,827
Restricted cash	11,098,261	942,268
Current investments	3,010,224	4,750,970
Restricted investments with fiscal agents	183,813	183,933
Long term investments	<u>6,689,485</u>	<u>5,249,158</u>
Total Cash and Investments	<u>\$ 46,410,547</u>	<u>\$ 26,479,156</u>

The JPB’s cash and investments consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 653,097	\$ 573,792
Deposits with financial institutions	10,082,450	3,971,022
Investments	<u>35,675,000</u>	<u>21,934,342</u>
Total Cash and Investments	<u>\$ 46,410,547</u>	<u>\$ 26,479,156</u>

Investments Authorized by the California Government Code and the JPB’s Investment Policy

The table below identifies the investment types that are authorized for the JPB by the California Government Code or the JPB’s investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the JPB’s investment policy, where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the JPB, rather than the general provisions of the JPB’s investment policy.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 – CASH AND INVESTMENTS (continued)

Authorized Investment Type	Maximum Maturity	Percentage Of Portfolio	Investment In One Issuer
U.S. Treasury Obligations	11 years	None	None
U.S. Agency Securities or Government Sponsored Enterprises	11 years	None	None
Banker's Acceptances	180 days	15%	10%
Collateralized Time Deposits	1 year	30%	10%
Commercial Paper ¹	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	10%	5%
Repurchase Agreements	1 year	None	50%
Reverse Repurchase Agreements & Security Lending	92 days	20% of base value	20%
Medium-term Notes	5 years	30%	10%
Mutual Funds	N/A	10%	5%
Money Market Mutual Funds	N/A	20%	5%
Mortgage Backed Pass-Through Securities	5 years	20%	5%
Local Agency Investment Fund (LAIF)	N/A	None	None
San Mateo County Investment Pool	N/A	None	None

¹ Additional 10% "for a total of 25%" or the Maximum Percentage of Portfolio if the dollar weighted average maturity of the entire amount does not exceed 31 days.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the JPB's investment policy. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk incurred when changes in market interest rates adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the JPB manages its exposure to interest rate risk is by purchasing a combination of short and long term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The JPB monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. With respect to this metric, the JPB policies are as follows:

- No investment shall be made in securities with a remaining useful life exceeding 11 years
- No more than 25 percent of the portfolio shall be invested in securities with a remaining life of 5 to 11 years
- The weighted average maturity of the portfolio shall not exceed five years

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 - CASH AND INVESTMENTS (continued)

The JPB's weighted average maturity of its investment portfolio at June 30, 2010 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	\$ 3,016,645	0.00
Local Agency Investment Fund (LAIF)	22,219,905	0.56
Corporate Bonds	1,007,724	0.45
U.S. Agency Securities	8,691,985	1.31
Held by bond trustee:		
Money Market Mutual Funds	738,741	0.00
	<u>\$ 35,675,000</u>	
Portfolio Weighted Average Maturity		0.68

The JPB's weighted average maturity of its investment portfolio at June 30, 2009 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	\$ 6,831,413	0.00
Local Agency Investment Fund (LAIF)	3,441,373	0.64
Corporate Bonds	1,017,908	1.45
U.S. Agency Securities	6,731,200	1.11
U.S. Treasury Securities	2,251,020	0.79
Held by bond trustee:		
Money Market Mutual Funds	1,661,428	0.00
	<u>\$ 21,934,342</u>	
Portfolio Weighted Average Maturity		0.59

Disclosures relating to Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the JPB's investment policy, or debt agreements, and the actual rating as of fiscal years ended June 30, 2010 and 2009 for each investment type:

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 – CASH AND INVESTMENTS (continued)

Investment Type	Amount	Exempt From Rating	Rating as of June 30, 2010	
			S & P Rating AAA	Not Rated
Repurchase Agreements	\$ 3,016,645	\$ -	\$ -	\$ 3,016,645
Local Agency Investment Fund (LAIF)	22,219,905	-	-	22,219,905
Corporate Bonds	1,007,724	-	1,007,724	-
U.S. Agency Securities	8,691,985	-	8,691,985	-
Held by bond trustee:		-		
Money Market Mutual Funds	738,741	-	-	738,741
	<u>\$ 35,675,000</u>	<u>\$ -</u>	<u>\$ 9,699,709</u>	<u>25,975,291</u>

Investment Type	Amount	Exempt From Rating	Rating as of June 30, 2009	
			S & P Rating AAA	Not Rated
Repurchase Agreements	\$ 6,831,413	\$ -	\$ -	\$ 6,831,413
Local Agency Investment Fund (LAIF)	3,441,373	-	-	3,441,373
Corporate Bonds	1,017,908	-	1,017,908	-
U.S. Agency Securities	6,731,200	-	6,731,200	-
U.S. Treasury Securities	2,251,020	2,251,020	-	-
Held by bond trustee:				
Money Market Mutual Funds	1,661,428	-	-	1,661,428
	<u>\$ 21,934,342</u>	<u>\$ 2,251,020</u>	<u>\$ 7,749,108</u>	<u>\$ 14,185,234</u>

Concentration of Credit Risk

The investment policy of the JPB contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The JPB does not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent five percent or more of the JPB's total investments at June 30, 2010 and 2009 are as follows:

Issuer	Investment Type	Fair Value	
		2010	2009
Federal Home Loan Mortgage Corporation (FHLMC)	U.S. Agency Securities	\$ 2,518,235	\$ 2,000,000
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	4,042,499	2,050,625
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	2,131,250	2,180,625
Total		<u>\$ 8,691,984</u>	<u>\$ 6,231,250</u>

NOTE 3 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the JPB will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investment is the risk that in the event of the failure of the counter party (e.g. broker-dealer) to a transaction, the JPB will not be able to recover the value of its investment or collateral securities that are in possession of another party. The California Government code and the JPB's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure the JPB's deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

As of June 30, 2010 and 2009, the JPB had \$10,082,450 and \$3,971,022 of deposits with financial institutions recorded on the financial statements which included excess bank balances of \$11,728,354 and \$5,434,768 respectively. These excess balances are uninsured because the cash balances are over the Federal Depository Insurance limits. However, due to California State Law, these excess balances are collateralized by securities pledged by the financial institutions holding the JPB's deposits.

Investment in San Mateo County Investment Pool

The JPB did not have funds invested in the San Mateo County Treasurer's Investment Pool (County Pool) at June 30, 2010 and 2009.

The County Pool is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. It is not registered with the Securities and Exchange Commission. As of June 30, 2010, the County Pool's credit rating by Standard & Poor's was AAA.

On September 15, 2008, Lehman Brothers Holdings filed for Chapter 11 bankruptcy protection. The San Mateo County Pool portfolio included \$155 million of Lehman Brothers Holdings investments at that time in both commercial paper and floating rate securities. The County Pool wrote off these investments as of September 30, 2008 consequently showing a loss of \$155 million out of the total portfolio of approximately \$2.6 billion. The JPB had approximately \$22 million invested through the County Pool as of September 30, 2008 and therefore incurred its percentage share of this loss on October 1, 2008. The loss the JPB incurred was approximately \$1.3 million. When the bankruptcy proceedings are finalized all funds recovered by the County Pool will be distributed to the pool participants in proportion to their participation in the loss. As of October 4, 2010, the anticipated recovery value is projected to be \$0.23 on the dollar. Based on the JPB's participation rate, this equates to approximately \$0.3 million. However this will fluctuate until Bankruptcy proceedings are finalized.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 – CASH AND INVESTMENTS (continued)

Investment in State Investment Pool

The JPB is a voluntary participant in LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. Its most recent credit rating issued by Standard & Poor's was A-. LAIF is not registered with the Securities and Exchange Commission. The fair value of the JPB's investment in this pool is reported in the accompanying financial statements at amounts based upon the JPB's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

As of June 30, 2010 and June 30, 2009, the JPB had a contractual withdrawal value of \$22,183,441 and \$3,436,889 respectively that is recorded at \$22,219,905 and \$3,441,373 on the balance sheet after the adjustment for unrealized gains/losses for fiscal year 2010 and 2009, respectively. The total value invested by all public agencies in LAIF at June 30, 2010 and 2009 was \$69,555,776,591 and \$50,853,707,566, respectively. Of these amounts, as of June 30, 2010 and 2009, 94.6 and 85.3 percent, respectively, was invested in non-derivative financial products, and 5.4 and 14.7 percent, respectively, was invested in structured notes and asset-backed securities. The JPB relied upon information provided by the State Treasurer in estimating the JPB's fair value position of its holdings in LAIF.

NOTE 4 – GILROY EXTENSION

The JPB acquired the Gilroy Extension trackage rights through contributions from the California Transportation Commission and VTA. The perpetual trackage rights to the Gilroy Extension are recorded at cost in the amount of \$8,000,000 as an Intangible asset. With the implementation of GASB 51, *Accounting and Financial Reporting for Intangible Assets*, the JPB restated the accumulated amortization previously recognized on the perpetual trackage rights (intangible asset). The net impact to the ending balance of net assets at June 30, 2009, was an increase of \$3,155,199.

