Caltrain

PENINSULA CORRIDOR JOINT POWERS BOARD

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Prepared by the Finance Division

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INTRODUCTORY

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November 30, 2007

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

San Carlos, California

Comprehensive Annual Financial Report
Year Ended June 30, 2007

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, 2006 through June 30, 2007. This transmittal letter provides a summary of the JPB's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the JPB's financial results may refer to the Management's Discussion and Analysis 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 JPB contracted for independent auditing services from Vavrinek, Trine, Day & Company, LLP, a certified public accounting firm licensed to practice in the State of California. The auditor expressed an opinion that the JPB's financial statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This conclusion is the most favorable kind and is commonly known as an "unqualified" or "clean" opinion.

PROFILE OF THE ORGANIZATION

Purpose

The JPB 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 144 years. The rail line currently extends from San Francisco 77 miles south to Gilroy, serving 31 stations. Spanning San Francisco, San Mateo and Santa Clara counties, Caltrain provides vital links to multiple transit properties in 20 cities.

Entity

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

History

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

In 1987, the City and County of San Francisco, the San Mateo County Transit District (the "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. The three parties accomplished this objective in October 1991, executing a joint powers agreement that formed the JPB. Two months later, the JPB purchased the Right of way to the rail corridor between San Francisco and San Jose (Mainline) and perpetual trackage rights between San Jose and Gilroy (Gilroy Extension) from Southern Pacific.

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

In July 1992, the JPB assumed control of the line from the State and commenced Caltrain passenger rail operations through a contractor, the National Railroad Passenger Corporation (Amtrak). In November 2001, Amtrak won a competitive bid for a new contract to run through fiscal year 2006. The JPB Board of Directors subsequently amended the contract in January 2005 to extend the term for an additional three years through June 30, 2009.

Governance

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

Administration

The joint powers agreement designated 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 Federal Transportation Administration (FTA). 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, public information, distribution, marketing research, sales, media relations, community outreach and customer service.

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

The *Executive Department* is responsible for directing and overseeing all activities and for providing support to 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, investments, and debt management.

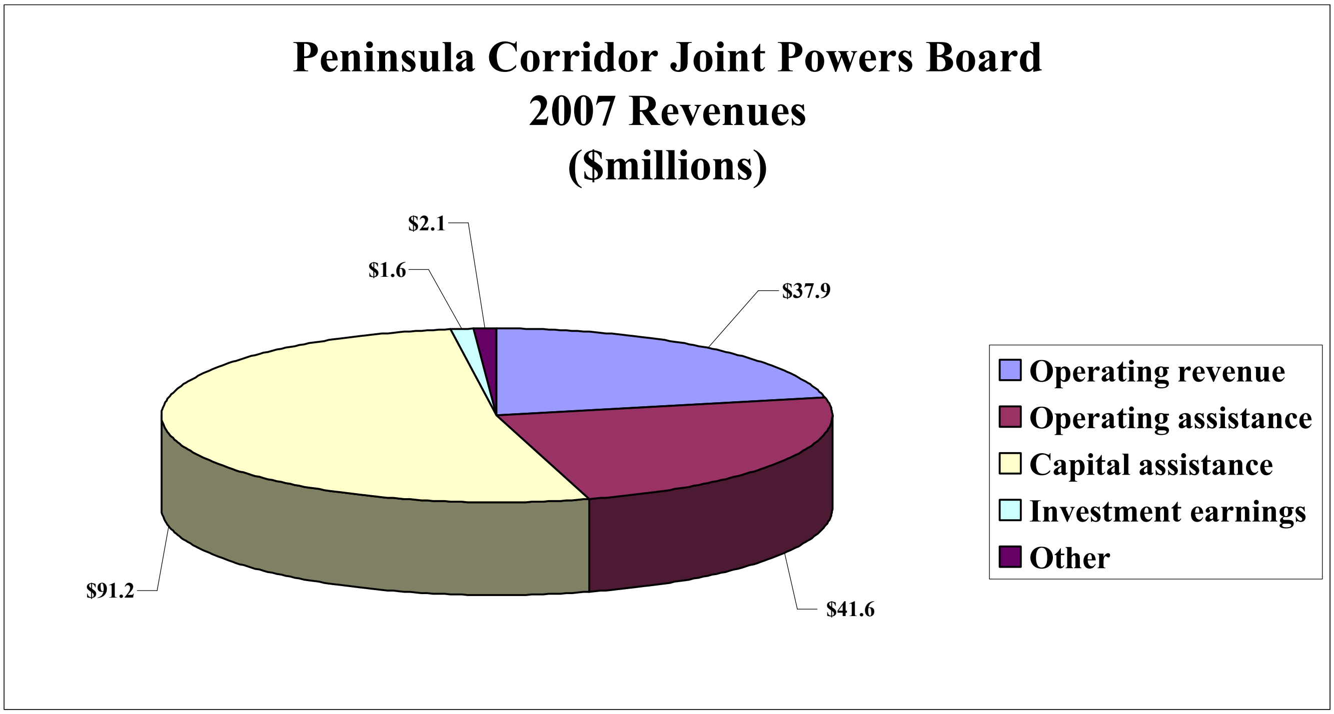
The Operations Division is responsible for the overall management of Caltrain, including contractor oversight, right of way activities, fare and schedule administration, employer and other shuttles, service planning and quality assurance, and accommodations for persons with mobility impairments pursuant 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.

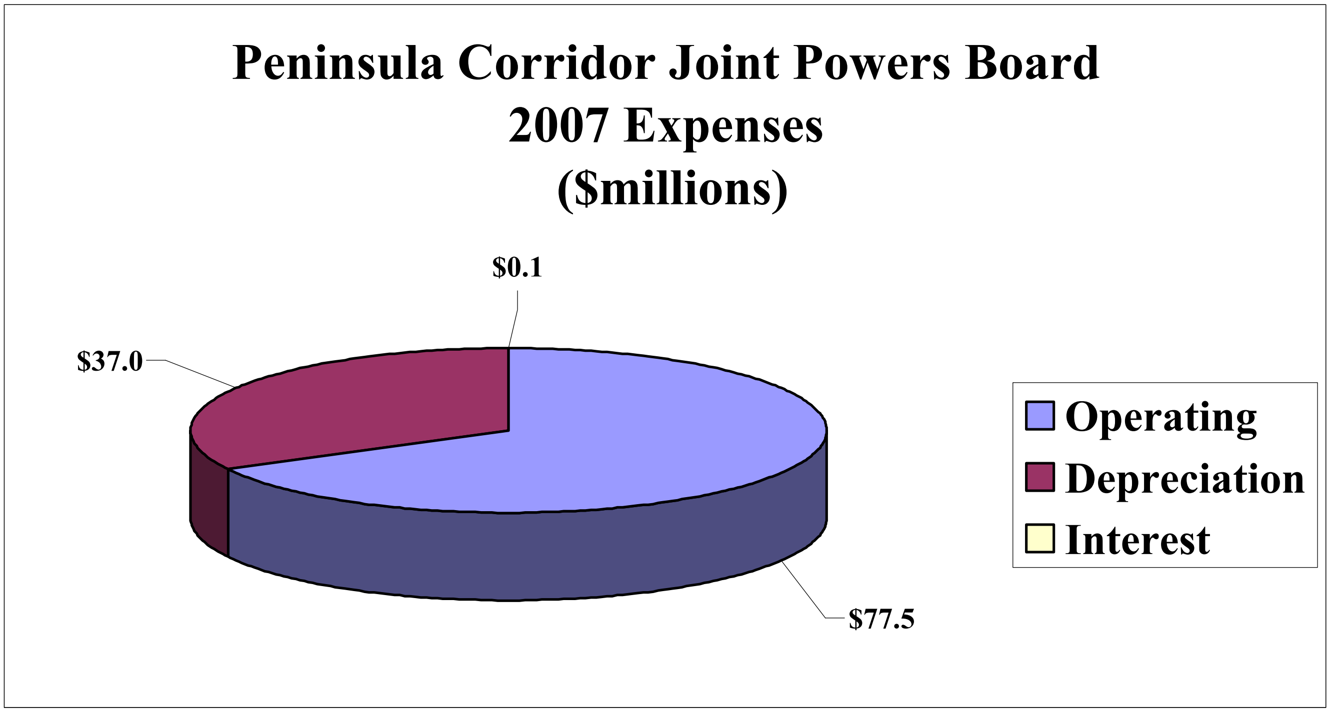
Budgetary Control

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

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

The JPB employs the same basis and principles for both budgeted and actual revenues and expenditures, except 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 JPB is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The following pie charts show actual results for the major revenue and expense categories for fiscal year 2007.





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 the on-going improvement of Caltrain service for patrons and their communities. While the JPB experienced ridership decline during the weakened economy of the past few years, ridership has been growing steadily since the institution of the Baby Bullet service in 2004. Acknowledging that the JPB must overcome financial and other constraints to succeed in the effort to deliver quality service to the patrons and their communities, 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. Satisfy passengers and build ridership
2. Invest wisely in system improvements
3. Promote regional connectivity and cooperation with other transportation providers
4. Partner with communities and broaden communication with the public
5. Develop a solid financial foundation that ensures long-term sustainability

The service vision for Caltrain is based on a broader vision of what Caltrain should be in the future. The broader vision for Caltrain is to become the preferred mode of travel along the Peninsula through three avenues. At the individual level, provide passengers with a world-class travel experience. At the local level, act as a major catalyst for redevelopment and economic activity in communities along the Caltrain route. At the regional level, play a key role in mobility management along the Peninsula Corridor and in the Bay Area region as a whole.

The next few years may present the greatest challenge to the JPB. Aggressive infrastructure improvements will continue, together with projects to enhance station access, passenger comfort and operational efficiencies. The JPB has adopted a new vision with a long list of aggressive projects.

CURRENT PROGRAMS, PROJECTS AND ACCESS TO CALTRAIN

Caltrain 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 trains began operating with new bi-level passenger cars and locomotives of streamlined design. This limited-stop service has reduced the travel time along the mainline (San Jose to San Francisco) from an hour-and a-half to just under an hour.

The initial 10 Baby Bullet trains brought service to 86 trains per weekday, increasing total ridership approximately 25 percent and affecting boarding patterns throughout the line. Shortly after the end of fiscal year 2005, the JPB dramatically redesigned its service plan to add additional Baby Bullet express service to 96 total weekday trains. Results from these changes show fare revenue gains of another 31.3 percent and 14.6 percent for fiscal years 2006 and 2007, respectively. Furthermore, the increase in weekday trains was accomplished within the parameters of the existing operations contract with Amtrak with no increase in staffing levels or rolling stock.

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 systems. These connections are with the San Mateo County Transit District, the San Francisco Municipal Railway, the Santa Clara Valley Transportation Authority and the Bay Area Rapid Transit District.

- *SamTrans Bus Service:* Passengers may connect to SamTrans at most stations in San Mateo County.
- *Muni Light Rail*: Passengers may connect to the City of San Francisco Municipal Railway's (Muni) light rail N-Judah and T-Third lines at the San Francisco Caltrain Station.
- *Millbrae/SFO*: Passengers may connect to Bay Area Rapid Transit (BART) at the Millbrae Intermodal Station.
- *VTA Light Rail*: Caltrain passengers may connect to this Santa Clara Valley Transportation Authority (VTA) system at the Mountain View station and the Diridon and Tamien stations in San Jose.
- *VTA Bus Service:* Passengers may connect to VTA buses at most stations in Santa Clara County.

Caltrain Shuttles

During fiscal year 2007, Caltrain operated 46 routes shuttling Caltrain riders to local employers and average ridership grew by 589 per day over the prior year to 5,128 persons per weekday.

Americans with Disabilities (ADA) Programs
Currently 24 stations are wheelchair accessible to help passengers with mobility-impairments board the rail cars. Lift usage continued to increase from the prior year. In accordance with ADA regulations, one rail car on each train is wheelchair accessible and can accommodate two persons in wheelchairs.

Bikes-on-Board
Currently, Caltrain's gallery trains can accommodate up to 32 bicycles and Bombardier trains accommodate 16 bicycles. Approximately 2,400 bicyclists ride Caltrain on an average weekday.

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. The new system also corrected inequities in fare administration by standardizing zone distances and rates. The amount of a passenger ticket increases with the number of zones crossed. Caltrain currently has six zones and four fare categories: one-way tickets, day passes, 10-ride tickets and monthly passes. All four fare categories are available to seniors, youth, disabled and medicare cardholders at a 50 percent discount. Tickets are sold at stations, Caltrain headquarters, by mail and at certain employment sites. Since this change, automated ticket vending machines on station platforms now account for most of Caltrain ticket sales.

