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

For the Fiscal Year
Ended June 30, 2004

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

For the Fiscal Year Ended June 30, 2004

Prepared by the Finance Division

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Section I

INTRODUCTORY

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December 31, 2004

To the Executive Director and Board of Directors of the Peninsula 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, 2004

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, 2003 through June 30, 2004. 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 District's financial results may refer to the Management's Discussion and Analysis portion of 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 District contracted for independent auditing services. Vavrinek, Trine, Day & Company, LLP, a certified public accounting firm, 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

Purpose

The Peninsula Corridor Joint Powers Board is responsible for Caltrain passenger 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 nearly 140 years. The rail line currently extends from San Francisco 77 miles south to Gilroy, serving 34 stations. Spanning San Francisco, San Mateo and Santa Clara counties, Caltrain provides vital links to multiple transit properties in 19 cities.

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 County as tenants in common with the San Mateo County Transit District. The JPB owns title to the right of way property in the County of Santa Clara from the Palo Alto Station to the Tamien Station in San Jose. The County of Santa Clara owns the balance of the line south to Gilroy.

Entity

The JPB is legally separate and financially independent and is not a component unit of the County of San Francisco, the County of San Mateo, the County of Santa Clara or any other entity. In addition, 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 Peninsula Corridor Joint Powers Board.

History

Beginning in 1980, the California Department of Transportation (Caltrans) administered a purchase-of-service agreement with the Southern Pacific Transportation Company (Southern Pacific) for passenger rail service between San Francisco and San Jose. Under the agreement, Southern Pacific operated the service and received subsidies from state and local agencies. Caltrans performed contract administration, service planning, marketing, engineering, scheduling, fare management, customer support and performance monitoring responsibilities.

In 1987, the City and County of San Francisco, the San Mateo County Transit District and the Santa Clara Valley Transportation Authority commissioned a study that recommended transferring responsibility for the rail service from the state to the local level. In October 1991, the three parties executed a joint powers agreement accomplishing this objective by forming the Peninsula Corridor Joint Powers Board.

In December 1991, the JPB purchased the right of way to the rail corridor between San Francisco and San Jose (known as the “Mainline”) and perpetual trackage rights between San Jose and Gilroy (known as the “Gilroy Extension”) from Southern Pacific. Contributions from the three JPB member agencies and the California Transportation Commission funded this acquisition.

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 that extends through fiscal year 2006.

Governance

The joint powers agreement establishes a nine-member 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 three member counties, San Mateo, Santa Clara and San Francisco, on the board. The JPB also has created a nine member Citizens Advisory Committee (CAC) composed of three citizen representatives from each JPB county. The principal objective of the CAC is to articulate the interests and needs of current and future patrons. At this time, the member counties are in the process of renegotiating the JPB agreement.

Administration

The joint powers agreement designated the San Mateo County Transit District (The District) 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 U.S. Department of Transportation. Currently, the District provides the following services:

The Administration Division is responsible for purchasing, contract administration, risk management, information technology and human resources. In addition, this division also manages security, including police services provided through a contract with the San Mateo County Sheriff.

The *Communications Division* is responsible for marketing, advertising, media relations, public information, distribution, sales, and customer service.

The *Development Division* is responsible for strategic planning, capital and grants budgeting, legislative activities, property management, capital project engineering and construction along the right of way.

The *Executive Division* is responsible for directing and overseeing all activities and for supporting the Board of Directors.

The *Finance Division* is responsible for financial accounting and reporting, operational budgeting, capital and grant administration, payroll and vendor disbursements, fare and revenue control, and investment and debt management.

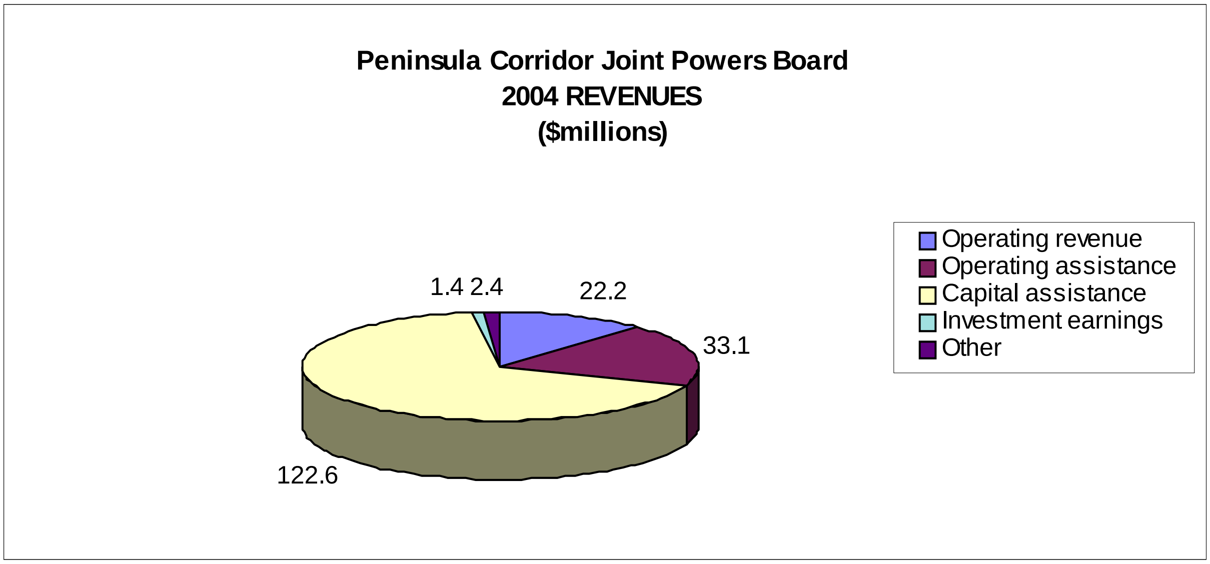
The Operations Division is responsible for the overall management of Caltrain, including contractor oversight, right of way activities, fare and schedule administration, employer and other shuttles, service planning and quality assurance, and accommodations for mobility-impaired persons pursuant to the requirements of the Americans with Disabilities Act (ADA). The contract operator, Amtrak, provides train service, maintains equipment and property, conducts ridership counts and passenger surveys, and prepares financial and operational reports.

Budgetary Control

State law requires the adoption of an annual budget by resolution of the Board of Directors. In the spring preceding the July 1 start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. Where proposed expenditures exceed projected revenues, the presentation may include the use of financial reserves to balance the budget. The Board of Directors monitors budget-to-actual performance through monthly reports provided by staff. A supplemental schedule comparing the adopted budget to actual results on a budgetary basis of accounting for fiscal year 2004 is included in the Financial Section of this report.

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

The District employs the same basis and principles for both budgeted and actual revenues and expenditures, with the exceptions that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization established pursuant to joint powers legislation, the District is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The pie charts in this letter show actual results for the major revenue and expense categories of fiscal year 2004 budget.



STRATEGIC PLANNING

Goals

The JPB strategic plan is an integral element in a regional effort to roll back current traffic congestion levels and restore the traditional quality of life in the member agency counties. In this regard, the JPB is committed to continuous improvement of Caltrain service for patrons and their communities. While the JPB experienced ridership decline during the weakened economy of the past few years, the long-term forecast continues to anticipate steady economic and population growth with the consequent effects on all transportation modes.

Acknowledging that the JPB must overcome financial and other constraints to succeed in this effort, the strategic plan identifies five attainable goals and associated objectives for Caltrain's next decade. Performance measures and clear policies guide the way, as the Board of Directors and staff monitor progress periodically and update the plan as necessary. The five goals are:

1. Improve customer service and safety by putting passenger needs and desires first and maintaining a quality rail system.
2. Attain train ridership growth by expanding and enhancing service, infrastructure and facilities.
3. Achieve financial stability and member agency commitment to the future.
4. Develop regional partnerships and multimodal linkages throughout the Bay Area and beyond.
5. Support local needs and livable communities by linking land use and transportation decisions.

Market Demand and Station Improvement Plans
Comprehensive needs analysis has revealed that incremental improvements to the Caltrain system can stimulate significant ridership growth over the long term. These studies have recommended specific improvements, additions, relocations and consolidation of rail stations along the Peninsula corridor. In addition, encouraging transit-oriented development opportunities in and around Caltrain stations is an important objective for the financial future of the JPB.

Rapid Rail Plan
A key component of customer satisfaction and safety is providing a smooth and comfortable ride on Caltrain. Studies indicated electrification could reduce running times, lower operating costs, alleviate noise and improve air quality along the corridor. In May 1999, the JPB approved an $836 million program for a comprehensive rehabilitation of the Caltrain right of way, including electrifying the corridor. Federal and state grants and JPB member contributions fund the active projects of this plan.

System Expansion and Connections
The following expansion projects are under consideration for longer-term implementation:

- *San Francisco Downtown Extension:* This project proposes to link Caltrain with San Francisco’s Transbay Terminal providing Caltrain patrons with easier access to the center of the city.
- *Dumbarton Bridge Rail Service*: Construction of a rail corridor alongside the Dumbarton Bridge spanning the southern portion of San Francisco Bay will improve commute times between the East Bay and the San Francisco peninsula. The San Mateo County Transportation Authority included support for this project in its renewed Measure A expenditure plan approved by San Mateo County voters at the November 2004 general election.
- *South Bay Connections:* This project proposes to link Caltrain stations to the Capitol Corridor Intercity and Altamont Commuter Express transit systems at San Jose.

CURRENT PROGRAMS

Rail Service Levels and the Baby Bullet Express
The JPB suspended all weekend train service in July 2002 to allow for track, traffic control and other capital improvements in support of planned Baby Bullet express service. In June 2004, weekend service resumed and Baby Bullet service began. Running new bi-level passenger cars and streamlined locomotives acquired over the last two years, this limited stop train reduces the travel time along the mainline (San Jose to San Francisco) from an hour and a half to just under an hour. Adding ten Baby Bullet trains to the existing schedule has brought service to 86 trains per weekday. This train has been a huge success, increasing total ridership approximately 25 percent and dramatically affecting boarding patterns throughout the line.

Centralized Equipment Maintenance and Operations Facility
After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations rail yard in November 2004 that will consolidate several geographically separate facilities, increasing efficiency for maintenance personnel.

Regional Service Coordination

Caltrain is at the heart of the Peninsula transportation network and collaborates with other Bay Area transit agencies to provide connections between each other's systems. These connections are with the San Francisco Muni Light Rail in San Francisco (opened January 1998), VTA in Mountain View (opened December 1999) and the Bay Area Rapid Transit District (BART) in Millbrae (opened June 2003). Connecting Caltrain to the San Francisco International Airport rail transit system is expected eventually to add 2,200 weekday trips, though initial ridership is somewhat under projections.

- *Muni Light Rail*: Passengers may connect to this City of San Francisco's Municipal Railway (Muni) system at the Caltrain Fourth and King station.
- *Millbrae/SFO Airport*: As of June 2003, passengers may connect to Bay Area Rapid Transit (BART) at the Caltrain Millbrae Intermodal Station and to the AirTrain at the Caltrain San Francisco Airport station.
- *VTA Light Rail*: Passengers may connect to this Santa Clara Valley Transit Authority (VTA) system at the Caltrain Mountain View and Diridon (San Jose) stations.
- The Translink program is a regional fare collection program that allows passengers to purchase combination tickets for various Bay Area transit systems. This system currently is being tested at nine Caltrain stations.

Caltrain Shuttles

During fiscal year 2004, Caltrain operated 29 routes transporting Caltrain riders to local employers and ridership grew 289 per day over the prior year for an average of 4,154 persons per weekday.

Americans with Disabilities (ADA) Programs

Currently 22 stations are equipped with wheelchair lifts to help passengers with mobility-impairments board the rail cars. Lift usage continued to increase from the prior year. In addition, one rail car on each train is equipped with lifts to enhance accessible service further.

Bikes-on-Board

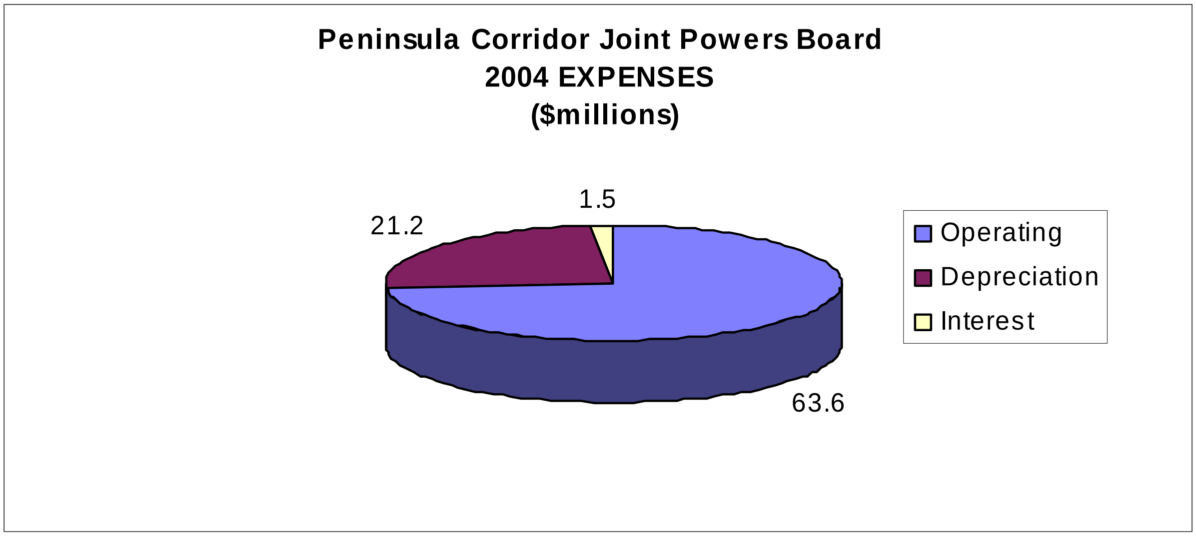
During 2004, local trains accommodated up to 64 bicycles. The Baby Bullet limited stop express service begun in June 2004 accommodates 32 bicycles.