NOTE 5 – CONTRIBUTED ASSETS FROM CALTRANS

In order to facilitate the purchase of the Mainline and the Gilroy Extension on a timely basis, and to provide for an orderly transition to local administration in a manner that would assure no service interruption, Caltrans and the JPB executed an agreement memorializing various commitments. Caltrans granted the JPB the right to use and control various real and personal property. These properties included: stations, locomotives, and passenger cars ("rolling stock"), inventories and other property associated with Caltrain service. The agreement required that Caltrans transfer all of its rights, titles and interests in these properties to the JPB, in accordance with Public Utilities Code Section 99234.7.

On April 4, 1996, the JPB's Board approved a resolution accepting transfer of rolling stock and station sites subject to certain terms and conditions outlined in the resolution. The transfer of rolling stock to the JPB was completed in December 1996, and the transfer of station sites was completed in May 1997. The rolling stock and station sites transferred were recorded at their appraised value as contributed capital in the amount of \$106,710,000 and \$60,432,365, respectively. Station sites consist principally of land and were capitalized as right of way.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance at July 01, 2009 (Restated)	Additions	Deletions	Balance at June 30, 2010
Depreciable capital assets:				
Right-of-way improvements	\$ 596,170,264	\$ 59,811,206	\$ (3,013,087)	\$ 652,968,384
Rail vehicles	275,326,181	4,874,421	-	280,200,602
Facilities and equipment	118,197,409	3,370,383	(530,913)	121,036,879
Office equipment	726,328	98,680	(131,803)	693,205
Total depreciable capital assets	<u>990,420,182</u>	<u>68,154,691</u>	<u>(3,675,803)</u>	<u>1,054,899,070</u>
Accumulated depreciation for:				
Right-of-way improvements	(150,369,231)	(38,856,596)	3,013,087	(186,212,740)
Rail vehicles	(88,498,750)	(12,660,151)	-	(101,158,901)
Facilities and equipment	(18,400,993)	(5,775,703)	530,913	(23,625,783)
Office equipment	(656,164)	(101,479)	131,803	(625,840)
Total accumulated depreciation	<u>(257,925,138)</u>	<u>(57,373,929)</u>	<u>3,675,803</u>	<u>(311,623,264)</u>
Capital assets nondepreciable:				
Right-of-way	226,892,731	-	-	226,892,731
Construction in progress	173,488,156	72,625,765	(68,154,690)	177,959,231
Intangible Asset - Trackage Rights	8,000,000	-	-	8,000,000
Total nondepreciable capital assets	<u>408,380,887</u>	<u>72,625,765</u>	<u>(68,154,690)</u>	<u>412,851,962</u>
Capital assets, net	<u>\$ 1,140,875,931</u>	<u>\$ 83,406,527</u>	<u>\$ (68,154,690)</u>	<u>\$ 1,156,127,768</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 6 – CAPITAL ASSETS (continued)

Capital asset activity as restated for the year ended June 30, 2009, was as follows:

	Balance at July 01, 2008 (Restated)	Additions	Deletions	Balance at June 30, 2009
Depreciable capital assets:				
Right-of-way improvements	\$ 582,783,380	\$ 29,860,342	\$ (16,473,458)	\$ 596,170,264
Rail vehicles	254,536,600	20,789,581	-	275,326,181
Facilities and equipment	117,507,449	2,168,104	(1,478,143)	118,197,410
Office equipment	814,559	-	(88,232)	726,327
Total depreciable capital assets	<u>955,641,988</u>	<u>52,818,027</u>	<u>(18,039,833)</u>	<u>990,420,182</u>
Accumulated depreciation for:				
Right-of-way improvements	(131,155,771)	(35,686,918)	16,473,458	(150,369,231)
Rail vehicles	(76,232,012)	(12,266,738)	-	(88,498,750)
Facilities and equipment	(14,966,001)	(4,913,135)	1,478,143	(18,400,993)
Office equipment	(620,698)	(123,698)	88,232	(656,164)
Total accumulated depreciation	<u>(222,974,482)</u>	<u>(52,990,489)</u>	<u>18,039,833</u>	<u>(257,925,138)</u>
Capital assets nondepreciable:				
Right-of-way	226,892,731	-	-	226,892,731
Construction in progress	151,197,182	75,109,002	(52,818,028)	173,488,156
Intangible Asset - Trackage Rights	8,000,000	-	-	8,000,000
Total nondepreciable capital assets	<u>386,089,913</u>	<u>75,109,002</u>	<u>(52,818,028)</u>	<u>408,380,887</u>
Capital assets, net	<u>\$ 1,118,757,419</u>	<u>\$ 74,936,540</u>	<u>\$ (52,818,028)</u>	<u>\$ 1,140,875,931</u>

NOTE 7 – OPERATING ASSISTANCE

Member Agencies provide funding to the JPB. Net operating and administrative costs are apportioned on the basis of mutually agreed contribution rates, updated on an annual basis. Funding allocations for the years ended June 30, 2010 and 2009 were:

	<u>2010</u>	<u>2009</u>
District - Operating	41.92%	41.92%
VTA - Operating	40.28%	40.28%
CCSF - Operating	17.80%	17.80%

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 7 – OPERATING ASSISTANCE (continued)

Federal, state, and local operating assistance revenue amounts included in the Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2010 and 2009 were:

	<u>2010</u>	<u>2009</u>
Member Agency local funds	\$ 39,424,459	\$ 38,688,342
Assembly Bill 434 operating assistance	1,000,000	1,017,177
Other	1,131,743	120,136
Total	<u>\$ 41,556,202</u>	<u>\$ 39,825,655</u>

NOTE 8 – CAPITAL ASSISTANCE

Capital expenditures are primarily funded by federal and State grants, contributions from Member Agencies, and proceeds from Farebox Revenue Bonds (See Note 9 - Farebox Revenue Bonds Payable). Costs of capital replacement and enhancement projects that are not covered by outside funding sources are allocated to the Member Agencies based upon the terms of the Agreement.

A. Member Agencies

On an annual basis, the Board determines the amount to be contributed to a Capital Contingency Fund to cover unanticipated necessary capital improvements. Each Member Agency is responsible for an equal share of these funds. Member Agency contributions to the Capital Contingency Fund were \$1,010,000 for each of the years ended June 30, 2010 and 2009. Of the Capital Contingency Fund, \$960,000 was contributed by the Member Agencies for Mainline services and \$50,000 was contributed by the VTA for the Gilroy Extension. In fiscal years 2010 and 2009, the JPB received capital reimbursements and capital advances from the member agencies totaling \$16,184,804 and \$7,497,575, respectively. The unexpended amounts at 2010 and 2009 are shown as Deferred Member Contributions. (See Note 14 - Related Parties).

B. Federal and State Grants

At June 30, 2010, the JPB has 24 federal, 10 State and 19 local grants that provide funding for Caltrain capital projects. Capital additions for the year ended June 30, 2010 and 2009, applicable to these projects are \$71,579,407, and \$71,240,636, respectively. The related federal participation was \$29,533,316.

The JPB has receivables of \$6,737,407 and \$4,634,082 at June 30, 2010 and 2009, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements, which is included in Due From Other Governmental Agencies. In addition, the JPB has receivables of \$1,443,698 and \$2,615,172 at June 30, 2010 and 2009, respectively, for qualifying capital project expenditures under various state grants, which also is included in Due From Other Governmental Agencies.

Under the terms of the grants, contributions for equipment sold or retired during its useful life are refundable to the federal government in proportion to the related capital grant funds received, unless the net book value or proceeds from sale is under grant-prescribed limits.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 9 – FAREBOX REVENUE BONDS PAYABLE

A. 1999 Series A Bonds

In October 1999, the JPB issued Farebox Revenue Bonds in the amount of \$3,820,000 to finance the acquisition of electrical power units for locomotives utilized for its Caltrain commuter rail service. These bonds, with interest rates ranging from 4.0 to 5.375 percent, were limited obligations of the JPB, payable from and secured by a pledge of its farebox revenues. Interest payments were due on April 1 and October 1 of each year. The bonds were scheduled to mature on October 1 of each year through October 1, 2014. In December 2007, a portion of the 2007 Series A Bond proceeds was used to fully pay and legally defease the 1999 Series A Bonds.

B. 2007 Series A Bonds

On October 31, 2007, the JPB issued \$23,140,000 in 2007 Series A Farebox Revenue Bonds with \$2,117,000 used to fully pay and legally defease the 1999 Series A Bonds and the balance, net of cost of issuance, was used to finance the acquisition of eight new rail cars. The 2007 Series A Bonds carry a coupon rate ranging from 4.0 to 5.0 percent and are payable from and secured by a pledge of farebox revenues. Interest payments are due on April 1 and October 1 of each year through October 1, 2037. Annual principal payments commence October 1, 2018 and continue through the maturity date of October 1, 2037. The refinancing of the 1999 Series A Bonds extended the length of the existing debt service obligations by 14 years, from 2014 to 2028.