Parking
In 2006, JPB implemented Pay By Space (PBS) parking in eight stations. In 2007, PBS was implemented at two additional stations. Currently all stations where the Baby Bullet stops are equipped for PBS with the most current equipment.

In addition, Caltrain has initiated a program to incorporate parking into the existing ticket vending machines. The pilot program was launched in August 2006 at four stations to demonstrate the feasibility of the electronic parking collection system. Customers who park cars in the lot pay for parking by selecting the numbered space at the ticket vending machine and no longer need to return to their cars to display a parking receipt. This pilot program was extended to four additional low-use stations in 2007 and is working well at those stations.

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. A major objective of the project is to provide a state-of-the-art equipment and maintenance shop for handling of all light repairs to the railcar equipment. The grand opening of this facility occurred in September 2007 and it is now open for operation.

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

Caltrain Station Safety Improvement Program
The purpose of this program was to remove the "hold-out" rule at a number of Caltrain stations, including California Avenue, Hillsdale, South San Francisco, Santa Clara and Burlingame. Hillsdale improvements have been completed. The rest of the stations currently have narrow center island platforms, which have several negative impacts upon Caltrain service, including customer safety concerns and schedule delays. Improvements to the stations will include demolition of existing narrow center platforms and construction of new outside boarding platforms, installation of center fencing between the existing mainline tracks through the platform area and installation of new signalized pedestrian at-grade crossings with pedestrian gates.

FUTURE OF CALTRAIN – SYSTEM EXPANSION AND CONNECTIONS

Caltrain 2025
Caltrain 2025 provides a comprehensive road map of what the agency must do to continue to be a vital commuter rail system throughout the 21st century. A current area of focus for this program is to identify specific capital improvement plans and actions to implement the strategic vision which was approved by the JPB in 2004. The strategic vision offers the opportunity for Caltrain to define itself as a preferred transportation service provider in an environment where the limits of the railroad infrastructure will soon be reached. Recent experience reinforces an interesting dynamic showing ridership elasticity is not affected by fare increases and gasoline price decreases. As a result, the project anticipates that there is additional latent demand yet to be captured and that adding system capacity during peak hours with increased frequency and reduced travel time will attract a significant number of new riders.

To deliver the service levels necessary to meet projected demand, infrastructure improvement is needed. Furthermore, electrification is planned for Caltrain to serve the Transbay Terminal, and to accommodate a future high-speed rail system. Prior to electrification, a decision will need to be made with regard to two different paths for electrified equipment: electric locomotives with traditional passenger cars or individually powered electric vehicles which are currently not compliant with U.S. railroad rules and regulations. These two rolling stock alternatives bring with them fundamental differences in performance and risk.

Electrification: This project consists of converting the existing Caltrain diesel engine mode of propulsion to electric power and rehabilitating the Caltrain right of way to accommodate electrification. Twenty-three electric locomotives will replace existing diesel locomotives.

Other System Expansion and Connections
Dumbarton Bridge Rail Service: This project will extend commuter rail service across the Bay between the Peninsula and the East Bay by rehabilitating and reconstructing rail facilities on the existing railroad alignment and right of way. Service will consist of six trains originating from the East Bay and traveling west in the morning peak and six trains returning in the evening peak. The 10.7-mile West Bay portion of the project, which is currently under the ownership of the District, includes: Segment A, extending from Redwood City to the west approach of the Dumbarton Rail Bridge and including a Menlo Park station; Segment B, the Dumbarton Bridge; and Segment C, extending from the east abutment of the bridge, across the Newark Slough Bridge to the Newark Junction, including a Newark station. The 9.8-mile East Bay portion of the project, which is under Union Pacific Railroad (UPRR) ownership, includes: Segment D, from the Newark Junction to Jarvis Road; Segment E, from Maple Road to Riverwalk Drive including the Centerville station; and Segment G, from the Shinn Connection to Hayward, including the Union City station. Segment F, a Niles Junction Connection Track, is an optional addition to the project.

San Francisco Downtown Extension: This project, headed by the Transbay Joint Powers Authority (TJPA), will link Caltrain with San Francisco's Transbay Terminal providing Caltrain patrons with easier access to the center of the city.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

San Francisco, San Mateo and Santa Clara counties enjoy consistent ranking among the most affluent in California. With an extremely diverse employment market in industries such as computer technology, biotechnology, finance, education, conventions, tourism, agriculture and manufacturing, Caltrain's service area is not dependent on any one sector. This Diversity of industry promises financial strength and prosperity for residents along the Caltrain corridor.

As a commuter rail service, Caltrain's ridership can be significantly affected by employment levels in the area. In recent years, the unemployment rate decreased to the 4.0 to 4.3 percent range between 2005 through 2007 from a rate of 5.9 percent in June 2003. In addition, the expeditious Baby Bullet trains, providing service from San Jose to San Francisco in under an hour, have attracted many new riders to Caltrain, growing ridership to a level that exceeds ridership in 2001 prior to the economic downturn demonstrating a full recovery.

Despite the favorable long-term outlook for the economy, the JPB continues to face a structural deficit in its operating budget. Each of the Member Agencies provide operating contributions to the JPB, which are intended to make up the amount necessary to cover deficits in the operating budget. Under the Joint Powers Agreement, net operating and administrative costs are to be apportioned based on an AM boarding formula. However, to facilitate budgeting decisions and for ease of administration, each of the Member Agencies agreed to an annual increase in its operating contribution equal to3 percent over its prior year operating contribution. Utilization of the set contribution approach has enabled each of the Member Agencies to project costs for budgeting purposes. However, a 3 percent increase is not always sufficient to cover the deficit in the operating budget therefore causing a structural deficit.

Cash Management

The Board of Directors has adopted an investment policy as prescribed by 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, 2007 were held with either the Bank of America or the San Mateo County Treasurer's investment pool. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or covered by collateral.

Risk Management

The JPB retains an independent consultant to conduct an actuarial study for the purposes of estimating outstanding losses and affirm compliance with the Governmental Accounting Standards Board. 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. Staff monitors the program throughout the year.

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 are legally employees of the District, the JPB has no retirement or post-employment benefits obligation except to pay costs based on District policy. The District intends to allocate post-employment benefit costs based on the full-time employees utilized to support Caltrain's services.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) recognized the JPB's 2006 Comprehensive Annual Financial Report for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our 2007 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm, Vavrinek, Trine, Day and Company LLP, for its timely and expert guidance in this matter.

The employees of the JPB and its contracted service providers bring an effective combination of skill, experience and dedication to carrying out the agency's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. As the region recovers from the economic downturn of recent years, the JPB expects the continued zeal and dedication of its transit professionals to meet the transportation challenges of the future.

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

Respectfully submitted,

Virginia Harrington

Virginia Harrington
Chief Financial Officer

Patricia Reavey

Patricia Reavey
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Peninsula Corridor Joint Power Board, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

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.

President

Executive Director

BOARD OF DIRECTORS

Representing City and County of San Francisco:

JOSE CISNEROS, Chair
NATHANIEL FORD
SOPHIE MAXWELL

Representing San Mateo County Transit District:

JIM HARTNETT, Vice Chair
JERRY HILL
ARTHUR L. LLOYD

Representing Santa Clara Valley Transportation Authority:

DON GAGE
FORREST WILLIAMS
KEN YEAGER

CITIZENS ADVISORY COMMITTEE

San Francisco

Vacant	John Hronowski	Michael Kiesling

San Mateo

Paul Bendix	Gerald Graham	A. Sepi Richardson

Santa Clara

Jeff Shukis	Bruce Jenkins	Brian P. Wilfley

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

DIVISION OFFICERS

George Cameron – Chief Administrative Officer

Virginia Harrington – Chief Financial Officer

Chuck Harvey – Chief Operating Officer

Rita Haskin – Chief Communications Officer

Ian McAvoy – Chief Development Officer

SPECIAL ASSISTANT TO THE EXECUTIVE DIRECTOR

Mark Simon

JPB SECRETARY

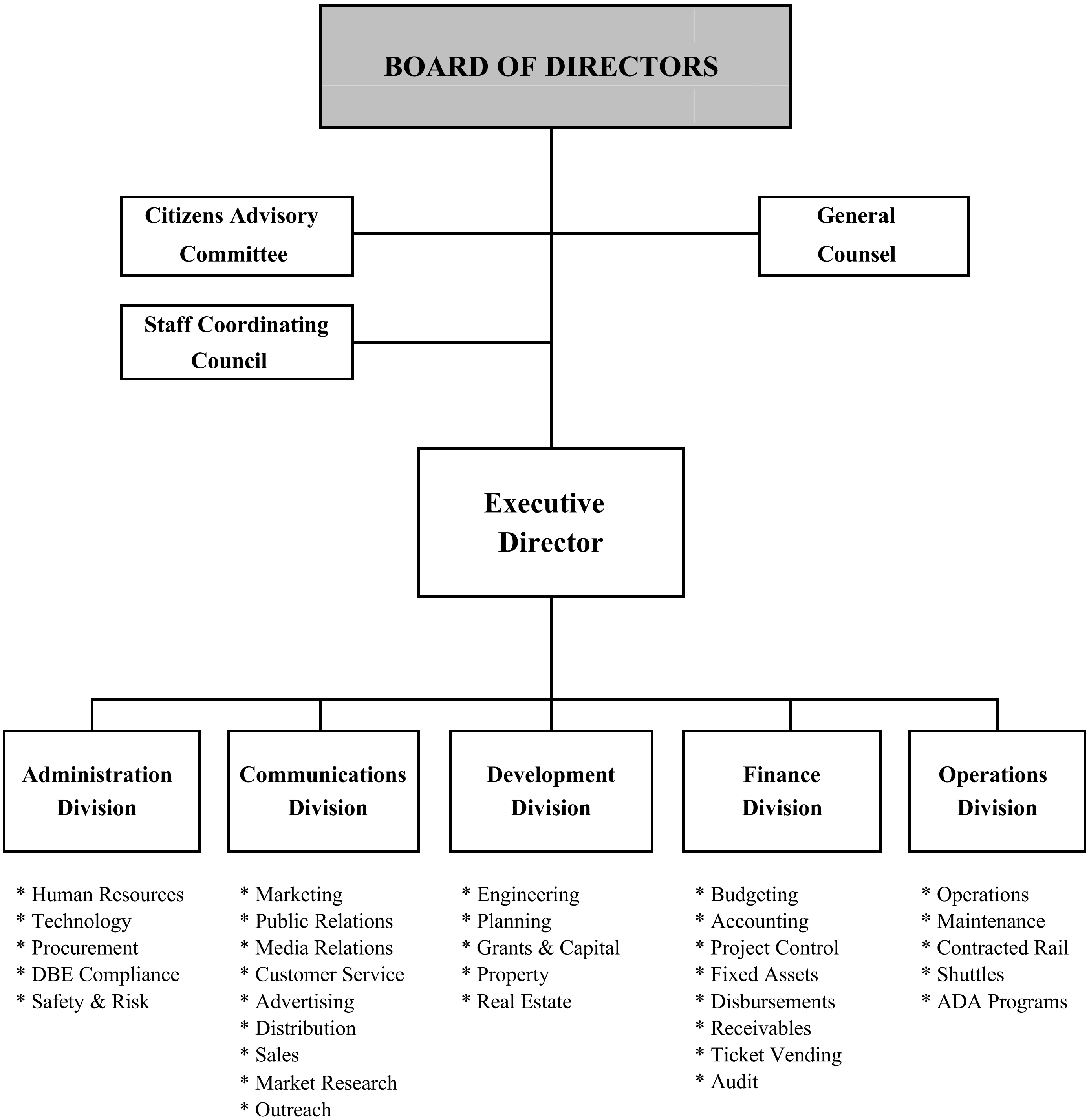
Martha Martinez

GENERAL COUNSEL

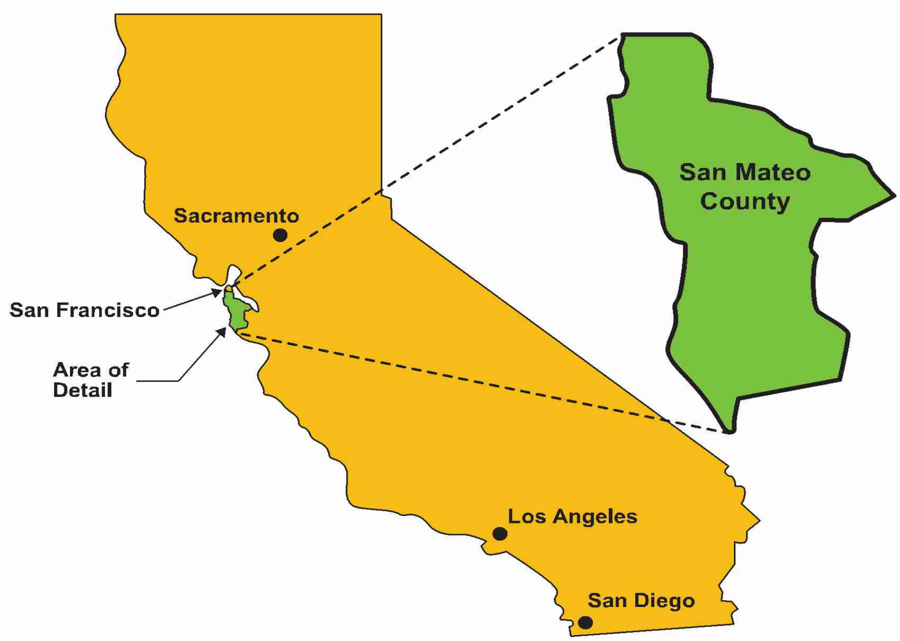
Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP

David J. Miller, Esq.
Joan Cassman, Esq.