Fare Administration

In September 2003, Caltrain implemented a "proof-of-payment" fare collection system that has increased internal controls and freed conductors from onboard ticket sales, allowing them to focus more on customer service and safety concerns. The new system also corrected inequities in fare administration by standardizing zone distances and rates. The JPB is the first rail system in the nation to migrate from on-board ticket sales (the "hat check" system) to on-board proof-of-payment. This change has resulted in automated ticket vending machines on station platforms now accounting for most Caltrain ticket sales, with mail and ticket office sales representing dwindling shares.

Parking

The Sunnyvale parking garage opened in December 2003 and added 450 new parking spaces to the JPB's inventory of 6,685 spaces system-wide.



FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The three counties that comprise the Caltrain service area enjoy consistent ranking among the most affluent in California. With significant employment in diverse industries such as computer technology, biotechnology, finance, education, conventions, tourism, agriculture, and manufacturing, the District's service area does not depend on any one sector for its prosperity. Despite the recent economic downturn, this broad employment base promises long-term stability and job growth for its residents. Three years ago, the economy began to slow, as unemployment rose, real estate prices fell and consumers curtailed spending. Although real estate prices recovered quickly, jobs continued to be lost and retail sales declined into 2004. Caltrain ridership also reflected this trend, declining moderately. In the last half of 2004, modest employment and consumer spending increases signaled the beginning of economic recovery. However, this recovery has been slower than in other regions of California and the nation.

Despite the favorable long-term outlook for the general economy and the ridership success of the new Baby Bullet express service, the JPB faces a significant structural deficit in its operating budget. Member agencies have held their financial support for operations essentially level over the last four budget cycles and are reluctant to fund the full cost of the current operation, due to budget pressures of their own. In fiscal year 2004, JPB expenses exceeded revenues and the agency used $4.8 million of reserves to fund the deficit. The budgeted deficit for fiscal year 2005 anticipates using another $8.1 million in reserves. This situation is challenging the JPB to re-examine its business model in terms of the needs of the region and the fiscally constrained situations of its member agencies.

Cash Management

The Board of Directors has adopted an investment policy as prescribed by the State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the JPB pursues a prudent, cash management and investment program to achieve maximum return on all available funds. The JPB's policy is to hold securities to maturity to avoid losses from a potential sale. All of the JPB's unrestricted cash and investments as of June 30, 2004 were on deposit with either Bank of America or invested in the State of California State Treasurer's Local Agency Investment Fund (LAIF). Deposits are insured by the federal depository or covered by collateral.

Risk Management

The JPB retains an independent consultant to conduct an actuarial study every other year and to perform a review of the JPB's risk management programs every five years. The JPB implements the recommendations and coordinates the annual insurance program. Current insurance policies provide public liability coverage to $200 million in excess of the $2 million self-insured retention. For property damage, the coverage limit also is $200 million, with $2 million per occurrence self-insured. Staff monitors the program and adjusts reserves throughout the year as warranted.

Pension and other Post-employment Benefits

As mentioned above, the joint powers agreement that created the JPB designated the San Mateo County Transit District to provide staff services in support of the JPB's mission. District staff participates in the Public Employees Retirement System of the State of California, including post-retirement health benefits. However, since the staff supporting the JPB is legally employees of the District, the JPB has no retirement or post-employment benefits obligations to them.

ACKNOWLEDGMENTS AND AWARDS

A comprehensive annual financial report requires the dedicated effort of many individuals working together as a team. We 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. We also thank our independent audit firm, Vavrinek, Trine, Day and Company LLP, for its timely and expert guidance that has been invaluable to our financial reporting success.

The Government Finance Officers Association (GFOA) recognized the JPB's 2003 Comprehensive Annual Financial Report for excellence in financial reporting. 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. The Certificate of Achievement appears immediately following this transmittal letter and is valid for one year. We believe our 2004 Comprehensive Annual Financial Report also meets the requirements for the Certificate of Achievement award.

The employees of the Peninsula Corridor Joint Powers Board and its contracted service providers bring an effective combination of skills, experience and dedication to carrying out the JPB's mission. Together, they plan, develop and finance the operation of a modern, coordinated multimodal transportation system offering convenient access to the many opportunities of the Bay Area and beyond. As the region recovers from the economic downturn of the past few years, the JPB expects the continued zeal and dedication of its transit professionals to meet the transportation challenges of the future.

Finally, we wish to thank the Executive Director and the Board of Directors for their interest and support in the development of a strong financial system.

Respectfully submitted,

Virginia Harrington

Virginia Harrington
Chief Financial Officer

Stanley B. Arend, III
Director, Accounting

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, 2003

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.

Nancy L. Zielke
President

Jeffrey R. Esser
Executive Director

BOARD OF DIRECTORS

Representing City and County of San Francisco:

MICHAEL BURNS
SUPERVISOR SOPHIE MAXWELL
JOSE CISNEROS

Representing San Mateo County Transit District:

ARTHUR L. LLOYD
JIM HARTNETT
SUPERVISOR MIKE NEVIN

Representing Santa Clara Valley Transportation Authority:

DON GAGE
JOHN MC LEMORE, Chair
KEN YEAGER

CITIZENS ADVISORY COMMITTEE

San Francisco

Bruce Balshone   John Hronowski   Michael Kiesling

San Mateo

Paul Bendix   Gerald Graham   A. Sepi Richardson

Santa Clara

Michael Blackman   Mike Rodriguez   Brian P. Wilfley

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

SPECIAL ASSISTANT TO THE EXECUTIVE DIRECTOR

Mark Simon

DIVISION OFFICERS

George Cameron – Chief Administrative Officer

Virginia Harrington – Chief Financial Officer

Chuck Harvey – Chief Operations Officer

Rita Haskin – Chief Communications Officer

Ian McAvoy – Chief Development Officer

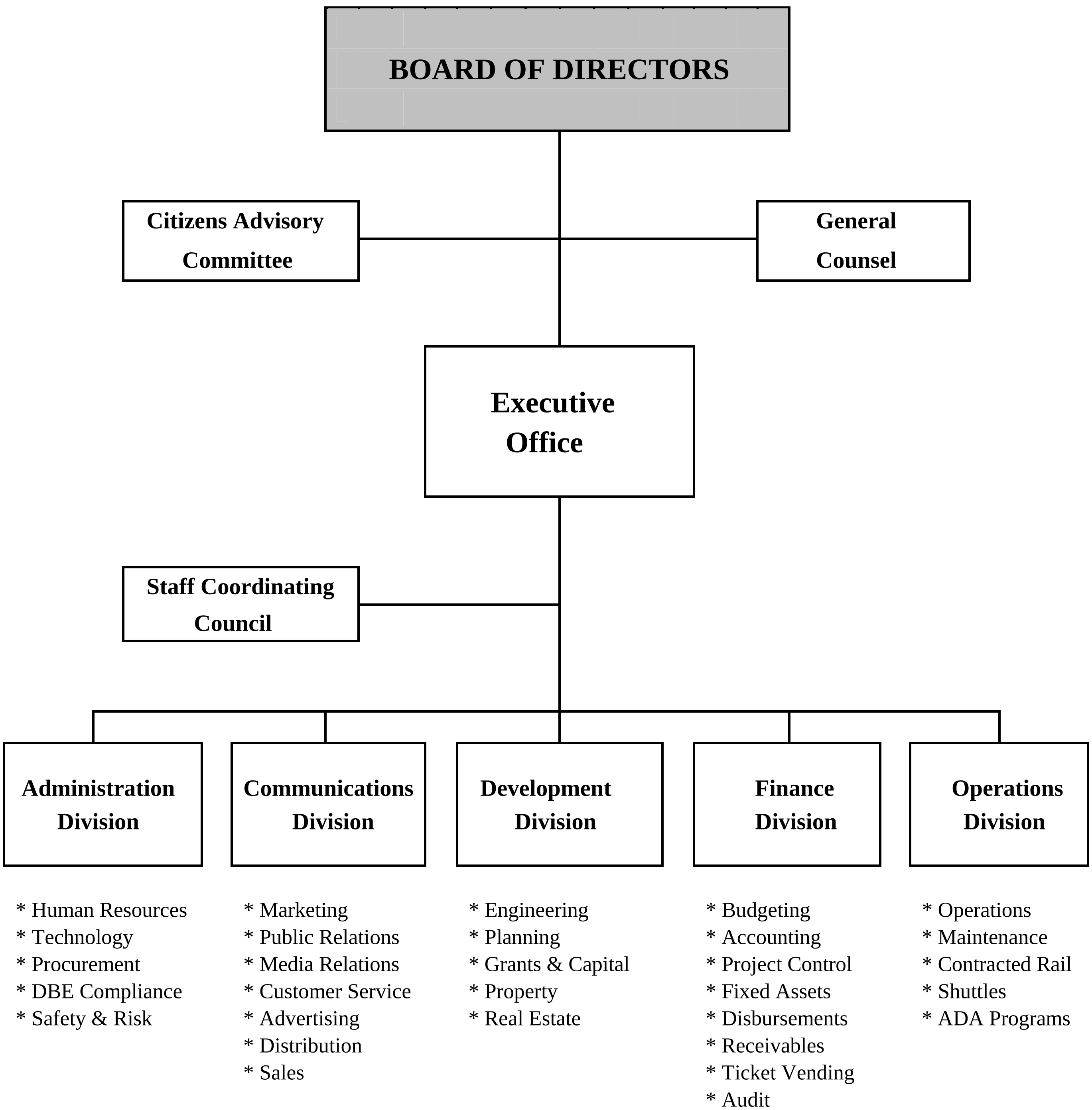
GENERAL COUNSEL

Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP:

David J. Miller, Esq.

Joan Cassman, Esq.

