Peninsula Corridor Joint Powers Board

San Carlos, California

A Joint Exercise of Powers Agreement among:
City and County of San Francisco
San Mateo County Transit District
Santa Clara Valley Transportation Authority

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2016 and 2015

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PENINSULA CORRIDOR
JOINT POWERS BOARD

San Carlos, California

Comprehensive Annual Financial Report
Fiscal Years Ended June 30, 2016 and 2015

Prepared by the Finance Division

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INTRODUCTORY

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January 26, 2017

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, 2016

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, 2015 through June 30, 2016. This transmittal letter provides a summary of the JPB's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the JPB's financial results may refer to the Management's Discussion and Analysis in the Financial Section.

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

To test the performance of the internal control system, the JPB contracted for independent auditing services from Vavrinek, Trine, Day & Co., 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 "unmodified" or "clean" opinion.

PROFILE OF THE ORGANIZATION

Purpose

The JPB is responsible for Caltrain passenger rail service on the San Francisco Peninsula and south into Santa Clara County. Caltrain operates a rail system that has been a central part of Peninsula communities for 149 years. The rail line currently extends from San Francisco 77 miles south to Gilroy, serving 32 stations. Spanning San Francisco, San Mateo and Santa Clara counties, Caltrain provides vital links to multiple transit properties in 20 cities.

LETTER OF TRANSMITTAL

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

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

The JPB assumed responsibility for the operation of Caltrain service from the Southern Pacific Transportation Company in 1992. Amtrak served as the JPB's operator until May of 2012. The Caltrain Board of Directors, at its September 2011 meeting, authorized the award of contract to TransitAmerica Services, Inc. The amended first full year budget (Fiscal Year 2013) of the five-year contract was for $64.9 million. The Fiscal Year 2015 and Fiscal Year 2014 approved budget contract amount was for $67.7 million and $64.5 million, respectively. Subsequent contract amounts are subject to annual negotiations.

Governance

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

Administration

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

The *Executive Office* 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, capital budgeting, operational budgeting, payroll and vendor disbursements, investments and cash management, debt management, revenue control, purchasing, contract administration, risk management, and information technology.

The *Bus and Rail Divisions* are responsible for SamTrans bus service, Caltrain rail service, employer and other shuttles, paratransit service pursuant to the requirements of the Americans with Disabilities Act (ADA), service planning, quality assurance, capital project engineering and construction.

The *Communications Division* is responsible for fare media, customer service, marketing, sales, advertising, distribution services, public information, media relations, legislative activities and community outreach.

The *Caltrain Planning Division* is responsible for guiding the planning and implementation of projects that will upgrade the performance, operating efficiency, capacity, safety and reliability of Caltrain's commuter rail.

The *Planning, Grants and Transportation Authority Division* is responsible for oversight of the Transportation Expenditure Plans, strategic planning and performance, grant administration, and property management.

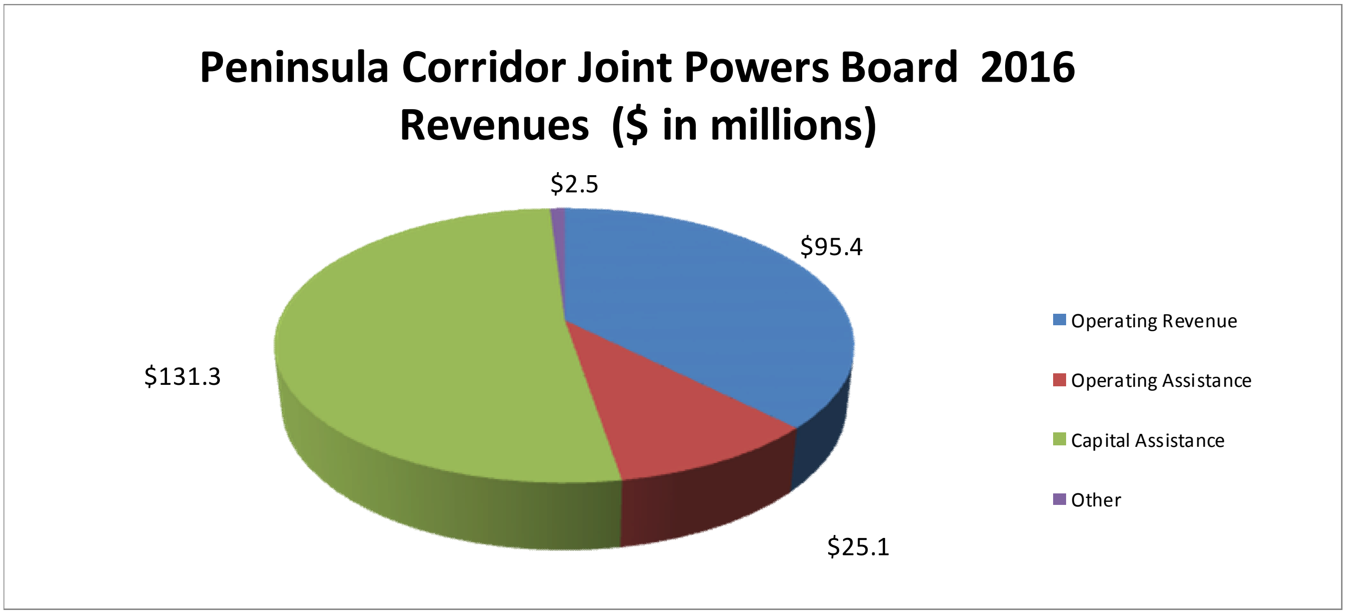
The *Office of the Chief of Staff* is responsible for human resources and safety and security.

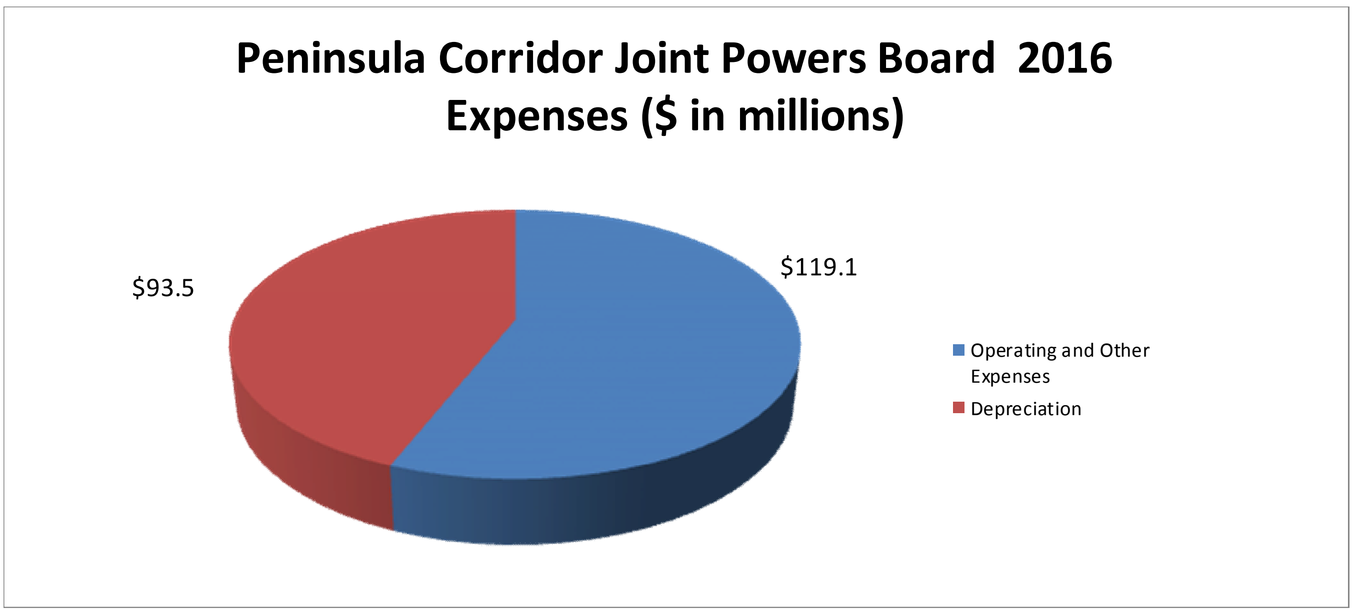
Budgetary Control

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 and departments to the Executive Director or his designee. However, any increase to the expenditure budget as a whole requires the approval of the Board. In addition, the JPB uses the encumbrance system to reduce budget balances by issuing purchase orders to avoid over-commitment of resources.

The JPB employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses, depreciation and amortization and inter-fund transfers are not included in the budget. The following pie charts show actual results for the major revenue and expense categories for fiscal year 2016.





ECONOMIC CONDITION

Local Economy

The Bay Area's economy continues to grow slightly faster than the rest of the country, but the growth rate will slow as a result of low unemployment The area no longer has the remaining labor force to support faster growth. In June 2016, San Francisco posted 3.6 percent unemployment while San Mateo County posted 3.3 percent and Santa Clara County 4.0 percent. These unemployment rates are better than the June 2016 statewide rate of 5.2 percent and nationwide rate of 4.5 percent.

PENINSULA CORRIDOR JOINT POWERS BOARD

LETTER OF TRANSMITTAL

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

Long-term Financial and Strategic Planning

Caltrain's vision as identified in its 2014 Strategic Plan is to provide a safe, reliable, sustainable modern rail system that meets the growing mobility needs of the San Francisco Bay Area region. The Caltrain Strategic Plan goes on to identify seven focus areas where Caltrain will make critical policy and business choices over the coming decade. Caltrain's overarching vision is supported by focus areas, goals and objectives with each level of policy providing a greater degree of specificity and intent. Caltrain's focus areas include: safety, service, infrastructure and rolling stock, finance, transportation and land use, partners and stakeholders and social responsibility. The strategic plan was adopted in 2014 and covers a 10-year timeframe. The 2014 plan has been updated to address some of the challenges facing the JPB, including increasing demand, capacity constraints, aging infrastructure, growing safety regulations and funding constraints. The plan will also look at key opportunities ahead, including Caltrain electrification, regional intermodal network and High-Speed Rail connections.