ORGANIZATION CHART



San Mateo County, California




Pacific Ocean
San Francisco Bay
Bay Bridge
San Mateo-Hayward Bridge
Dumbarton Bridge
SAN FRANCISCO
22nd St.
Bayshore
South San Francisco
San Bruno
Millbrae
Broadway
Burlingame
San Mateo
Hayward Park
Hillsdale
Belmont
San Carlos
Redwood City
Atherton
Menlo Park
Palo Alto
Stanford
California Ave.
San Antonio
Mountain View
Sunnyvale
Lawrence
Santa Clara
College Park
SAN JOSE DIRIDON
Tamien
Capitol
Blossom Hill
Morgan Hill
San Martin
GILROY
N
Caltrain

TABLE OF CREDITS

The following individuals contributed to the production of the fiscal year 2007 Comprehensive Annual Financial Report:

Finance:	Senior Accountant	Jeannie Chen
	Manager, Capital & Grants Accounting	Donna Fong
	Senior Accountant	Angela Ho
	Senior Accountant	John Ledbetter
	Manager, Financial Forecasting & Treasury	Brian Lee
	Manager, General Ledger	Rima Lobo
	Senior Accountant	Mary Manders
	Manager, Budget	Ladi Millard
	Senior Systems Accountant	Angustia Pacumio
	Accountant	David Ramires
Communication:	Graphic Designer	Robert Casumbal
Audit Firm:	Partner	Ahmad Gharaibeh
	Partner	Leonard Danna

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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

INDEPENDENT AUDITORS' REPORT

The Board of Directors of the
Peninsula Corridor Joint Powers Board

We have audited the accompanying basic financial statements of the JPB, as of and for the fiscal years ended June 30, 2007 and 2006. These financial statements are the responsibility of the management of the JPB. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the JPB as of June 30, 2007 and 2006 and the changes in its financial position 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 November 15, 2007, on our consideration of the JPB'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 is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries 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

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 JPB. The supplementary information and Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section 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

Palo Alto, California
November 30, 2007

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the JPB (JPB) financial performance provides an overview of the JPB's activities for the fiscal year ended June 30, 2007 with comparisons to prior fiscal years ended June 30, 2006 and June 30, 2005. 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 on June 30, 2007 stand at $1,123.3 million, an increase of $48.7 million or 4.5 percent compared to June 30, 2006 and an increase of $92.6 million or 9.4 percent in June 30, 2006 compared to June 30, 2005, primarily due to an increase in capital assets in both years.
- Total liabilities decreased by $11.1 million or 18.7 percent to $48.3 million at June 30, 2007 compared to June 30, 2006 and decreased by $3.0 million or 4.8 percent to $59.4 million June 30, 2006 compared to June 30, 2005. A decrease of $13.4 million in 2007 and $6.0 million in 2006 in deferred member contributions accounted for most of this result.
- Total operating revenues on June 30, 2007 were $38.0 million, an increase of $4.8 million or 14.6 percent compared to 2006 and an increase of $7.0 million or 26.9 percent in 2006 compared to 2005 was the result of increase in both ridership and fares.
- Total operating expenses in 2007 were $77.5 million, an increase of $5.0 million or 6.8 percent over 2006 and an increase of $2.5 million or 3.5 percent in 2006 compared to 2005. This result was mainly due to an increase in the cost of contract services related to the Baby Bullet express services and increased fuel costs.
- Non-operating revenue, net of non-operating expenses, increased $1.9 million or 4.3 percent to $45.1 million in 2007 from 2006 and increased $0.7 million or 1.7 percent to $43.3 million in 2006 compared to 2005. This result was driven by other growth in state and local operating assistance, interest income and other income combined.
- In 2007, the JPB recognized $91.2 million in capital contributions, a decrease of $31.3 million or 25.5 percent from 2006. In 2006, the JPB recognized $122.5 million in capital contributions, an increase of $52.7 million or 75.5 percent from 2005. The decrease in 2007 and the increase in 2006 were primarily due to the 2006 contribution of the right of way from VTA and costs related the centralized equipment maintenance and operations facility
- Net assets at June 30, 2007 are $1,075.0 million, up $59.8 million or 5.9 percent from June 30, 2006 and net assets at June 30, 2006 are $1,015.2, up $95.6 million or 10.4 percent from June 30, 2005, as capital assets, net of depreciation increased $54.5 million during 2007 and $93.3 million during 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

The S*tatement of Revenues, Expenses and Changes in Net Assets* reports how net assets have changed during the year. It compares related operating revenues and operating expenses connected with the JPB's principal business of providing rail service. Operating expenses include the cost of direct services to passengers, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses are reported as 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 from third parties.
- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- *Cash flows from investing activities* include proceeds from sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

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

Other Information

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

Analysis of Basic Financial Statements

Total assets increased by $48.7 million or 4.5 percent to $1,123.3 million at June 30, 2007 compared to June 30, 2006 and increased by $92.6 million or 9.4 percent to $1,074.6 million at June 30, 2006 compared to June 30, 2005 primarily due to improvements to the right of way. Current assets decreased by $5.6 million or 8.9 percent to $58.0 million in 2007 primarily due to cash and cash equivalents and prepaid expenses and decreased by $0.5 million or 0.8 percent in 2006 compared to 2005, primarily due to fluctuations in cash and cash equivalents.

Total capital assets, net of accumulated depreciation increased $54.5 million or 5.4 percent on June 30, 2007 to $1,059.9 million from $1,005.4 million on June 30, 2006, and increased $93.3 million or 10.2 percent from $912.1 million in 2005 to 2006. Investments in capital assets, before netting depreciation, consists of acquisitions and improvements to the right of way ($707.5 million or 57.2 percent), rail vehicles ($254.2 million or 20.6 percent), facilities and equipment ($23.5 million or 1.9 percent) and construction in progress ($250.9 million or 20.3 percent) in 2007 and investments in capital assets, before netting depreciation consists of acquisition and improvements for right of way ($586.5 million or 51.2 percent), rail vehicles ($253.0 million or 22.1 percent), facilities and equipment ($22.7 million or 2.0 percent) and construction in progress ($282.6 million or 24.7 percent) in 2006.

Total liabilities decreased by $11.1 million or 18.7 percent to $48.3 million at June 30, 2007 and $3.0 million or 4.8 percent to $59.4 million at June 30, 2006, primarily due to a decrease in deferred member contributions.

Total net assets stand at $1,075.1 million at June 30, 2007 and $1,015.2 million at June 30, 2006, an increase of $59.8 million or 5.9 percent from June 30, 2006 and $95.6 million or 10.4 percent from June 30, 2005. Investments in capital assets, net of related debt is $1,062.9 million at June 30, 2007, representing 98.9 percent of total net assets, $1,008.3 million at June 30, 2006, representing 99.3 percent of total net assets and $915.0 million at June 30,2005, representing 99.5 percent of the total net assets.

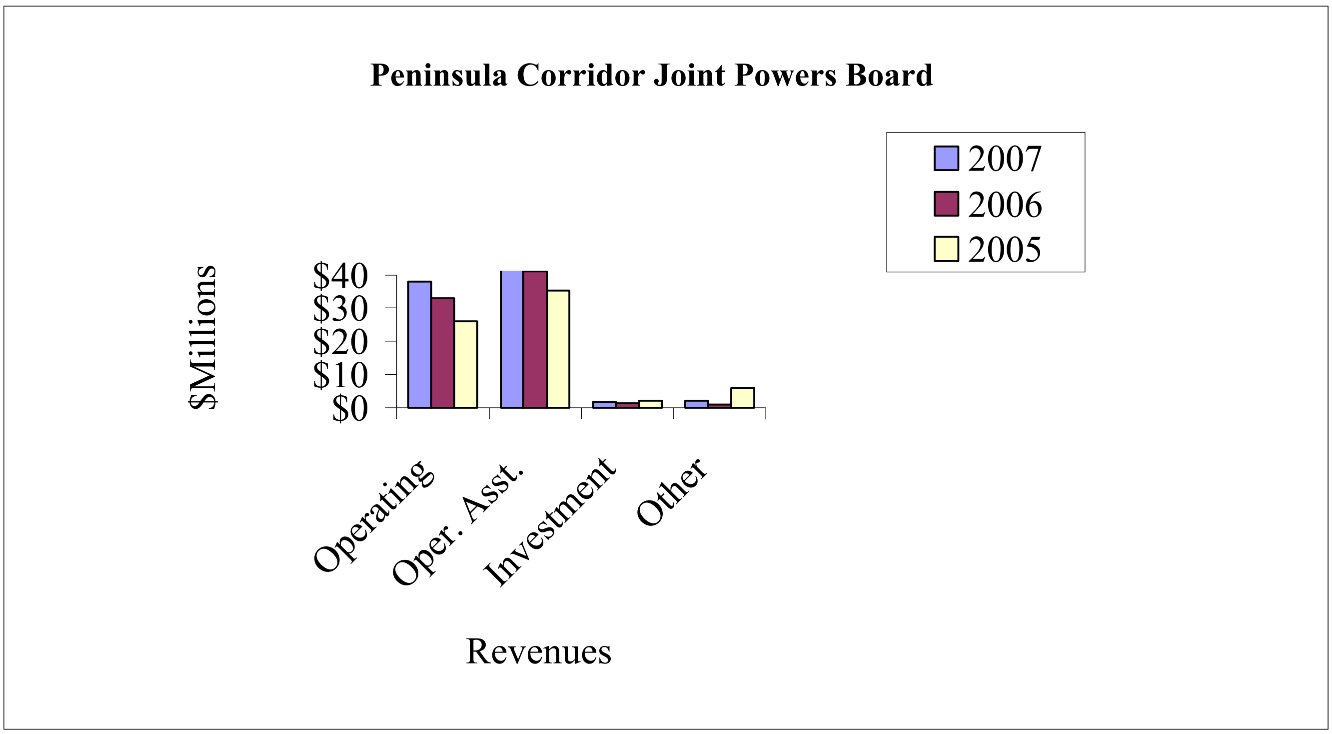
PENINSULA CORRIDOR JOINT POWERS BOARD
NET ASSETS
(In thousands)

	2007	2006	2005
Current assets	$58,041	$63,684	$64,202
Capital assets, net of depreciation	1,059,932	1,005,396	912,076
Other assets	5,330	5,537	5,743
Total assets	**$1,123,303**	**$1,074,617**	**$982,021**
Current liabilities	$45,111	$55,977	$58,739
Long-term liabilities	3,141	3,391	3,625
Total liabilities	**$48,252**	**$59,368**	**$62,364**
Net assets:			
Invested in capital assets, net of related debt	$1,062,907	$1,008,343	$915,004
Restricted	296	173	150
Unrestricted	11,848	6,733	4,503
Total net assets	**$1,075,051**	**$1,015,249**	**$919,657**

Revenues

Operating revenues grew to $38.0 million in 2007, a $4.8 million or 14.6 percent increase over 2006 and $33.1 million in 2006, a $7.0 million or 26.9 percent increase over 2005 due to the successful implementation of Baby Bullet express service, the reinvention of Caltrain and fare increases in both fiscal years.

Non-operating revenue increased $1.8 million or 4.1 percent to $45.3 million at June 30, 2007 compared to June 30, 2006 and non-operating revenue for fiscal year 2006 remained the same at $43.5 million compared to fiscal year 2005.