ORGANIZATION CHART



San Mateo County, California

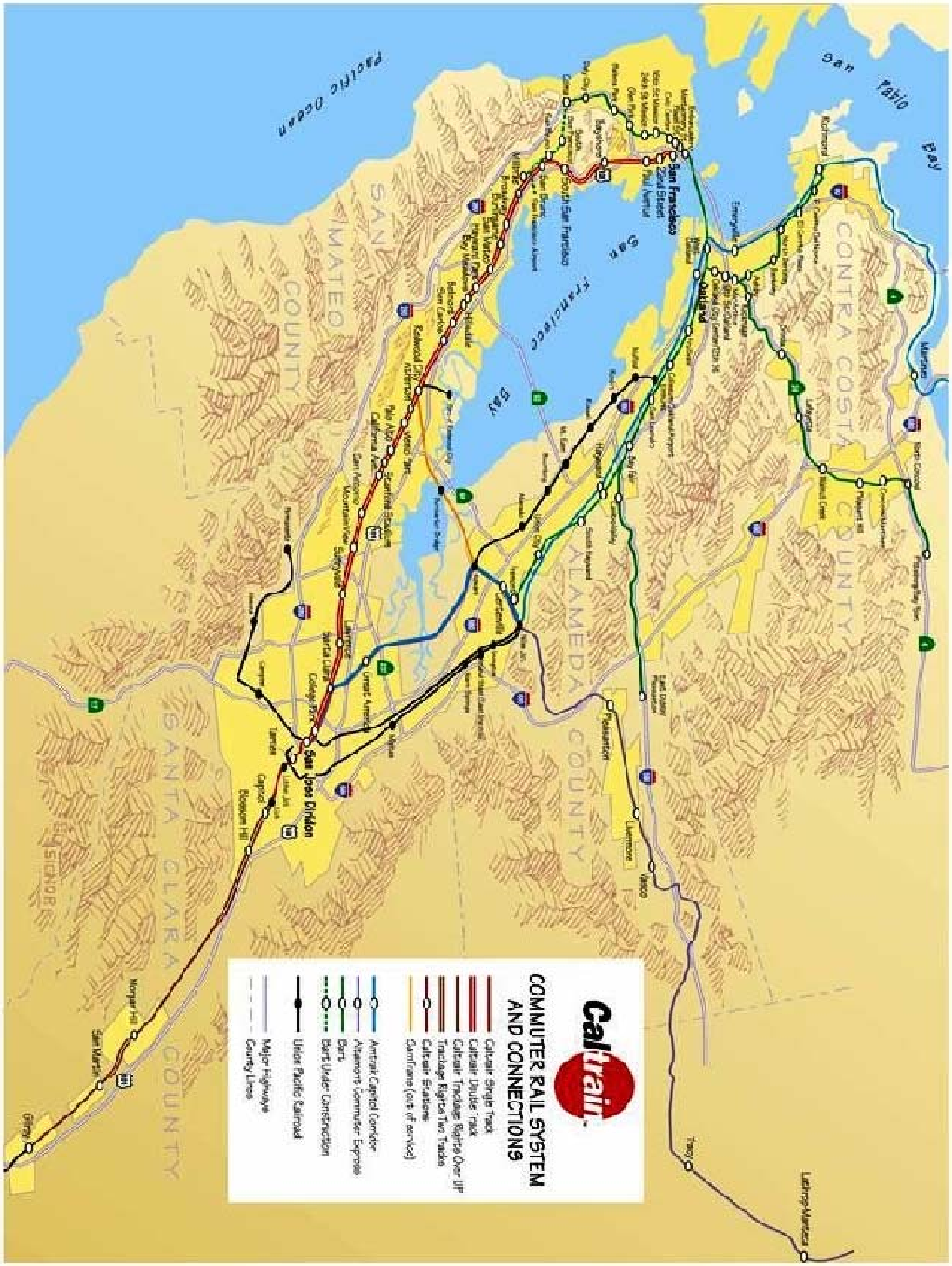

Caltrain
COMMUTER RAIL SYSTEM AND CONNECTIONS
Caltrain Single Track
Caltrain Double Track
Caltrain Trackage Rights Over UP
Trackage Rights Two Tracks
Caltrain Stations
Samtrans (out of service)
Amtrak Capitol Corridor
Altamont Commuter Express
Bart
Bart Under Construction
Union Pacific Railroad
Major Highways
County Lines

TABLE OF CREDITS

The following individuals contributed to the production of the fiscal year 2004 Comprehensive Annual Financial Report:

Finance:	Jeannie Chen	Accountant
	Donna Fong	Manger, Capital & Grants Accounting
	Carol Lawson	Manager, Treasury
	John Ledbetter	Senior Accountant
	Neng Pacumio	Senior Accountant
	Dina Stewart	Manager, General Ledger
Information Technology:	Rosalie Ganoy	Help Desk
Audit Firm:	Roger Alfaro	Managing Auditor
	Leonard Danna	Partner

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

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

The Board of Directors of the
Peninsula Corridor Joint Powers Board

We have audited the accompanying statements of net assets, statements of revenues, expenses and changes in net assets and statements of cash flows of the Peninsula Corridor Joint Powers Board (the PCJPB), as of and for the fiscal years ended June 30, 2004 and 2003. These financial statements are the responsibility of the management of the PCJPB. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PCJPB as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 8, 2004, on our consideration of the PCJPB's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

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FRESNO • LAGUNA • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SAN JOSE

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory section, supplementary information, statistical section 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 financial statements of the PCJPB. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section, supplementary information and statistical section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Vavrinek Trine Day + Co. LLP

San Jose, California
October 8, 2004

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the Peninsula Corridor Joint Powers Board (JPB) financial performance provides an overview of the JPB's activities for the fiscal year ended June 30, 2004 with comparisons to the prior year ended June 30, 2003. 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. All amounts have been rounded to the nearest one hundred thousand dollars and one-tenth of a percent.

FINANCIAL HIGHLIGHTS

- Total assets at the end of fiscal year 2004 stand at $1,034.6 million, an increase of $112.1 million or 12.1 percent compared to fiscal year 2003.
- Net assets at June 30, 2004 are $877.3 million, up $95.4 million or 12.2 percent, from the prior year. Capital assets, net of related debt, accounts for the majority of the change in assets between fiscal years.
- Total liabilities increased $16.6 million or 11.8 percent between fiscal years to $157.3 million. A $41.0 million increase in grant anticipation notes outstanding which is partially offset by $30.0 million decrease in deferred member contributions and accounts payable & accrued liabilities account for the majority of this increase.
- Total operating revenue decreased $0.4 million or 1.9 percent between fiscal years 2004 and 2003, primarily due to a decline in passenger fares caused by the on-going economic slowdown.
- In fiscal year 2004, the JPB recognized $122.6 million in capital contributions, an increase of $16.6 million or 15.6 percent over fiscal year 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents the JPB's financial statements as two components: 1) basic financial statements, and 2) notes to the financial statements. It also includes supplemental information in addition to the basic financial statements themselves.

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 provide an indicator of whether the financial position of the JPB is improving or deteriorating. When both restricted and unrestricted net assets are available for the same purpose, the JPB uses restricted resources only after unrestricted resources are exhausted.

The *statement of revenues, expenses and changes in net assets* reports how net assets have changed during the fiscal year ended June 30, 2004. It presents a comparison between operating revenues and related operating expenses. Operating revenues and expenses are 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 non-operating.

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 activitie*s include operating grant proceeds as well as operating subsidy payments to third parties.
- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt and the acquisition and construction of capital assets. This category also reports 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 *supplemental* information concerning compliance with the JPB's annual budget. This *supplemental* information, as well as associated notes, immediately follows the *basic financial statements* and its accompanying notes.

Analysis of Basic Financial Statements

Total assets are $1,034.6 million at the end of fiscal year 2004, an increase of $112.1 million or 12.1 percent compared to fiscal year 2003. Current assets are $157.8 million at the end of fiscal year 2004, an increase of $10.8 million or 7.4 percent compared to fiscal year 2003. A higher amount of proceeds from grant anticipation notes during 2004 accounts for this result.

Capital assets constitute the majority of the increase in total assets between fiscal years, as total capital assets, net of accumulated depreciation, at June 30, 2004 are $870.9 million, an increase of $101.5 million or 13.2 percent compared to fiscal year 2003. This investment in capital assets includes acquisitions and improvements for right of way ($395.1 million or 45.4 percent), rail vehicles ($239.6 million or 27.5 percent), facilities and equipment ($12.3 million or 1.4 percent) and construction in progress ($259.4 million or 29.8 percent). Major on-going capital projects include an update to the Centralized Traffic Control system, track rehabilitation, rolling stock purchases, rolling stock overhauls and preparing for the electrification of the rail line.

Total liabilities of the JPB increased $16.6 million or 11.8 percent during fiscal year 2004 compared to fiscal year 2003. Significant components include increases in outstanding grant anticipation notes of $41.0 million or 77.5 percent and a partially offsetting decrease in accounts payable and accrued liabilities and Deferred Member Contributions of $27.9 million.

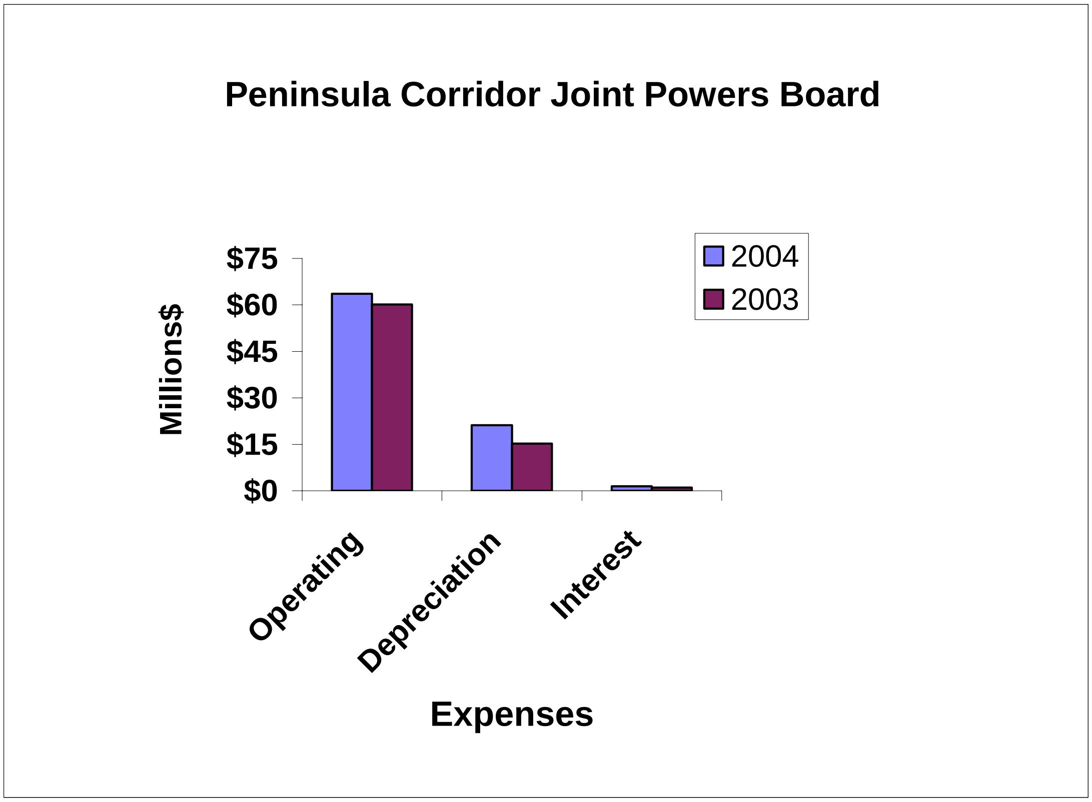
At the end of fiscal year 2004, net assets stand at $877.3 million, an increase of $95.4 million or 12.2 percent over fiscal year 2003. Capital investment, net of related debt, represents the majority of the JPB's net assets at $867.21 million or 15.0 percent of the total. The remaining $10.2 million of net assets is unrestricted and is designated for self-insurance liabilities and for various capital projects.

PENINSULA CORRIDOR JOINT POWERS BOARD
NET ASSETS
FOR THE YEAR ENDED JUNE 30,
(In thousands)

	2004	2003	2002
Current assets	$ 157,809	$ 146,986	$ 106,342
Capital assets, net of depreciation	870,860	769,390	675,326
Other assets	5,947	6,155	6,365
Total assets	**$ 1,034,616**	**$ 922,531**	**$ 788,033**
Current liabilities	$ 153,428	$ 137,247	$ 93,939
Long-term liabilities	3,850	3,389	4,533
Total liabilities	**$ 157,278**	**$ 140,636**	**$ 98,472**
Net assets:			
Invested in capital assets, net of related debt	$ 867,178	$ 753,944	$ 671,881
Restricted	-	-	950
Unrestricted	10,160	27,951	16,730
Total net assets	**$ 877,338**	**$ 781,895**	**$ 689,561**

Fiscal year 2004 operating revenues, at $22.2 million, declined $.4 million or 1.9 percent compared to fiscal year 2003, principally due to lower fare receipts as ridership also declined 1.3 percent between years because of the effects of a weak economy and the planned weekend shutdown for capital construction work. This performance is the consequence of higher unemployment in the JPB service area resulting from the on-going economic slowdown.

Non-operating revenue, net of non-operating expenses, is $3.2 million or 8.2 percent lower than fiscal year 2003 at $35.4 million for fiscal year 2004. This result is attributed to a $3.4 million combined decline in interest income and other income between fiscal years. The JPB also received $33.0 million in operating assistance, with $32.2 million or 97.3 percent provided by member agency contributions and $0.9 million from grant funding.



Fiscal year operating expenses, at $63.6 million, increased by $3.8 million or 6.3 percent compared to fiscal year 2003. This increase is attributed to a $3.6 million combined increase in contract services and insurance cost.

PENINSULA CORRIDOR JOINT POWERS BOARD
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30,
(In thousands)

	2004	2003	2002
Operating revenues			
Passenger fares	$18,427	$19,430	$21,433
Parking, shuttle and pass revenues	3,718	3,202	2,686
Other	80	30	44
Total operating revenues	22,225	22,662	24,163
Operating expenses			
Contract services	44,236	41,305	41,183
Insurance	3,251	2,537	3,649
Fuel	4,570	3,761	3,670
Parking, shuttle and pass expenses	4,430	4,477	4,876
Professional services	862	758	1,128
Wages and benefits	4,270	4,111	3,718
Utilities and supplies	808	1,097	1,091
Maintenance services	30	89	172
Temporary services, rent and other	1,153	1,718	2,138
Total operating expenses	63,610	59,853	61,625
Operating loss before depreciation and amortization	(41,385)	(37,191)	(37,462)
Depreciation and amortization	21,215	15,234	9,638
Operating loss	(62,600)	(52,425)	(47,100)
Non-operating revenues			
State and local operating assistance	33,057	32,193	33,999
Rental income	1,147	1,406	995
Interest income	1,442	2,801	3,567
Other income	1,277	3,294	3,284
Total Non-operating revenues	36,923	39,694	41,845
Non-operating expenses	(1,483)	(1,028)	(1,247)
Net loss before capital contributions	(27,160)	(13,759)	(6,502)
Capital contributions	122,602	106,093	84,254
Change in net assets	95,442	92,334	77,752
Net assets - July 1,	781,895	689,561	604,255
Prior Period Adjustment			7,553
Net assets- June 30,	$877,337	$781,895	$689,560

Capital Projects

In addition to operating assistance, the JPB incurred capital expenditures and recognized related revenue in the form of capital contributions of $122.6 million in fiscal year 2004, which is $16.6 million or 15.6 percent higher than in fiscal year 2003. Of the total contributions, $51.8 million or 42.2 percent is from federal capital grants, $55.5 million or 45.0 percent came from state capital grants and the remaining $15.3 million or 12.5 percent came from local governments, including the three member agencies.