The policy framework articulated by the Strategic Plan is reflected in Caltrain's 2015 Short Range Transit Plan. This plan outlines Caltain's operating plan and Capital Improvement Program for the coming 10-years and forms the basis for decisions related to service adjustments and capital project coordination. Caltrain updates its Short Range Transit Plan on a regular basis as requested by the Metropolitan Transportation Commission.

Today, Caltrain operates a total of 92 diesel locomotive-hauled trains per day on the weekdays between San Francisco and San Jose with limited service further south to Gilroy. Over the next 10 years, Caltrain will expand its service to 114 trains per weekday using a mixed fleet of diesel locomotive-hauled rolling stock and new Electric Multiple Units (EMU) trains. This shift poses both a tremendous opportunity and challenge that underlies the agency's operational planning across the coming 10 years.

Caltrain has experienced rapid ridership growth and many of its peak-hour trains currently operate near, at, or above their seated capacity. Meeting growing customer demand while maintaining a high standard of safe, reliable and comfortable service is the preeminent operational challenge faced by the agency. It is anticipated that this challenge will be especially acute during the primary electrification construction period (2016-2020) when Caltrain will need to maintain reliable revenue service in the midst of a corridor-wide construction project. Caltrain will also need to insure its operational integrity by evolving its organization to operate and maintain an expanded, electrified system.

Caltrain does not have a dedicated source of funding and has an on-going structural deficit in its operating budget. Caltrain is currently developing strategies to balance the annual budget through Fiscal Year 2024 and will comprehensively evaluate a variety of factors that influence the system's operating deficit including: fare policy and pass programs; incremental impacts of added service on operating revenues and costs; potential for securing dedicated operating funds through voter-approved funding measures, cost containment strategies and other solutions.

PENINSULA CORRIDOR JOINT POWERS BOARD

LETTER OF TRANSMITTAL

Caltrain's 10-year Capital Improvement Plan (CIP) is a $3 billion program focused on maintaining the JPB's assets in a state-of-good repair, enhancing the reliability of the system, and delivering electrified service from San Francisco to San Jose by 2020. The CIP also reflects Caltrain's ongoing planning for the next generation of system improvements that are needed in the Fiscal Year 2015-2024 timeframe to expand system capacity and continue preparations for Caltrain/HSR blended system.

Revenue sources included in the CIP reflects Caltrain's reasonable expectation of funding levels. Caltrain will however, continue to work with its funding partners to solidify the Caltrain 10-year CIP funding plan and identify additional funding to implement the CIP in total. Among other options, Caltrain will explore both traditional (e.g. grants) and innovative funding strategies, including the possibility of new public and private partnership.

Major Initiatives

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 District, the San Francisco Municipal Transportation Agency (SFMTA/Muni), the Bay Area Rapid Transit District (BART), VTA, Capitol Corridor, Altamont Commuter Express (ACE), Dumbarton Express and the Alameda-Contra Costa Transit District (AC Transit) as follows:

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

In addition to service connectivity, Caltrain is one of seven Bay Area transit agencies that are partners in Clipper, an electronic fare payment card. The program is coordinated by the Metropolitan Transportation Commission, which is the regions planning organization.

Caltrain Bicycle Program
Caltrain offers a comprehensive bicycle program that helps provide options for the last-mile connection to the train station, as well as onboard the train. Caltrain offers a range of bicycle options at the station, including more than 600 rack spaces, 1,100 lockers and a staffed parking facility. Caltrain maintains the most generous onboard bicycle program of all U.S. commuter rail operators. Every train has a guaranteed 72-bike space capacity with some trains having as many as 80. There are no peak-hour or direction restrictions, other than capacity. According to the Caltrain 2016 Annual Passenger Counts, Caltrain had 5,520 bike boardings on an average weekday. This represents an 11.1% decrease from fiscal year 2015. In 2015, the JPB adopted a policy to maintain a seat-to-bike ratio of 8-1 on the new Electric Multiple Units (EMU) trains to be purchased as part of the Peninsula Corridor Electrification Program.

In September 2008, Caltrain adopted a Bicycle Access and Parking Plan, which identified bicycle programs and innovative strategies to improve bicycle access to the stations. The strategy was focused and refined in 2014 through the development of a Bicycle Access and Parking Plan Implementation Strategy. In general, Caltrain's strategy is to encourage and promote bicycle access to stations by increasing and improving bicycle parking and pursuing innovative approaches to managing demand of the onboard bicycle program. Caltrain has a dedicated Bicycle Advisory Committee that serves as the primary venue for the interests of bicyclists to be integrated into Caltrain's planning processes. In the coming year, Caltrain will develop a Bicycle Parking Management Plan to further improve the customer service and administrative performance of bicycle facilities at its stations.

State-of-Good-Repair Program

This program includes system-wide, scheduled improvements on infrastructure, tracks, bridges, signal and communication equipment, ticket vending and validation equipment, and preventative maintenance and strategic replacement of the Caltrain rolling stock. In order to ensure these assets are kept in a state of good repair, replacement and rehabilitation of these assets must be done at intervals recommended by industry or manufacturer standards. Otherwise, the cost of operating these assets could increase due to potentially higher maintenance costs and operational delays that occur when these assets are out of service or in a state of disrepair. Some of the projects that are currently underway include replacements of the SF Roadway Bridge, Los Gatos Creek Bridge, the installation of Train Departure Monitors at Terminal Stations that will transmit real-time train schedule information in San Francisco and San Jose/Diridon stations, the upgrading of cables at the Ticket Vending Machines that allow faster and more reliable transmission of information, and the Bayshore Station Painting project that will repaint the pedestrian overcrossing. Projects completed in fiscal year 2015 include the upgrading of the Public Address and Visual Messaging Signs at four stations that inform passengers of train schedules, delays, and other pertinent rider information, a technology based Asset Management System (Caltrain Asset Management System aka CTAMS) that tracks the conditions of assets such as rail, cross ties, bridges, and stations was developed and is being enhanced and disseminated throughout the agency, the purchase and commissioning (including station modifications) of used vehicles from the SCCRA (Metrolink) that were put into service to extend train sets to 6-cars long, and the installation of outward facing cameras onboard the locomotive trains to record events along the right-of-way.

Caltrain Station Safety Improvement Program

The Caltrain Station Safety Improvement Program includes station redesign, grade crossing improvements and right of way fencing. The primary purpose of the program is to remove the "hold-out" rule at a number of Caltrain stations. These stations have narrow center island platforms, which have several negative impacts on Caltrain service, including customer safety concerns and schedule delays. Improvements to the stations will include demolition of existing narrow center platforms and construction of new platforms, installation of center fencing between the existing mainline tracks through the platform area, and installation of new pedestrian underpasses and/or signalized pedestrian at-grade crossings with pedestrian gates. There are only four hold-out rule stations remaining on the Caltrain line, including Atherton, Broadway, College Park and South San Francisco.

The grade crossing improvement program was developed to make grade crossings in San Mateo County safer for both vehicular and pedestrian traffic. Some of the projects currently in progress include the South San Francisco Stations Improvement Project that will remove the hold-out rule at that station, the San Mateo Grade Separation Project that will construct grade separations at 31st, 28th, and 25th Avenues in the City of San Mateo, and the Sunnyvale Station Platform Rehabilitation project that will address uneven surfaces at that station. Projects completed in fiscal year 2015 include the completion of Signal Preemption project that improves the safety at five signalized traffic intersections including Brewster Avenue in Redwood City, Churchill Avenue and East Meadow Avenue in Palo Alto, and Rengstorff Avenue and Castro Street in Mountain View. Also completed were significant amounts of right-of-way safety fencing to enclose portions of the corridor to discourage trespassing, and center track fencing at stations to prevent crossings at unsafe locations.

FUTURE OF CALTRAIN – SYSTEM EXPANSION AND CONNECTIONS

Caltrain Modernization Program

The 2014 Caltrain Strategic Plan is structured around the Caltrain Modernization Program. Collectively, the Caltrain Modernization Program (CalMod) encompasses both the delivery of infrastructure projects to the Caltrain system by 2021 as well as ongoing planning for longer range improvements focused on expanding system capacity and preparing for the shared use of the Peninsula Corridor by both Caltrain and High Speed Rail Service in a "Blended System". The CalMod program and the blended system are codified and funded through a series of funding agreements grounded in a 9-party Memorandum of Understanding that was signed by the JPB, the California High Speed Rail Authority, MTC and other regional entities in 2012.

By 2021, the Caltrain Modernization Program will electrify and upgrade the performance, operating efficiency, capacity, safety and reliability of Caltrain's commuter rail service through the delivery of several key projects that form the "Early Investment Program" for Caltrain/High Speed Rail blended system. These projects include the electrification of the existing Caltrain corridor between San Francisco and San Jose; the installation of a Communications Based Overlay Signal System Positive Train Control (CBOSS PTC), which is an advanced signal system that includes federally-mandated safety improvements; and the replacement of a majority of Caltrain's diesel train with high-performance, electric trains called Electric Multiple Units (EMUs).

Together, the delivery of CBOSS PTC by 2018 and the Peninsula Corridor Electrification Project by 2020 constitute an "early investment" in the future shared operation of Caltrain and High Speed Rail on the corridor as a blended system. Along with high speed rail's anticipated arrival, additional system upgrades including high-speed rail stations and the rail extension from the Caltrain 4th and King station to the new Transbay Transit Center in downtown San Francisco must also be planned, funded and constructed. The blended system may also include passing tracks that allow high-speed rail trains to bypass the Caltrain trains; grade crossing upgrades, including potential grade separations; a storage and maintenance facility and other system upgrades. Caltrain's own capital improvement program also contemplates a second "phase" of improvements to the Caltrain system including the full conversion of Caltrain's fleet to EMUs, the extension of trains from 6 to 8 cars, and modification of station platforms to accommodate longer trains and support level boarding. Over the next ten years, Caltrain will work with the California High Speed Rail Authority, the Transbay Joint Powers Authority and other local and regional partners to plan for the blended system and downtown extension as well as its own ongoing improvement and expansion.