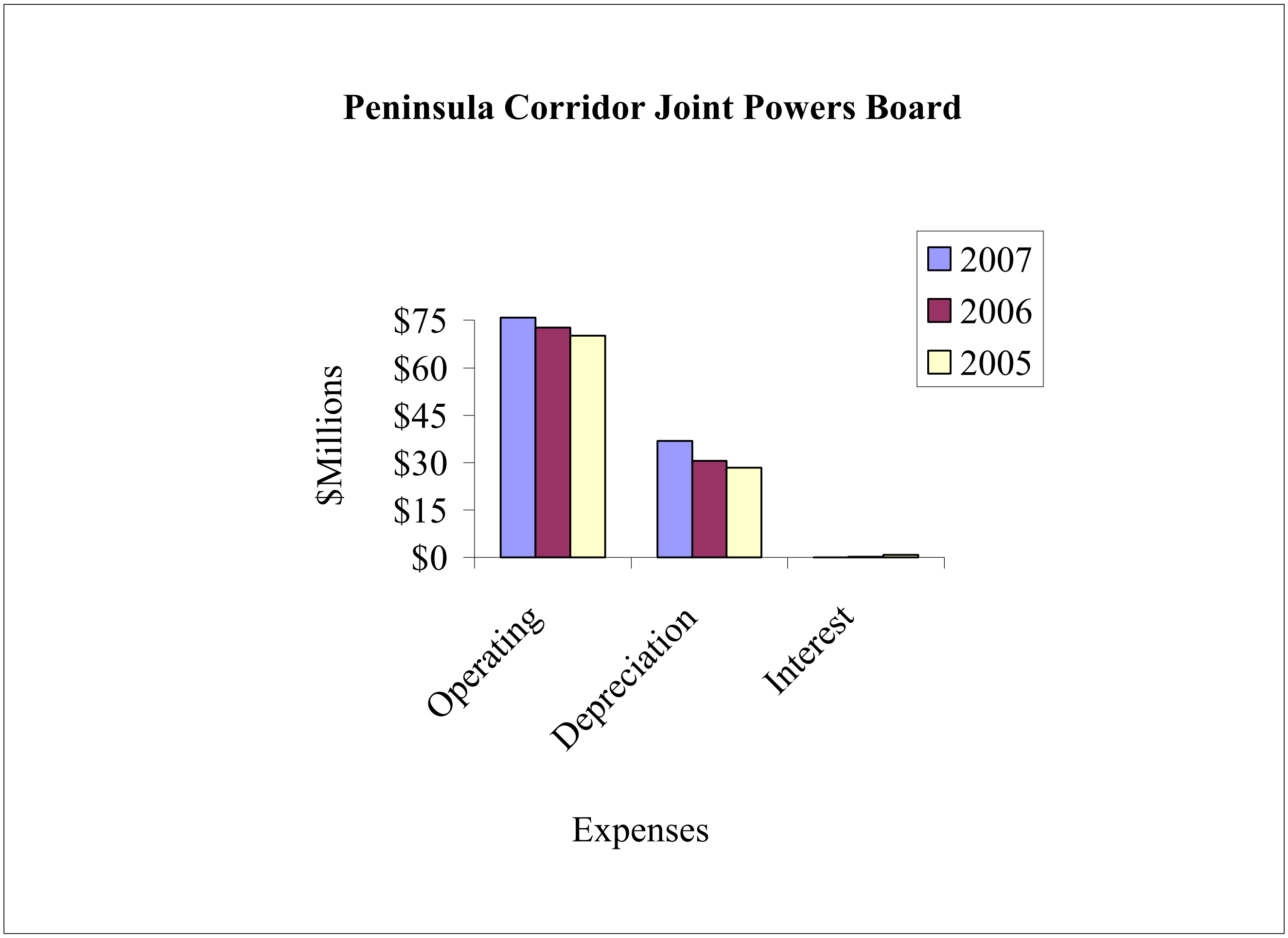
Expenses

Total operating expenses of $77.5 million in 2007 were $5.0 million or 6.8 percent higher than 2006, and in 2006 $2.5 million or 3.5 percent higher than 2005. Total operating expenses in 2007 consisted of $50.8 million or 65.5 percent for rail operator contract services, $10.9 million or 14.0 percent for fuel and $15.9 million or 20.5 percent for other costs including Insurance, Parking, Shuttle and Pass revenue, Professional services, Wages & benefits, Utilities and supplies, Maintenance services, Temporary services, Rent and other expenses combined. The largest component of 2006 and 2005 operating expenses was rail operator contract services at $48.7 million and $47.2 million which represents 67.0 percent and 67.3 percent of the total respectively. Depreciation and amortization for 2007 was $37.0 million, a $6.2 million or 20.3 percent increase over 2006 and in 2006 it was $30.7 million, a $2.2 million or 7.8 percent increase over 2005.

Non-Operating expenses consist of interest expense at $0.1 million in 2007 and at $0.2 million in 2006, a $0.1 million or 39.2 percent decrease from 2006 and a $0.7 million or 78.1 percent decrease from 2005.

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

	2007	2006	2005
Operating revenues			
Passenger fares	$ 33,058	$ 28,845	$ 21,968
Parking, shuttle and pass revenues	4,667	4,164	3,676
Other	236	114	448
Total operating revenue	37,961	33,123	26,092
Operating expenses			
Contract Services	50,799	48,662	47,164
Insurance	4,172	3,098	3,607
Fuel	10,876	10,350	7,365
Parking, shuttle and pass revenues	3,579	3,332	3,754
Professional Service	583	544	1,660
Wages and benefits	4,719	4,081	4,224
Utilities and Supplies	1,009	790	857
Maintenance services	457	314	259
Temporary services, rent and other	1,337	1,406	1,208
Total Operating expense	77,531	72,577	70,098
Operating loss before depreciation and amortization	(39,570)	(39,454)	(44,006)
Depreciation and amortization	(36,985)	(30,743)	(28,515)
Operating loss	(76,555)	(70,197)	(72,521)
Non-operating revenues			
State and local operating assistance	41,538	41,125	35,393
Rental Income	1,485	1,310	1,184
Interest Income	1,631	1,411	2,126
Other Income (expense)	602	(378)	4,750
Total Non-Operating revenues	45,256	43,468	43,453
Non-operating expenses	(121)	(199)	(908)
Net loss before capital contributions	(31,420)	(26,928)	(29,976)
Capital Contributions	91,222	122,520	69,828
Change in net assets	59,802	95,592	39,852
Net assets - Beginning of the year	1,015,249	919,657	879,805
Net assets - Ending of the year	**$ 1,075,051**	**$ 1,015,249**	**$ 919,657**



Capital Projects

The JPB incurred capital expenditures and recognized related revenue in the form of capital contribution of $91.2 million in fiscal year 2007, which is $31.3 million or 25.5 percent less than in fiscal year 2006. The 2007 capital sources consist of federal grants ($64.9 million or 71.2 percent), state grants ($4.6 million or 5.0 percent), and local governments including the three member agencies ($21.7 million or 23.8 percent). The JPB incurred capital expenditures and recognized related revenue in the form of capital contribution of $122.5 million in fiscal year 2006, which is $52.7 million or 75.5 percent more than in fiscal year 2005. The 2006 capital sources consist of federal grants ($66.6 million or 54.4 percent), state grants ($2.1 million or 1.7 percent), and local governments including the three member agencies ($53.8 million or 43.9 percent).

Following is a summary of the JPB's major capital expenditures for 2007:

- Design/construction of the centralized equipment maintenance and operations facility ($37.1 million).
- System-wide track rehabilitation and signal work ($20.8 million).
- Station improvements ($10.3 million).
- Planning and engineering for electrifying Caltrain ($3.2 million).

- Design/construction of bridge and tunnel improvements and replacements ($3.0 million).
- Grade separation and grade crossing improvements along the Caltrain right of way ($2.3 million)
- Outboard Platforms at various Caltrain stations ($1.6 million).

Additional information about capital activities appears in *Note #6 - Capital Assets* of the *Notes to the Financial Statements*.

Debt

At the end of fiscal year 2007, the JPB had $2.4 million in outstanding debt, a decrease of $0.2 million or 9.1 percent compared to the end of fiscal year 2006. At the end of fiscal year 2006, the JPB experienced a decrease of $0.2 million or 8.0 percent compared to the end of fiscal year 2005. These decreases are due to the scheduled principal payments of $0.2 million on the farebox revenue bonds in each of the fiscal years ended June 30, 2007 and June 30, 2006 respectively. More information on the JPB's long-term debt activity appears in Notes 9 and 10 to the financial statements.

Economic Factors

By 2002, it was evident that the economy had taken a turn for the worse. As unemployment increased, consumers curtailed spending and real estate values fell. While real estate recovered fairly quickly from a small decline, the unemployment rate rose from 3.9 percent in June 2001 to 6.5 percent in June 2003. Caltrain ridership and fare revenue declined significantly as higher employment translated to fewer commuters.

In recent years the unemployment rate has hovered in the 4.5 to 4.7 percent range. Consumer confidence has rebounded as evidenced by increased retail spending and demonstrated by increased sales tax receipts. In addition, the attraction of the Baby Bullet express trains and innovative scheduling has driven Caltrain ridership above levels enjoyed prior to the economic downturn in 2002.

Despite Caltrain's recent accomplishments and increased ridership, a need remains for additional operating assistance. The JPB is facing financial challenges going into fiscal year 2008 as the budget once again was balanced with one time sources. The JPB continues to pursue operating efficiencies and strategies for identifying new sources of funding.

Requests for Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 & 3)	$ 24,122,617	$ 30,118,014
Due from other governmental agencies	23,290,237	26,229,919
Receivables from member agencies (Note 15)	6,369,364	1,278,147
Accounts receivable - other, net of allowance (Note 2)	3,321,773	2,612,673
Inventory (Note 2)	641,038	641,038
Prepaid expenses	85,905	2,607,064
Restricted investments with fiscal agents (Notes 2 & 3)	209,553	196,815
Total current assets	58,040,487	63,683,670
NONCURRENT ASSETS		
Capital Assets		
Right of way	210,962,152	210,962,152
Right of way improvements	496,553,504	375,566,363
Rail vehicles	254,200,566	253,032,655
Facilities and equipment	23,548,742	22,743,066
Office equipment	716,982	684,950
Construction in progress (Note 2)	250,918,782	282,582,937
Total	1,236,900,728	1,145,572,123
Less accumulated depreciation	(176,968,152)	(140,176,018)
Capital assets - net (Note 6)	1,059,932,576	1,005,396,105
Bond issuance costs, net (Note 2)	100,042	114,334
Other assets, net (Notes 4 & 5)	5,229,818	5,422,327
Total noncurrent assets	1,065,262,436	1,010,932,766
TOTAL ASSETS	$ 1,123,302,923	$ 1,074,616,436

See accompanying notes to the financial statements.

	2007	2006
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 23,930,023	$ 23,161,015
Interest payable	19,610	21,372
Self-insurance claims liabilities (Note 11)	1,434,604	671,376
Deferred member contributions (Notes 2 & 15)	15,510,301	28,944,944
Deferred revenue (Note 2)	3,903,490	2,877,875
Current portion of farebox revenue bonds payable (Note 9)	250,000	235,000
Other	63,350	65,635
Total current liabilities	45,111,378	55,977,217
NONCURRENT LIABILITIES		
Farebox revenue bonds payable - long-term (Note 9)	2,105,000	2,355,000
Self-insurance claims liabilities - long-term (Note 11)	1,035,456	1,035,456
Total noncurrent liabilities	3,140,456	3,390,456
Total liabilities	48,251,834	59,367,673
NET ASSETS		
Invested in capital assets, net of related debt	1,062,907,436	1,008,342,766
Restricted for debt service and other	295,693	172,728
Unrestricted	11,847,960	6,733,269
Total net assets	$ 1,075,051,089	$ 1,015,248,763

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, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Passenger fares	$ 33,058,402	$ 28,844,742
Parking, shuttle and pass revenues	4,667,276	4,164,271
Other	235,635	113,554
Total operating revenues	37,961,313	33,122,567
OPERATING EXPENSES:		
Contract services	50,799,329	48,662,044
Insurance	4,171,669	3,097,634
Fuel	10,876,247	10,350,456
Parking, shuttle and pass expenses	3,579,144	3,331,503
Professional services	582,765	543,728
Wages and benefits (Notes 2 & 15)	4,718,949	4,081,130
Utilities and supplies	1,008,694	790,185
Maintenance services	456,639	313,678
Temporary services, rent and other	1,337,224	1,406,036
Total operating expenses	77,530,660	72,576,394
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(39,569,347)	(39,453,827)
DEPRECIATION AND AMORTIZATION	(36,984,642)	(30,743,490)
OPERATING LOSS	(76,553,989)	(70,197,317)
NONOPERATING REVENUES (EXPENSES):		
State and local operating assistance (Note 7)	41,537,929	41,124,985
Rental income	1,484,472	1,309,681
Interest income	1,630,900	1,411,321
Interest expense	(121,182)	(198,671)
Other income (expense)	601,839	(378,023)
Total nonoperating revenues, net	45,133,958	43,269,293
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(31,420,031)	(26,928,024)
CAPITAL CONTRIBUTIONS (Note 12)	91,222,357	122,519,578
CHANGE IN NET ASSETS	59,802,326	95,591,554
NET ASSETS, Beginning of year	1,015,248,763	919,657,209
NET ASSETS, End of year	$ 1,075,051,089	$ 1,015,248,763