Following is a summary of the JPB's major capital expenditures for fiscal year 2004:

- Upgrade of the Centralized Traffic Control system - $32.9 million.
- System-wide Track rehabilitation and signal work for the Baby Bullet service - $51.0 million.
- Station Improvements - $19.0 million.
- Design/Construction of Centralized Equipment and Maintenance Operational Facility (CEMOF)- $6.2 million
- Acquisition of passenger cars and locomotives for the Baby Bullet Express Service - $6.1 million
- Design/Construction of Improvement and/or replacement of existing bridges and tunnels- $1.8 million
- Preliminary Engineering cost for Grade Separation along the Caltrain line - $1.4 million
- Overhaul of locomotives and passenger cars - $1.1 million
- Preliminary Engineering and Environmental study for Downtown Extension - $0.6 million
- Preliminary Engineering cost for electrifying the entire Caltrain line - $0.5 million

Debt

At the end of fiscal year 2004, the JPB had $93.9 million in outstanding grant anticipation notes compared to $52.9 million outstanding at the end of 2003, an increase of $41.0 million or 77.5 percent between fiscal years. In November 2003, the JPB governing board increased the staff authority for issuing grant anticipation notes to an aggregate principal amount outstanding of $453.5 million at any point in time. These notes are issued in series at prevailing rates for a term of up to 365 days. The JPB uses the proceeds to fund capital improvement projects in anticipation of the future receipt of grants and other project contributions. As of the end of fiscal year 2004 the JPB had issued an aggregate amount of $258.8 million in grant anticipation notes since program inception.

Bonds payable at the end of fiscal year 2004 is $3.0 million, a decrease of $0.2 million or 6.5 percent compared to fiscal year 2003. Principal payments made during fiscal year 2004 represent all of the decrease.

Economic Factors

With the economy indicating slight signs of recovering from the economic downturn of the past years, the San Francisco Bay Area is beginning to show signs of rebounding with unemployment decreasing from 5.4 percent in June 2003 to 4.1 percent in June 2004. However, riderships for the 2004 fiscal year is still on the decline with actual results coming in at 1.3 percent lower than 2003.

The JPB has taken these factors into account in its 2005 budget and cost-cutting measures were implemented in response to the decline in revenues. The JPB believes these prudent measures have not compromised the overall quality of service provided to its rail service patrons along the Peninsula Corridor.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Peninsula Corridor Joint Powers Board 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: Chief Financial Officer, 1250 San Carlos Avenue, San Carlos, California, 94070.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	$ 49,032,183	$ 56,173,091
Due from other governmental agencies	8,004,721	38,845,746
Receivables from member agencies (Note 16)	2,197,389	2,830,227
Accounts receivable - other, net of allowance	4,454,797	7,618,448
Inventory	819,369	819,369
Prepaid expenses	48,357	-
Restricted investments with fiscal agents (Note 4)	93,252,757	40,699,539
Total current assets	157,809,573	146,986,420
NONCURRENT ASSETS		
Capital Assets		
Right of way	210,963,552	210,963,552
Right of way improvements	224,440,332	214,171,271
Rail vehicles	239,666,690	208,623,830
Facilities and equipment	17,813,244	15,519,971
Office equipment	237,543	203,215
Construction in progress	259,423,812	180,570,693
Total	952,545,173	830,052,532
Less accumulated depreciation	(81,685,412)	(60,662,995)
Capital assets - net (Notes 6 & 7)	870,859,761	769,389,537
BOND ISSUANCE COSTS, NET	139,314	155,450
OTHER ASSETS, NET (Note 5)	5,807,343	5,999,852
Total noncurrent assets	876,806,418	775,544,839
TOTAL ASSETS	1,034,615,991	922,531,259
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	16,601,583	33,242,089
Interest payable	817,524	541,135
Self-insurance claims liabilities (Note 12)	870,313	1,463,791
Deferred member contributions (Note 16)	33,340,932	44,682,394
Deferred revenue	7,497,126	4,060,050
Current portion of farebox revenue bonds payable (Note 10)	220,000	210,000
Grant anticipation notes payable (Note 11)	93,900,000	52,900,000
Other	180,940	147,825
Total current liabilities	153,428,418	137,247,284
NONCURRENT LIABILITIES		
Farebox revenue bonds payable - long-term (Note 10)	2,815,000	3,035,000
Self-insurance claims liabilities - long-term (Note 12)	1,035,456	353,585
Total noncurrent liabilities	3,850,456	3,388,585
Total liabilities	157,278,874	140,635,869
NET ASSETS		
Invested in capital assets, net of related debt	867,177,518	753,944,076
Unrestricted	10,159,599	27,951,314
Total net assets	$ 877,337,117	$ 781,895,390

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Passenger fares	$ 18,427,497	$ 19,429,573
Parking, shuttle and pass revenues	3,717,886	3,201,962
Other	79,617	30,628
Total operating revenues	22,225,000	22,662,163
OPERATING EXPENSES:		
Contract services	44,236,378	41,305,093
Insurance	3,251,471	2,537,923
Fuel	4,570,479	3,760,669
Parking, shuttle and pass expenses	4,429,856	4,477,065
Professional services	862,346	758,054
Wages and benefits (Note 16)	4,269,608	4,111,059
Utilities and supplies (Note 16)	807,804	1,097,241
Maintenance services	30,215	88,806
Temporary services, rent and other (Note 16)	1,152,628	1,717,670
Total operating expenses	63,610,785	59,853,580
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(41,385,785)	(37,191,417)
DEPRECIATION AND AMORTIZATION	(21,214,926)	(15,233,920)
OPERATING LOSS	(62,600,711)	(52,425,337)
NONOPERATING REVENUES (EXPENSES):		
State and local operating assistance (Note 8)	33,057,187	32,193,069
Rental income	1,146,974	1,406,000
Interest income	1,442,518	2,801,164
Interest expense	(1,483,682)	(1,028,465)
Other income	1,277,365	3,294,278
Total nonoperating revenues, net	35,440,362	38,666,046
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(27,160,349)	(13,759,291)
CAPITAL CONTRIBUTIONS (Note 13)	122,602,076	106,093,083
CHANGE IN NET ASSETS	95,441,727	92,333,792
NET ASSETS, Beginning of year	781,895,390	689,561,598
NET ASSETS, End of year	$ 877,337,117	$ 781,895,390

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares, passes and other	$ 22,225,000	$ 22,662,163
Payments to vendors for services	(71,564,740)	(45,729,824)
Payments to employees	(4,830,997)	(5,304,126)
Payments for insurance claims and premiums	(3,163,078)	(1,588,349)
Net cash used in operating activities	(57,333,815)	(29,960,136)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	29,283,818	38,798,377
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions	153,443,101	84,234,982
Property additions	(122,492,634)	(109,003,776)
Proceeds from notes issuances	112,700,000	52,900,000
Principal paid on bonds	(210,000)	(200,000)
Principal paid on grant anticipation notes	(71,700,000)	(28,900,000)
Interest and fiscal charges paid	(1,207,293)	(827,604)
Net cash provided by (used in) capital and related financing activities	70,533,174	(1,796,398)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Proceeds from sales and maturities of restricted investments	154,510,280	45,200,589
Purchase of restricted investments with fiscal agents	(207,053,437)	(52,900,000)
Interest received	2,919,072	3,150,062
Net cash used in investing activities	(49,624,085)	(4,549,349)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,140,908)	2,492,494
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	56,173,091	53,680,597
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 49,032,183	$ 56,173,091
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating (loss)	$ (62,600,711)	$ (52,425,337)
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Depreciation and amortization	21,214,926	15,233,920
Effect of changes in:		
Receivables	(22,797)	908,115
Receivables from member agencies	632,838	(2,617,121)
Prepaid expenses	(48,357)	-
Accounts payable, accrued liabilities and claims liabilities	(16,552,113)	8,028,774
Deferred revenue	9,284	797,516
Other liabilities	33,115	113,997
Net cash used in operating activities	$ (57,333,815)	$ (29,960,136)

See accompanying notes to the financial statements.

INDEX TO THE NOTES ***Pages***

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.

NOTE #1 - ORGANIZATION

In 1987, representatives of the City and County of San Francisco ("CCSF"), the San Mateo County Transit District ("SamTrans") and the Santa Clara Valley Transportation Authority ("VTA") formed the Peninsula Corridor Joint Powers Board ("PCJPB") 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 (the "Agreement") signed by the three parties (the "Member Agencies") stipulated the PCJPB membership and powers, specified financial commitments for each member, and detailed other administrative procedures, including designating SamTrans as the managing agency.

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

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

The PCJPB is governed by a nine-member Board representing the three Member Agencies. The Agreement establishing the PCJPB expired in 2001. Subsequent to 2001, the member agencies participated on a year-to-year basis, with withdrawal requiring a one-year notice.

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. New Pronouncements

GASB Statement No. 39 – In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provides additional guidance to determine whether certain organizations should be reported as component units based on the nature and the significance of the relationship with the primary government. This statement does not have a significant impact on the financial statements of the PCJPB.

GASB Statement No. 40 – In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment of GASB No. 3. This statement modifies the deposit and investment risk categorization disclosures and requires additional information on an entity's portfolio. This statement is not effective until June 30, 2005.

GASB Statement No. 42 – In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to measure, recognize, and disclose the effects of capital asset impairments in their financial statements when it occurs. This statement also clarifies and establishes accounting requirements for insurance recoveries, including those associated with capital asset impairment. This statement is not effective until June 30, 2006. The PCJPB has not determined its effect on the financial statements.

GASB Statement No. 43 – In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement is not effective until June 30, 2007. This statement is not expected to have a significant impact on the financial statements of the PCJPB.

GASB Statement No. 44 – In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement No. 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement is not effective until June 30, 2006. The PCJPB has not determined its effect on the financial statements.

GASB Statement No. 45 – In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. The PCJPB has not determined its effect on the financial statements.

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Basis of Accounting

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

The PCJPB 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 PCJPB 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 PCJPB carries various receivable balances for services and rent. At June 30, 2004 and 2003, accounts receivable – other, is shown net of an allowance for doubtful accounts of $496,827 and $503,970, respectively.

F. Inventory

Inventory consists principally of spare parts that are recorded when purchased and expensed when used. All 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. Investments in nonparticipating interest-earning investment contracts (guaranteed investment contracts) are reported at cost, and all other investments are at fair value. Fair value is defined as the amount that the PCJPB could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices.

H. Property and Equipment

Property and equipment is recorded at cost or appraised value. The PCJPB defines capital assets as assets with a cost greater than $1,000 and an estimated useful life in excess of one year. Donated fixed 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.

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, Continued

The costs of acquisition and construction of equipment and facilities are recorded as construction in progress until such assets are completed and placed in service, at which time the PCJPB commences recording depreciation expense and amortization of contributed capital.

I. Depreciation

Depreciation is calculated using the straight-line method over the following estimated useful lives:

- Right of way improvements - 5 to 20 years
- Rail vehicles – 26 to 29 years
- Facilities and equipment - 5 to 10 years
- Office equipment - 3 to 5 years

J. Construction in Progress

Construction in progress consists of the following projects at June 30, 2004 and 2003:

	2004	2003
Station Improvements	$ 9,347,533	$ 6,973,987
ADA Compliance Project	7,852,184	3,216,960
Rolling Stock	16,771,163	39,168,904
Ticket Vending Machines	351,342	66,370
Track Improvements	184,120,336	99,647,971
Maintenance Facilities	31,778,973	26,572,117
Other Projects	9,202,281	4,924,384
Total	$ 259,423,812	$ 180,570,693

K. Bond Issuance Costs

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

L. 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 16), they may be refunded to the Member Agencies or used to offset future required contributions.

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Deferred Revenue

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

N. Member Agency Operating 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 fixed assets or matching capital grants are recognized as capital contributions as capital expenditures are made.

O. Federal Operating Assistance

Federal operating assistance is recorded as revenue when approved by the granting authority.

P. Wages and Benefits

Personnel costs of the PCJPB represent allocated costs of SamTrans' 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 SamTrans (see Note 16).

Q. Operating and Non-operating revenues

The PCJPB distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with the PCJPB'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 non-operating revenues and expenses.