Other System Expansion and Connections

Transbay Transit Center/Caltrain Downtown Extension Project: This project is led by the Transbay Joint Powers Authority (TJPA). The TJPA is responsible for designing, building, operating and maintaining the new Transbay Transit Center and associated facilities located in downtown San Francisco. They are also responsible for building a 1.3 mile rail extension from the existing Caltrain terminal at 4th and King to the new Transit Center which will support Caltrain and future high-speed rail services in downtown San Francisco.

AWARDS AND ACKNOWLEDGMENTS

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

The Government Finance Officers Association (GFOA) recognized the JPB's 2015 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 2016 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 & Co. LLP, for its timely and expert guidance in this matter.

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

Respectfully submitted,

Shannon Gaffney
Interim CFO

Rima Lobo
Director of Finance

GFOA CERTIFICATE OF ACHIEVEMENT

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Peninsula Corridor Joint Powers Board

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

PENINSULA CORRIDOR JOINT POWERS BOARD

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Malia Cohen

Joél Ramos

Representing San Mateo County Transit District:

Jeff Gee

Rose Guilbault

Adrienne Tissier

Representing Santa Clara Valley Transportation Authority:

Raul Peralez

Perry Woodward, Chair

Ken Yeager

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Jim Hartnett

EXECUTIVE OFFICERS

Michelle Bouchard – Chief Operating Officer, Rail

Michael Burns – Chief Officer, Caltrain Planning/CalMod Program

April Chan – Chief Officer, Planning, Grants, and the Transportation Authority

Shannon Gaffney – Interim Chief Financial Officer

Martha Martinez – Executive Officer, District Secretary/Executive Administration

Seamus Murphy – Chief Communications Officer

David Olmeda – Chief Operating Officer, Bus

Mark Simon – Chief of Staff

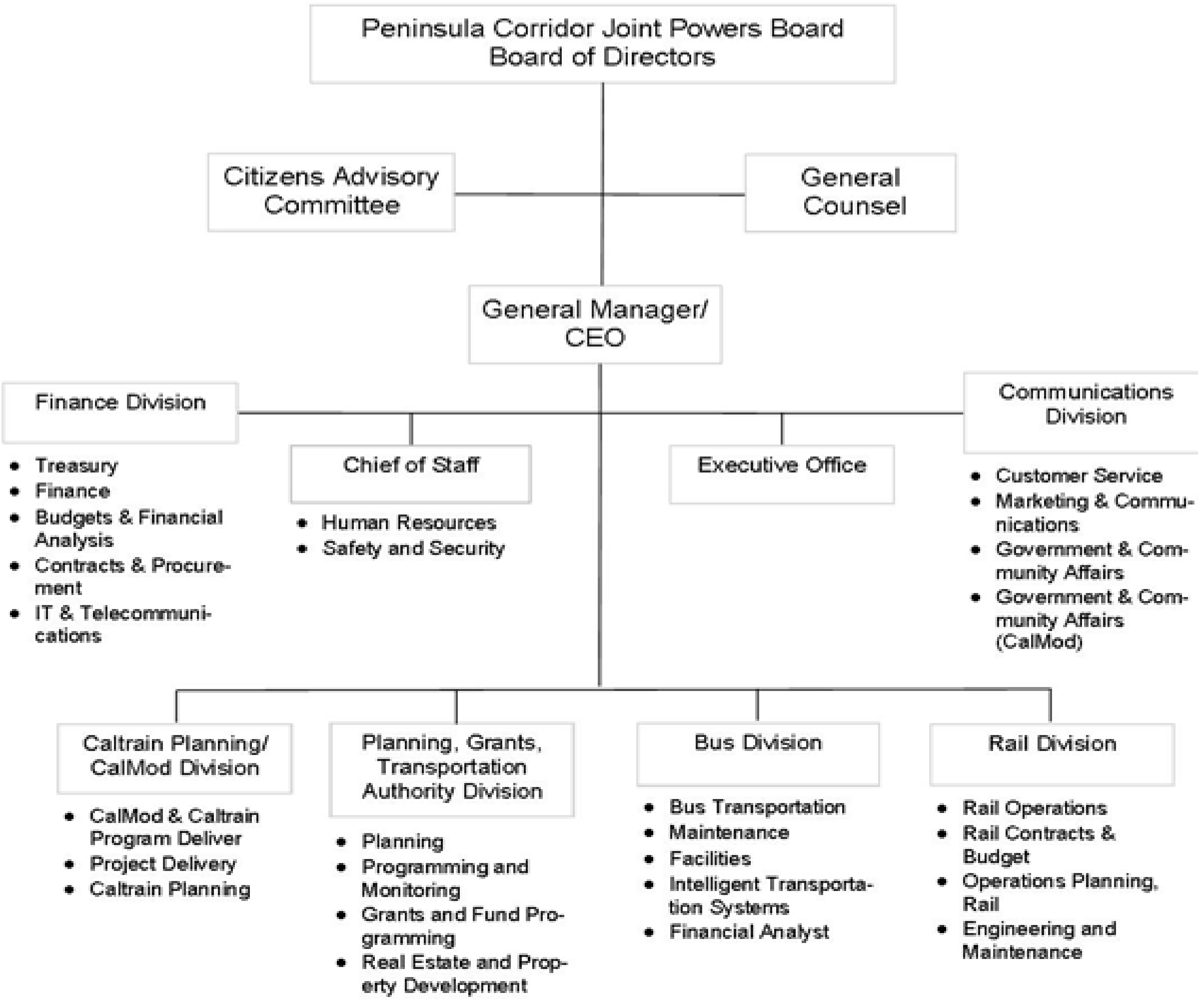
GENERAL COUNSEL

Hanson Bridgett, LLP

Joan Cassman, Esq.

PENINSULA CORRIDOR JOINT POWERS BOARD

ORGANIZATION CHART



PENINSULA CORRIDOR JOINT POWERS BOARD

MAP

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2016 Comprehensive Annual Financial Report:

Finance:

Manager, General Ledger	Sheila Tioyao
Director of Treasury	Carl Cubba
Manager, Grants and Capital Accounting	Brian Lee
Senior Accountant	Jeannie Chen
	Mary Manders
Director of Budgets and Financial Analysis	Ladi Millard

Audit Firm:

Partner	Ahmad Gharaibeh
Supervisor	Maggie Li, CPA

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Section II

FINANCIAL

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

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

Supplementary Information

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Peninsula Corridor Joint Powers Board (JPB) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the JPB's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

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, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the JPB adopted the following new accounting pronouncements: GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the JPB's basic financial statements. The introductory section, supplementary schedule of revenues and expenses - comparison of budget to actual, the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedule of revenues and expenses - comparison of budget to actual and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of revenues and expenses - comparison of budget to actual and the schedule of expenditures of federal awards, as listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2017 on our consideration of the JPB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the JPB's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the JPB's financial performance provides an overview of the JPB's activities for the fiscal year ended June 30, 2016 with comparisons to prior fiscal years ended June 30, 2014 and June 30, 2015. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- Total assets on June 30, 2016 stand at $1,495.0 million, an increase of $42.8 million or 2.9 percent compared to June 30, 2015 and increased $62.8 million or 4.5 percent on June 30, 2015 compared to June 30, 2014, primarily due to an increase in capital assets in both years.

- Total liabilities increased by $1.1 million or 0.8 percent to $136.4 million at June 30, 2016 compared to June 30, 2015 and increased by $22.8 million or 20.3 percent to $135.2 million at June 30, 2015 compared to June 30, 2014. The fiscal year 2016 increase was mainly due to an increase in accounts payable and accrued liabilities and unearned member contributions. The fiscal year 2015 increase was mainly due to an increase in unearned revenue.

- Total operating revenues in fiscal year 2016 were $95.4 million, an increase of $4.7 million or 5.1 percent compared to fiscal year 2015 and increased by $8.6 million or 10.5 percent in fiscal year 2015 compared to fiscal year 2014. The increases in both fiscal years were mainly due to increased farebox revenues.

- Total operating expenses before depreciation in 2016 were $117.8 million, a decrease of $2.3 million or 1.9 percent compared to 2015 and increased $4.4 million or 3.8 percent in fiscal year 2015 over fiscal year 2014. The fiscal year 2016 decrease was mainly due to decreases in insurance and fuel expenses. The fiscal year 2015 increase was mainly due to increases in contract service, insurance and wages and benefits.

- Nonoperating revenues, net of nonoperating expenses, decreased by $3.1 million or 10.6 percent to $26.3 million in fiscal year 2016 from fiscal year 2015 and decreased $5.0 million or 14.5 percent to $29.4 million in fiscal year 2015 compared to fiscal year 2014. The decreases in both fiscal years were mainly due to decreased federal, state and local operating assistance and other income (expense).

- In fiscal year 2016 the JPB recognized $131.3 million in capital contributions, an increase of $16.1 million or 14.0 percent from fiscal year 2015. In fiscal year 2015, the JPB recognized $115.2 million in capital contributions, an increase of $3.9 million or 3.5 percent from fiscal year 2014. The increases in both fiscal years represent increased activity on the San Bruno Grade separation and Caltrain Modernization program.

- Net position at June 30, 2016 were $1,358.6 million, up $41.7 million or 3.2 percent from June 30, 2015 and the net position at June 30, 2015 were $1,317.0 million, up $40.0 million or 3.1 percent from June 30, 2014, as capital assets, net of accumulated depreciation and amortization increased $40.5 million and $47. 4 million during fiscal years 2016 and 2015, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

The *Statement of Net Position* presents information on assets and liabilities, with the difference between the two reported as *net position*. Changes in net position 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 Position* reports how net position has 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 position.
- *Cash flows from non-capital financing activitie*s include operating grant proceeds as well as operating subsidy payments from third parties as well as other non-operating items.
- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- *Cash flows from investing activities* include proceeds from sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

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

Other Information

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

Analysis of Basic Financial Statements

Total assets increased by $42.8 million or 2.9 percent to $1,495.0 million at June 30, 2016 compared to June 30, 2015, and increased by $62.8 million or 4.5 percent at June 30, 2015 compared to June 30, 2014. The increases for fiscal year 2016 and fiscal year 2015 were mainly due to right of way improvement projects. Current assets increased by $2.3 million or 1.7 percent to $137.0 million in 2016, primarily due to delay on collection from other governmental agencies and member agencies that resulted an increase in receivables. In 2015, current assets increased by $15.4 million or 12.9 percent compared to 2014, primarily due to an increase in restricted investments, accounts receivable and prepaid expenses.