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares, passes and other	$ 34,953,638	$ 33,735,121
Payments to vendors for services	(67,550,519)	(53,258,553)
Payments to employees	(4,718,799)	(4,081,280)
Payments for insurance claims and premiums	(825,999)	(6,386,300)
Net cash used in operating activities	(38,141,679)	(29,991,012)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	41,603,772	49,498,050
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions	78,402,097	94,385,040
Property additions	(91,328,604)	(123,871,406)
Principal paid on bonds	(235,000)	(225,000)
Principal paid on grant anticipation notes	-	(9,700,000)
Interest and fiscal charges paid	(108,652)	(350,076)
Net cash (used in) capital and related financing activities	(13,270,159)	(39,761,442)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of restricted investments	356,694	9,931,186
Purchase of restricted investments with fiscal agents	(369,432)	(91,015)
Interest received	3,825,407	2,302,414
Net cash provided by investing activities	3,812,669	12,142,585
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,995,397)	(8,111,819)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,118,014	38,229,833
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 24,122,617	$ 30,118,014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (76,553,989)	$ (70,197,317)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	36,984,642	30,743,490
Effect of changes in:		
Receivables	(42,047)	(32,412)
Receivables from member agencies	(3,102,593)	396,829
Prepaid expenses	2,521,159	(2,388,917)
Accounts payable, accrued liabilities and claims liabilities	1,914,034	11,239,328
Deferred revenue	139,400	240,737
Other liabilities	(2,285)	7,250
Net cash used in operating activities	$ (38,141,679)	$ (29,991,012)

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

The JPB acquired the rail corridor right of way between San Francisco and San Jose (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 the District, the San Mateo County Transportation Authority, VTA, and the California Transportation Commission. The JPB holds title to portions of the Mainline located in the City and County of San Francisco and Santa Clara County. During fiscal year 1992, the District provided the initial contribution in the amount of $8,294,000 and $34,652,000 on behalf of CCSF and VTA respectively, to facilitate completion of the acquisition of the right of way. As a result, the JPB and the District are tenants in common as to all right of way property located in San Mateo County.

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

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

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

B. New Pronouncements

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 did not have an impact on the financial statements of the JPB.

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 JPB has not determined its effect on the financial statements.

GASB Statement No. 47 - In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined Other Postemployment Benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. The JPB has not determined its effect on the financial statements.

GASB Statement No. 48 - In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. This statement is not effective until June 30, 2008. The JPB has not determined its effect on the financial statements.

GASB Statement No. 49 - In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. The JPB has not determined its effect on the financial statements.

GASB Statement No. 50 – In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is not effective until June 30, 2008. The JPB has not determined its effect on the financial statements.

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

GASB Statement No. 51 – In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. The JPB has not determined its effect on the financial statements.

C. ***Basis of Accounting***

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

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

D. ***Cash Equivalents***

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

E. ***Accounts Receivable – Other***

During the course of normal operations, the JPB carries various receivable balances for services and rent. At June 30, 2007 and 2006, allowance for doubtful accounts included in accounts receivable – other, are $424,914 and $425,053, 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 and are recorded at fair value. Fair value is defined as the amount that the JPB could reasonably expect to receive for an investment in a current sale from a willing buyer and is based on current market prices.

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

H. *Restricted Investments With Fiscal Agents*

Provisions of the JPB's trust agreements related to its farebox revenue bonds 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.

I. *Property and Equipment*

Property and equipment is recorded at cost or appraised value. The JPB defines capital assets as assets with a cost greater than $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.

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 JPB commences recording depreciation expense and amortization of contributed capital.

J. *Depreciation*

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

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

K. *Construction in Progress*

Construction in progress consists of the following projects at June 30, 2007 and 2006:

	2007	2006
Track Improvements	$ 83,466,628	$ 147,386,571
Maintenance Facilities	112,234,840	74,184,062
Station Improvements	31,510,787	33,361,921
Other Projects	13,492,208	16,690,864
ADA Compliance Project	8,912,480	7,747,289
Rolling Stock	1,070,947	2,716,034
Ticket Vending Machines	230,892	496,196
Total	$250,918,782	$282,582,937

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

L. Bond Issuance Costs

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

M. 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 15), they may be refunded to the Member Agencies or used to offset future required contributions.

N. Deferred Revenue

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

O. 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 incurred.

P. Federal Operating Assistance

Federal operating assistance is recorded as revenue as operating expenditures are incurred.

Q. Wages and Benefits

Personnel costs of the JPB represent allocated costs of the District's employees serving in the capacity as managing agency. Participation in pension plans, compensated absences, and postretirement health care benefits for these employees is administered by the District (see Note 15).

R. Operating and Nonoperating revenues

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

S. Use of Estimates

The JPB'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 may differ from those estimates.

NOTE #3 - CASH AND CASH EQUIVALENTS

Cash and investments as of June 30, 2007 and 2006 are classified in the statement of net assets as follows:

	2007	2006
Cash and cash equivalents	$24,122,617	$30,118,014
Restricted cash	105,750	-
Restricted investments with fiscal agents	103,803	196,815
	$24,332,170	$30,314,829

Cash and investments as of June 30, 2007 and 2006 consist of the following:

	2007	2006
Cash on hand	$ 580,132	$ 549,367
Deposits with financial institutions	(1,095,527)	(3,585,675)
Investments	24,847,565	33,351,137
	$ 24,332,170	$ 30,314,829

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	15 years	None	None
U.S. Agency Securities	15 years	None	None
Banker's Acceptances	180 days	15%	10%
Collateralized Time Deposits	1 year	30%	5%
Commercial Paper [1]	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	10%	5%
Repurchase Agreements	1 year	None	50%
Reverse Repurchase Agreements	92 days	20% of base value	20%
Medium-Term Notes	5 years	30%	10%
Mutual Funds	N/A	10%	5%
Money Market Mutual Funds	N/A	20%	10%
Asset backed securitities	5 years	20%	5%
Local Agency Investment Fund (LAIF)	N/A	None	None
San Mateo County Investment Pool	N/A	None	None

1 Additional 15% "for a total of 20%" or the Maximum Percentage of Portfolio if the dollar weighted average maturity of the entire amount does not exceed 31 days.

Investments Authorized by Debt Agreements

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

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

Disclosures Relating to Interest Rate Risk

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

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

The JPB's weighted average maturity at June 30, 2007 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	$ 4,143,922	-
San Mateo County Investment Pool	20,494,090	-
Held by bond trustee:		
Mutual funds	209,553	-
	$ 24,847,565	
Portfolio Weighted Average Maturity		-

The JPB's weighted average maturity at June 30, 2006 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	$ 5,862,686	-
San Mateo County Investment Pool	27,291,636	-
Held by bond trustee:		
Mutual funds	196,815	-
	$ 33,351,137	
Portfolio Weighted Average Maturity		-

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosures	Rating as of June 30, 2007 Not Rated
Repurchase Agreements	$ 4,143,922	N/A	$ 4,143,922	$ -
San Mateo County Investment Pool	20,494,090	N/A	-	20,494,090
Held by bond trustee:				
Mutual funds	209,553	N/A	-	209,553
	$ 24,847,565		$ 4,143,922	$ 20,703,643

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosures	Rating as of June 30, 2006 Not Rated
Repurchase Agreements	$ 5,862,686	N/A	$ 5,862,686	$ -
San Mateo County Investment Pool	27,291,636	N/A	-	27,291,636
Held by bond trustee:				
Mutual funds	196,815	N/A	-	196,815
	$ 33,351,137		$ 5,862,686	$ 27,488,451

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

Concentration of Credit Risk

The investment policy of the JPB contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The JPB does not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5 percent or more of the JPB's total investments at June 30, 2007 and 2006.

Custodial Credit Risk

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

As of June 30, 2007 and 2006, the JPB had ($1,095,527) and ($3,585,675) of deposits with financial institutions recorded on the financial statements which included excess bank balances of $150,665 and $114,825, respectively. These excess balances are uninsured because the cash balances are over the Federal Depository Insurance limits, but due to California State Law are collateralized by securities pledged by the financial institutions holding the JPB's deposits.

Investment in San Mateo County Investment Pool

The JPB had investments in the San Mateo County Treasurer's Investment Pool (the County Pool) at June 30, 2007 and 2006 of $20,494,090 and $27,291,636, respectively. The County 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. the JPB's investments in the County Pool are stated at fair value, available upon demand and considered cash equivalents.

The San Mateo County Treasurer's Investment Pool is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. The County Pool is not registered with the Securities and Exchange Commission.

NOTE #4 - GILROY EXTENSION

The JPB acquired the Gilroy Extension trackage rights through contributions from the California Transportation Commission and VTA. The perpetual trackage rights to the Gilroy Extension are recorded at cost in the amount of $8,000,000 as other assets. The rights are amortized over a period of 42 years. As of June 30, 2007 and 2006, accumulated amortization related to these trackage rights totaled $2,770,182 and $2,577,673, respectively.

NOTE #5 - CONTRIBUTED ASSETS FROM CALTRANS

In order to facilitate the purchase of the Mainline and the Gilroy Extension on a timely basis, and to provide for an orderly transition to local administration in a manner that would assure no service interruption, Caltrans and the JPB executed an agreement memorializing various commitments. Caltrans granted the JPB the right to use and control various real and personal 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 the JPB, in accordance with Public Utilities Code Section 99234.7.

On April 4, 1996, the JPB's Board approved a resolution accepting transfer of rolling stock and station sites subject to certain terms and conditions outlined in the resolution. However, the actual transfer of these assets was delayed due to a disagreement between Caltrans and the JPB over who would assume responsibility for liabilities attributable to the environmental condition of certain Caltrain station sites (see Note 13 – Commitment and Contingencies).

The transfer of rolling stock to the JPB was completed in December 1996, and the transfer of station sites was completed in May 1997. The rolling stock and station sites transferred were recorded at their appraised value as contributed capital in the amount of $106,710,000 and $60,432,365, respectively. Station sites consist principally of land and were capitalized to right of way.

NOTE #6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007
Capital assets non depreciable:				
Right of way	$ 210,962,152	$ -	$ -	$ 210,962,152
Construction in progress	282,582,937	91,328,603	(122,992,760)	250,918,780
Total Non Depreciable Capital Assets	493,545,089	91,328,603	(122,992,760)	461,880,932
Other capital assets:				
Right of way improvements	375,566,362	120,987,142	-	496,553,504
Rail vehicles	253,032,655	1,167,911	-	254,200,566
Facilities and equipment	22,743,067	805,675	-	23,548,742
Office equipment	684,950	32,032	-	716,982
Total Depreciable Capital Assets	652,027,034	122,992,760	-	775,019,794
Accumulated depreciation for:				
Right of way improvements	(75,765,706)	(24,807,189)	-	(100,572,895)
Rail vehicles	(55,343,060)	(10,152,361)	-	(65,495,421)
Facilities and equipment	(8,688,920)	(1,737,284)	-	(10,426,204)
Office equipment	(378,332)	(95,300)	-	(473,632)
Total Accumulated Depreciation	(140,176,018)	(36,792,134)	-	(176,968,152)
Capital Assets, Net	$1,005,396,105	$177,529,229	$(122,992,760)	$1,059,932,574

NOTE #6 - CAPITAL ASSETS, continued

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Capital assets non depreciable:				
Right of way	$ 210,962,152	$ -	$ -	$ 210,962,152
Construction in progress	200,596,524	98,130,595	(16,144,182)	282,582,937
Total Non Depreciable Capital Assets	411,558,676	98,130,595	(16,144,182)	493,545,089
Other capital assets:				
Right of way improvements	338,487,077	37,079,285	-	375,566,362
Rail vehicles	253,754,324	178,331	(900,000)	253,032,655
Facilities and equipment	17,978,267	4,764,800	-	22,743,067
Office equipment	304,875	380,075	-	684,950
Total Depreciable Capital Assets	610,524,543	42,402,491	(900,000)	652,027,034
Accumulated depreciation for:				
Right of way improvements	(56,311,906)	(19,453,800)	-	(75,765,706)
Rail vehicles	(46,556,549)	(9,169,009)	382,498	(55,343,060)
Facilities and equipment	(6,877,179)	(1,811,741)	-	(8,688,920)
Office equipment	(261,904)	(116,428)	-	(378,332)
Total Accumulated Depreciation	(110,007,538)	(30,550,978)	382,498	(140,176,018)
Capital Assets, Net	912,075,681	109,982,108	(16,661,684)	1,005,396,105

NOTE #7 - OPERATING ASSISTANCE

A. ***State and Local Operating Assistance***

Member Agencies provide funding to the JPB. Net operating and administrative costs are apportioned on the basis of mutually agreed contribution rates, updated on an annual basis. Funding allocations for the years ended June 30, 2007 and 2006 were:

	2007	2006
District - Operating	41.91%	41.91%
VTA - Operating	40.28%	40.28%
CCSF - Operating	17.80%	17.80%

Local and state operating assistance amounts included in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2007 and 2006 were:

	2007	2006
Member Agency local funds	$ 37,153,913	$ 36,691,759
Assembly Bill 434 operating assistance	1,030,399	1,021,199
Other	3,353,617	3,412,027
Total	$ 41,537,929	$ 41,124,985

NOTE #8 - 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 $710,000 to the Capital Contingency Fund for each of the years ended June 30, 2007 and 2006. Of the Capital Contingency Fund, $660,000 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 15).