R. Use of Estimates

The PCJPB's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosures of contingent liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

S. Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE #3 - CASH AND CASH EQUIVALENTS

A. *Deposits*

In accordance with GASB No. 3, deposits are classified as to credit risk by three categories as follows:

Category 1:	Insured or collateralized with securities held by the PCJPB or by its agent in the PCJPB's name.
Category 2:	Collateralized with securities held by the pledging financial institution's trust departments or agent in the PCJPB's name.
Category 3:	Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the PCJPB's name.

At June 30, 2004 and 2003, the PCJPB's cash on hand were $370,511 and $400,844, respectively, and the carrying amount of the PCJPB's cash in bank balances were ($83,347) and ($1,870,973), respectively. At June 30, 2004 and 2003, the corresponding bank balance were $286,728 and $141,573, respectively, of which $100,000 was insured by federal depository insurance. The remainder was covered by collateral held by the pledging bank's trust department as required by Section 53652 of the California Government Code (Category 3).

The California Government Code requires California banks and savings and loan associations to secure the PCJPB's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110 percent of the PCJPB's deposits. California law also allows financial institutions to secure the PCJPB's deposits by pledging first trust deed mortgage notes having a value of 150 percent of the PCJPB's total deposits. The PCJPB may waive collateral requirements for deposits that are fully insured up to $100,000 by federal depository insurance.

The majority of the remaining cash and cash equivalents at June 30, 2004 and 2003 of $47,261,033 and $49,368,165, respectively, were invested in the San Mateo County Treasurer's investment pool (the "Pool"). The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the pool. Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accrued discounts, accrued interest and realized gains and losses, net of expenses, are apportioned to participants on a quarterly basis. This method differs from the fair value method used to value investments as unrealized gains or losses are not apportioned to pool participants. PCJPB's investments in the Pool are stated at fair value, available upon demand and considered cash equivalents.

B. *Investments*

The California Government Code authorizes the PCJPB to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements and the state treasurer's investment pool. The PCJPB entered into various short-term repurchase agreements during the years ended June 30, 2004 and 2003. As of June 30, 2004 and 2003, the PCJPB had approximately $1,483,985 and $8,275,055, respectively in repurchase agreements outstanding, classified as category 3 in custodial risk.

NOTE #4 - RESTRICTED INVESTMENTS WITH FISCAL AGENTS

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

Investments are classified as to custodial credit risk by the three categories: category 1 - insured or registered, or securities held by the PCJPB or its agent in the PCJPB's name; category 2 - uninsured and unregistered, with securities held by the counterparty's trust department or agent in the PCJPB's name; and category 3 - uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the PCJPB's name. Because of their nature, investments in mutual funds and guaranteed investment contracts are not categorized. At June 30, 2004 and 2003, restricted investments with fiscal agents are summarized as follows:

	2004	2003
Guaranteed investment contract	$ 93,049,690	$ 40,506,533
Mutual funds	203,067	193,006
Total	$ 93,252,757	$ 40,699,539

NOTE #5 – GILROY EXTENSION

The PCJPB acquired the Gilroy Extension through contributions from the California Transportation Commission and VTA. The perpetual trackage rights to the Gilroy Extension are recorded at cost of $8,000,000 and included as other assets. The rights are amortized over a period of forty-two years. As of June 30, 2004 and 2003, accumulated amortization related to these trackage rights totaled $2,192,657 and $2,000,148, respectively.

NOTE #6 - 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 should assure no service interruption, Caltrans and the PCJPB executed an agreement memorializing various commitments. Caltrans granted the PCJPB the right to use and control various real and personal properties. These properties included: stations, locomotives and passenger cars ("rolling stock"), inventories and other property associated with the Caltrain service. The agreement required that Caltrans transfer all of its rights, titles, and interests in these properties to PCJPB, at the earliest possible time, in accordance with Public Utilities Code Section 99234.7.

On April 4, 1996, PCJPB's Board approved a resolution accepting transfer of rolling stock, and station sites subject to certain terms and conditions outlined in the resolution. However, the actual transfer of these assets was delayed due to a disagreement between Caltrans and PCJPB over who would assume responsibility for liabilities attributable to the environmental condition of certain Caltrain station sites (see Note 14 – Environmental Remediation).

NOTE #6 - CONTRIBUTED ASSETS FROM CALTRANS, Continued

The transfer of rolling stock to PCJPB 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 to right-of-way.

NOTE #7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance at July 1, 2002 (as restated)	Additions	Deletions	Balance at June 30, 2003
Capital assets not being depreciated:				
Right of way	$ 210,963,552	$ -	$ -	$ 210,963,552
Construction in progress	290,275,011	107,479,419	(217,183,737)	180,570,693
Total Capital Assets, Not Being Depreciated	501,238,563	107,479,419	(217,183,737)	391,534,245
Other capital assets:				
Right of way improvements	94,293,668	119,877,603	-	214,171,271
Rail vehicles	119,921,887	88,701,943	-	208,623,830
Facilities and equipment	5,393,138	10,172,404	(45,571)	15,519,971
Office equipment	201,500	57,112	(55,397)	203,215
Total Capital Assets, Being Depreciated	219,810,193	218,809,062	(100,968)	438,518,287
Less accumulated depreciation for:				
Right of way improvements	(20,382,723)	(8,410,893)	(1,036,529)	(29,830,145)
Rail vehicles	(20,773,481)	(6,073,055)	-	(26,846,536)
Facilities and equipment	(4,447,043)	(517,029)	1,098,083	(3,865,989)
Office equipment	(119,305)	(40,434)	39,414	(120,325)
Total Accumulated Depreciation	(45,722,552)	(15,041,411)	100,968	(60,662,995)
Capital Assets, Net	$675,326,204	$311,247,070	$ (217,183,737)	$ 769,389,537

NOTE #7 - CAPITAL ASSETS, Continued

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004
Capital assets not being depreciated:				
Right of way	$ 210,963,552	$ -	$ -	$ 210,963,552
Construction in progress	180,570,693	120,968,648	(42,115,529)	259,423,812
Total Capital Assets, Not Being Depreciated	391,534,245	120,968,648	(42,115,529)	470,387,364
Other capital assets:				
Right of way improvements	214,171,271	10,269,061	-	224,440,332
Rail vehicles	208,623,830	31,042,860	-	239,666,690
Facilities and equipment	15,519,971	2,293,273	-	17,813,244
Office equipment	203,215	34,328	-	237,543
Total Capital Assets, Being Depreciated	438,518,287	43,639,522	-	482,157,809
Less accumulated depreciation for:				
Right of way improvements	(29,830,145)	(10,487,133)	-	(40,317,278)
Rail vehicles	(26,846,536)	(8,906,231)	-	(35,752,767)
Facilities and equipment	(3,865,989)	(1,550,820)	-	(5,416,809)
Office equipment	(120,325)	(78,233)	-	(198,558)
Total Accumulated Depreciation	(60,662,995)	(21,022,417)	-	(81,685,412)
Capital Assets, Net	$769,389,537	$ 143,585,753	$ (42,115,529)	$ 870,859,761

NOTE #8 - OPERATING ASSISTANCE

A. State and Local Operating Assistance

Member Agencies provide funding to the PCJPB. The VTA is responsible for all of the net costs of operating the service and maintaining the right-of-way for the Gilroy Extension. Net operating and administrative costs of the Mainline are apportioned on the basis of mutually agreed contribution rates, updated on an annual basis. Mainline funding allocations for the years ended June 30, 2004 and 2003 were:

	2004	2003
SamTrans - Operating/Administrative	41.99%	42.20%
VTA - Operating/Administrative	40.34%	40.53%
CCSF - Operating/Administrative	17.67%	17.25%

In addition, during fiscal year 2003, the Member Agencies agreed to equally share the net costs of operating the Pac Bell Ballpark service. During fiscal years 2004 and 2003, the Member Agencies contributed a total of $1,363,351 and $1,343,364, respectively, for this service.

Local and state operating assistance amounts included in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2004 and 2003 were:

	2004	2003
Member Agency local funds	$ 32,173,959	$ 31,389,343
Assembly Bill 434 operating assistance	838,427	762,527
Other	44,801	41,199
Total	$ 33,057,187	$ 32,193,069

NOTE #9 - CAPITAL ASSISTANCE

Capital expenditures are primarily funded by state and federal grants. 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 and the Farebox Capital Fund. Each Member Agency is responsible for an equal share of these funds. Member Agencies contributed $1,010,000 and $1,010,000 to the Capital Contingency Fund, and $0 and $1,128,000 to the Farebox Capital Fund for the years ended June 30, 2004 and 2003, respectively. 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. The unexpended amounts are shown in Deferred Member Contributions (See Note 16).

B. Federal and State Grants

At June 30, 2004, the PCJPB has fourteen grants in process with the FTA that provide federal funds for capital projects. Budgeted capital additions for the year ended June 30, 2004 applicable to these projects are $78,265,159. The related federal participation is $62,205,752.

The PCJPB has receivables of $4,581,702 and $14,808,563 at June 30, 2004 and 2003, 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 PCJPB has receivables of $2,367,195 and $21,363,023 at June 30, 2004 and 2003, respectively, for qualifying capital project expenditures under various state grants, which is also 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.

NOTE #10 - FAREBOX REVENUE BONDS PAYABLE

In October 1999, the PCJPB issued farebox revenue bonds in the amount of $3,820,000 to finance the acquisition of electrical power units for locomotives utilized for the Caltrain commuter rail service. These bonds, with interest rates ranging from 4 to 5.375 percent, are limited obligations of the PCJPB, and are payable from and secured by a pledge of its farebox revenues. Interest payments are due on April 1 and October 1 of each year. The bonds mature on October 1 of each year through October 1, 2014.

NOTE #10 - FAREBOX REVENUE BONDS PAYABLE, Continued

Activity for the year ended June 30, 2003 is as follows:

	Balance at July 1, 2002	Additions	Reductions	Balance at June 30, 2003	Amounts Due within One Year
Farebox Revenue Bonds	$ 3,445,000	$ -	$ 200,000	$ 3,245,000	$ 210,000

Activity for the year ended June 30, 2004 is as follows:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004	Amounts Due within One Year
Farebox Revenue Bonds	$ 3,245,000	$ -	$ 210,000	$ 3,035,000	$ 220,000

Annual principal and interest payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2005	$ 220,000	$ 147,593	$ 367,593
2006	225,000	138,133	363,133
2007	235,000	128,233	363,233
2008	250,000	117,658	367,658
2009	260,000	106,158	366,158
2010-2014	1,500,000	329,809	1,829,809
2015	345,000	18,544	363,544
Total	$ 3,035,000	$ 986,128	$ 4,021,128

NOTE #11 - GRANT ANTICIPATION NOTES PAYABLE

In October 1999, the PCJPB's governing board authorized a limit of $123,500,000 in total aggregate principal amounts of grant anticipation notes. In June 2000, the governing board increased this limit to $222,500,000. In October 2002, the governing board further increased the PCJPB's principal limit not to exceed $453,500,000. The grant anticipation notes will be issued to pay up to $453,500,000 of Caltrain capital improvement projects in anticipation of the receipt of federal and state grants and project contributions from VTA and/or the San Mateo County Transportation Authority for such projects.

NOTE #11 - GRANT ANTICIPATION NOTES PAYABLE, Continued

Under this program, the PCJPB is able to issue grant anticipation notes at prevailing interest rates for periods of maturity not to exceed 365 days from the date of issuance of each series. Interest on each series of notes is payable upon maturity and is calculated on the basis of a 360-day year. The notes are secured by grant funds relating to the series issued; by investments held by the trustee in the principal and interest accounts; by investment earnings with respect to the principal, interest, project and cost of issuance accounts. The notes are also secured by a subordinate pledge of the PCJPB's farebox revenues.

During fiscal year 2003, the PCJPB had the following grant anticipation notes activity (in thousands):

Issue Closing Date	Principal	Term	Interest Rate	Balance at July 2, 2002	Issued	Redeemed	Balance at June 30, 2003
8/23/01	$ 8,200	365 days	2.95%	$ 8,200	$ -	$ 8,200	$ -
1/24/02	12,000	365 days	2.00%	12,000	-	12,000	-
5/2/02	8,700	365 days	2.15%	8,700	-	8,700	-
9/18/02	30,000	365 days	1.64%	-	30,000	-	30,000
2/5/03	22,900	365 days	1.43%	-	22,900		22,900
Total	$ 81,800			$ 28,900	$ 52,900	$ 28,900	$ 52,900

During fiscal year 2004, the PCJPB had the following grant anticipation notes activity (in thousands):

Issue Closing Date	Principal	Term	Interest Rate	Balance at July 1, 2003	Issued	Redeemed	Balance at June 30, 2004
9/18/02	30,000	365 days	1.64%	$ 30,000		$ 30,000	$ -
2/5/03	22,900	365 days	1.43%	22,900		22,900	-
7/1/03	18,800	365 days	1.27%	-	18,800	18,800	-
9/4/03	36,300	365 days	1.45%	-	36,300		36,300
11/20/03	36,000	365 days	1.37%	-	36,000		36,000
5/4/04	21,600	365 days	1.76%	-	21,600		21,600
Total	$ 165,600			$ 52,900	$ 112,700	$ 71,700	$ 93,900

NOTE #12 - SELF-INSURANCE

Insurance

The PCJPB 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 PCJPB is self-insured for a portion of its public liability and property damage liability. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2004.