Activity for the year ended June 30, 2010 is as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Current</u> <u>Portion</u>
2007 Series A					
Revenue Bonds	<u>\$ 23,140,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,140,000</u>	<u>\$ -</u>

Activity for the year ended June 30, 2009 was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Current</u> <u>Portion</u>
2007 Series A					
Revenue Bonds	<u>\$ 23,140,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,140,000</u>	<u>\$ -</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 9 – FAREBOX REVENUE BONDS PAYABLE (continued)

Annual principal and interest payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2011	\$ -	\$ 1,102,875	\$ 1,102,875
2012	-	1,102,875	1,102,875
2013	-	1,102,875	1,102,875
2014	-	1,102,875	1,102,875
2015	-	1,102,875	1,102,875
2016-2020	495,000	5,497,275	5,992,275
2021-2025	3,880,000	5,072,872	8,952,872
2026-2030	5,840,000	3,959,953	9,799,953
2031-2035	7,465,000	2,335,125	9,800,125
2036-2038	5,460,000	418,500	5,878,500
Total	<u>\$ 23,140,000</u>	<u>\$ 22,798,100</u>	<u>\$ 45,938,100</u>

NOTE 10 – SELF-INSURANCE

The JPB is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The JPB is self-insured for a portion of its public liability and damage to its own property. As of June 30, 2010, coverage provided by self-insurance and excess coverage is generally as follows:

Type of Coverage	Self-insurance (in aggregate)	Excess Coverage (in aggregate)
Public Liability	Up to \$2,000,000 per occurrence	Up to \$200,000,000 per occurrence
Property Damage	Up to \$2,000,000 per occurrence	Up to \$200,000,000 per occurrence
Public Officials Liability	\$50,000 per claim	\$5,000,000
Environmental Site Liability	\$50,000 per claim	\$5,000,000

All property is insured at full replacement value. The unpaid claims liabilities are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. Annual expense is charged using various allocation methods that include actual costs, trends in claims experience and number of participants. It is the JPB's practice to obtain full actuarial studies annually.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 10 – SELF-INSURANCE (continued)

Changes in the balances of self-insured claims liabilities for public liability and property damage for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Self-insurance liabilities, beginning of year	\$ 3,286,847	\$ 2,065,856
Incurred claims and changes in estimates	1,509,279	1,580,003
Claim payments and related costs	<u>(905,000)</u>	<u>(359,012)</u>
Total self-insurance claims liabilities	3,891,126	3,286,847
Less: current portion	<u>(608,325)</u>	<u>(421,866)</u>
Noncurrent portion	<u>\$ 3,282,801</u>	<u>\$ 2,864,981</u>

NOTE 11 – CAPITAL CONTRIBUTIONS

The JPB receives grants and capital contributions from the federal, state, and local governments for the acquisition and improvement of property and other equipment. Capital grants and contributions used for capital purposes are recorded as capital contributions and the cost of the related assets is included in property and equipment.

Depreciation on assets acquired with capital contributions is included in the Statements of Revenues, Expenses, and Changes in net Assets. Capital contributions earned for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Contributions from Federal government	\$ 29,533,316	\$ 33,761,935
Contributions from the State	5,339,757	4,492,838
Contributions from local governments	<u>36,706,334</u>	<u>32,985,863</u>
	<u>\$ 71,579,407</u>	<u>\$ 71,240,636</u>

NOTE 12 – COMMITMENT AND CONTINGENCIES

A. Operating Contract

In November 2001, the JPB and Amtrak executed an agreement for operation, maintenance, and project support related to the JPB rail operations. The contract was established on a fixed-cost basis plus 4 percent of direct costs for overhead recovery. The agreement also included fixed-price quotations and overhead recovery rates for optional extra work requested at the discretion of the JPB. The JPB Board of Directors amended the contract in January 2005 to extend the term for an additional three years through June 30, 2009. In January 2008, the Board of Directors exercised the option to amend the contract for an additional year through June 30, 2010 and again in February 2009 through June 30, 2011.

The expenses billed to the JPB by Amtrak for operating the rail service for the years ended June 30, 2010 and 2009 are recorded as Contract Services in the Statement of Revenues, Expenses, and Changes in Net Assets.

The JPB is in the process of selecting a contractor for future Operations Maintenance and Support services with contract award currently expected by the end of Fiscal Year 2011.

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

B. Diesel Fuel Contract

The JPB entered into a two-year contract with Golden Gate Petroleum for the provision and delivery of Red-Dyed Ultra Low Sulfur Diesel (USLD) for an estimated amount of \$19.6 million in April 2007. In May 2009, the JPB authorized a one-year option term for an estimated amount of \$9.8 million.

In June 2009, the JPB joined the San Joaquin Regional Transit District (SJRTD), as lead agency for the Regional Transit Coordinating Council, in issuing an Invitation for Bids for the provision and delivery of ULSD, bio-diesel and unleaded gasoline. Four agencies participated in the joint procurement: the SJRTD, the VTA, the District, and the JPB. The lowest responsive bidder was Pinnacle Petroleum.

The JPB terminated, for convenience, the existing contract with Golden Gate Petroleum, in January 2010, and entered into a new two-year base contract for an estimated amount of \$17.4 million with Pinnacle Petroleum with up to three one year option terms.

Fuel costs incurred for the years ended June 30, 2010 and 2009 were \$10,307,029 and \$10,741,684 respectively.

C. Centralized Equipment Maintenance and Operations Facility (CEMOF) Construction Contract

The JPB contracted with Shimmick Construction Company Inc./Obayashi Corporation Joint Ventures for the construction of a state of the art equipment and maintenance shop for the handling of all light repairs to Caltrain commuter passenger railcar equipment for \$56,445,519. The work consisted of construction of an equipment maintenance and storage facility and other improvements on the west side of the mainline tracks, including the shop building, yard tracks, train washer, access roads, storage building, oil/water separator, and drum storage. The facility opened for operation in September 2007. The JPB issued a Final Acceptance letter to the contractor in July 2009 indicating that all contract work had been completed. The contractor submitted a final invoice in September 2009, which included a significant claim for additional compensation. The JPB released the remaining retention in the contractor October 2009. Negotiations between the JPB and the contractor were finalized in February 2010 with the JPB agreeing to a settlement of \$2.25 million which was paid by the JPB in April 2010.

D. Litigation

As of June 30, 2010 and 2009, the JPB had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigations are outstanding for which the JPB cannot determine the ultimate and resulting liability, if any. However, the JPB's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the JPB's financial position.

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

E. Leases

The terms of the Fiscal Year 2001 Sale-Leaseback documents entered into in November 2000 and the Fiscal Year 2002 Sale-Leaseback documents entered into in September 2001 require the JPB to replace American International Group (AIG) and Financial Security Assurance Inc., now Assured Guaranty Municipal Corp. (AGM), in their roles as guarantors of certain payment and surety obligations, as the case may be, if their respective ratings fall below certain rating thresholds. In the case of AIG, the ratings threshold is “A2/A” by Moody’s and Standard & Poor’s, respectively. In the case of AGM, the ratings threshold is “Aa3/AA-”, respectively. If the ratings of AIG or AGM fall below the applicable thresholds, the JPB will be required to find a replacement guarantor acceptable to the equity investor, Wells Fargo Bank, within 60 days of such rating trigger event in the case of AIG and within 30 days after demand by Wells Fargo.

American International Group (AIG) has been rated “A3/A-” by Moody’s and Standard & Poor’s since September 10, 2008. These ratings are below the thresholds in the applicable Sale-Leaseback documents. Wells Fargo Bank originally granted the JPB a 30 day extension from November 10, 2008 to find an acceptable replacement for AIG. Since that date, it has not responded to letters requesting additional extensions. In those subsequent letters, the JPB has included language stating that the JPB assumes that the request for extension is approved unless Wells Fargo notifies the JPB to the contrary. The JPB’s most recent request for an extension contains an extension date of December 31, 2010. The JPB continues to seek replacement options for AIG. In the event the JPB is unable to replace AIG and Wells Fargo seeks to assert its rights under the Fiscal Year 2001 and Fiscal Year 2002 Sale-Leaseback documents, the JPB in a worst case scenario could be required to pay Wells Fargo Bank the net termination value on the leases. However, the JPB reasonably anticipates that this outcome can be averted.

AGM is currently rated “Aa3/AA+” by Moody’s and Standard & Poor’s. On October 25, 2010, Standard & Poor’s downgraded AGM from its prior “AAA” rating. AGM’s ratings have not fallen below the rating thresholds of the Fiscal Year 2001 and Fiscal Year 2002 Sale- Leaseback documents.

The terms of the Fiscal Year 2002 Sale-Leaseback documents entered into in February 2002 require the JPB to replace AGM and Swiss Re in their roles as guarantor of certain payment and surety obligations, as the case may be, if their respective ratings fall below certain rating thresholds. In the case of AGM, the ratings threshold is “Aa1/AA+” by Moody’s and Standard & Poor’s, respectively. In the case of Swiss Reinsurance Company (Swiss Re), the ratings threshold is “Aa3/AA-”, respectively. If the ratings of AGM or Swiss Re fall below the applicable thresholds, the JPB will be required to find a replacement guarantor acceptable to the equity investor, Banc of America Leasing & Capital LLC, within 45 days of such rating trigger event.