Total capital assets, net of accumulated depreciation and amortization increased $40.5 million or 3.1 percent at June 30, 2016 to $1,358.0 million from $1,317.5 million on June 30, 2015, and increased $47.4 million or 3.7 percent from $1,270.1 million in fiscal year 2015 compared to fiscal year 2014. Investments in capital assets, before depreciation, consist of acquisitions and improvements to the right of way ($1,260.1 million or 61.3 percent), rail vehicles ($300.7 million or 14.6 percent), facilities and equipment ($129.4 million or 6.3 percent), intangible asset – trackage rights ($8.0 million or 0.4 percent) and construction in progress ($356.2 million or 17.3 percent) in fiscal year 2016. In fiscal year 2015, investments in capital assets, before depreciation, consist of acquisitions and improvements to the right of way ($1,199.8 million or 62.3 percent), rail vehicles ($284.0 million or 14.7 percent), facilities and equipment ($129.7 million or 6.7 percent), intangible asset – trackage rights ($8.0 million or 0.4 percent) and construction in progress ($306.0 million or 15.9 percent).

Total liabilities increased by $1.1 million or 0.8 percent to $136.4 million at June 30, 2016 compared to June 30, 2015 and increased $22.8 million or 20.3 percent to $135.2 million at June 30, 2015 compared to June 30, 2014. The fiscal year 2016 increase was mainly due to an increase in accounts payable and accrued liabilities and unearned member contributions. The fiscal year 2015 increase was due to increases in accounts payable, bond issuance and accrued liabilities and unearned member contribution.

Total net position was $1,358.6 million at June 30, 2016 which represents an increase of $41.7 million or 3.2 percent from June 30, 2015 and $1,317.0 million at June 30, 2015, which represents an increase of $40.0 million or 3.1 percent from June 30, 2014. Net investment in capital asset was $1,323.5 million at June 30, 2016, representing 97.4 percent of the total net position, $1,282.9 million at June 30, 2015, representing 97.4 percent of total net position and $1,246.2 million at June 30, 2014 representing 97.6 percent of total net position.

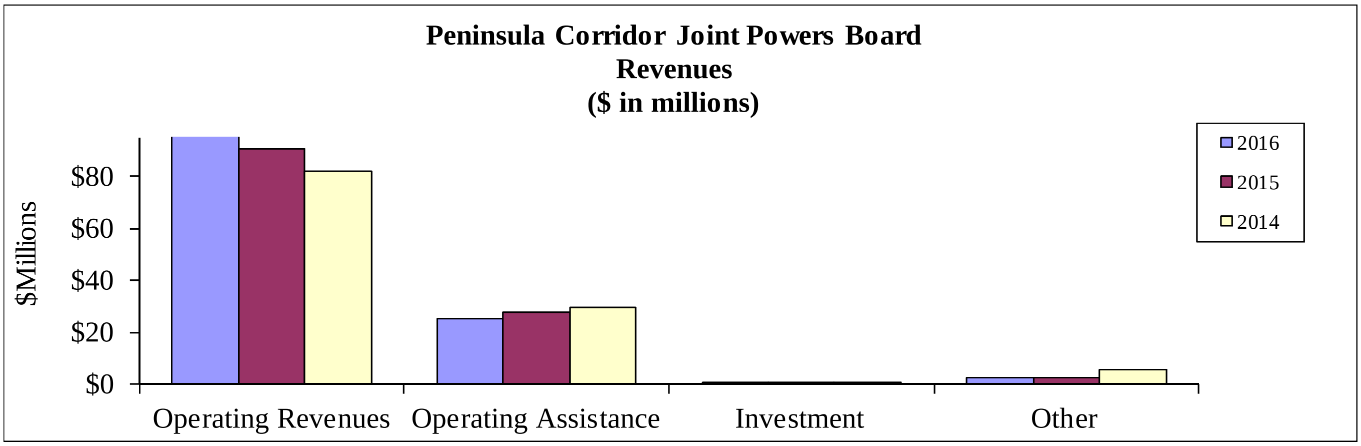
PENINSULA CORRIDOR JOINT POWERS BOARD
NET POSITION
(in thousands)

	2016	2015	2014
Current assets	$ 136,999	$ 134,732	$ 119,337
Capital assets, net of depreciation/amortization	1,358,017	1,317,482	1,270,058
Total assets	1,495,016	1,452,214	1,389,395
Current liabilities	100,094	95,295	86,818
Long-term liabilities	36,287	39,943	25,576
Total liabilities	136,381	135,238	112,394
Net investment in capital assets	1,323,485	1,282,931	1,246,218
Unrestricted	35,150	34,043	30,783
Total net position	$ 1,358,635	$ 1,316,974	$ 1,277,001

Revenue Highlights

Operating revenues increased to $95.4 million in fiscal year 2016, a $4.7 million or 5.1 percent increase from fiscal year 2015 and increased to $90.8 million in fiscal year 2015, a $8.6 million or 10.5 percent increase from fiscal year 2014. Increases for both years were due to increases in passenger fares.

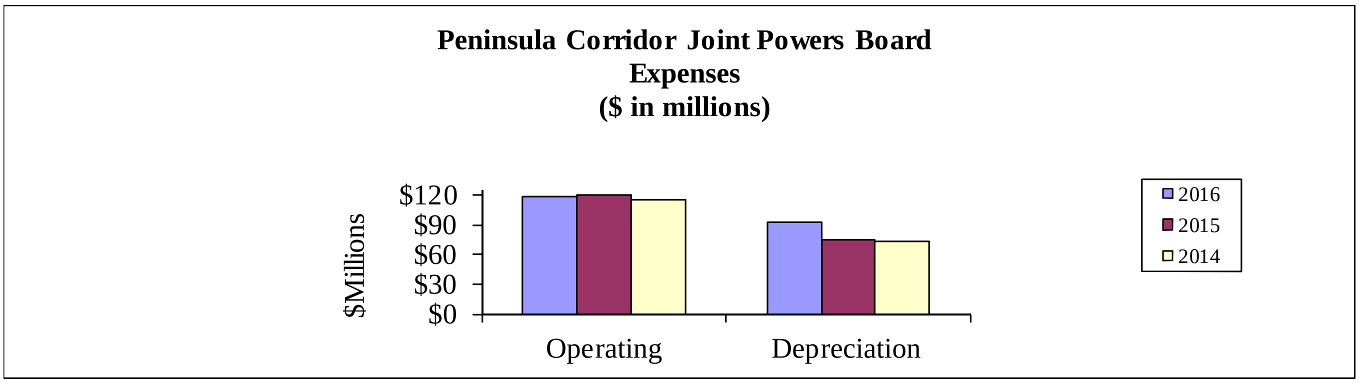
Non-operating revenues decreased $3.0 million or 9.8 percent to $27.6 million at June 30, 2016 compared to June 30, 2015 and decreased $4.9 million or 13.8 percent in fiscal year 2015 compared to fiscal year 2014.



Expense Highlights

Total operating expenses before depreciation of $117.8 million in fiscal year 2016 were $2.3 million or 1.9 percent lower than fiscal year 2015, and in fiscal year 2015, $4.4 million or 3.8 percent higher than fiscal year 2014. Total operating expenses in fiscal year 2016 consisted of $82.9 million or 70.4 percent for rail operator contract services, $8.3 million or 7.1 percent for fuel, and $26.6 million or 22.5 percent for other expenses combined. The largest component of fiscal year 2016 and fiscal year 2015 operating expenses was rail operator contract services at $82.9 million and $78.2 million which represent 70.4 percent and 65.1 percent of the total expenses respectively.

Depreciation and amortization for fiscal year 2016 was $93.5 million, a $18.2 million or 24.2 percent increase over fiscal year 2015. In fiscal year 2015, depreciation and amortization was $75.3 million, a $1.8 million or 2.5 percent increase over fiscal year 2014.



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

	2016	2015	2014
Operating revenues:			
Passenger fares	$ 86,959	$ 83,351	$ 74,846
Parking, shuttle and pass revenues	7,226	5,990	5,859
Other	1,247	1,421	1,440
Total operating revenues	95,432	90,762	82,145
Operating expenses:			
Contract services	82,942	78,240	75,238
Insurance	35	6,593	3,874
Fuel	8,312	12,118	14,797
Parking, shuttle and pass revenues	6,104	5,316	5,476
Professional service	1,618	1,255	1,322
Wages and benefits	12,943	11,501	10,668
Utilities and supplies	2,172	2,068	1,524
Maintenance services	1,054	1,039	1,007
Temporary services, rent and other	2,664	1,981	1,854
Total operating expenses	117,843	120,110	115,760
Operating loss before depreciation and amortization	(22,411)	(29,348)	(33,616)
Depreciation and amortization	(93,540)	(75,300)	(73,452)
Operating loss	(115,951)	(104,648)	(107,068)
Nonoperating revenues			
Federal, state and local operating assistance	25,078	27,578	29,522
Rental income	1,781	1,764	1,728
Investment income (loss)	110	242	206
Other income (expense)	613	1,007	4,044
Total nonoperating revenues	27,581	30,590	35,500
Nonoperating expenses	(1,300)	(1,192)	(1,120)
Net loss before capital contributions	(89,670)	(75,250)	(72,688)
Capital contributions	131,330	115,225	111,349
Change in net position	41,660	39,975	38,661
Net position - beginning of year	1,316,975	1,277,000	1,238,339
Net position - end of year	$ 1,358,635	$ 1,316,975	$ 1,277,000

Capital Program

The JPB incurred capital expenses of $134.1 million and recognized related revenue in the form of capital contributions of $131.3 million in fiscal year 2016, which is $16.1 million or 14.0 percent increase in capital contributions in fiscal year 2016 over fiscal year 2015. The fiscal year 2016 capital sources consist of federal grants ($38.0 million or 28.3 percent), state grants ($42.1 million or 31.4 percent), local assistance including the three member agencies ($51.3 million or 38.3 percent), and debt financing ($2.7 million or 2.0 percent). The JPB incurred capital expenses of $122.7 million and recognized related revenue in the form of capital contributions of $115.2 million in fiscal year 2015, which is $3.9 million or 3.5 percent increase in capital contributions in fiscal year 2015 over fiscal year 2014. The fiscal year 2015 capital sources consist of federal grants ($25.9 million or 21.1 percent), state grants ($45.0 million or 36.7 percent), local assistance including the three member agencies ($44.3 million or 36.1 percent), and debt financing ($7.5 million or 6.1 percent).