NOTE #12 - SELF-INSURANCE, Continued

Type of Coverage	Self-Insurance (in aggregate)	Excess Coverage (in aggregate)
Public Liability	Up to $2,000,000 per occurrence	Up to $198,000,000 per occurrence
Property Damage	Up to $2,000,000 per occurrence	Up to $175,000,000 per occurrence

All property is insured at full replacement value. To date, no settlement amounts have exceeded commercial insurance coverage for the last three years.

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 includes actual costs, trends in claims experience and number of participants. It is the PCJPB's practice to obtain full actuarial studies biannually.

Changes in the balances of self-insured claims liabilities for public liability and property damage for the year ended June 30, 2004 and 2003 are as follows:

	2004	2003
Self-insured claims liabilities, Beginning of Year	$ 1,817,376	$ 2,736,372
Incurred claims and changes in estimates	236,164	(510,535)
Claim payments and related costs	(147,771)	(408,461)
Total Self-Insured Claims Liabilities	1,905,769	1,817,376
Less current portion	(870,313)	(1,463,791)
Noncurrent Portion	$ 1,035,456	$ 353,585

NOTE #13 - CAPITAL CONTRIBUTIONS

The PCJPB receives grants and capital contributions from the federal, state and local governments for the acquisition 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 statement of revenues, expenses and changes in net assets. Capital contributions earned for the year ended June 30, 2004 are as follows:

	2004	2003
Contributions from the Federal government	$ 51,765,315	$ 52,159,463
Contributions from the State	55,514,544	39,247,164
Contributions from local governments	15,322,217	14,686,456
Total Capital Contributions	$ 122,602,076	$ 106,093,083

NOTE #14 - COMMITMENT AND CONTINGENCIES

A. Contract with Amtrak

The PCJPB began operating the rail service through a contract with Amtrak on July 1, 1992. The base term of the original contract was for a minimum period of three years to continue thereafter, unless either party provided twelve months' prior written notice of termination. The PCJPB had the option to renew the contract for one additional term up to three years, following expiration of the maximum base term of five years. Under the terms of the original contract Amtrak billed PCJPB for its direct costs plus 11.7 percent overhead and management fee, (cost plus basis).

During 1996, the PCJPB and Amtrak executed the option years of the contract. The amended contract converted the final year of the base term as well as the three-year option term from a cost-plus to a fixed price basis. The contract also includes fixed price quotations for optional services which may be desired by the PCJPB as well as agreed-upon methods for compensating for extra work outside the scope of services and price adjustments for changes/reductions in the scope of services desired by the PCJPB.

During November 2001, the PCJPB and Amtrak executed a new agreement for the operation, maintenance and project support related to the PCJPB rail operations. The new contract was established on a fixed cost basis plus 4 percent of direct costs for overhead recovery. The agreement also includes fixed price quotations and overhead recovery rates for optional extra work requested at the discretion of the PCJPB. The term of the contract is through June 30, 2006 unless the PCJPB provides thirty days prior written notice.

Total expenses billed to the PCJPB by Amtrak for operating the rail service for the years ended June 30, 2004 and 2003 are recorded as Contract Services in the statement of revenues, expenses and changes in net assets.

B. Diesel Fuel Contract

In August 1998, the PCJPB entered into a three-year contract with BC Stocking Distributing to provide diesel fuel and trackside fueling services for diesel locomotives at an estimated amount of $6,295,800. In October 2001 the PCJPB exercised a one-year option for continued fuel services. In July 2002, the PCJPB exercised the final option for fuel services.

In July 2003, the PCJPB awarded a five-year contract to Golden Gate Petroleum at an estimated amount of $20,089,500.

Fuel costs incurred under the aforementioned contracts for the year ended June 30, 2004 and 2003 were $4,570,479 and $3,760,669, respectively.

C. Construction Contract

In April 2002, the PCJPB contracted with Herzog Construction Corporation and Stacey Witback for construction projects related to the North CTX Modernization for $64,453,000. Project construction is expected to commence in July 2002 with completion in fiscal year 2005. Major improvement elements include signaling systems, track improvements and platform construction at various locations from San Francisco to Menlo Park.

NOTE #14 - COMMITMENT AND CONTINGENCIES, Continued

In December 2002, the PCJPB contracted HCC/S&WI Contractors for various rehabilitation and improvements related to the South CTX Project. The project encompasses approximately 17 miles of PCJPB right of way from Atherton, California to San Jose, California. The cost of the project is $51,700,000 with expected completion in July 2004.

D. Environmental Remediation

During the year ended June 30, 1997, PCJPB approved an agreement with Caltrans providing for transfer to PCJPB of various station facilities ("the stations") (see Note 6). As part of this agreement, PCJPB and Caltrans established a cost sharing arrangement with respect to liabilities that may arise from the environmental condition of certain stations.

PCJPB agreed to take title "as is" under a cost sharing arrangement, and provide indemnity protection to Caltrans, for those station sites posing little risk of environmental liability. As owner, PCJPB assumed liability for and clean up of any hazardous materials that may be subsequently discovered on these station sites. Both PCJPB and Caltrans agreed to share the costs of environmental remediation of certain higher risk "designated stations" for a period of approximately ten years ending December 31, 2006. During this period, the PCJPB will bear the first $200,000 in clean up costs for each higher risk designated station, with a maximum aggregate exposure of $1.6 million. Caltrans will bear the second $200,000 in clean up costs for each higher risk designated station, also with a maximum aggregate exposure of $1.6 million. These reciprocal commitments will apply regardless of whether contamination is found to have occurred prior or subsequent to the PCJPB assumption of operating responsibility for Caltrain and assumption of control of the station sites and other assets in July 1992.

E. Litigation

As of June 30, 2004, PCJPB 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 litigation are outstanding for which the PCJPB cannot determine the ultimate outcome and resulting liability, if any. However, the PCJPB's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the PCJPB's financial position.

NOTE #15 - DEFERRED LEASE PROCEDURES

A. __1996 Lease-Leaseback__

In fiscal year 1997, PCJPB entered into agreements to transfer a leasehold interest in seventy-three passenger cars and twenty locomotives (collectively, the Equipment) to an outside third party entity. The transaction took on the form of a lease of the above mentioned Equipment to the entity and a simultaneous sublease wherein the PCJPB leased back the Equipment from the entity. The PCJPB received net proceeds of $3,790,396, representing the difference between the prepayment of certain renal obligations made at closing by the outside third party entity under the lease and the calculated net present value of the future sublease obligation. PCJPB has no further continuing financial obligations under this agreement as it has been restructured as described in paragraph C below. The Equipment remains on the books of the PCJPB and its original cost is being depreciated to operations over the original useful life determined at the date of acquisition. The net proceeds were recorded as deferred revenue and were being amortized to income over a thirty-year period.

The PCJPB, in 2002, restated beginning net assets by reflecting the unamortized portion of the net proceeds referred to above as earned.

B. __2001 Sale-Leaseback__

In fiscal year 2001, PCJPB entered into agreements to transfer the tax ownership of twenty rail cars and three locomotives (collectively, the Equipment) to an outside third party entity. The transaction took on the form of a lease of the Equipment to the entity and a simultaneous sublease wherein the PCJPB leased back the Equipment from the entity. The PCJPB received net proceeds of $6,243,784, representing the difference between the agreed-upon fair market value of the Equipment and the calculated net present value of the future sublease obligation. Title to the Equipment remains on the books of the PCJPB. The net proceeds were recorded as deferred revenue and were being amortized to income over a thirty-year period.

The PCJPB, in 2002, restated beginning net assets by reflecting the unamortized portion of the net proceeds referred to above as earned.

C. __2002 Sale-Leaseback__

In fiscal year 2002, PCJPB entered into agreements to: (1) terminate a portion of the 1996 Lease-Leaseback transaction (described in paragraph A above) with respect to passenger cars and locomotives and to enter into an agreement to transfer tax ownership of such passenger cars and locomotives to an outside third party entity and (2) to restructure the 1996 Lease Leaseback noted above with respect to the remaining passenger cars and locomotives (the "Restructuring"). The Restructuring was essentially similar in form to the original 1996 Lease Leaseback transaction. The PCJPB received net proceeds from both agreements of $3,133,091, representing the difference between the recalculated agreed-upon fair market value of the Equipment and the recalculated net present value of the future sublease obligation. Title to the Equipment remains on the books of the PCJPB. The net proceeds have been recorded as Lease leaseback income for the year ended June 30, 2002.

NOTE #16 - RELATED PARTIES

A. *Operating Expenses paid to SamTrans*

SamTrans serves as the managing agency of the PCJPB, providing administrative personnel and facilities (see Note 1). SamTrans is compensated based on actual costs incurred. Beginning in fiscal 1999, PCJPB is also required to compensate SamTrans for administrative overhead. Amounts due to SamTrans as managing agency at June 30, 2004 and 2003 total $647,654 and $1,204,990, respectively, and are included in accrued liabilities. Total expenses billed to the PCJPB by SamTrans which are included as operating expenses in the accompanying statement of revenues, expenses and changes in net assets are as follows:

	2004	2003
Wages and benefits	$ 4,269,608	$ 4,111,059
Rent, utilities, supplies and other	1,316,509	1,347,932
Total	$ 5,586,117	$ 5,458,991

B. *Receivables from Member Agencies*

The PCJPB is owed amounts from Member Agencies for insurance premiums, grants and prior obligations. The balances at June 30, 2004 and 2003 are as follows:

	2004	2003
SamTrans	$ 1,103,995	$ 67,317
VTA	5,905	-
CCSF	1,087,489	2,762,910
Total	$ 2,197,389	$ 2,830,227

NOTE #16 - RELATED PARTIES, Continued

C. Deferred Member Contributions

The PCJPB recognizes Member Agency advances as operating assistance or contributed capital when expenses are incurred or assets are purchased, respectively. Accordingly, some Member Agency payments are classified as Deferred Member Contributions. The balances at June 30, 2004 and 2003 are as follows:

	2004	2003
SamTrans	$ 16,285,210	$ 17,574,544
VTA	7,851,471	16,078,430
CCSF	9,204,251	11,029,420
Total	$ 33,340,932	$ 44,682,394
Committed for:		
Capital project development	$ 240,000	$ 240,000
Centralized traffic control system	349,927	543,508
Farebox capital	1,847,933	2,705,924
Capital contingency fund	3,557,771	1,823,083
Capital contribution Member's local match	19,915,702	25,435,053
Total	25,911,333	30,747,568
Uncommitted funds:		
SamTrans	7,329,860	7,015,661
VTA	(17,349)	6,580,442
CCSF	117,088	338,723
Total	$ 33,340,932	$ 44,682,394

NOTE #17 - DESIGNATION OF PCJPB UNRESTRICTED NET ASSETS

The PCJPB Board of Directors has designated the PCJPB's unrestricted net assets as follows at June 30, 2004 and 2003:

	2004	2003
Self Insured Claims Liabilities:		
Sam Trans	$ 969,347	$ 969,347
VTA	836,784	836,784
CCSF	193,869	193,869
	2,000,000	2,000,000
Rail Car Procurement	92,914	70,270
Fiber Optic Communication System	3,054,458	3,062,030
Future Capital Contingencies	5,012,227	8,577,594
Undesignated	-	14,241,420
Total	$ 10,159,599	$ 27,951,314

PENINSULA CORRIDOR JOINT POWERS BOARD
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES -
COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2004

	Budget (Unaudited)	Actual	Variance Positive/ (Negative)
OPERATING REVENUES:			
Passenger fares	$ 21,776,000	$ 18,427,496	$ (3,348,504)
Parking, shuttle and pass revenues	3,839,275	3,717,884	(121,391)
Other	-	73,494	73,494
Total operating revenues	25,615,275	22,218,874	(3,396,401)
OPERATING EXPENSES:			
Contract services	49,107,720	44,236,376	4,871,344
Insurance	4,176,250	3,251,469	924,781
Fuel	4,819,120	4,570,479	248,641
Parking, shuttle and pass expenses	5,009,900	4,429,852	580,048
Professional services	710,000	862,346	(152,346)
Wages and benefits	3,999,460	4,269,626	(270,166)
Utilities and supplies	1,341,000	807,800	533,200
Maintenance services	50,000	30,214	19,786
Temporary services, rent and other	1,412,030	1,154,618	257,412
Total operating expenses	70,625,480	63,612,780	7,012,700
Operating loss	(45,010,205)	(41,393,906)	3,616,299
NONOPERATING REVENUES (EXPENSES):			
State and local operating assistance	35,088,620	33,057,176	2,031,444
Rental income	963,900	1,146,973	(183,073)
Interest income	794,960	1,579,221	(784,261)
Interest expense	(150,535)	(150,535)	-
Debt service principal payment	(216,700)	(216,700)	-
Other income	981,980	1,283,499	(301,519)
Total nonoperating revenues (expenses)	37,462,225	36,699,634	762,591
Net income (loss)	$ (7,547,980)	$ (4,694,272)	$ 2,853,708
CAPITAL OUTLAY:			
Capital contingency fund	1,010,000	1,010,000	-
Less member agency contributions	(1,010,000)	(1,010,000)	-
Capital expenditures	(79,636,004)	(118,327,611)	38,691,607
Less capital grants	79,636,004	122,602,076	(42,966,072)
Net capital outlay	-	4,274,465	(4,274,465)
EXCESS OF EXPENSES AND CAPITAL OUTLAY OVER OPERATING REVENUES AND NONOPERATING REVENUES (EXPENSES)	$ (7,547,980)	$ (419,807)	$ 7,128,173

NOTE #1 - BUDGETARY BASIS OF ACCOUNTING

The PCJPB 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 expense per GAAP is not budgeted and budgeted capital expenditures is not recorded as an expense 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		$ (419,807)
Reconciling Items		
Debt service principal payment	$ 216,700	
GASB 31 unrealized loss	(1,269,230)	
Grant anticipation notes activities	(198,621)	
Depreciation and amortization of assets	(21,214,926)	
Capital expenditures	118,327,611	
Subtotal- Total Reconciling Items		95,861,534
Change in net assets		$ 95,441,727

Section III

STATISTICAL

Financial Ratios

Revenues and Expenses as Percent of Totals

Revenues and Expenses - Inception to Date Comparison

On Time Performance, Equipment Availability, Passenger Miles

Ridership, Passenger Fares, Farebox Recovery

Demographic Data

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PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL RATIOS
YEAR ENDED JUNE 30, 2004
(In thousands)

Current Ratio: **1.03 :1**

Measures the JPB's ability to meet short-term commitments by dividing current assets by current liabilities.