Swiss Re has been rated “A1/A+” by Moody’s and Standard & Poor’s since February 2009. AGM is currently rated “Aa3/AA+” by Moody’s and Standard & Poor’s, with the downgrade by Moody’s from Aaa to Aa3 occurring in November 2008. These ratings are below the thresholds in the applicable Sale-Leaseback documents. Banc of America Leasing & Capital LLC has granted the JPB extensions in which to replace AGM and Swiss Re, as the case may be, since December 2008. The most recent extension runs through November 30, 2010. The JPB continues to make every effort to replace AGM and Swiss Re with acceptable guarantors. In the event the JPB is unable to replace AGM and Swiss Re, and Banc of America Leasing & Capital LLC seeks to assert its rights under the Fiscal Year 2002 Sale-Leaseback documents, the JPB in a worst case scenario could be required to pay Banc of America Leasing & Capital LLC the net termination value on the lease. However, the JPB reasonably anticipates that this outcome can be averted.

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

F. Fuel Hedge Program

In June 2010, the JPB entered into a diesel fuel price cap agreement with Barclays Capital to hedge the cost of fuel for Fiscal Year 2011 which capped the price of fuel hedged by the JPB at \$2.25 per gallon, keeping the cost for fuel in the Fiscal Year 2011 budget approximately the same as the Fiscal Year 2010 budget. The JPB purchases fuel based on the weekly spot price for ultra-low sulfur diesel. This method leaves the JPB open to fluctuation in the market for diesel fuel. The goal for the fuel hedging program is to reduce volatility and uncertainty in the fuel budget. The JPB hedged 2.1 million gallons, which represents approximately 50 percent of estimated fuel consumption. In order to maximize the hedging program's potential for economic efficiency, the JPB partnered with the District, which hedged 0.9 million gallons. The agreement documents include a Credit Support Annex which provides protection to the JPB in the event that the rating of Barclays Capital falls to or below A3/A-/A- by Moody's, Standard and Poor's or Fitch. Implementing this fuel hedging program allowed the JPB to reduce uncertainty in the fuel budget for Fiscal Year 2011 and to take advantage of the relatively low market prices on the closing date of the transaction. Staff will return to the Board with results of the Fiscal Year 2011 fuel hedging program and a recommendation on whether to continue the program in Fiscal Year 2012.

NOTE 13 – LEASING TRANSACTIONS

A. Fiscal Year 2001 Sale - Leaseback

In November 2000, the JPB entered into a leasing transaction with respect to 14 Nippon Sharyo coach cars, six Nippon Sharyo cab cars, and three GM F40PH-2 locomotives (collectively, the "Equipment"). The JPB leased the Equipment to a statutory trust under a Head Lease and simultaneously leased back the Equipment under a Sublease. The JPB received net proceeds in the amount of \$6,243,784, representing the difference between the appraised value of the Equipment and certain required deposits and expenses. Title to the Equipment remains on the books of the JPB at its original cost and is being depreciated over the original useful life determined at the date of acquisition. The net proceeds were recorded as Lease-Leaseback income. The JPB has an option to purchase the Equipment for an agreed upon purchase price in January 2025.

B. Fiscal Year 2002 Sale - Leaseback

In September 2001, the JPB entered into a leasing transaction with respect to 21 Nippon Sharyo passenger trailer cars and seven GM-EMD locomotives (the "Equipment"). The JPB leased the Equipment to a statutory trust under a Head Lease and simultaneously leased back the Equipment under a Sublease. The leasing transaction terminated and restructured a portion of a 1996 leasing transaction (the "1996 Transaction"). The JPB received net proceeds in the amount of \$670,000 which represents the difference between the appraised value of the Equipment and termination costs associated with the 1996 Transaction, certain required deposits and expenses. The JPB had received net proceeds of \$3,983,106 from the 1996 Transaction. Title to the Equipment remains on the books of the JPB at its original cost and is being depreciated over the original useful life determined at the date of acquisition. The net proceeds have been recorded as Lease-Leaseback income for the year ended June 30, 2002. The JPB has an option to purchase the Equipment for an agreed upon purchase price in January 2026.

NOTE 13 – LEASING TRANSACTIONS (Continued)

C. Fiscal Year 2002 Sale - Leaseback

In February 2002, the JPB entered into a leasing transaction with respect to 38 Nippon Sharyo trailer cars, 14 Nippon Sharyo cab cars, and 13 GM F40PH-2 locomotives (collectively, the "Equipment"). The JPB leased the Equipment to a statutory trust under a Head Lease and simultaneously leased back the Equipment under a Sublease. The leasing transaction terminated and restructured a portion of the "1996 transaction" that had not been previously terminated. The JPB received net proceeds in the amount of \$2,392,510 which represents the difference between the appraised value of the Equipment and termination costs associated with the remaining portion of the 1996 Transaction, certain required deposits and expenses. Title to the Equipment remains on the books of the JPB at its original cost and is being depreciated over the original useful life determined at the date of acquisition. The net proceeds have been recorded as Lease-Leaseback income for the year ended June 30, 2002. The JPB has an option to purchase the Equipment for an agreed upon purchase price in January 2026.

D. Retirement of Equipment Under Safe Harbor Lease

In July 2005, the JPB Board of Directors authorized the retirement and sale of twelve 1952 Budd passenger trailers, two 1952 Budd cab control cars, and one lot of spare parts. When the JPB acquired this equipment in 2000, it was subject to a 1982 Safe Harbor Lease pursuant to Internal Revenue Code Section 168(f)(8). The JPB sold this equipment to Grand Canyon Railway, Inc. of Flagstaff, Arizona for \$640,000. The JPB incurred sale costs of \$112,657, the majority of which went towards fulfilling its obligations under the Safe Harbor Lease and towards minimizing any related potential liabilities. In December 2009, the JPB's obligation under the Safe Harbor Lease expired and the remaining funds in escrow were returned to the JPB.

E. Tax Contingency

On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2005, was signed into law. Pursuant to this Act, Code Section 4965 imposes a federal excise tax (the "New Excise Tax") on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions such as the JPB. The JPB's leasing transactions are described in Note 13 items A through D. The U.S. Treasury Department and the Internal Revenue Service (the "IRS") have put forth some clarification as to which transactions are subject to the New Excise Tax. Some of the key points in the clarification documents affecting the JPB are as follows:

- Disclosure of these transactions to the IRS is not required if the transactions took place before May 16, 2006.
- Only net proceeds received after August 15, 2006 are subject to tax.
- In relation to equity defeasance, no loan payments are subject to tax.

All of the JPB's transactions took place before May 16, 2006. All proceeds from transactions were received prior to August 15, 2006. The JPB's loan payments related to equity defeasance are not subject to tax. The JPB feels that this New Excise Tax will not have a material impact on its financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 14 – RELATED PARTIES

A. Operating Expenses Paid to District

The District serves as the managing agency of the JPB, providing administrative personnel and facilities (see Note 1). The District is compensated based on actual costs incurred. Beginning in fiscal year 1999, the JPB also was required to compensate the District for administrative overhead. Amounts due to the District as managing agency at June 30, 2010 and 2009 total \$4,360,069 and \$1,577,609, respectively, and are included in accrued liabilities. Total expenses billed to the JPB by the District which are included as Operating Expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

	<u>2010</u>	<u>2009</u>
Wages and benefits	\$ 5,928,256	\$ 5,383,558
Rent, utilities, supplies and other	<u>1,222,318</u>	<u>1,436,709</u>
Total	<u>\$ 7,150,574</u>	<u>\$ 6,820,267</u>

B. Receivables From Member Agencies

The JPB is owed amounts from Member Agencies for grants and prior obligations. The balances at June 30 are as follows:

	<u>2010</u>	<u>2009</u>
District	\$ 5,252	\$ 8,484
VTA	35,869	599,900
CCSF	<u>1,343,253</u>	<u>1,438,742</u>
Total	<u>\$ 1,384,374</u>	<u>\$ 2,047,126</u>

C. Deferred Member Contributions

The JPB recognizes Member Agencies' advances as operating assistance or contributed capital when expenses are incurred or assets are purchased. Accordingly, some Member Agencies' payments are classified as Deferred Member Contributions. The balances at June 30 are as follows:

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 14 – RELATED PARTIES (continued)

	2010	2009
District	\$ 7,323,368	\$ 6,165,627
VTA	6,734,387	3,605,423
CCSF	1,667,720	1,628,595
Total	<u>\$ 15,725,475</u>	<u>\$ 11,399,645</u>
Committed for:		
Centralized traffic control system	\$ 840	\$ 847
Farebox capital	110,616	185,866
Capital contingency fund	1,721,696	2,604,784
Capital contribution Member's local match	13,692,584	8,408,409
Total Committed	<u>\$ 15,525,736</u>	<u>\$ 11,199,906</u>
Uncommitted funds:		
District	100,000	100,000
VTA	(17,349)	(17,349)
CCSF	117,088	117,088
Total Uncommitted	<u>199,739</u>	<u>199,739</u>
Total	<u>\$ 15,725,475</u>	<u>\$ 11,399,645</u>

D. San Bruno Grade Separation Project

On January 22, 2010, the JPB entered into a cooperative agreement with the District where by the District act as JPB's agent for right-of-way certification purposes in connection with the acquisition of property in the City of San Bruno as part of the San Bruno Grade Separation Project ("Project"), as the JPB is not legally authorized to file condemnation actions. Per the agreement, the JPB is the lead agency responsible for acquisition of the property by negotiated agreement. The District is responsible for providing all right of way related, necessary certification services including submission to appropriate authorities of all required right of way certification documentation. The District is also responsible for reviewing the project right-of-way appraisal and acquisition process to assure such activities are proper and in accordance with Caltrans right of way certification requirements. Property that needs to be acquired by eminent domain shall be condemned by the District. The District shall take title to property acquired by eminent domain and transfer title to the JPB. The JPB is responsible for paying 100 percent of the acquisition costs as well as all costs for staff, consultants and legal counsel.