Following is a summary of the JPB's major capital expenditures for fiscal year 2016:

- Caltrain modernization program ($62.3 million)
- Bridge repairs and replacements ($36.6 million)
- Caltrain passenger cars, accessories and improvements and miscellaneous other ($14.4 million)
- System-wide track rehabilitation, signal, bridge and tunnel work ($7.4 million)
- Cost of grade crossing and separation along the Caltrain line ($5.7 million)
- Communication equipment to improve the reliability, quality and speed of signal, data and voice transmissions ($2.4 million)
- Station improvements and repairs ($1.5 million)
- Safety related features at stations, grade crossings and along the tracks ($.8 million)
- Other ($2.9 million)

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

Debt

At the end of fiscal year 2016, the JPB had $34.1 million in outstanding farebox revenue bonds representing no change from the $34.1 million outstanding at end of fiscal year 2015. During fiscal year 2008, the JPB issued $23.1 million of farebox revenue bonds (2007 Series A Farebox Revenue Bonds) to finance the purchase of eight new passenger railcars and refinance the outstanding balance of the JPB's 1999 Series A Farebox Revenue Bonds. Principal payments are not scheduled to begin on the 2007 Series A Farebox Revenue Bonds until October 1, 2018. On January 14, 2015, the JPB issued an additional series of farebox revenue bonds (2015 Series A Farebox Revenue Bonds) to finance a portion of the costs of the acquisition and rehabilitation of sixteen passenger rail cars and related capital improvements. Principal payments are not scheduled to begin on the 2015 Series A Farebox Revenue Bonds until October 1, 2019. More information regarding the JPB's long-term debt activity can be found in Note 9 – *Farebox Revenue Bonds Payable* in the notes to the financial statements.

Economic Factors and Next Year's Budget

The JPB Board approved the fiscal year 2017 Operating Budget on June 2, 2016. The budget reflects increased demands on the system including ridership increases, the operation of new systems and challenges associated with the system's aging equipment.

The fiscal year 2017 Operating Budget consists of $146.4 million in revenues and expenditures. The major components of revenue include operating revenue at $101.1 million, mostly from farebox, and $45.2 million in contributed revenue which includes Assembly Bill 434 and San Mateo County Transportation Authority shuttle funding, State Transit Assistance formula funds, and JPB Member contributions. Operating expenses are projected at $121.7 million with the Rail Operator Contract, Positive Train Control (PTC)/other costs, security service costs, shuttle costs, and fuel costs making up a significant part of the budget. Administrative expenses are projected to be $23.4 million.

The fiscal year 2017 Capital Budget was also approved on June 2, 2016. The $250.9 million budget consists primarily of critical infrastructure and equipment state of good repair, legal mandates, operational improvements, and Caltrain Modernization projects. The fiscal year 2017 Capital Budget is to be funded by a mixture of Federal, State, and regional grants. It also includes anticipated contributions totaling $15.0 million from the three JPB member agencies.

Some of the highlights of the capital budget include:

- Systemwide SOGR stations projects.
- Construction of the Los Gatos Creek Bridge replacement.
- Rolling stock F-40 Mid-Life overhauls and F-40 SEP-HEP replacement.
- Award design/build contract and procurement of EMUs for the Cal Mod program.

Requests for Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD

STATEMENT OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 4,249,639	$ 38,876,718
Restricted cash (Note 3)	15,685,197	23,893,272
Total Cash and Cash Equivalents	19,934,836	62,769,990
Due from other governmental agencies	68,071,132	34,044,608
Receivables from member agencies (Note 14)	23,082,422	16,259,013
Accounts receivable - other, net of allowance	11,945,289	5,858,793
Inventory	6,634,599	5,205,076
Prepaid items	2,151,723	4,873,466
Restricted investment with fiscal agents (Note 3)	5,178,939	5,720,640
Total Current Assets	136,998,940	134,731,586
Noncurrent Assets:		
Capital Assets (Note 6)		
Right-of-way improvements	1,033,142,118	972,865,912
Rail vehicles	300,680,262	284,023,287
Facilities and equipment	128,365,308	128,583,525
Office equipment	1,083,825	1,083,825
Capital Assets, Gross	1,463,271,513	1,386,556,549
Less accumulated depreciation	(696,378,157)	(610,024,115)
Construction in progress (Note 2L)	356,151,695	305,977,071
Right of Way	226,972,189	226,972,189
Intangible assets - trackage rights (Note 4)	8,000,000	8,000,000
Total Capital Assets, Net	1,358,017,240	1,317,481,694
Total Noncurrent Assets	1,358,017,240	1,317,481,694
Total Assets	1,495,016,180	1,452,213,280

The accompanying notes are an integral part of the financial statements.

STATEMENT OF NET POSITION (Continued)
JUNE 30, 2016 AND 2015

	2016	2015
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 53,093,121	$ 45,534,579
Interest payable	320,544	320,544
Self-insurance claims liabilities (Note 10)	2,160,787	3,078,015
Unearned member contributions (Note 14)	26,241,912	20,701,681
Unearned revenue	18,217,892	25,597,608
Other	60,058	62,332
Total Current Liabilities	100,094,314	95,294,759
Noncurrent Liabilities:		
Self-insurance claims liabilities - long-term (Note 10)	1,754,781	5,392,770
Farebox revenue bonds payable - long-term (Note 9)	34,532,294	34,550,683
Total Noncurrent Liabilities	36,287,075	39,943,453
Total Liabilities	136,381,389	135,238,212
NET POSITION		
Net investment in capital assets	1,323,484,946	1,282,931,011
Unrestricted	35,149,845	34,044,057
Total Net Position	$ 1,358,634,791	$ 1,316,975,068

The accompanying notes are an integral part of the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Passenger fares	$ 86,959,371	$ 83,351,480
Parking, shuttle and pass revenues	7,226,245	5,990,289
Other	1,247,057	1,421,407
Total operating revenues	95,432,673	90,763,176
OPERATING EXPENSES:		
Contract services (Note 12A)	82,941,883	78,239,837
Insurance	35,066	6,593,219
Fuel (Note 12B)	8,311,751	12,117,619
Parking, shuttle and pass expenses	6,104,368	5,315,716
Professional services	1,617,726	1,254,807
Wages and benefits	12,942,580	11,501,015
Utilities and supplies	2,171,610	2,068,116
Maintenance services	1,054,342	1,038,900
Temporary services, rent and other	2,664,274	1,981,252
Total operating expenses before depreciation and amortization	117,843,600	120,110,481
Depreciation and amortization	93,539,578	75,300,031
Total operating expenses	211,383,178	195,410,512
OPERATING LOSS	(115,950,505)	(104,647,336)
NON-OPERATING REVENUES (EXPENSES)		
Federal, state and local operating assistance (Note 7)	25,078,370	27,578,288
Rental income	1,780,892	1,763,815
Investment income	110,425	241,768
Interest expense	(1,300,861)	(1,193,422)
Other income	612,552	1,006,528
Total Non-Operating Revenues, net	26,281,378	29,396,977
Loss Before Capital Contributions	(89,669,127)	(75,250,359)
Capital contributions (Note 11)	131,328,850	115,224,861
Change in net position	41,659,723	39,974,502
NET POSITION		
Beginning of Year	1,316,975,068	1,277,000,566
End of year	$ 1,358,634,791	$ 1,316,975,068

The accompanying notes are an integral part of the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 89,346,177	$ 89,522,944
Rent and other cash receipts	2,393,444	2,770,343
Payments to vendors for services	(100,607,749)	(107,452,415)
Payments to employees	(12,942,580)	(11,513,792)
Net cash (used for) operating activities	(21,810,708)	(26,672,920)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	23,795,192	19,806,915
Net cash provided by noncapital and financing activities	23,795,192	19,806,915
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construciton of capital assets	(134,075,124)	(122,724,040)
Capital contributions from grants	89,922,610	123,459,085
Proceeds from the sale of bonds	-	11,000,000
Interest paid on capital debt	(1,319,250)	(1,162,312)
Net cash provided by capital and related financing activities	(45,471,764)	10,572,733
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	652,126	241,768
Net cash provided by (used for) investing activities	652,126	(5,203,152)
Net increase (decrease) in cash and cash equivalents	(42,835,154)	(1,496,424)
Cash and cash equialents, beginning of year	62,769,990	64,266,414
Cash and cash equivalents, end of year	$ 19,934,836	$ 62,769,990
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (115,950,505)	$ (104,647,336)
Adjustments to reconcile operating loss to net cash (used for) operating activities:		
Depreciation and amortization	93,539,578	75,300,031
Rent and other cash receipts	2,393,444	2,770,343
Effect of changes in:		
Receivables	(6,086,496)	(5,730,887)
Inventory	(1,429,523)	(779,143)
Prepaid items	2,721,743	4,490,655
Accounts payable, accrued liabilities	7,556,268	(12,778)
Claims liabilities	(4,555,217)	1,936,195
Net cash (used for) operating activities	$ (21,810,708)	$ (26,672,920)
NONCASH INVESTING ACTIVITIES		
Change in fair value of investments	$ 12,016	$ 57,780

The accompanying notes are an integral part of 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.

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NOTE 1 – ORGANIZATION

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

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

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both CCSF and VTA have agreed to reimburse the District through a combination of gasoline tax “spillover” funds and population based “spillover” funds to be paid directly to the District from the Metropolitan Transportation Commission and revenue based “spillover” funds to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties have agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. When all payments have been received by the District, the District will reconvey to the JPB all of its interests in the title to the right of way.