Current Assets	$	157,810
Current Liabilities	$	153,428

Quick Ratio: **0.86 :1**

This variation of the current ratio is an indicator of the PCJPB's liquidity by including only these current assets that could be converted readily to cash and receivables due within 30 days.

Cash and Cash Equivalents plus	$	49,032
Receivables within 30 days	$	2,100
Current Liabilities less grant anticipation notes	$	59,528

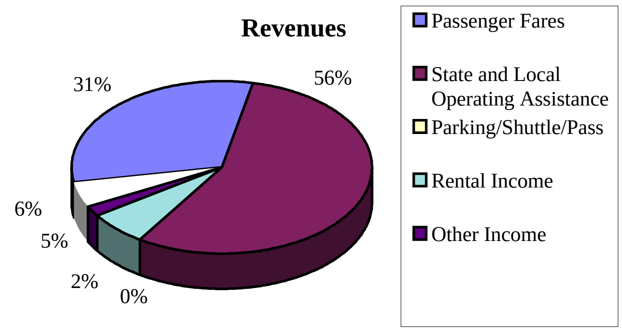
Debt Ratio: **15.2%**

Reflects the long-term solvency risk, in assessing the PCJPB's financial capacity to meet long term debts and similar obligations, by dividing total liabilities by total assets.

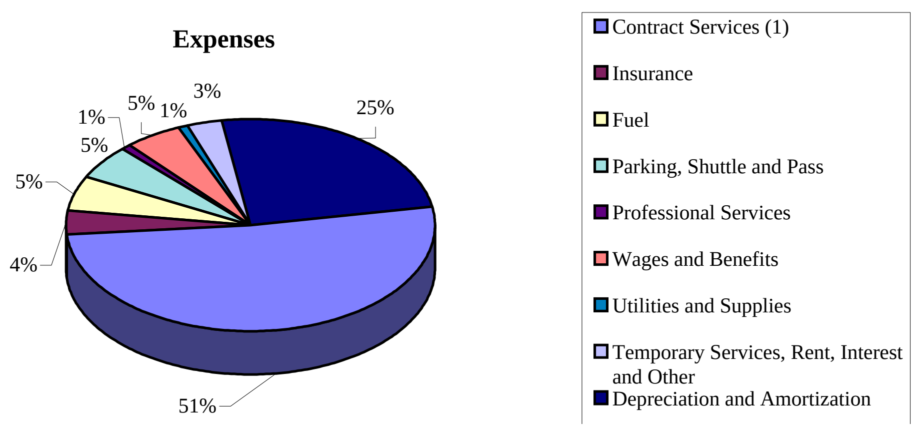
Total Liabilities	$	157,279
Total Assets	$	1,034,616

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUES AND EXPENSES AS PERCENT OF TOTALS
YEAR ENDED JUNE 30, 2004 (In thousands)

Revenue Sources:	FY 2004	% of Total
Passenger Fares	$ 18,427	31%
State and Local Operating Assistance	33,057	56%
Federal Operating Assistance	-	0%
Parking/Shuttle/Pass	3,718	6%
Rental Income	1,147	2%
Other Income	2,800	5%
	$ 59,149	100%



Expenses:	FY 2004	% of Total
Contract Services (1)	$ 44,236	51%
Insurance	3,251	4%
Fuel	4,570	5%
Parking, Shuttle and Pass	4,430	5%
Professional Services	862	1%
Wages and Benefits	4,270	5%
Utilities and Supplies	808	1%
Maintenance Services (not in graph)	30	0%
Temporary Services, Rent, Interest and Other	2,637	3%
Depreciation and Amortization	21,215	25%
	$ 86,309	100%



(1) Contract Services Includes:

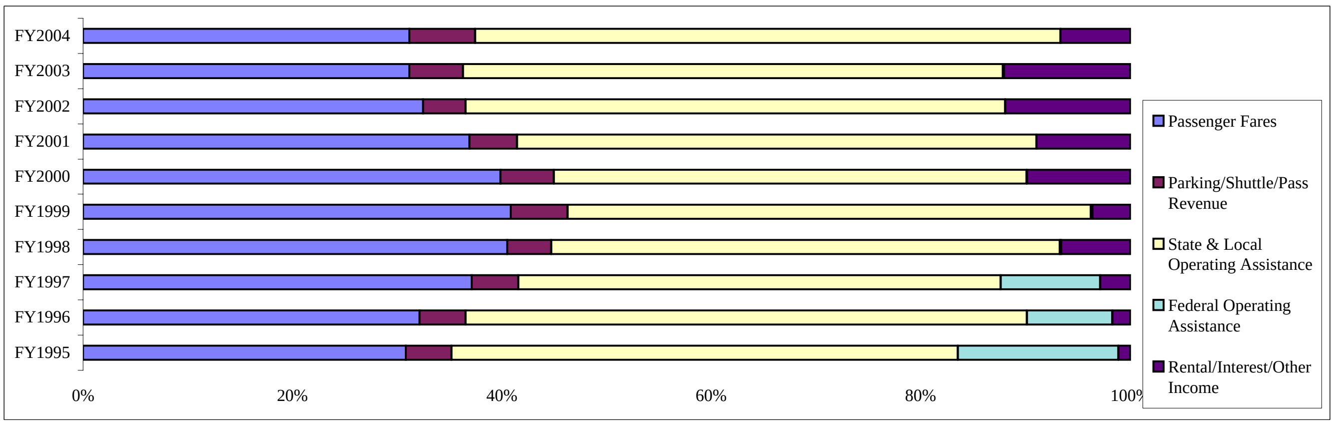
Train Operations, Maintenance of Locomotives and Rail Cars, Maintenance of Right of Way and Stations, Revenue Collection, Police and Administration

Source: Audited financial statements and SamTrans finance department.

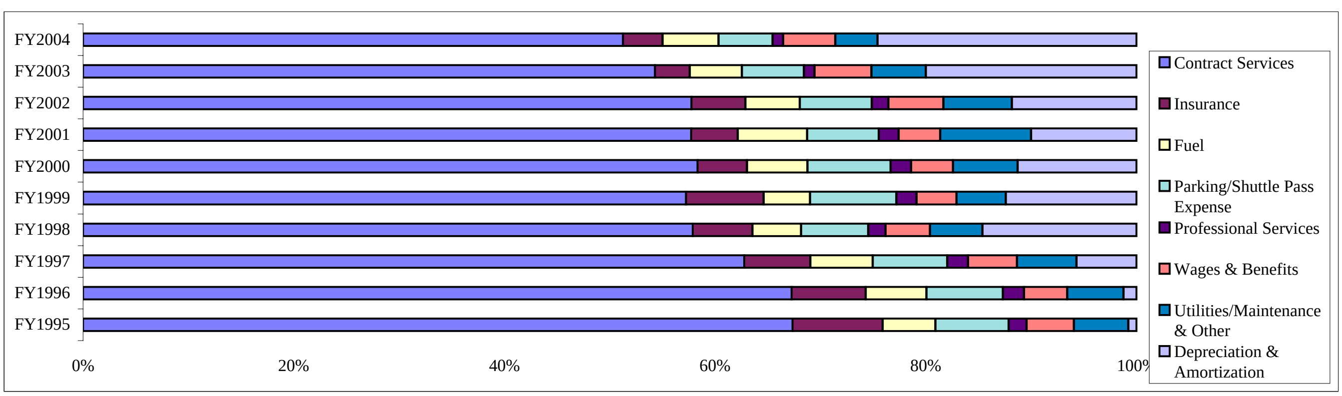
PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUES AND EXPENSES COMPARISON- TEN FISCAL YEARS
TEN FISCAL YEARS (in thousands)

Fiscal Year 1993 was the inception year of commuter rail service for the Peninsula Corridor Joint Powers Board as responsibility for administration and operations transferred from the California Department of Transportation (Caltrans) to the JPB. In the eleven years of operations since, passenger fares have risen 133 percent from $7.9 million while operating expenses have risen 83.8 percent from $34.6 million to $63.6 million.

Revenue Sources	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Passenger Fares	$ 12,780	$ 13,798	$ 16,025	$ 18,134	$ 19,093	$ 20,863	$ 22,788	$ 21,433	$ 19,430	$ 18,427
Parking/Shuttle/Pass Revenue	1,809	1,892	1,924	1,884	2,551	2,666	2,805	2,686	3,202	3,718
State & Local Operating Assistance	20,039	23,023	19,886	21,755	23,367	23,627	30,622	34,000	32,152	33,057
Federal Operating Assistance	6,360	3,498	4,108	46	69	11	-	-	41	-
Rental/Interest/Other Income	468	734	1,240	2,957	1,685	5,168	5,521	7,890	7,532	3,947
Total Revenue Sources	$ 41,456	$ 42,945	$ 43,183	$ 44,776	$ 46,765	$ 52,335	$ 61,736	$ 66,009	$ 62,357	$ 59,149



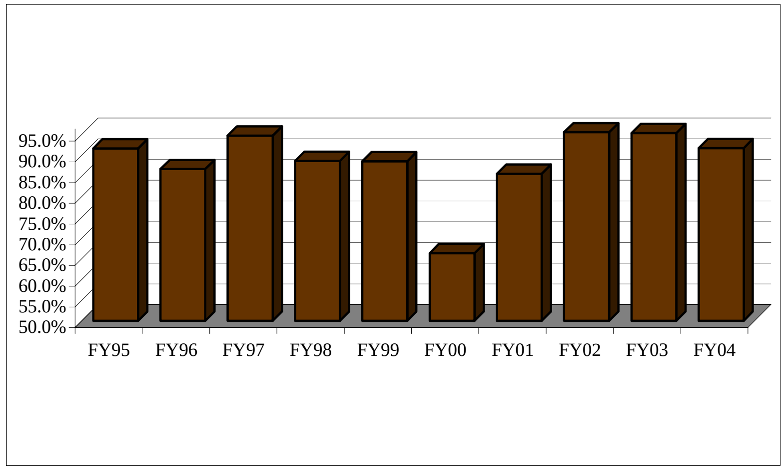
Expenses	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Contract Services	$ 28,629	$ 29,235	$ 28,747	$ 30,355	$ 30,554	$ 34,401	$ 41,657	$ 41,183	41,305	44,236
Insurance	3,635	3,062	2,869	2,968	3,943	2,786	3,200	3,649	2,538	3,251
Fuel	2,131	2,518	2,713	2,428	2,353	3,381	4,747	3,670	3,761	4,570
Parking/Shuttle Pass Expense	2,956	3,151	3,242	3,332	4,363	4,648	4,925	4,876	4,477	4,430
Professional Services	732	876	904	871	1,035	1,162	1,346	1,128	758	862
Wages & Benefits	1,901	1,775	2,128	2,213	2,027	2,332	2,859	3,718	4,111	4,270
Utilities/Maintenance & Other	2,194	2,328	2,579	2,609	2,490	3,625	6,211	4,648	3,932	3,473
Depreciation & Amortization	340	537	2,621	7,674	6,629	6,663	7,238	8,435	15,234	21,215
Total Expenses	$ 42,518	$ 43,482	$ 45,803	$ 52,450	$ 53,394	$ 58,998	$ 72,183	$ 71,307	$ 76,116	$ 86,307

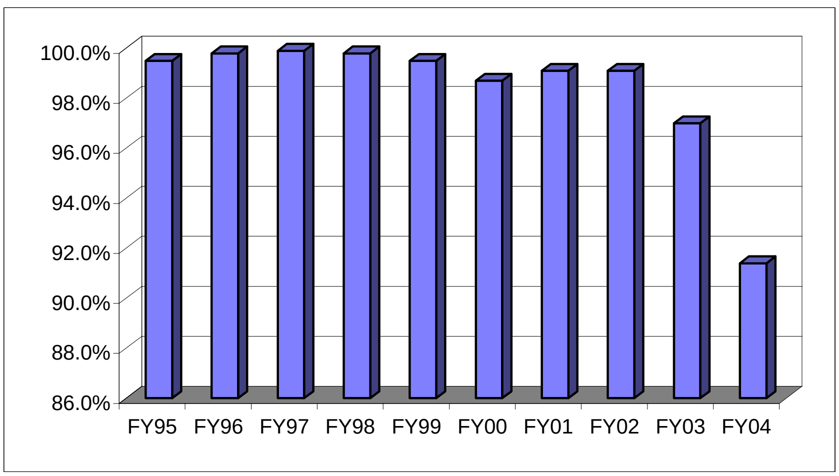


Source: Audited financial statements and Samtrans finance department.