At the April 14, 2010 the District Board of Directors meeting, the District Board authorized an amendment to the budget allowing for up to \$1.2 million to be spent in relation to the JPB's San Bruno Grade Separation Project. On April 15, 2010, the District wired \$1.048 million to the California State Treasurer for the condemnation deposit on property being acquired by eminent domain for the Project. The JPB promptly reimbursed the District on May 10, 2010. However, to date, no property acquired for the Project has required the use of eminent domain.

NOTE 15 – SUBSEQUENT EVENT

Litigation

As of June 30, 2010, the JPB was involved in litigation stemming from a fatal train vs. pedestrian accident which occurred along the right of way in April 2008. In October 2010, the JPB reached an agreement with the plaintiffs in this case which required the JPB to pay the plaintiffs a settlement of \$2 million. Upon execution of this agreement, the JPB immediately wired the \$2 million payment and, in turn, the JPB has been reimbursed through the liability insurance carrier the amount of \$0.5 million. The JPB is self-insured up to \$2 million per occurrence. The JPB's liability insurance policy covers settlement and some other costs incurred to defend the JPB that exceed the \$2 million self-insurance limit.

PENINSULA CORRIDOR JOINT POWERS BOARD
 SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES –
 COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
 YEAR ENDED JUNE 30, 2010

	Budget (Unaudited)	Actual	Variance Positive/ Negative
OPERATING REVENUES:			
Passenger fares	\$ 43,762,048	\$ 42,732,343	\$ (1,029,705)
Parking, shuttle and pass revenues	3,697,394	3,451,743	(245,651)
Other	374,240	277,519	(96,721)
Total operating revenues	<u>47,833,682</u>	<u>46,461,605</u>	<u>(1,372,077)</u>
OPERATING EXPENSES:			
Contract services	62,656,009	59,403,957	3,252,052
Insurance	4,535,000	5,035,000	(500,000)
Fuel	13,839,649	10,307,030	3,532,619
Parking, shuttle and pass expense	3,750,320	3,849,816	(99,496)
Professional services	775,800	825,734	(49,934)
Wages and benefits	6,321,379	5,928,256	393,123
Utilities and supplies	3,136,966	1,267,992	1,868,974
Maintenance services	406,000	267,923	138,077
Temporary services, rent and other	1,973,124	1,723,186	249,938
Total operating expense	<u>97,394,247</u>	<u>88,608,894</u>	<u>8,785,353</u>
Operating Loss	<u>(49,560,565)</u>	<u>(42,147,289)</u>	<u>7,413,276</u>
NONOPERATING REVENUES (EXPENSES):			
State and local operating assistance	40,416,585	41,556,202	(1,139,617)
Rental income	1,682,800	1,729,433	(46,633)
Interest income	361,280	483,076	(121,796)
Interest expense	(1,102,875)	(1,140,265)	37,390
Other income	749,800	2,098,760	(1,348,960)
Total nonoperating revenue, net	<u>42,107,590</u>	<u>44,727,206</u>	<u>(2,619,616)</u>
Net Income (loss)	<u>\$ (7,452,975)</u>	<u>\$ 2,579,917</u>	<u>\$ (10,032,892)</u>
CAPITAL OUTLAY:			
Capital assistance	20,586,142	71,579,407	(50,993,265)
Capital debt financing	-	1,046,357	72,625,764
Capital expenditures	<u>(20,586,142)</u>	<u>(72,625,764)</u>	<u>(92,165,549)</u>
Net capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
DEFICIENCY OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT			
	<u>\$ (7,452,975)</u>	<u>\$ 2,579,917</u>	<u>\$ (10,032,892)</u>

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The JPB prepares its budget on a basis of accounting that differs from generally accepted accounting principles ("GAAP"). The actual results of operations are presented in the Supplemental Schedule on the budgetary basis to provide a meaningful comparison of actual results with budget. In addition, certain budget amounts have been reclassified to conform with the presentation of actual amounts in the Supplemental Schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and GAAP concerns capital assets. Depreciation and amortization expense and unrealized gains and losses under GASB Statement No. 31 are not budgeted per GAAP and capital expenditures are not recorded as expenses per GAAP.

NOTE 2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

A reconciliation of the budgetary basis of accounting to GAAP is as follows:

Excess of expenses and capital outlay over operating revenues and non-operating revenues		\$ 2,579,917
<u>Reconciling Items</u>		
GASB 31 unrealized loss	\$ (191,913)	
Depreciation of assets	(57,373,927)	
Capital debt financing	(1,046,357)	
Capital expenditures	<u>72,625,764</u>	
		\$ 14,013,567
Change in net assets, GAAP basis		<u>\$ 16,593,484</u>

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Section III

STATISTICAL

Financial Trends

- Net Assets and Changes in Net Assets

Revenue Capacity

- Revenue Base and Revenue Rate
- Principal Revenue Payers

Debt Capacity

- Ratios of Outstanding Bonds
- Bonded Debt
- Direct and Overlapping Debt and Debt Limitations
- Pledged Revenue Coverage

Demographics and Economic Information

- Population and Income
- Unemployment Rates
- Principal Employers

Operating Information

- Farebox Recovery and Miles
- Employees
- Capital Assets

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STATISTICAL SECTION

The Statistical Section of JPB's CAFR represents detailed information as a context for understanding the information in the financial statements, notes disclosure and supplementary information for assessing the JPB's economic condition.

Financial Trends

These schedules contain trend information to assist readers in understanding and assessing how the JPB's financial position has changed over time.

Revenue Capacity

These schedules contain information to assist readers in understanding and assessing the factors affecting the JPB's ability to generate passenger fares.

Debt Capacity

These schedules assist readers in understanding and assessing the JPB's debt burden and its capacity to issue future debt.

Demographic and Economic Information

These schedules present socioeconomic indicators to assist readers in understanding the environment within which the JPB's financial activities take place.

Operating Information

These schedules contain contextual information about the JPB's operations and resources to assist readers in using financial statement information as a tool to understand and assess the JPB's economic condition.

PENINSULA CORRIDOR JOINT POWERS BOARD
 FINANCIAL TRENDS - NET ASSETS AND CHANGES IN NET ASSETS
 FISCAL YEARS 2001 THROUGH 2010 (in thousands)

	2010	2009	2008	2007
OPERATING REVENUES:				
Passenger fares	\$ 42,732	\$ 43,272	\$ 38,399	\$ 33,058
Parking, shuttle and pass revenues	3,452	3,112	4,972	4,667
Other	278	335	389	236
Total operating revenues	<u>46,462</u>	<u>46,719</u>	<u>43,760</u>	<u>37,961</u>
OPERATING EXPENSES:				
Contract services	59,404	61,172	55,341	50,799
Insurance	5,035	4,537	3,641	4,172
Fuel	10,309	10,742	14,377	10,876
Parking, shuttle and pass expenses	3,850	3,941	3,904	3,579
Professional services	826	916	780	583
Wages and benefits	5,928	5,384	5,708	4,719
Utilities and supplies	1,268	1,462	1,295	1,009
Maintenance services	268	252	308	457
Temporary services, rent and other	1,721	1,861	1,604	1,337
Total operating expenses	<u>88,609</u>	<u>90,267</u>	<u>86,958</u>	<u>77,531</u>
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION				
	(42,147)	(43,548)	(43,198)	(39,570)
DEPRECIATION AND AMORTIZATION				
	<u>(57,374)</u>	<u>(53,183)</u>	<u>(46,290)</u>	<u>(36,985)</u>
OPERATING LOSS				
	(99,521)	(96,731)	(89,488)	(76,555)
NONOPERATING REVENUES (EXPENSES):				
Federal, state and local operating assistance	41,556	39,826	39,661	41,538
Lease-leaseback income	-	-	-	-
Rental income	1,729	1,661	1,577	1,485
Interest income	291	(486)	1,260	1,631
Interest expense	(1,140)	(767)	(111)	(121)
Other income (expenses)	2,099	1,173	832	602
Total nonoperating revenues, net	<u>44,535</u>	<u>41,407</u>	<u>43,219</u>	<u>45,135</u>
Net loss before capital contributions	(54,986)	(55,324)	(46,269)	(31,420)
Capital contributions	71,579	71,241	82,552	91,222
Prior period adjustment	-	-	-	-
CHANGES IN NET ASSETS	<u>16,593</u>	<u>15,917</u>	<u>36,283</u>	<u>59,802</u>
Net Asset Components				
Invested in capital assets, net of related debt	1,133,772	1,119,056	1,099,455	1,062,907
Restricted	-	375	529	296
Unrestricted	13,227	10,974	11,350	11,848
Net Assets, end of year	<u>\$ 1,146,999</u>	<u>\$ 1,130,405</u>	<u>\$ 1,111,334</u>	<u>\$ 1,075,051</u>

Source: CAFRs.