NOTE #8 - CAPITAL ASSISTANCE, continued

B. <u>Federal and State Grants</u>

At June 30, 2007, the JPB has 21 federal, 5 state and 19 local grants that provide funding for Caltrain capital projects. Budgeted capital additions for the year ended June 30, 2007 applicable to these projects are $91,460,693. The related federal participation is $64,924,423.

The JPB has receivables of $15,268,594 and $16,416,834 at June 30, 2007 and 2006, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements, which is included in Due From Other Governmental Agencies. In addition, the JPB has receivables of $2,357,361 and $1,398,118 at June 30, 2007 and 2006, 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 #9 - FAREBOX REVENUE BONDS PAYABLE

In October 1999, the JPB issued farebox revenue bonds in the amount of $3,820,000 to finance the acquisition of electrical power units for locomotives utilized for the Caltrain commuter rail service. These bonds, with interest rates ranging from 4 to 5.375 percent, are limited obligations of the JPB, 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.

Activity for the year ended June 30, 2007 is as follows:

	Balance at July 1, 2006	Additions	Reductions	Balance at June 30, 2007	Amounts Due within One Year
Farebox Revenue Bonds	$ 2,590,000	$ -	$ 235,000	$ 2,355,000	$ 250,000

Activity for the year ended June 30, 2006 is as follows:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006	Amounts Due within One Year
Farebox Revenue Bonds	$ 2,815,000	$ -	$ 225,000	$ 2,590,000	$ 235,000

NOTE #9 - FAREBOX REVENUE BONDS PAYABLE, continued

Annual principal and interest payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2008	250,000	117,658	367,658
2009	260,000	106,158	366,158
2010	270,000	93,938	363,938
2011	285,000	80,978	365,978
2012	300,000	67,013	367,013
2013-2015	990,000	106,425	1,096,425
Total	$ 2,355,000	$ 572,170	$ 2,927,170

NOTE #10 - GRANT ANTICIPATION NOTES PAYABLE

In October 1999, the JPB'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 JPB's principal limit not to exceed $453,500,000.

Under this program, the JPB 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 JPB's farebox revenues.

The JPB did not have any grant anticipation note activity during fiscal year 2007.

During fiscal year 2006, the JPB had the following grant anticipation note activity (in thousands):

Issue Closing Date	Principal	Term	Interest Rate	Balance at July 1, 2005	Issued	Redeemed	Balance at June 30, 2006
10/4/04	$ 9,700	365 days	2.39%	$ 9,700	$ -	$ 9,700	$ -

NOTE #11 - SELF-INSURANCE

Insurance

The JPB is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The JPB is self-insured for a portion of its public liability and property damage liability. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2007.

Type of Coverage	Self-Insurance (in aggregate)	Excess Coverage (in aggregate)
Public Liability	Up to $2,000,000 per occurrence	Up to $200,000,000 per occurrence
Property Damage	Up to $100,000 per occurrence	Up to $200,000,000 per occurrence

All property is insured at full replacement value. 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 include actual costs, trends in claims experience and number of participants. It is the JPB's practice to obtain full actuarial studies annually.

Changes in the balances of self-insured claims liabilities for public liability and property damage for the year ended June 30, 2007 and 2006 are as follows:

	2007	2006
Self-insured claims liabilities, Beginning of Year	$ 1,706,832	$ 2,413,056
Incurred claims and changes in estimates	884,139	342,539
Claim payments and related costs	(120,911)	(1,048,763)
Total Self-Insured Claims Liabilities	2,470,060	1,706,832
Less current portion	(1,434,604)	(671,376)
Noncurrent Portion	$ 1,035,456	$ 1,035,456

NOTE #12 - CAPITAL CONTRIBUTIONS

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

Depreciation on assets acquired with capital contributions is included in the statement of revenues, expenses and changes in net assets. Capital contributions earned for the year ended June 30, 2007 and 2006 are as follows:

	2007	2006
Contributions from the Federal government	$ 64,937,571	$ 66,646,701
Contributions from the State	4,623,333	2,047,336
Contributions from local governments	21,661,453	53,825,541
Total Capital Contributions	$ 91,222,357	$ 122,519,578

NOTE #13 - COMMITMENT AND CONTINGENCIES

A. Contract with Amtrak

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

Total expenses billed to the JPB by Amtrak for operating the rail service for the years ended June 30, 2007 and 2006 are recorded as Contract Services in the statement of revenues, expenses and changes in net assets.

B. Diesel Fuel Contract

In July 2003, the JPB awarded a five-year contract to Golden Gate Petroleum at an estimated amount of $20,089,500. In April 2007, the contract was renegotiated and a new two-year contract with Golden Gate Petroleum for an estimated amount of $19,579,165 was awarded. Fuel costs incurred for the year ended June 30, 2007 and 2006 were $10,876,247 and $10,350,456, respectively.

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

The JPB contracted with Shimmick Construction Company Inc./Obayashi Corporation Joint Ventures for the construction of the CEMOF contract for $56,445,519. Notice to proceed with construction was given July 5, 2005 with completion expected at the end of 2007. The work consisted of constructing an equipment maintenance and storage facility and other improvements on the west side of the mainline tracks including: the shop building, yard tracks, train washer, access roads, storage building, oil/water separator, and drum storage. The current contract amount including executed change orders is $67,663,713. The grand opening of this facility occurred in September 2007 and it is now open for operation.

NOTE #13 - COMMITMENT AND CONTINGENCIES, continued

D. Litigation

As of June 30, 2007 and 2006, the JPB had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigation are outstanding for which the JPB cannot determine the ultimate outcome and resulting liability, if any. However, the JPB's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the JPB's financial position.

NOTE #14 - DEFERRED LEASE PROCEEDS

A. 1996 Lease-Leaseback

In fiscal year 1997, the JPB entered into agreements to transfer a leasehold interest in 73 passenger cars and 20 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 JPB leased back the Equipment from the entity. The JPB received net proceeds of $3,790,396, representing the difference between the prepayment of certain rental obligations made at closing by the outside third party entity under the lease and the calculated net present value of the future sublease obligation. The JPB has no further continuing financial obligations under this agreement as it has been restructured with the 2002 Sale-Leaseback as described in paragraph C below. The Equipment remains on the books of the JPB at its original cost and is being depreciated over the original useful life determined at the date of acquisition. The net proceeds were recorded as deferred revenue and were being amortized to income over a 30 year period.

In 2002, the JPB 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, the JPB entered into agreements to transfer the tax ownership of 20 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 JPB leased back the Equipment from the entity. The JPB 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 JPB at its original cost and 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 30 year period. The purchase option date is January 2025.

In 2002, the JPB restated beginning net assets by reflecting the unamortized portion of the net proceeds referred to above as earned.

NOTE #14 - DEFERRED LEASE PROCEEDS, continued

C. 2002 Sale-Leaseback

In fiscal year 2002, the JPB 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 JPB 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 JPB at its original cost and is being depreciated to operations over the original useful life determined at the date of acquisition. The net proceeds have been recorded as Lease-Leaseback income for the year ended June 30, 2002. The purchase option date is 2026.

D. Retirement of Equipment under Safe Harbor Lease

In July 2005, the JPB Board of Directors authorized the retirement and sale of twelve 1952 Budd passenger trailers, two 1952 Budd cab control cars and one lot of spare parts. When the JPB acquired this equipment in 2000, it was subject to a 1982 Safe Harbor Lease pursuant to Internal Revenue Code Section 168(f)(8). The JPB sold this equipment to Grand Canyon Railway, Inc. of Flagstaff, Arizona for $604,000. The JPB incurred sale costs of $112,657, the majority of which went towards fulfilling its obligations under the Safe Harbor Lease and towards minimizing any related potential liabilities.

E. Tax Contingency

On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2005 was signed into law. Pursuant to this Act, Code Section 4965 imposes a federal excise tax (the “New Excise Tax”) on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions such as the JPB. Some of the JPB’s leasing transactions are described in Note 14 items A through D. The U.S. Treasury Department and the Internal Revenue Service (the “IRS”) have put forth some clarification as to which transactions are subject to the New Excise Tax. Some of the key points in the clarification documents affecting the JPB are as follows:

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

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

NOTE #15 - RELATED PARTIES

A. *Operating Expenses paid to SamTrans*

The District serves as the managing agency of the JPB, providing administrative personnel and facilities (see Note 1). The District is compensated based on actual costs incurred. Beginning in fiscal year 1999, the JPB was also required to compensate the District for administrative overhead. Amounts due to the District as managing agency at June 30, 2007 and 2006 total $1,404,884 and $1,742,145, respectively, and are included in accrued liabilities. Total expenses billed to the JPB by the District which are included as operating expenses in the accompanying statement of revenues, expenses and changes in net assets are as follows:

	2007	2006
Wages and benefits	$ 4,718,948	$ 4,081,130
Rent, utilities, supplies and other	1,370,879	1,546,671
Total	$ 6,089,827	$ 5,627,801

B. *Receivables from Member Agencies*

The JPB is owed amounts from Member Agencies for grants and prior obligations. The balances at June 30, 2007 and 2006 are as follows:

	2007	2006
District	$ 2,563,944	$ 599,211
VTA	5,297	7,154
CCSF	3,800,123	671,782
Total	$ 6,369,364	$ 1,278,147

NOTE #15 - RELATED PARTIES, continued

C. Deferred Member Contributions

The JPB 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, 2007 and 2006 are as follows:

	2007	2006
District	$ 6,857,867	$ 16,924,145
VTA	5,089,437	7,451,357
CCSF	3,562,997	4,569,442
Total	$ 15,510,301	$ 28,944,944
Committed for:		
Capital project development	$ 240,000	$ 240,000
Centralized traffic control system	1,055	1,055
Farebox capital	122,567	240,866
Capital contingency fund	2,760,636	2,476,388
Capital contribution Member's local match	12,186,304	18,557,031
Total Committed	15,310,562	21,515,340
Uncommitted funds:		
SamTrans	100,000	7,329,865
VTA	(17,349)	(17,349)
CCSF	117,088	117,088
Total Uncommitted	199,739	7,429,604
Total	$ 15,510,301	$ 28,944,944

NOTE #16 –SUBSEQUENT EVENT

In October 2007, the JPB issued $23,140,000 of Farebox Revenue Bonds, 2007 Series A (the Bonds). Proceeds of the Bonds will be used to finance the costs of acquiring eight new Bombardier rail cars and to defease and refund the JPB's Farebox Revenue Bonds, 1999 Series A with a principal balance outstanding of $2,105,000. The interest rates on the bonds range from 4.00 percent to 5.00 percent with principal maturing annually beginning in 2018 through 2037.