The JPB assumed an expanded role in July 1992 as the State of California Department of Transportation (Caltrans) and the District coordinated the transfer of Caltrain operations and administration to the JPB. The JPB selected the National Railroad Passenger Corporation (Amtrak) as the contract operator and operated the rail service from July 1, 1992 through May 25, 2012. TransitAmerica Services, Inc. (TASI), assumed operations and maintenance of the service on May 26, 2012. The JPB is governed by a nine-member Board representing the three Member Agencies. The Agreement establishing the JPB expired in 2001 but continues on a year-to-year basis, with withdrawal requiring one-year advance notice.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. The primary objective of this statement is to define fair value and describe how fair value should be measured, define what assets and liabilities should be measured at fair value, and determine what information about fair value should be disclosed in the notes to the financial statements. The Statement is effective for periods beginning after June 15, 2015, or the fiscal year 2015-16. The JPB has implemented the provisions of this statement as of July 1, 2014.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The JPB has implemented the provisions of this Statement as of July 1, 2014.

C. Basis of Accounting

The JPB accounts for its transactions in a single enterprise fund and maintains its records using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Cash and Cash Equivalents

For purpose of the statement of cash flows, the JPB considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Cash and equivalents also include amounts invested in LAIF (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, 2016 and 2015, the allowance for doubtful accounts included in accounts receivable – other, are \$413,449 and \$414,344, respectively.

F. Inventories

Inventories consist principally of spare parts that are recorded when purchased and expensed when used. Inventories are stated at average cost which approximates market and are maintained by TransitAmerica Services, Inc. as part of their contractual agreement.

G. Investments

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

H. Restricted Investments with Fiscal Agents

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

I. Restricted and Unrestricted Resources

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

J. Capital Assets

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

K. Depreciation and Amortization

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

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

L. Construction in Progress

	2016	2015
Caltrain Modernization Program	$ 129,179,506	$ 176,093,680
Bridge improvements	158,318,900	43,986,173
Rolling stock-purchase/ improvements	18,478,176	19,057,660
Grade crossing and separations	7,067,022	2,062,778
System-wide track improvements	26,117,895	24,475,960
Station improvements	5,135,032	8,031,565
Safety	4,546,830	8,286,884
Communications	7,308,334	23,982,371
Total Construction in Progress	$ 356,151,695	$ 305,977,071

M. Bond Issuance Costs

Bond issuance costs are expensed upon the issuance of related debt.

N. Unearned Member Contributions

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

O. Unearned Revenue

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

P. Member Agency Assistance

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

Q. Federal, State and Local Operating Assistance

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

R. Wages and Benefits

Personnel costs of the JPB represent allocated costs of the District’s employees serving in the capacity as managing agency. Participation in pension plans, compensated absences, and postretirement health care benefits for these employees is administered by the San Mateo County Transit District.

S. Operating/Nonoperating Revenues and Expenses

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

T. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, deferred inflows and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

U. Deferred Outflows and Deferred Inflows

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

V. Fair Value Measurement

The JPB adopted Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurements and Application.* GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes, applying fair value to investments, and disclosures related to a hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

W. Reclassification

For the year ended June 30, 2016, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2016 presentation.

NOTE 3 – CASH AND INVESTMENTS

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

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

The JPB's cash and investments as of June 30 are classified in the statement of net position as follows:

	2016	2015
Cash and cash equivalents	$ 4,249,639	$ 38,876,718
Restricted cash	15,685,197	23,893,272
Restricted Investments with fiscal agents	5,178,939	5,720,640
Total Cash and Investments	$ 25,113,775	$ 68,490,630

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

	2016	2015
Cash on hand	$ 976,403	$ 977,780
Deposits with financial institutions	13,934,312	39,767,964
Investments	10,203,060	27,744,886
Total Cash and Investments	$ 25,113,775	$ 68,490,630

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

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

Investments Authorized by Debt Agreements

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

Disclosure Relating to Interest Rate Risk

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

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

The JPB's weighted average maturity of its investment portfolio at June 30, 2016 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Local Agency Investment Fund (LAIF)	$ 69,669	0.46
San Mateo County Investment Pool	4,954,452	1.06
Held by bond trustee:		
Money Market Mutual Fund	5,178,939	0.00
Total investment portfolio	$ 10,203,060	
Portfolio Weighted Average Maturity		0.52

The JPB's weighted average maturity of its investment portfolio at June 30, 2015 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Local Agency Investment Fund (LAIF)	$ 11,230,564	0.65
San Mateo County Investment Pool	10,793,682	1.63
Held by bond trustee:		
Money Market Mutual Fund	5,720,640	0.00
Total investment portfolio	$ 27,744,886	
Portfolio Weighted Average Maturity		0.90

Disclosures relating to Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the JPB's investment policy, or debt agreements, and the actual rating as of fiscal years ended June 30, 2016 and 2015 for each investment type:

		Rating as of June 30, 2016	
Investment Type	Amount	S & P Rating AAA	Not Rated
Local Agency Investment Fund (LAIF)	$ 69,669	$ -	$ 69,669
San Mateo County Pool	4,954,452	-	4,954,452
Held by bond trustee:			
Money Market Mutual Funds	5,178,939	5,178,939	-
Total	$ 10,203,060	$ 5,178,939	$ 5,024,121

		Rating as of June 30, 2015	
Investment Type	Amount	S & P Rating AAA	Not Rated
Local Agency Investment Fund (LAIF)	$ 11,230,564	$ -	$ 11,230,564
San Mateo County Pool	10,793,682	-	10,793,682
Held by bond trustee:			
Money Market Mutual Funds	5,720,640	5,720,640	-
Total	$ 27,744,886	$ 5,720,640	$ 22,024,246

Concentration of Credit Risk

The investment policy of the JPB contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The JPB does not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent five percent or more of the JPB's total investments at June 30, 2016 or June 30, 2015.

Fair Value Measurements

Fair value measurements are categorized based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical asset assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments categorized as Level 2 are valued using the market approach and quoted market prices. Investments in LAIF and the San Mateo County Investment Pool are uncategorized as deposits and withdrawals are made on the basis of $1 and not fair value.

The following is the JPB's fair value hierarchy table as of June 30, 2016:

Investment Type	Total	Level 2 Inputs	Uncategorized
Local Agency Investment Fund (LAIF)	$ 69,669	$ -	$ 69,669
San Mateo County Investment Pool	4,954,452	-	4,954,452
Money Market Mutual Fund	5,178,939	5,178,939	-
Total investments by fair value type	$ 10,203,060	$ 10,203,060	$ 5,024,121

The following is the JPB's fair value hierarchy table as of June 30, 2015:

Investment Type	Total	Level 2 Inputs	Uncategorized
Local Agency Investment Fund (LAIF)	$ 11,230,564	$ -	$ 11,230,564
San Mateo County Investment Pool	10,793,682	-	10,793,682
Money Market Mutual Fund	5,720,640	5,720,640	-
Total investments by fair value type	$ 27,744,886	$ 5,720,640	$ 22,024,246

Custodial Credit Risk

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

As of June 30, 2016 and 2015, the JPB had $24,805,912 and $43,195,044, respectively, of deposits with financial institutions recorded on the financial statements. Additionally, the JPB is required to hold certain capital fund amounts in interest bearing accounts. These balances are in excess of the $250,000 FDIC limit, however due to California State Law, the excess balances are collateralized with pledged securities by the financial institutions holding the JPB's deposits.

Investment in San Mateo County Investment Pool

The JPB is a voluntary participant that invested in the San Mateo County Treasurer's Investment Pool (County Pool) at June 30, 2016 and 2015 in the amount of $4,954,452 and $10,793,682, respectively.

The County Pool is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. It is not registered with the Securities and Exchange Commission. The fair value of JPB's investment in this pool is reported in the accompanying financial statements at amounts based upon JPB's pro-rata share of the fair value provided by the County Pool for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investment in State Investment Pool

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

As of June 30, 2016 and June 30, 2015, the JPB had a contractual withdrawal value of $69,625 and $11,226,343, respectively, that is recorded at $69,669 and $11,230,564 on the statement of net position after the adjustment for unrealized gains/losses for fiscal year 2016 and 2015, respectively.

NOTE 4 – GILROY EXTENSION

The JPB acquired the Gilroy Extension trackage rights through contributions from the California Transportation Commission and VTA. The perpetual trackage rights to the Gilroy Extension are recorded at cost in the amount of $8,000,000 as an intangible asset.

NOTE 5 – CONTRIBUTED ASSETS FROM CALTRANS

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

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

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance at June 30, 2015	Additions and Transfers	Deletions and Transfers	Balance at June 30, 2016
Depreciable and amortized capital assets:				
Right of way improvements	$ 972,865,912	$ 66,798,084	$ (6,521,878)	$ 1,033,142,118
Rail vehicles	284,023,287	16,814,426	(157,451)	300,680,262
Facilities and equipment	128,583,525	287,990	(506,207)	128,365,308
Office equipment	1,083,825	-	-	1,083,825
Total depreciable and amortized capital assets	1,386,556,549	83,900,500	(7,185,536)	1,463,271,513
Accumulated depreciation for:				
Right of way improvements	399,279,563	59,393,044	(6,521,878)	452,150,729
Rail vehicles	161,493,925	29,503,261	(157,451)	190,839,735
Facilities and equipment	48,396,235	4,568,842	(506,207)	52,458,870
Office equipment	854,392	74,431	-	928,823
Total accumulated description	610,024,115	93,539,578	(7,185,536)	696,378,157
Capital assets nondepreciable:				
Right of way	226,972,189	-	-	226,972,189
Construction in progress	305,977,071	134,075,124	(83,900,500)	356,151,695
Intangible Asset - Trackage Rights	8,000,000	-	-	8,000,000
Total nondepreciable capital assets	540,949,260	134,075,124	(83,900,500)	591,123,884
Capital assets, net	$ 1,317,481,694	$ 124,436,046	$ (83,900,500)	$ 1,358,017,240