ON-TIME PERFORMANCE (%)

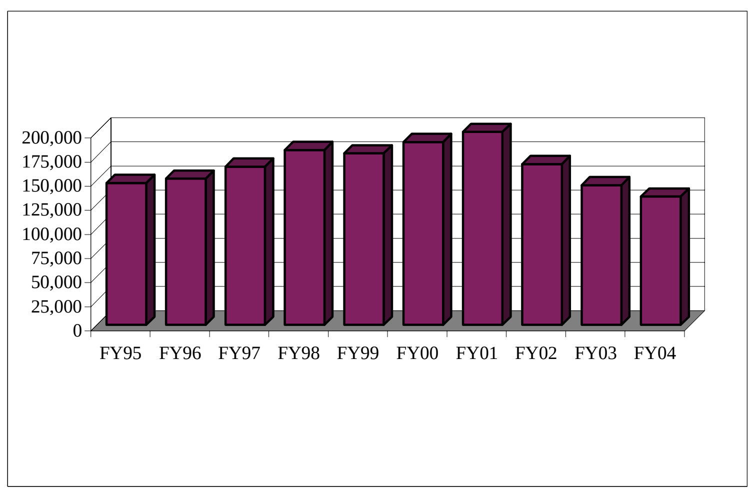
On-time performance achieved an all time high in FY02 Percentage represents trains arriving within a 5 minut tolerance excluding delays outside the control of the operator.





EQUIPMENT AVAILABILITY (%)

Percentage represents locomotive and cars operating without mechanical failur or service interruption.

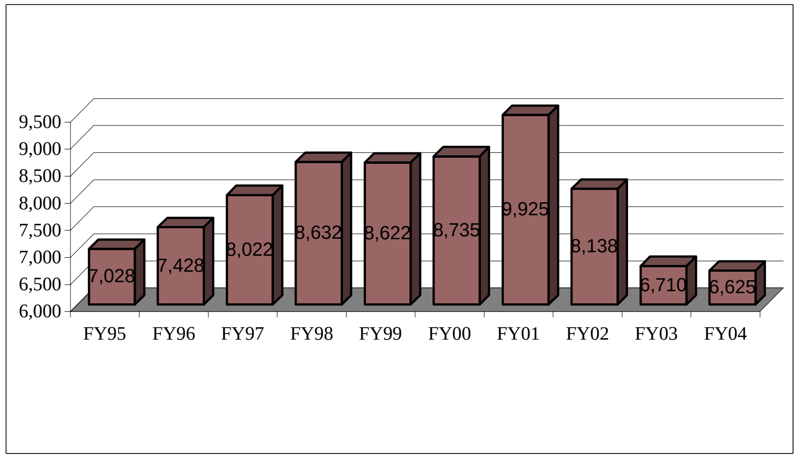


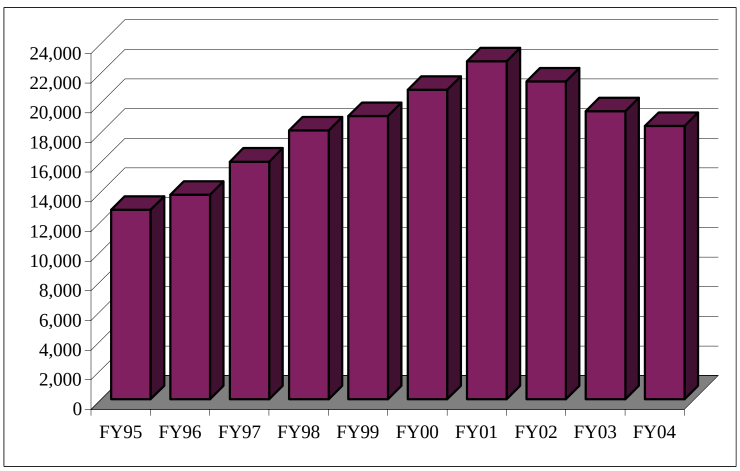
PASSENGER MILES (In Thousands)

Weekday passenger mile

TRAIN RIDERSHIP (In thousands)

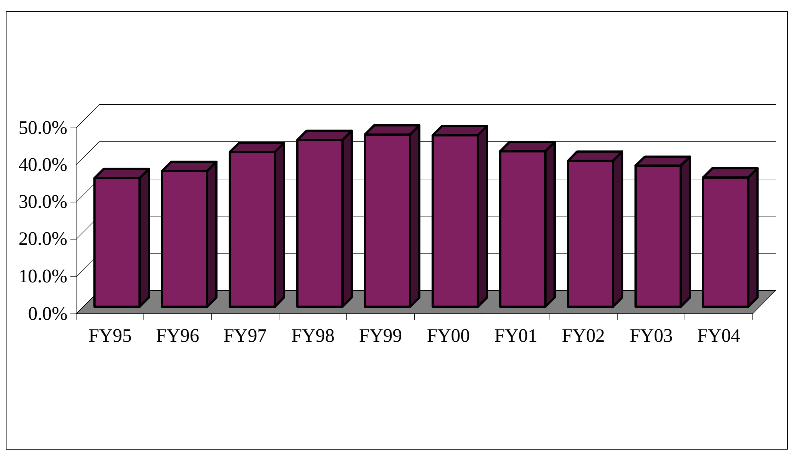
Since inception, Caltrain ridership has decreased by 3.6%.





TRAIN PASSENGER FARES (In thousands)

Caltrain has made modest fare adjustments since the JPB assumed operations on July 1, 1992. Increases were made effective 9/93, 7/95, 7/96, 7/97, 07/02, and 9/03 in order to achieve the goal of 40% farebox recovery.



FAREBOX RECOVERY

Operating income from patron fares was mandated to cover 40% of applicable operating expenses by FY97 to receive Prop 116 funding. Starting in FY96, insurance premiums and loss payments are included in the calculation of the farebox recovery ratio.

PENINSULA CORRIDOR JOINT POWERS BOARD

DEMOGRAPHIC DATA

1990 AND 2000

	1990	2000	Percent Change
Total Population	2,871,159	3,291,400	14.6%
Persons Per Household	2.58	2.78	7.8%
Mean Household Income	$66,573	$81,200	22.0%
Minority Population:			
Black	562,740	132,537	-76.4%
Hispanic	162,926	667,613	410.0%
Asian & Pacific	529,908	830,364	57.7%
American Indian	11,678	17,948	53.7%
Total	1,267,252	1,648,462	30.1%
Percent of Minority Population to Total Population	**44.1%**	**50.1%**	**13.6%**
Population by Age			
0 - 4	192,213	224,100	16.6%
5 - 9	173,960	247,100	42.0%
10 - 14	156,330	204,100	30.6%
15 - 19	172,622	193,300	12.0%
20 - 24	230,731	186,800	-19.0%
25 - 34	598,133	457,300	-23.6%
35 - 44	484,827	605,600	24.9%
45 - 54	312,582	477,400	52.7%
55 - 59	120,690	167,700	39.0%
60 - 64	113,375	131,700	16.2%
65-Plus	315,696	396,300	25.5%
% of Employed Residents to Total Population	**54.0%**	**53.0%**	**-1.9%**

Source:United States Bureau of Census 1990-2000, adopted by MTC and ABAG.

Section IV

SINGLE AUDIT

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

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

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Summary of Auditors Results

Financial Statement Findings and Recommendations

Schedule of Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Recommendations

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

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

We have audited the financial statements of the Peninsula Corridor Joint Powers Board ("the PCJPB") as of and for the year ended June 30, 2004, and have issued our report thereon, dated October 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PCJPB'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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, federal granting agencies and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek Trine Day + Co. LLP

San Jose, California
October 8, 2004

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Peninsula Corridor Joint Powers Board ("the PCJPB") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The PCJPB's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the PCJPB's management. Our responsibility is to express an opinion on the PCJPB's compliance based on our audit.

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

In our opinion, the Peninsula Corridor Joint Powers Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Peninsula Corridor Joint Powers Board as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements of the Peninsula Corridor Joint Powers Board. 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 the Board of Directors, federal awarding agencies and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek Trine Day + Co. LLP

San Jose, California
October 8, 2004

PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

Grant Program	Federal Catalog Number	Expenditures
U.S. Department of Transportation		
Federal Highway Administration		
STPL 5934 (046)	20.205	$ 281,878
Federal Transit Administration		
Federal Transit Cluster:		
Federal Transit Capital Improvements Grants (1)		
CA-03-0315	20.500	831
CA-03-0535	20.500	171,150
CA-03-0542	20.500	7,211,355
CA-03-0565	20.500	2,176,831
CA-03-0598	20.500	4,133,729
CA-03-0628	20.500	3,834,608
CA-03-0665	20.500	32,725
Subtotal		17,561,229
Federal Transit Formula Grants (1)		
CA-90-X544	20.507	230,851
CA-90-X605	20.507	711,376
CA-90-X677	20.507	(30,806)
CA-90-X728	20.507	170,597
CA-90-X784	20.507	404,649
CA-90-X860	20.507	913,591
CA-90-X956	20.507	1,814
CA-90-X978	20.507	2,558,080
CA-90-Y044	20.507	5,342,964
CA-90-Y123	20.507	17,041,551
CA-90-Y187	20.507	5,723,595
CA-90-Y246	20.507	853,946
Subtotal		33,922,208
Total Expenditures of Federal Awards		$ 51,765,315

(1) Major Program

See accompanying notes to supplementary information.

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Peninsula Corridor Joint Powers Board. The Peninsula Corridor Joint Powers Board's reporting entity is defined in Note #1 of the Peninsula Corridor Joint Powers Board's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies to the Peninsula Corridor Joint Powers Board are included in the accompanying schedule.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note #1 of the Peninsula Corridor Joint Powers Board's financial statements.

C. Relationship to the Basic Financial Statements

Federal financial assistance is reported in the Peninsula Corridor Joint Powers Board's financial statements as Federal Capital Contribution.

D. Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reporting conditions identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major programs:	
Material weaknesses identified?	No
Reporting conditions identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
20.500 and 20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,552,959
Auditee qualified as low-risk auditee?	Yes

There were no findings that related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no findings representing reportable conditions, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2003-1 Capitalization of Construction In Progress

Criteria

Project costs accumulated as "construction in progress" should be classified as completed assets and depreciated from the time that the asset is placed in service. The identification of completed assets should be performed on a timely basis within the fiscal year end.

Condition

The PCJPB calculates depreciation on capital assets, formerly classified as construction in progress, from the time that the finance division is aware of when the asset is completed. In several instances, the duration of time from when the asset is placed into service compared to when the asset is recorded by the finance division spanned several years.

Effect

The Finance Division depreciates capital assets from engineering documentation supporting the in-service date. However, given that the paperwork is received on an untimely basis, the depreciation expense associated with the elapsed time is recorded in the year that the asset is capitalized by the Finance Division. In the current year, depreciation expense was overstated by approximately $3.6 million.

Cause

It was noted that the timing differences arising from assets placed into service are attributed to the untimely submission of engineering documentation to the Finance Division by the Development Division. At June 30, 2004, there were approximately $150 million in completed capital projects that had not been reported to the finance Division.

<u>Recommendation</u>

We recommend that the PCJPB establish procedures to promptly identify the completion of capital assets such that all completed capital projects during a fiscal year are consistently reported within the accounting period. We suggest that these procedures include the following:

- Periodic identification of all projects that are considered in-progress.
- Written confirmation of the status of construction in progress from the PCJPB's project managers.
- Analysis (i.e. budget to actual and/or percentage of completion) by the finance division to identify the financial progress of all projects. The identification of financial status could identify projects that are near completion and thus prompt further investigation.

<u>Current Status</u>

Implemented.