PENINSULA CORRIDOR JOINT POWERS BOARD
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES –
COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2007

	Budget (Unaudited)	Actual	Variance Positive/ (Negative)
OPERATING REVENUES:			
Passenger fares	$ 33,067,003	$ 34,844,628	$ 1,777,625
Parking, shuttle and pass revenues	2,930,768	2,881,050	(49,718)
Other	84,500	56,260	(28,240)
Total operating revenues	36,082,271	37,781,938	1,699,667
OPERATING EXPENSES:			
Contract services	54,814,110	49,315,658	5,498,452
Insurance	3,810,078	4,171,668	(361,590)
Fuel	11,647,799	10,876,247	771,552
Parking, shuttle and pass expenses	3,204,231	2,800,529	403,702
Professional services	1,572,568	1,179,605	392,963
Wages and benefits	5,009,905	4,718,748	291,157
Utilities and supplies	946,130	934,403	11,727
Maintenance services	1,546,600	1,332,406	214,194
Temporary services, rent and other	2,193,108	2,209,809	(16,701)
Total operating expenses	84,744,529	77,539,073	7,205,456
Operating loss	(48,662,258)	(39,757,135)	8,905,123
NONOPERATING REVENUES (EXPENSES):			
State and local operating assistance	41,727,217	41,537,929	(189,288)
Rental income	1,263,600	1,484,472	220,872
Interest income	1,553,680	1,308,753	(244,927)
Interest expense	(121,190)	(121,182)	8
Debt service principal payment	(245,000)	(245,000)	-
Other income	858,700	781,211	(77,489)
Total nonoperating revenues	45,037,007	44,746,183	(290,824)
Net Income	(3,625,251)	4,989,048	8,614,299
CAPITAL OUTLAY:			
Capital contingency fund	710,000	710,000	-
Less member agency contributions	(710,000)	(710,000)	-
Capital expenditures	(107,446,877)	(91,460,693)	15,986,184
Less capital grants	107,446,877	91,222,357	(16,224,520)
Net capital (outlay) grants	-	(238,336)	(238,336)
EXCESS OF EXPENSES AND CAPITAL OUTLAY OVER OPERATING REVENUES AND NONOPERATING REVENUES	$ (3,625,251)	$ 4,750,712	$ 8,375,963

NOTE #1 - BUDGETARY BASIS OF ACCOUNTING

The JPB prepares its budget on a basis of accounting that differs from generally accepted accounting principles ("GAAP"). The actual results of operations are presented in the Supplemental Schedule on the budgetary basis to provide a meaningful comparison of actual results with budget. In addition, certain budget amounts have been reclassified to conform with the presentation of actual amounts in the Supplemental Schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and GAAP concerns capital assets. Depreciation expense per GAAP is not budgeted and budgeted capital expenditures are not recorded as expenses per GAAP.

NOTE #2 - RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

Excess of expenses and capital outlay over operating revenues and non-operating revenues		$ 4,750,712
Reconciling Items		
Debt service principal payment	$ 245,000	
GASB 31 unrealized loss	330,563	
Depreciation and amortization of assets	(36,984,642)	
Capital expenditures	91,460,693	
Subtotal- Total Reconciling Items		55,051,614
Change in net assets, GAAP basis		$ 59,802,326

Section III

STATISTICAL

Financial Trends

- Net Assets and Change in Net Assets

Revenue Capacity

- Revenue Base and Revenue Rate
- Principal Revenue Payers

Debt Capacity

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

Demographics and Economic Information

- Population and Income
- Unemployment Rates
- Principal Employers

Operating Information

- Farebox Recovery and Miles
- Employees
- Capital Assets

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity Information

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL TRENDS – NET ASSETS AND CHANGE IN NET ASSETS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

	2007	2006	2005	2004
OPERATING REVENUES:				
Passenger fares	$ 33,058	$ 28,845	$ 21,968	$ 18,427
Parking, shuttle and pass revenues	4,667	4,164	3,676	3,718
Other	236	114	448	80
Total operating revenues	37,961	33,123	26,092	22,225
OPERATING EXPENSES:				
Contract services	50,799	48,662	47,164	44,236
Insurance	4,172	3,098	3,607	3,251
Fuel	10,876	10,350	7,365	4,570
Parking, shuttle and pass expenses	3,579	3,332	3,754	4,430
Professional services	583	544	1,660	862
Wages and benefits	4,719	4,081	4,224	4,270
Utilities and supplies	1,009	790	857	808
Maintenance services	457	314	259	30
Temporary services, rent and other	1,337	1,406	1,208	1,153
Total operating expenses	77,531	72,577	70,098	63,610
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(39,570)	(39,454)	(44,006)	(41,385)
DEPRECIATION AND AMORTIZATION	(36,985)	(30,743)	(28,515)	(21,215)
OPERATING LOSS	(76,555)	(70,197)	(72,521)	(62,600)
NON-OPERATING REVENUES (EXPENSES):				
State and local operating assistance	41,538	41,125	35,393	33,057
Lease-leaseback income	-	-	-	-
Federal operating assistance	-	-	-	-
Rental income	1,484	1,310	1,184	1,147
Interest income	1,631	1,411	2,126	1,443
Interest expense	(121)	(199)	(908)	(1,484)
Other income	602	(378)	4,750	1,277
Total non-operating revenues, net	45,134	43,269	42,545	35,440
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(31,421)	(26,928)	(29,976)	(27,160)
CAPITAL CONTRIBUTIONS	91,222	122,520	69,828	122,602
DEPRECIATION ON FIXED ASSETS ACQUIRED WITH CONTRIBUTED CAPITAL	-	-	-	-
Prior period adjustment	-	-	-	2,468
CHANGES IN NET ASSETS	59,801	95,592	39,852	97,910
Net Asset Components				
Invested in capital assets, net of related debt	1,062,907	1,008,343	915,004	873,775
Restricted	296	173	150	-
Unrestricted	11,847	6,733	4,503	6,030
NET ASSETS, End of year	$ 1,075,050	$ 1,015,249	$ 919,657	$ 879,805

Source: JPB's prior year CAFRs.

This table shows revenues and expenses, contributions, depreciation and amortization and net asset components.

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL TRENDS – NET ASSETS AND CHANGE IN NET ASSETS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

2003	2002	2001	2000	1999	1998
$ 19,430	$ 21,433	$ 22,788	$ 20,863	$ 19,093	$ 18,134
3,202	2,686	2,805	2,666	2,551	1,884
31	44	40	33	12	32
22,663	24,163	25,633	23,562	21,656	20,050
41,305	41,183	41,657	34,401	30,533	30,355
2,538	3,649	3,200	2,787	3,943	2,968
3,761	3,670	4,747	3,381	2,353	2,428
4,477	4,876	4,925	4,648	4,362	3,332
758	1,128	1,346	1,162	1,229	871
4,111	3,718	2,859	2,332	2,027	2,213
1,097	1,091	905	690	892	860
89	171	29	556	236	626
1,718	2,138	1,715	1,203	1,173	1,123
59,854	61,624	61,383	51,160	46,748	44,776
(37,191)	(37,461)	(35,750)	(27,598)	(25,092)	(24,726)
(15,234)	(9,638)	(7,238)	(6,663)	(6,629)	(7,674)
(52,425)	(47,099)	(42,988)	(34,261)	(31,721)	(32,400)
32,193	34,000	30,622	23,627	23,367	21,755
-	3,133	-	-	-	-
-	-	-	11	69	46
1,406	995	914	1,010	803	808
2,801	3,567	4,995	2,114	85	497
(1,028)	(1,248)	(3,562)	(1,176)	(16)	(218)
3,294	151	2,782	2,011	785	1,837
38,666	40,598	35,751	27,597	25,093	24,725
(13,759)	(6,501)	(7,237)	(6,664)	(6,628)	(7,675)
106,093	84,255	77,377	97,944	-	-
-	-	-	-	6,629	7,674
-	7,554	-	-	-	-
92,334	85,308	70,140	91,280	1	(1)
753,944	671,881	605,210	532,113	440,833	440,832
-	950	3,227	-	-	-
27,951	16,730	(4,184)	2,000	2,000	2,000
$ 781,895	$ 689,561	$ 604,253	$ 534,113	$ 442,833	$ 442,832

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1998 THROUGH 2007

Fiscal year	2007	2006	2005	2004
Passenger Fares (in thousands)	$ 33,058	$ 28,845	$ 21,968	$ 18,427
Revenue Base				
Number of Passengers (in thousands)	10,981	10,149	8,121	8,095
Four Zone Fare Structure				
Full Adult Fare:				
One-way	$ 7.50	$ 6.75	$ 6.50	$ 5.50
Day Pass	15.00	13.50	13.00	11.00
10-ride	63.75	57.50	55.25	46.75
Monthly Pass	198.75	179.00	172.25	145.75
Senior / Disabled / Youth Fare:				
One-way	$ 3.75	$ 3.25	$ 3.25	$ 2.75
Day Pass	7.50	6.75	6.50	5.50
10-ride	31.75	28.75	27.50	23.50
Monthly Pass	99.25	89.50	86.00	73.00

Source: Prior year CAFRs and National Transit Database.

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

2003	2002	2001	2000	1999	1998
$ 19,430	$ 21,433	$ 22,788	$ 20,863	$ 19,093	$ 18,134
8,283	9,942	9,925	8,735	8,622	8,632
$ 5.50	$ 5.25	$ 4.75	$ 4.75	$ 4.75	$ 4.75
11.00	N/A	3.50	3.50	3.50	3.50
46.75	43.75	39.75	39.75	39.75	39.75
145.75	136.50	124.00	124.00	124.00	124.00
$ 2.75	$ 2.50	$ 2.25	$ 2.25	$ 2.25	$ 2.25
5.50	N/A	N/A	N/A	N/A	N/A
23.50	N/A	N/A	N/A	N/A	N/A
73.00	103.00	93.50	93.50	93.50	93.50

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Fiscal Year	Farebox Revenue Bonds	Personal Income	As a Percent of Personal Income
2007	$ 2,355	$ 41,811,899	0.006%
2006	2,590	40,594,077	0.006%
2005	2,815	39,411,725	0.007%
2004	3,035	38,263,811	0.008%
2003	3,245	36,409,914	0.009%
2002	3,445	36,736,603	0.009%
2001	3,640	39,395,344	0.009%
2000	3,820	41,730,460	0.009%
1999	-	35,485,821	N/A
1998	-	31,073,546	N/A

Source: The County of San Mateo

Personal Income Data is from the U.S. Department of Commerce, Bureau of Economic Analysis, Calendar Year figures.

Data for 2005, 2006 and 2007 is based on an estimated 3 percent annual increase over 2004.

This table shows the ability of the JPB to issue farebox revenue bonds based on the total personal income for San Mateo county.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – BONDED DEBT
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Fiscal Year	Farebox Revenue Bonds	Member Agency Operating Contributions	As a Percent of Member Agency Contributions
2007	$ 2,355	$ 37,154	6.3%
2006	2,590	36,072	7.2%
2005	2,815	34,749	8.1%
2004	3,035	34,047	8.9%
2003	3,245	34,047	9.5%
2002	3,445	33,450	10.3%
2001	3,640	32,031	11.4%
2000	3,820	30,761	12.4%
1999	-	27,866	N/A
1998	-	28,395	N/A

Source: JPB's prior year CAFRs

In October 1999, the JPB issued Farebox Revenue Bonds in the amount of $3,820,000.

This table shows the ability of the JPB to issue farebox revenue bonds based on the total Member Contributions from the District, VTA and CCSF.

DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATION
FISCAL YEAR ENDED JUNE 30, 2007

The JPB does not have overlapping debt with other governments. Additionally, the JPB does not have a legal debt limit.

FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Year	Pledged Revenue	Debt Service: Principal	Debt Service: Interest	Debt Service: Total	Debt Coverage
2007	$ 37,961	$ 235	$ 123	$ 358	$ 106
2006	33,123	225	132	357	93
2005	26,092	220	141	361	72
2004	22,225	210	151	361	62
2003	19,430	200	159	359	54
2002	24,163	195	167	362	67
2001	25,634	180	175	355	72
2000	23,561	-	120	120	196
1999	21,657	-	-	-	N/A
1998	20,050	-	-	-	N/A

Source: JPB's prior year CAFRs.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
FISCAL YEARS 2006 AND 2000

	2006		2000	Percent Change 2000 - 2006
Total Population	705,499	[3]	707,161	-0.2%
Persons Per Household	2.78		2.74	1.5%
Mean Household Income	$ 107,653		$ 88,700	21.4%
Personal Income	$ 41,518	[2]	$ 41,512	0.0%
Per Capita Income	$ 59,213	[3]	$ 58,644	1.0%
Minority Population:				
Black	23,498		23,778	-1.2%
Hispanic	162,149		154,708	4.8%
Asian	166,297		140,313	18.5%
Native American	13,230		10,658	24.1%
Total	365,174		329,457	10.8%
Percent of Minority Population to Total Population	51.8%		46.6%	11.1%
Population by Age:				
4 years and younger	50,213		45,374	10.7%
5 to 19 years	129,729		131,912	-1.7%
20 to 64 years	433,792		441,790	-1.8%
65 Plus	91,765		88,085	4.2%
Percent of Employed Residents to Total Population	53.2%		55.0%	-3.2%
Percent of Residents Working Outside of San Mateo County	[1]		41.0%	N/A
Percent of People Commuting to the San Mateo County for Work	[1]		38.0%	N/A

[1] Information not yet available.