This table presents revenues and expenses, contributions, depreciation and amortization and net assets components.

PENINSULA CORRIDOR JOINT POWERS BOARD
 FINANCIAL TRENDS - NET ASSETS AND CHANGES IN NET ASSETS
 FISCAL YEARS 2001 THROUGH 2010 (in thousands)

	2006	2005	2004	2003	2002	2001
\$	28,845	\$ 21,968	\$ 18,427	\$ 19,430	\$ 21,433	\$ 22,788
	4,164	3,676	3,718	3,202	2,686	2,805
	114	448	80	31	44	40
	<u>33,123</u>	<u>26,092</u>	<u>22,225</u>	<u>22,663</u>	<u>24,163</u>	<u>25,633</u>
	48,662	47,164	44,236	41,305	41,183	41,657
	3,098	3,607	3,251	2,538	3,649	3,200
	10,350	7,365	4,570	3,761	3,670	4,747
	3,332	3,754	4,430	4,477	4,876	4,925
	544	1,660	862	758	1,128	1,346
	4,081	4,224	4,270	4,111	3,718	2,859
	790	857	808	1,097	1,091	905
	314	259	30	89	171	29
	1,406	1,208	1,153	1,718	2,138	1,715
	<u>72,577</u>	<u>70,098</u>	<u>63,610</u>	<u>59,854</u>	<u>61,624</u>	<u>61,383</u>
	(39,454)	(44,006)	(41,385)	(37,191)	(37,461)	(35,750)
	(30,743)	(28,515)	(21,215)	(15,234)	(9,638)	(7,238)
	<u>(70,197)</u>	<u>(72,521)</u>	<u>(62,600)</u>	<u>(52,425)</u>	<u>(47,099)</u>	<u>(42,988)</u>
	41,125	35,393	33,057	32,193	34,000	30,622
	-	-	-	-	3,133	-
	1,310	1,184	1,147	1,406	995	914
	1,411	2,126	1,443	2,801	3,567	4,995
	(199)	(908)	(1,484)	(1,028)	(1,248)	(3,562)
	(378)	4,750	1,277	3,294	151	2,782
	<u>43,269</u>	<u>42,545</u>	<u>35,440</u>	<u>38,666</u>	<u>40,598</u>	<u>35,751</u>
	(26,928)	(29,976)	(27,160)	(13,759)	(6,501)	(7,237)
	122,520	69,828	122,602	106,093	84,255	77,377
	-	-	2,468	-	7,554	-
	<u>95,592</u>	<u>39,852</u>	<u>97,910</u>	<u>92,334</u>	<u>85,308</u>	<u>70,140</u>
	1,008,343	915,004	873,775	753,944	671,881	605,210
	173	150	-	-	950	3,227
	6,733	4,503	6,030	27,951	16,730	(4,184)
\$	<u>1,015,249</u>	<u>\$ 919,657</u>	<u>\$ 879,805</u>	<u>\$ 781,895</u>	<u>\$ 689,561</u>	<u>\$ 604,253</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2001 THROUGH 2010

Fiscal year	2010	2009	2008	2007
Passenger fares (in thousands)	\$ 42,732	\$ 43,272	\$ 38,399	\$ 33,058
Revenue Base				
Number of passengers (in thousands)	11,970	11,359	10,915	10,264
Four-zone fare structure				
Full adult fare:				
One-way	\$ 7.75	\$ 7.75	\$ 7.50	\$ 7.50
Day Pass	15.50	15.50	15.00	15.00
8-ride ^[1]	52.75	52.75		
10-ride ^[2]	-	66.00	63.75	63.75
Monthly Pass	205.50	205.50	198.75	198.75
Eligible discount fare:				
One-way	\$ 3.75	\$ 3.75	\$ 3.75	\$ 3.75
Day Pass	7.75	7.75	7.50	7.50
8-ride ^[1]	26.25	26.25		
10-ride ^[2]	-	33.00	31.75	31.75
Monthly Pass	102.75	102.75	99.25	99.25

Source: CAFRs and National Transit Database.

[1] 8-ride tickets replaced 10-ride tickets effective on March 2, 2009.

[2] 10-ride fare increase effected on January 1, 2009.

This table presents passenger fares, number of passengers and four-zone revenue fare structure.

PENINSULA CORRIDOR JOINT POWERS BOARD
 REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
 FISCAL YEARS 2001 THROUGH 2010

2006		2005		2004		2003		2002		2001	
\$	28,845	\$	21,968	\$	18,427	\$	19,430	\$	21,433	\$	22,788
	9,005		8,121		6,625		6,710		8,138		9,925
\$	6.75	\$	6.50	\$	5.50	\$	5.50	\$	5.25	\$	4.75
	13.50		13.00		11.00		11.00		N/A		3.50
	57.50		55.25		46.75		46.75		43.75		39.75
	179.00		172.25		145.75		145.75		136.50		124.00
\$	3.25	\$	3.25	\$	2.75	\$	2.75	\$	2.50	\$	2.25
	6.75		6.50		5.50		5.50		N/A		N/A
	28.75		27.50		23.50		23.50		N/A		N/A
	89.50		86.00		73.00		73.00		103.00		93.50

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEAR ENDED JUNE 30, 2010

The JPB does not have major revenue payers as most of the operating revenues are derived from passenger fares.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY - RATIO OF OUTSTANDING DEBT
FISCAL YEARS 2001 THROUGH 2010 (in thousands)

Fiscal Year	Farebox Revenue Bonds for JPB^[1]	Personal Income for San Mateo County^[2]	As a Percent of Personal Income
2010	\$ 23,140	\$ 55,469,728	0.042%
2009	23,140	53,854,105	0.043%
2008	23,140	52,285,539	0.044%
2007	2,355	50,347,246	0.005%
2006	2,590	46,881,900	0.006%
2005	2,815	42,846,390	0.007%
2004	3,035	39,408,618	0.008%
2003	3,245	36,466,977	0.009%
2002	3,445	36,736,603	0.009%
2001	3,640	39,395,344	0.009%

[1] CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Data for 2009 and 2010 are based on an estimated three percent annual increase over 2008.

This table presents the capacity of the JPB to issue farebox revenue bonds based on the total personal income for San Mateo County.

PENINSULA CORRIDOR JOINT POWERS BOARD
 DEBT CAPACITY – BONDED DEBT
 FISCAL YEARS 2001 THROUGH 2010 (in thousands)

Fiscal Year	Farebox Revenue Bonds	Member Agency Operating Contributions	As a Percent of Member Agency Contributions
2010	\$ 23,140	\$ 39,424	58.7%
2009	23,140	38,688	59.8%
2008	23,140	38,284	60.4%
2007	2,355	37,154	6.3%
2006	2,590	36,072	7.2%
2005	2,815	34,749	8.1%
2004	3,035	34,047	8.9%
2003	3,245	34,047	9.5%
2002	3,445	33,450	10.3%
2001	3,640	32,031	11.4%

Source: CAFRs

This table presents the capacity of the JPB to issue farebox revenue bonds based on the total member contributions from the District, VTA and CCSF.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT
FISCAL YEAR ENDED JUNE 30, 2010

The JPB does not have overlapping debt with other governmental agencies.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – DEBT LIMITATIONS
FISCAL YEAR ENDED JUNE 30, 2010

The JPB does not have a legal debt limit.

PENINSULA CORRIDOR JOINT POWERS BOARD
 DEBT CAPACITY – PLEDGED REVENUE COVERAGE
 FISCAL YEARS 2001 THROUGH 2010 (in thousands)

Year	Pledged Revenue	Debt Service			Debt Coverage
		Principal	Interest	Total	
2010	\$ 46,461	\$ -	\$ 1,103	\$ 1,103	42
2009	46,719	-	1,103	1,103	42
2008	43,760	250	521	771	57
2007	37,961	235	123	358	106
2006	33,123	225	133	358	93
2005	26,092	220	143	363	72
2004	22,225	210	152	362	61
2003	22,663	200	161	361	63
2002	24,163	195	169	364	66
2001	25,633	180	176	356	72

Source: CAFRs.

This table presents the relationship between total farebox revenue and total principal and interest payments, as well as the JPB's ability to meet its debt obligations.