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance at June 30, 2014	Additions and Transfers	Deletions and Transfers	Balance at June 30, 2015
Depreciable and amortized capital assets:				
Right of way improvements	$ 804,002,823	$ 168,863,089	$ -	$ 972,865,912
Rail vehicles	284,128,483	622,273	(727,469)	284,023,287
Facilities and equipment	127,653,080	1,223,165	(292,720)	128,583,525
Office equipment	868,868	214,957	-	1,083,825
Total depreciable capital assets	1,216,653,254	170,923,484	(1,020,189)	1,386,556,549
Accumulated depreciation for:				
Right of way improvements	341,423,802	57,855,761	-	399,279,563
Rail vehicles	149,882,015	12,339,380	(727,470)	161,493,925
Facilities and equipment	43,789,937	4,899,017	(292,719)	48,396,235
Office equipment	648,519	205,873	-	854,392
Total accumulated amortization	535,744,273	75,300,031	(1,020,189)	610,024,115
Capital assets nondepreciable:				
Right of way	226,892,731	79,458	-	226,972,189
Construction in progress	354,255,973	122,724,040	(171,002,942)	305,977,071
Intangible Assets - Tranckage Rights	8,000,000	-	-	8,000,000
Total nondepreciable capital assets	589,148,704	122,803,498	(171,002,942)	540,949,260
Capital assets, net	$ 1,270,057,685	$ 218,426,951	$ (171,002,942)	$ 1,317,481,694

NOTE 7 – OPERATING ASSISTANCE

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

	2016	2015
District - Operating	30.82%	31.57%
VTA - Operating	42.65%	42.31%
CCSF - Operating	26.53%	26.12%

Federal, state, and local operating assistance revenue amounts included in the statements of revenues, expenses, and changes in net position for the years ended June 30, were:

	2016	2015
Member Agency local funds	$ 19,727,449	$ 19,922,954
Assembly Bill 434 operating assistance	810,264	1,000,000
State Transit Assitance	4,525,550	6,558,608
Other	15,107	96,726
Total	$ 25,078,370	$ 27,578,288

NOTE 8 – CAPITAL ASSISTANCE

Capital expenditures are primarily funded by federal and state grants, contributions from member agencies, and proceeds from farebox revenue bonds (See Note 9 – Farebox Revenue Bonds Payable). Costs of capital replacement and enhancement projects that are not covered by outside funding sources are allocated to the member agencies based upon the terms of the Agreement.

A. *Member Agencies*

On an annual basis, the Board determines the amount to be contributed to a Capital Contingency Fund ("CCF") to cover unanticipated necessary capital improvements. Member agency contributions were $990,000 for the years ended June 30, 2016 and 2015. The District and the Valley Transportation Authority share equally in the contribution to the CCF. The San Francisco County Transportation Authority's contributions are directly allocated to specific capital projects.

In fiscal years 2016 and 2015, the JPB received capital reimbursements and capital advances from the member agencies totaling $22,221,355 and $27,297,092, respectively. The unexpended amounts at June 30, 2016 and 2015 are shown as Unearned Member Contributions. (See Note 14 – Related Parties).

B. *Federal and State Grants*

At June 30, 2016, the JPB had 24 federal, 17 state and 34 local grants/allocations that provide funding for Caltrain capital projects. Capital additions for the years ended June 30, 2016 and 2015, applicable to these projects are $131,328,850 and $115,224,861, respectively. The related federal participation was $37,928,011 and $25,921,360 for fiscal year ended 2016 and 2015, respectively.

The JPB had receivables of $32,120,125 and $7,280,703 at June 30, 2016 and 2015, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements, which is reported as due from other governmental agencies. In addition, the JPB has receivables of $12,619,878 and $19,326,373 at June 30, 2016 and 2015, respectively, for qualifying capital project expenditures under various state grants, which also is reported as due from other governmental agencies.

Under the terms of the grants, proceeds from equipment sold 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

Composition and Changes

The JPB generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The JPB's debt issues and transactions are summarized below and discussed in detail thereafter.

Long-term debt activity for the year ended June 30, 2016 is as follows:

	Balance at July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
2007 Series A					
Revenue Bonds	$ 23,140,000	$ -	$ -	$ 23,140,000	$ -
2015 Series A					
Revenue Bonds	11,000,000	-	-	11,000,000	-
Add: Unamortized premium, net	410,683	-	18,389	392,294	-
Total long-term debt	$ 34,550,683	$ -	$ 18,389	$ 34,532,294	$ -

Long-term debt activity for the year ended June 30, 2015 is as follows:

	Balance at July 1, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
2007 Series A					
Revenue Bonds	$ 23,140,000	$ -	$ -	$ 23,140,000	$ -
2015 Series A					
Revenue Bonds	-	11,000,000	-	11,000,000	-
Add: Unamortized premium, net	424,398	-	13,715	410,683	-
Total long-term debt	$ 23,564,398	$ 11,000,000	$ 13,715	$ 34,550,683	$ -

Description of the District's Long-Term Debt Issues

A. 2007 Series A Bonds

During October 2007, the JPB issued $23,140,000 in 2007 Series A Farebox Revenue Bonds with $2,117,000 used to fully pay and legally defease the 1999 Series A Bonds and the balance, net of cost of issuance, was used to finance the acquisition of eight new rail cars. The refinancing of the 1999 Series A Bonds extended the length of the existing debt service obligations by 14 years, from 2016 to 2028.

The 2007 Series A Bonds carry a coupon rate ranging from 4.0 to 5.0 percent and interests are due on April 1 and October 1 of each year through October 1, 2037. Principal on the 2007 Series A Bonds is payable on October 1, 2018 and annually thereafter on Oct 1 of each year through 2037.

The 2007 Series Bonds are special obligations of the JPB payable from and secured by a pledge of farebox revenues which also secures the 2015 Series A Farebox Revenue Bonds. For pledge purposes, the term "farebox revenues" means the amounts generated and collected in connection with the operation of Caltrain, including passenger fares, parking, shuttle and pass revenues, and other revenues from operations. The term excludes grants from the state or the federal government or any member agency.

B. 2015 Series A Bonds

On January 14, 2015, the JPB issued $11,000,000 in 2015 Series A Farebox Revenue Bonds to finance a portion of the costs of the acquisition and rehabilitation of sixteen passenger railcars. The 2015 Series A Farebox Revenue Bonds were issued in a bank term rate which is subject to adjustment from time to time as provided in the trust agreement (Trust Agreement) pursuant to which the Series 2015 Series A Farebox Revenue Bonds were issued. Interest payments are due on April 1 and October 1 of each year. Annual principal payments commence on October 1, 2019 and continue through the maturity date of October 1, 2033 (19 years repayment).

The 2015 Series A Farebox Revenue Bonds are special obligations of the JPB payable from and secured by a pledge of farebox revenues which also secures the 2007 Series A Farebox Revenue Bonds. For pledge purposes, the term "farebox revenues" means the amounts generated and collected in connection with the operation of Caltrain, including passenger fares, parking, shuttle and pass revenues, and other revenues from operations. Farebox revenues does not include grants from the state or the federal government. The amount and terms of pledged revenue is the outstanding secured debt service as noted on the debt service requirement schedule in the following paragraph.

C. Pledged Revenues

The amount of farebox pledged revenues recognized during the fiscal years ended June 30, 2016 and 2015 were $97,577,432 and $90,763,176. The total debt services requirements for both, the 2007 Series A Bonds and the 2015 Series A bonds for the fiscal years ended June 30, 2016 and 2015 were $1,282,186 and $1,186,051 resulting in a pledge revenue coverage of 76.1% and 76.5% for the years ended June 30, 2016 and 2015.

Annual principal and interest payments for the 2007 Series A and the 2015 Series A are as follows:

Year Ending June 30:	Principal	Interest	Total
2017	$ -	$ 1,282,175	$ 1,282,175
2018	-	1,282,175	1,282,175
2019	180,000	1,346,335	1,526,335
2020	1,335,000	1,562,474	2,897,474
2021	1,375,000	1,503,340	2,878,340
2021-2025	7,700,000	6,554,775	14,254,775
2026-2030	9,540,000	4,623,906	14,163,906
2031-2035	10,280,000	2,120,485	12,400,485
2036-2038	3,730,000	188,750	3,918,750
Total	$ 34,140,000	$ 20,464,415	$ 54,604,415

NOTE 10 – SELF-INSURANCE

The JPB is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The JPB is self-insured for a portion of its public liability and damage to property. As of June 30, 2016, coverage provided by self-insurance and excess coverage is generally as follows:

Type of Coverage	Self-insurance (in aggregate)	Excess Coverage (in aggregate)
Public Liability and Property Damage	Up to $1,000,000 per occurrence	Up to $300,000,000 per occurrence
Public Officials Liability	$75,000 per claim	$10,000,000
Environmental Site Liability	$50,000 per claim	$10,000,000

All property is insured at full replacement value. To date, there have been no significant reductions in any of the District’s insurance coverage. Settlements have not exceeded coverages for each of the past three fiscal 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. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims. 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 years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Self-insured claims liabilities, beginning of year	$ 8,470,785	$ 6,534,591
Incurred claims and changes in estimates	(4,326,762)	2,211,325
Claim payments and related costs	(228,455)	(275,132)
Total self-insured claims liabilities	3,915,568	8,470,785
Less current portion	(2,160,787)	(3,078,015)
Noncurrent portion	$ 1,754,781	$ 5,392,770

NOTE 11 – CAPITAL CONTRIBUTIONS

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

Depreciation on assets acquired with capital contributions is included in the Statement of Revenues, Expenses, and Changes in Net Position. Capital contributions earned for the years ended June 30, are as follows:

	2016	2015
Contributions from federal government	$ 37,928,011	$ 25,923,223
Contributions from the state	42,082,840	44,998,172
Contributions from local governments	51,317,999	44,303,466
	$ 131,328,850	$ 115,224,861

NOTE 12 – COMMITMENT AND CONTINGENCIES

A. *Operating Contract*

The JPB Board of Directors awarded a contract to Transit America Services, Inc. (TASI) of St. Joseph, MO, at the September 1, 2011 board meeting. TASI provides Rail Operations, Maintenance and Support services for a base term of five years plus five months of mobilization, with five, one-year option terms. Mobilization efforts began on October 1, 2011 and TASI began its service on May 26, 2012. Amtrak continued to provide services through the mobilization efforts.