[2] BEARFACTS 1995-2005 San Mateo, California (06081), most current information available

[3] Fed Stats, San Mateo, California, most current information available

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

This table highlights San Mateo county's total population, mean household income, per capita income, population by age and percentage of employed residents.

Year	Unemployment Rates
2007	4.0%
2006	4.0%
2005	4.3%
2004	4.9%
2003	5.9%
2002	5.7%
2001	3.8%
2000	2.9%
1999	2.0%
1998	2.5%

Source: Department of Transportation's economic forecast.

This table shows the unemployment rates for San Mateo county.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
FISCAL YEARS 2006 AND 1999

	2006			1999		
Employers in County of San Mateo	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	9,600	1	2.73%	17,400	1	4.46%
Genentech Inc.	7,845	2	2.23%	2,839	7	0.73%
County of San Mateo	5,777	3	1.64%	4,761	3	1.22%
Oracle Corporation	5,642	4	1.61%	14,000	2	3.59%
Kaiser Permanente	3,609	5	1.03%			
Safeway Inc.	2,280	6	0.65%	1,973	10	0.51%
United States Postal Service	2,174	7	0.62%	2,937	4	0.75%
Electronic Arts	2,000	8	0.57%			
Mills-Peninsula Health	1,800	9	0.51%			
Applied Biosystems	1,578	10	0.45%			
Raychem Corporation				2,900	5	0.74%
American Airlines				2,700	8	0.69%
Franklin Templeton Corporation				2,849	6	0.73%
CHW West Bay Hospital				2,373	9	0.61%
Total	42,305		12.04%	54,732		14.03%

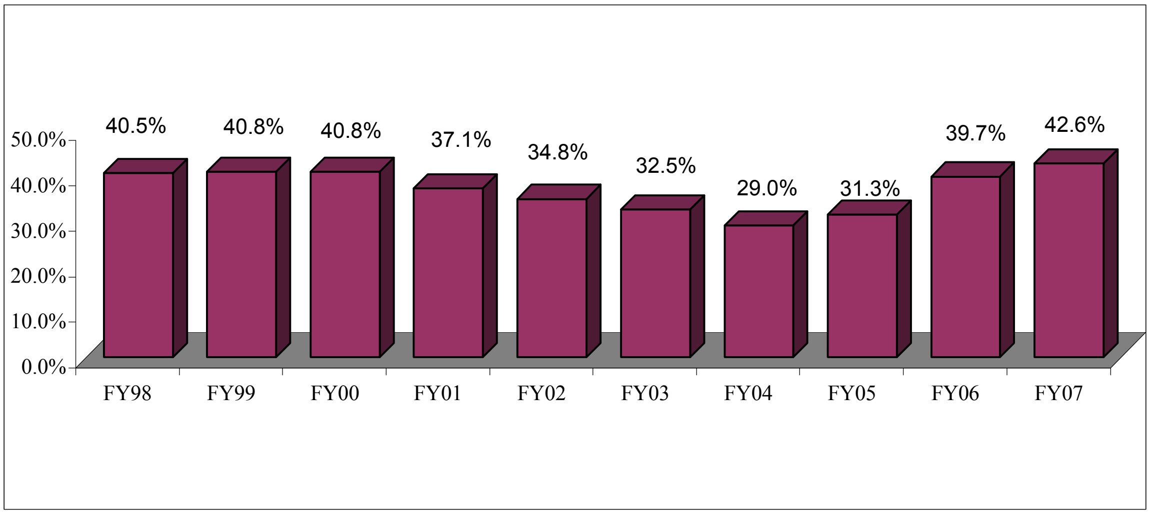
Note: Principal employer information for 2007 and 1998 is not available.

Source: The County of San Mateo.

This table shows the top 10 principal employers in San Mateo county for 2006 and 1999.

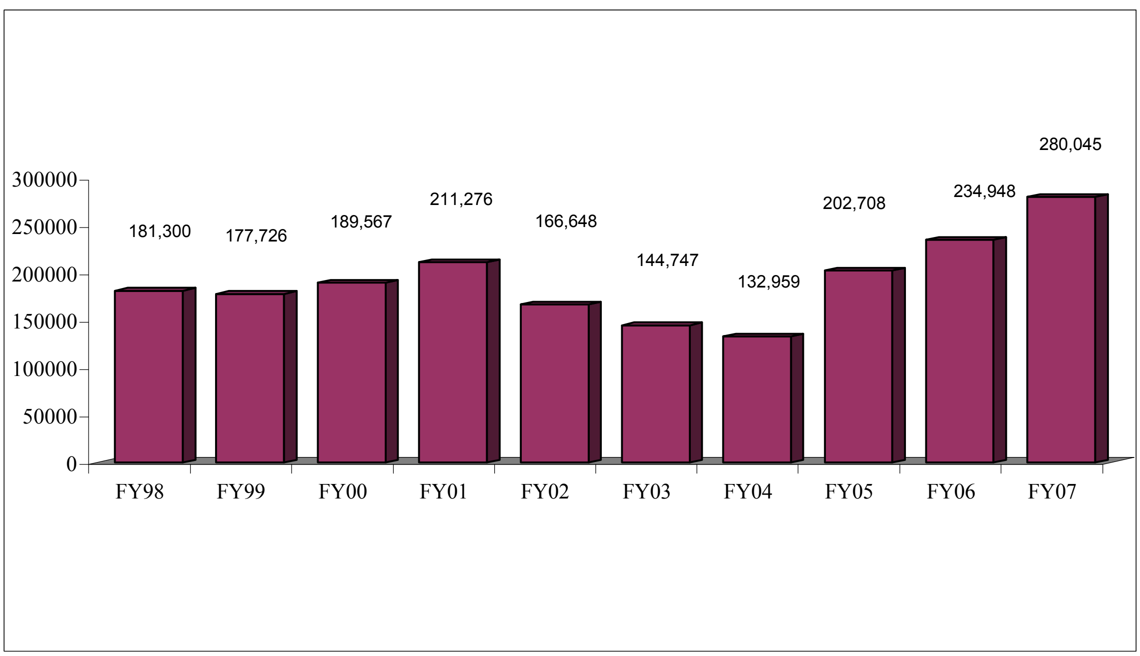
FAREBOX RECOVERY

Farebox recovery table shows the relationship between total passenger fares and operating expenses. The Board adopted a farebox recovery rate goal range of 35 to 40 percent effective fiscal year 2007.



PASSENGER MILES

(In Thousands)
Weekday passenger miles



PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – EMPLOYEES
FISCAL YEARS 2002 THROUGH 2007

	Authorized Positions					
STAFFING SUMMARY	2007	2006	2005	2004	2003	2002
EXECUTIVE	0.60	-	-	-	2.25	2.00
ADMINISTRATION	13.20	14.05	13.24	7.59	19.51	13.55
COMMUNICATIONS	20.25	19.28	19.56	12.55	16.43	24.20
DEVELOPMENT	45.10	38.03	41.61	37.01	37.50	30.95
FINANCE	10.65	9.60	18.61	15.38	16.95	14.41
OPERATIONS	15.10	23.42	13.68	31.59	19.33	15.00
TOTAL EMPLOYEES	**104.90**	**104.38**	**106.70**	**104.12**	**111.97**	**100.11**

Note: Employee counts are for FTEs charged to the JPB. Data for 1998 through 2001 was not available.

Source: JPB's prior years annual capital and operating budget.

This table shows the total full time equivalents (FTE) by division.

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PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

	2007	2006	2005	2004
Capital Assets - Non Depreciable				
Right of way	$ 210,962	$ 210,962	$ 210,962	$ 210,964
Construction in progress	250,919	282,583	200,597	259,424
Total Capital Assets, Non Depreciable	461,881	493,545	411,559	470,387
Other Capital Assets				
Right of way improvements	496,553	375,566	338,487	224,440
Rail vehicles	254,201	253,033	253,754	239,667
Facilities and equipment	23,549	22,743	17,978	17,813
Office equipment	717	685	305	238
Total Capital Assets, Depreciable	775,020	652,027	610,525	482,158
Accumulated Depreciation				
Right of way improvements	(100,573)	(75,766)	(56,312)	(40,317)
Rail vehicles	(65,495)	(55,343)	(46,557)	(35,753)
Facilities and equipment	(10,426)	(8,689)	(6,877)	(5,417)
Office equipment	(474)	(378)	(262)	(199)
Total Accumulated Depreciation	(176,968)	(140,176)	(110,008)	(81,685)
Capital Assets, Net	$ 1,059,933	$ 1,005,396	$ 912,076	$ 870,860

Source: JPB's prior years CAFRs

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

PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

2003	2002	2001	2000	1999	1998
$ 210,964	$ 210,964	$ 210,964	$ 272,658	$ 271,625	$ 271,625
180,571	290,275	229,282	166,675	70,445	38,505
391,534	501,239	440,246	439,333	342,070	310,131
214,171	94,294	84,101	8,696	5,762	4,581
208,624	119,922	109,861	106,725	106,710	106,710
15,520	5,393	4,911	4,749	4,697	4,457
203	202	107	107	92	92
438,518	219,810	198,980	120,277	117,261	115,840
(29,830)	(20,383)	(16,310)	(11,163)	(8,067)	(4,993)
(26,847)	(20,773)	(16,118)	(10,274)	(7,425)	(4,595)
(3,866)	(4,447)	(3,762)	(1,836)	(1,327)	(821)
(120)	(119)	(87)	(55)	(40)	(25)
(60,663)	(45,723)	(36,277)	(23,328)	(16,858)	(10,434)
$ 769,390	$ 675,326	$ 602,948	$ 536,282	$ 442,473	$ 415,537

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Section IV

SINGLE AUDIT

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

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

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

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 JPB ("the JPB") as of and for the year ended June 30, 2007, and have issued our report thereon, dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the JPB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the JPB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the JPB's internal control over financial reporting.

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

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

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

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Compliance And Other Matters

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

Palo Alto, California
November 30, 2007

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

VALUE THE DIFFERENCE

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 JPB") 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, 2007. The JPB'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 JPB's management. Our responsibility is to express an opinion on the JPB's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *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 JPB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the JPB'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, 2007.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the JPB as of and for the year ended June 30, 2007, and have issued our report thereon dated November 15, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements of the JPB. 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

Palo Alto, California
November 30, 2007

PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Grant Program	Federal Catalog Number	Expenditures	
Capital Grants			
U.S. Department of Transportation			
Federal Highway Administration			
STPLMA Grant (STPLE-6170-011)	20.205	$ 112,199	
STPLMA Grant (STPLE-6170-018)	20.205	$ (30,992)	
BRLO-6170(021)	20.205	$ 49,635	
BRLO-6170(022)	20.205	$ 49,499	
BRLO-6170(023)	20.205	15,766	
Subtotal		196,106	
Federal Transit Administration			
Federal Transit Cluster:			
Federal Transit Capital Improvements Grants (1)			
CA-03-0565	20.500	159,149	
CA-03-0598	20.500	750,250	
CA-03-0628	20.500	2,539,825	
CA-03-0665	20.500	3,760,765	
CA-03-0691	20.500	33,077,178	
CA-05-0207	20.500	5,351,941	
CA-05-0209	20.500	3,698,404	
CA-15-X002	20.500	107,413	
Subtotal		49,444,926	
Federal Transit Formula Grants (1)			
CA-90-Y044	20.507	113,619	
CA-90-Y123	20.507	2,280,420	
CA-90-Y187	20.507	490,994	
CA-90-Y246	20.507	3,656,029	
CA-90-Y312	20.507	6,805,542	
CA-90-Y379	20.507	1,541,028	
CA-90-Y493	20.507	59,866	
Subtotal		14,947,498	
TCSP Caltrain Capital Project			
CA-26-0026	20.514	714	
Passed-through Funding from State Office of Emergency Services			
FY05 TSGP	97.075	333,145	
FY04 UASI #2004-14, OES ID #081-91024	97.075	2,034	
Subtotal		335,179	
Total Expenditures of Federal Awards - Capital			$ 64,924,423

See accompanying notes to supplementary information.

Grant Program	Federal Catalog Number	Expenditures	
Operating Grants			
Federal Transit Administration			
Federal Transit Cluster:			
Federal Transit Formula Grants [1]			
CA-90-Y379	20.507	33,316	
Total Expenditures of Federal Awards-Operating			33,316
Total Expenditures of Federal Awards			64,957,739

[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 award programs of the JPB. The JPB's reporting entity is defined in Note #1 of the JPB's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies to the JPB 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 #2 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 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.

PENINSULA CORRIDOR JOINT POWERS BOARD
SUMMARY OF AUDITORS' RESULTS
YEAR ENDED JUNE 30, 2007

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:	$ 1,947,733
Auditee qualified as low-risk auditee?	Yes

There were no findings 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.

There were no prior year findings and recommendations.