PENINSULA CORRIDOR JOINT POWERS BOARD
 DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
 FISCAL YEARS 2001 THROUGH 2010

	<u>2008 *</u>	<u>2000 *</u>	<u>Percent Change 2000 - 2008</u>
Total Population	703,730	707,161	-0.5%
Persons Per Household	2.74	2.74	0.0%
Median Household Income	\$ 84,684	\$ 70,819	19.6%
Personal Income (in millions)	\$ 52,286 ^[1]	\$ 41,730	25.3%
Per Capita Income	\$ 73,839 ^[1]	\$ 58,905	25.4%
Minority Population:			
Black	21,816	24,840	-12.2%
Hispanic	162,562	154,708	5.1%
Asian	166,784	141,684	17.7%
Native American	2,815	3,140	-10.4%
Total	<u>353,976</u>	<u>324,372</u>	<u>9.1%</u>
Percent of Minority Population to Total Population	50.3%	45.9%	9.7%
Population by Age:			
4 years and younger	48,557	45,374	7.0%
5 to 17 years	110,486	-	-16.2%
5 to 19 years	-	131,912	
18 to 64 years	451,795	-	2.3%
20 to 64 years	-	441,790	
65-plus	92,892	88,085	5.5%
Percent of Employed Residents to Total Population	51.5%	52.9%	-2.7%
Percent of Residents Working Outside of San Mateo County	40.9% ^[2]	41.8% ^[2]	-2.2%
Percent of People Commuting to the San Mateo County for Work	40.1%	41.5% ^[2]	-3.4%

[1] Bureau of Economic Analysis, BEARFACTS 1997 - 2007, San Mateo, California [06081], most current information available.

[2] Metropolitan Transportation Commission

Source: United States Census Bureau, American Community Survey and Bureau of Economic Analysis.

* US Census Bureau information for year 2001 is not available and 2008 is the most current information available.

This table highlights San Mateo County's total population, median household income, per capita income.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEMOGRAPHICS AND ECONOMIC INFORMATION – UNEMPLOYMENT RATES
FISCAL YEARS 2001 THROUGH 2010

Year	Unemployment Rates
2010	9.2%
2009	9.0%
2008	4.7%
2007	3.8%
2006	3.7%
2005	4.3%
2004	4.9%
2003	5.8%
2002	5.7%
2001	3.8%

Source: California Employment Development Department

This table presents the unemployment rates for San Mateo County for the past 10 years.

PENINSULA CORRIDOR JOINT POWERS BOARD
 DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
 FISCAL YEARS 2000 AND 2008

Employers in San Mateo County	2008*			2000*		
	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	9,600	1	2.76%	17,700	1	4.61%
Genentech Inc.	8,250	2	2.37%	3,700	4	0.96%
Oracle Corporation	5,642	3	1.62%	7,400	2	1.93%
County of San Mateo	5,443	4	1.56%	4,944	3	1.29%
Kaiser Permanente	3,780	5	1.09%			
Safeway Inc.	2,273	6	0.65%			
Electronic Arts Inc.	2,000	7	0.57%			
San Mateo County Community College District	1,950	8	0.56%			
Mills-Peninsula Health Services	1,800	9	0.52%	2,474	6	0.64%
United States Postal Service	1,671	10	0.48%	1,898	7	0.49%
Visa USA/Visa International				2,677	5	0.70%
Applied Biosystems				1,765	8	0.46%
Siebel Systems Inc.				1,626	9	0.42%
San Francisco International Airport				1,497	10	0.39%
Total	42,409		12.18%	45,681		11.89%

Source: County of San Mateo.

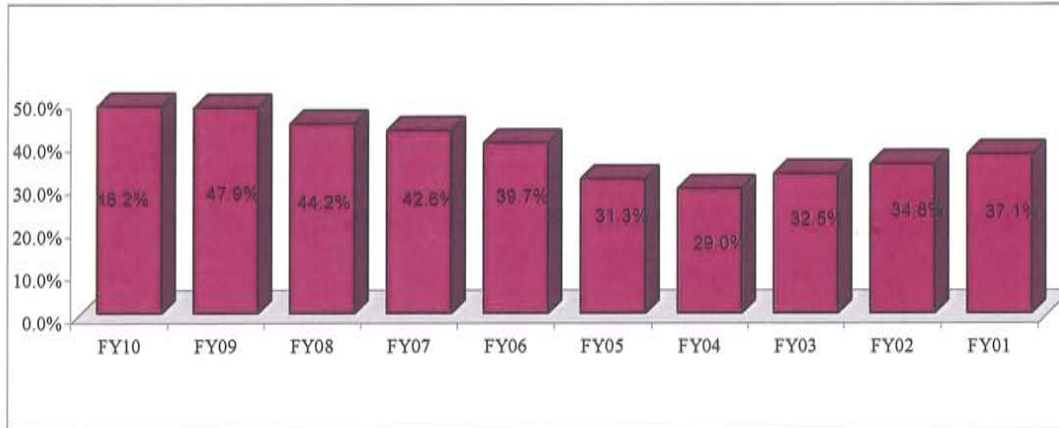
Principal Employer information for years 2001 and 2010 are not available.

This table presents the top 10 principal employers in San Mateo County for 2008 and 2000.

PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – FAREBOX RECOVERY AND MILES
 FISCAL YEARS 2001 THROUGH 2010

FAREBOX RECOVERY

Farebox recovery table shows the relationship between total passenger fares and operating expenses. The Board adopted a farebox recovery rate goal range of 35 to 40 percent effective FY2009.

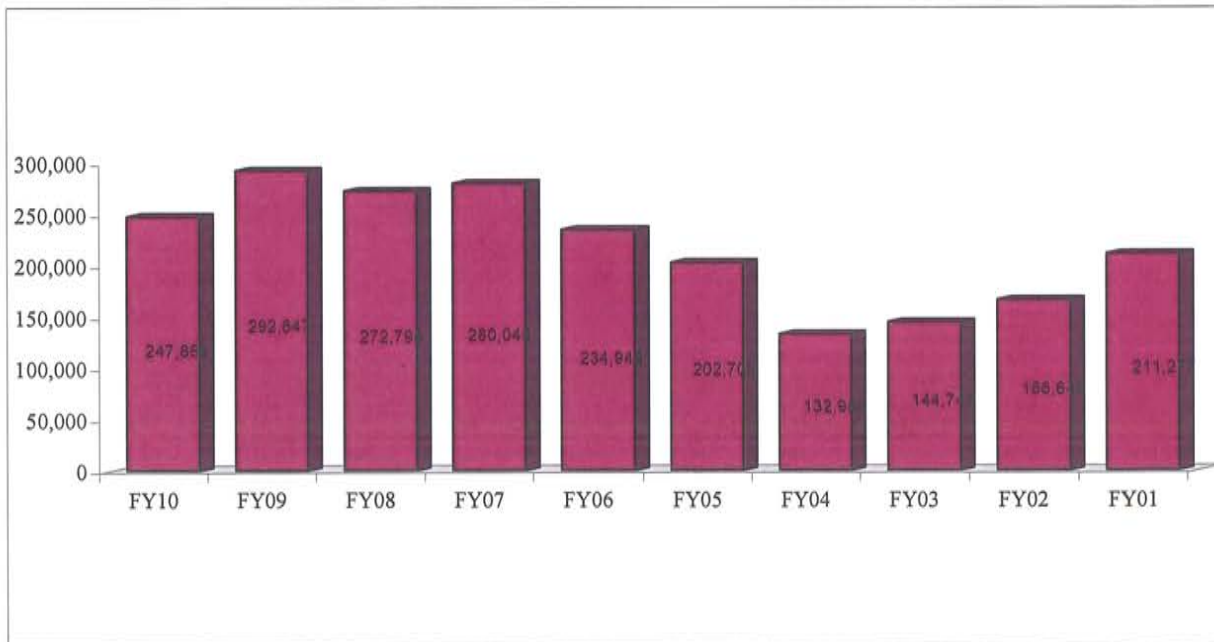


PASSENGER MILES

(In Thousands)

Weekday passenger miles

The number of weekday trains was reduced from 98 to 90 effective August 31, 2009.



Source: JPB's National Transportation Database.

PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
 FISCAL YEARS 2002 THROUGH 2010

<u>DIVISION</u>	FULL-TIME EQUIVALENTS (FTEs)	
	<u>2010</u>	
EXECUTIVE	0.80	
PUBLIC AFFAIRS	3.80	
CONSTRUCTION	46.54	
PLANNING AND DEVELOPMENT	6.20	
ADMINISTRATION	33.37	
PENINSULA RAIL PROGRAM	1.00	
CUSTOMER SERVICE AND MARKETING	18.05	
TOTAL FTEs	<u>109.76</u>	

Note: The organization went through a reorganization in FY2010.

<u>DIVISION</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
EXECUTIVE	0.65	0.60	0.60	-	-	-	2.25	2.00
ADMINISTRATION	12.35	12.50	13.20	14.05	13.24	7.59	19.51	13.55
COMMUNICATIONS	14.77	15.03	20.25	19.28	19.56	12.55	16.43	24.20
DEVELOPMENT	45.75	49.75	45.10	38.03	41.61	37.01	37.50	30.95
FINANCE	9.80	9.80	10.65	9.60	18.61	15.38	16.95	14.41
OPERATIONS	17.50	14.85	15.10	23.42	13.68	31.59	19.33	15.00
TOTAL FTEs	<u>100.82</u>	<u>102.53</u>	<u>104.90</u>	<u>104.38</u>	<u>106.70</u>	<u>104.12</u>	<u>111.97</u>	<u>100.11</u>

Note: Employee counts are for FTEs charged to the JPB. Data for 2001 was not available.

Source: JPB's annual capital and operating budget.

This table presents the total full time equivalents (FTEs) by division.

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PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – CAPITAL ASSETS
 FISCAL YEARS 2001 THROUGH 2010 (in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Depreciable and amortized capital assets			
Right of way improvements	\$ 652,968	\$ 596,170	\$ 582,783
Rail vehicles	280,201	275,326	254,537
Facilities and equipment	121,037	118,197	117,507
Office equipment	693	726	815
Total depreciable and amortized capital assets	<u>1,054,899</u>	<u>990,420</u>	<u>955,642</u>
Accumulated depreciation and amortization			
Right of way improvements	(186,213)	(150,369)	(131,156)
Rail vehicles	(101,159)	(88,499)	(76,232)
Facilities and equipment	(23,626)	(18,401)	(14,966)
Office equipment	(626)	(656)	(621)
Intangible Asset - Trackage Right*	-	-	(2,963)
Total accumulated depreciation and amortization	<u>(311,624)</u>	<u>(257,925)</u>	<u>(225,938)</u>
Nondepreciable capital assets			
Right of way	226,893	226,893	226,893
Construction in progress	177,959	173,488	151,197
Intangible Asset - Trackage Right*	8,000	8,000	8,000
Total nondepreciable capital assets	<u>412,852</u>	<u>408,381</u>	<u>386,090</u>
Capital assets, net	<u>\$ 1,156,127</u>	<u>\$ 1,140,876</u>	<u>\$ 1,115,794</u>

*Per GASB 51 effective as of FY2009 Trackage Rights are a non-depreciable capital asset. The activity for FY2009 has been restated to reflect the change.

Source: CAFRs

This table presents the total non depreciable capital assets, total depreciable capital assets and total accumulated depreciation and amortization.

PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – CAPITAL ASSETS
 FISCAL YEARS 2001 THROUGH 2010 (in thousands)

	2007	2006	2005	2004	2003	2002	2001
\$	496,553	\$ 375,566	\$ 338,487	\$ 224,440	\$ 214,171	\$ 94,294	\$ 84,101
	254,201	253,033	253,754	239,667	208,624	119,922	109,861
	23,549	22,743	17,978	17,813	15,520	5,393	4,911
	717	685	305	238	203	202	107
	<u>775,020</u>	<u>652,027</u>	<u>610,525</u>	<u>482,158</u>	<u>438,518</u>	<u>219,810</u>	<u>198,980</u>
	(100,573)	(75,766)	(56,312)	(40,317)	(29,830)	(20,383)	(16,310)
	(65,495)	(55,343)	(46,557)	(35,753)	(26,847)	(20,773)	(16,118)
	(10,426)	(8,689)	(6,877)	(5,417)	(3,866)	(4,447)	(3,762)
	(474)	(378)	(262)	(199)	(120)	(119)	(87)
	<u>(2,770)</u>	<u>(2,578)</u>	<u>(2,385)</u>	<u>(2,193)</u>	<u>(2,000)</u>	<u>(1,808)</u>	<u>(1,615)</u>
	<u>(179,738)</u>	<u>(142,754)</u>	<u>(112,393)</u>	<u>(83,878)</u>	<u>(62,663)</u>	<u>(47,531)</u>	<u>(37,892)</u>
	210,962	210,962	210,962	210,964	210,964	210,964	210,964
	250,919	282,583	200,597	259,424	180,571	290,275	229,282
	8,000	8,000	8,000	8,000	8,000	8,000	8,000
	<u>469,881</u>	<u>501,545</u>	<u>419,559</u>	<u>478,387</u>	<u>399,534</u>	<u>509,239</u>	<u>448,246</u>
\$	<u>1,065,163</u>	<u>\$ 1,010,818</u>	<u>\$ 917,691</u>	<u>\$ 876,667</u>	<u>\$ 775,390</u>	<u>\$ 681,518</u>	<u>\$ 609,333</u>

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Section IV

SINGLE AUDIT

Schedule of Findings and Questioned Costs

 Summary of Auditor's Results

 Financial Statement Finding

 Federal Award Findings and Questioned Costs

 Status of Prior Year Findings and Questioned Costs

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

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*

Report On Compliance with Requirements That Could Have a Direct and Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

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PENINSULA CORRIDOR JOINT POWERS BOARD
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes x No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes x None Reported

Noncompliance material to financial statements noted? Yes x No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weaknesses identified? Yes x No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes x None Reported

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

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
20.500 and 20.507	Department of Transportation - Federal Transit – Capital Investment Grants / Federal Transit – Formula Grants (Urbanized Area Formula Program)

Dollar threshold used to distinguish between type A and type B programs: \$877,913

Auditee qualified as low-risk auditee? x Yes No

FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated October 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –
Prepared by Management**

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

There were no prior year Federal Award Findings and Questioned Costs reported.

PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Federal Transit Cluster			
Department of Transportation Federal Transit Administration Federal Transit-Capital Improvement Grants (Sec 5309)	20.500		
Capital Improvement		CA-03-0665	\$ 260,153
Capital Improvement		CA-03-0691	4,307,501
Capital Improvement		CA-05-0207	1,288,073
Capital Improvement		CA-05-0209	1,486,897
Capital Improvement		CA-02-0218	2,879,830
Track, Signal/communication, Station Rehab		CA-05-0238	433,605
ARRA-Track & Infrastructure Rehab		CA-56-0006	1,131,452
Capital Improvement		CA-15-X002	<u>37,589</u>
Program Subtotal	20.500		<u>11,825,100</u>
Federal Transit-Formula Grants (Urbanized Area Formula Program - sec 5307)	20.507		
Capital and Operating Grants			
Capital Improvement		CA-90-Y123	2,155,757
Capital Improvement		CA-90-Y246	1,511,251
Capital Improvement		CA-90-Y312	942,692
Capital Improvement		CA-90-Y379	100,551
Capital Improvement		CA-90-Y493	835,409
Capital Improvement		CA-90-Y592	1,883,728
Track, Signal & Station Rehab & ADA Enhancement		CA-90-Y696	668,223
ARRA-Track, Bridge, Signal & Bike Improvement		CA-96-X022	6,399,396
Station Upgrades		CA-90-Y761	109,650
Station, Signal, Communication & Rolling Stock Rehab		CA-90-Y788	989,915
Operating Grant		CA-90-Y379	60,604
ARRA - Operating Grant		CA-66-X011	<u>1,033,836</u>
Program Subtotal	20.507		<u>16,691,012</u>
Total Federal Transit Cluster			<u>28,516,112</u>
Public Transportation Research	20.514		
Transportation, Community, and Security Preservation Caltrain Capital Project		CA-26-0026	<u>146,845</u>
Program Subtotal	20.514		<u>146,845</u>
Highway Planning and Construction (Federal-Aid Highway Program)	20.205		
Bridge Replacement		BRLO-6170 (023)	54,931
Bridge Replacement		BRLO-6170 (021)	95,234
Bridge Replacement		BRLO-6170 (022)	<u>82,453</u>
Program Subtotal Direct Programs	20.205		<u>232,618</u>
Department of Transportation Federal Transit Administration Pass-Through Programs From: Pass-through the California Metropolitan Transportation Commission	20.505		
Operating Grant		CA-81-2003 (01)	<u>36,629</u>
Program Subtotal Pass-Through Programs			<u>36,629</u>
Total Department of Transportation Federal Highway Administration			<u>28,932,204</u>
Department of Homeland Security			
Rail and Transit Security Grant Program	97.075		
California Emergency Management Agency			
FY 06 TSGP (Transit Security Grant)		2006-RL-T6-0001	330,880
FY 07 TSGP (Transit Security Grant) - Operating		2006-RL-T7-K111	<u>674</u>
Total Department of Homeland Security	97.075		<u>331,554</u>
Total Expenditures of Federal Awards			<u>\$ 29,263,758</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Peninsula Corridor Joint Powers Board, San Carlos, California as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the Board by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the Board. The Schedule includes both of these types of Federal award programs when they occur.

**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***

Honorable Board Members
of the Peninsula Corridor Joint Powers Board,
San Carlos, California

We have audited the financial statements of the Peninsula Corridor Joint Powers Board (the "JPB") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with generally accepted auditing standards 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 JPB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the JPB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the JPB's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 JPB'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 and other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated October 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

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

Ware & Associates

October 15, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Board Members
of the Peninsula Corridor Joint Powers Board,
San Carlos, California

Compliance

We have audited Peninsula Corridor Joint Powers Board's (the "JPB") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the JPB's major federal programs for the year ended June 30, 2010. The JPB's major federal programs are 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 JPB's management. Our responsibility is to express an opinion on the JPB'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. 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 JPB'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 JPB's compliance with those requirements.

In our opinion, the JPB complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the JPB 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 JPB's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, 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 JPB's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the JPB as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the JPB's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

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

Mare & Associates

October 15, 2010