This is a cost plus performance fee based contract. All direct costs are reimbursable and the firm will have the opportunity to earn up to $4.5 million per year as a performance fee. The first year budget plus mobilization costs were negotiated prior to contract award. A performance fee program and quantifiable metrics have been agreed upon between the parties in key areas such as safety and on-time performance. These metrics will be measured quarterly with the exception of adherence to the budget which will be measured annually. TASI's reported results will also be independently verified and validated by a third party consultant.

The expenses billed to the JPB by TASI for providing rail operation services for the years ended June 30, 2016 and 2015 are recorded as Contract Services in the Statement of Revenues, Expenses, and Changes in Net Position.

B. *Diesel Fuel Contract*

In October 2015, the JPB Board approved extension of the contract with Pinnacle Petroleum on a month-to-month basis for up to nine months at an estimated total cost of $10.5 million and approved an additional $26.0 million in contract amount to cover current contract expenditures caused by increases in the cost of transportation and delivery and the cost per gallon of diesel fuel.

In June 2016, the JPB Executive Director, as authorized by the Board, approved extension of the contract with Pinnacle Petroleum on a month-to-month basis for up to six months without an increase to the total contract amount a as there was sufficient unused JPB Board-authorized contract capacity to absorb the cost of the extension.

JPB's diesel fuel costs incurred for the fiscal years ended June 30, 2016 and June 30, 2015 were $7,713,604 and $11,820,335, respectively.

C. Litigation

As of June 30, 2016 and 2015, the JPB had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigations are outstanding for which the JPB cannot determine the ultimate and resulting liability, if any. However, the JPB's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the JPB's financial position.

D. Fuel Hedge Program

In June 2015, the JPB entered into a diesel fuel price cap agreement with Barclays Bank to hedge the cost of fuel for fiscal year 2016 which capped the price of fuel hedged by the JPB at $2.00 per gallon. The JPB's fiscal year 2016 adopted budget for fuel expenses is $17.5 million which is an increase of about $840,000 from the fiscal year 2015 budget. The JPB purchases fuel based on the average weekly spot price for Oil Price Information Service (OPIS) index. This method leaves the JPB open to fluctuation in the market for diesel fuel. The primary goal of the fuel hedging program is to reduce volatility and uncertainty in the fuel budget.

The JPB hedged 2.3 million gallons, which represents approximately 50 percent of estimated fuel consumption for fiscal year 2016. In order to maximize the hedging program's potential for economic efficiency, the JPB partnered with the District, which hedged 1.2 million gallons. The agreement documents require the JPB's fuel hedge counterparty to collateralize its exposure to the JPB in connection with the diesel fuel price cap in the event that the rating assigned to the fuel hedge counterparty by any nationally assigned statistical rating agency falls to or below "A-." Implementing this fuel hedging program allowed the JPB to reduce uncertainty in the fuel budget for fiscal year 2016 and to take advantage of the relatively low market prices on the closing date of the transaction. Staff has recommended to the Board not to implement the Fuel Hedge Program for fiscal year 2017 as oil prices have continued to stay low and stable and the Board approved.

E. PTMISEA Grants

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, includes a program of funding in the amount of $4 billion to be deposited in the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). Of this amount, $3.6 billion in the PTMISEA is available to project sponsors in California for allocation to eligible public transportation projects.

The following table shows the changes in activity related to the PTMISEA grant funds during the fiscal year as well as the remaining commitment as of June 30, 2016 (in thousands):

	PTMISEA South Terminal Project (Fund 3605)	PTMISEA Community Based Overlay Signal System (Fund 3607)	PTMISEA Rolling Stock State of Good Repair (Fund 3623)
Total Allocations as of June 30, 2015	$ 3,402,626	$ 739,998	$ 2,630,385
Net Expenditures and Commitments	(1,142,438)	(8,695)	(1,765,856)
Commitment at June 30, 2016	$ 2,260,188	$ 731,303	$ 864,529

	PTMISEA Rolling Stock State of Good Repair (Fund 3634)	PTMISEA Electrification Improvements (Fund 3638)	PTMISEA Interest Earned (Fund 3636)
Total Allocations as of June 30, 2015	$ 7,006,997	$ 2,751,385	$ 98,167
Interest Earned, Net of Bank Charges	-	-	34,918
Net Expenditures and Commitments	(5,788,258)	(1,758,235)	-
Commitment at June 30, 2016	$ 1,218,739	$ 993,150	$ 133,085

NOTE 13 – LEASING TRANSACTIONS

A. *Fiscal Year 2001 Sale - Leaseback*

In November 2000, the JPB entered into a leasing transaction with respect to 14 Nippon Sharyo coach cars, six Nippon Sharyo cab cars, and three GM F40PH-2 locomotives (collectively, the "Equipment"). The JPB leased the Equipment to a statutory trust under a Head Lease and simultaneously leased back the Equipment under a Sublease. The JPB received net proceeds in the amount of $6,243,784, representing the difference between the appraised value of the Equipment and certain required deposits and expenses. Title to the Equipment remains on the books of the JPB at its original cost and is being depreciated over the original useful life determined at the date of acquisition. The net proceeds were recorded as Lease Leaseback income. The JPB has an option to purchase the Equipment for an agreed upon purchase price in January 2025. See Note 15 B for subsequent termination of 2000 Lease Transaction on August 3, 2016.

B. Fiscal Year 2002 Sale - Leaseback

In September 2001, the JPB entered into a leasing transaction with respect to 21 Nippon Sharyo passenger trailer cars and seven GM-EMD locomotives (the "Equipment"). The JPB leased the Equipment to a statutory trust under a Head Lease and simultaneously leased back the Equipment under a Sublease. The leasing transaction terminated and restructured a portion of a 1996 leasing transaction (the "1996 Transaction"). The JPB received net proceeds in the amount of $670,000 which represents the difference between the appraised value of the Equipment and termination costs associated with the 1996 Transaction, certain required deposits and expenses. The JPB had received net proceeds of $3,983,106 from the 1996 Transaction. Title to the Equipment remains on the books of the JPB at its original cost and is being depreciated over the original useful life determined at the date of acquisition. The net proceeds have been recorded as Lease-Leaseback income for the year ended June 30, 2002. The JPB has an option to purchase the Equipment for an agreed upon purchase price in January 2026. See Note 15 B for subsequent termination of 2001 Lease Transaction on August 3, 2016.

C. Fiscal Year 2002 Sale - Leaseback

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

NOTE 14 – RELATED PARTIES

A. Operating Expenses Paid to District

The District serves as the managing agency of the JPB, providing administrative personnel and facilities (see Note 1). The District is compensated based on actual costs incurred and administrative overhead. Amounts due to the District as managing agency at June 30, 2016 and 2015 total $23,204,570 and $4,632,005, respectively, and are included in accrued liabilities.

Total expenses billed to the JPB by the District which are included as operating expenses in the accompanying statements of revenues, expenses, and changes in net position are as follows:

	2016	2015
Wages and benefits	$ 14,829,181	$ 13,613,050
Overhead	7,204,183	6,550,349
Total	$ 22,033,364	$ 20,163,399

B. Receivables from Member Agencies

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

	2016	2015
District	$ 2,387,552	$ 3,301,203
VTA	11,829,343	4,673,972
CCSF	8,865,527	8,283,838
Total	$ 23,082,422	$ 16,259,013

C. Unearned Member Contributions

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

	2016	2015
District	$ 12,273,764	$ 9,910,736
VTA	12,915,964	9,718,589
CCSF	1,052,184	1,072,356
Total	$ 26,241,912	$ 20,701,681
Committed for:		
Capital contingency fund	$ 3,683,163	$ 3,023,845
Capital contribution Member's local match	22,358,910	17,478,098
Total Committed	26,042,073	20,501,943
Uncommitted funds:	199,839	199,738
Total	$ 26,241,912	$ 20,701,681

NOTE 15 – SUBSEQUENT EVENT

A. Diesel Fuel Contract

In October 2016, the JPB Board approved award of a five-year contract to Mansfield Oil Company of Gainesville, GA for provision of diesel fuel and fueling services at an estimated total cost of $38.5 million for the five year term.

B. Leasing Transactions

On August 3, 2016, the JPB executed termination agreements (the "Termination Agreements") with respect to the 2000 Lease Transaction and the 2001 Lease Transaction, covering 10 locomotives and 41 railcars having an aggregate initial transaction value of $143.2 million. The Termination Agreements (a) constituted the exercise of JPB's purchase option with respect to those items of Equipment, (b) amended the purchase option dates to the date of the Termination Agreements, and (c) amended the purchase option price to an amount that was funded in full from the termination of payment agreements previously guaranteed by AIG and collateralized with Agency obligations.

Following the termination of the 2000 Lease Transaction and the 2001 Lease Transaction, only the 2002 Lease Transaction, covering 13 locomotives and 40 railcars and having an initial transaction value of $173.6 million, remains outstanding. As of June 30, 2016, the scheduled termination cost, less the accreted value under the associated equity payment agreement guaranteed by AGM, is approximately $33.6 million.

C. Interim $150 Million Financing

Cash flow projections for the Peninsula Corridor Electrification Project (PCEP) forecast funding gaps between the time payments are due for work performed and the timing of receipts from the funding sources associated with such work, most of which are available on a reimbursement basis. At its highest point, the funding gap is currently projected to be approximately $150 million

In December 2016, the JPB secured a commitment from DNT Asset Trust, an affiliate of J.P. Morgan Securities LLC (Lender) to provide a revolving credit facility in an amount not to exceed $150 million outstanding at any one time to cover funding gaps. The revolving credit facility will be made available pursuant to a credit agreement (Credit Agreement) between JPB and Lender. Funds drawn by the JPB pursuant to Credit Agreement will constitute loans made by Lender to JPB. Obligations of JPB under Credit Agreement will be evidenced by Promissory Note.

Draws under the revolving credit facility will be secured by a subordinate pledge on farebox revenues and a pledge of funds received from the project funding sources (e.g. Federal, State and local grant funds) as they are received by the JPB. Account Control Agreement provides for the pledge of funds received by JPB from project funding sources as reimbursement for JPB's prior payment of PCEP costs.

The revolving credit facility will be available to the JPB through 2022 when PCEP delivery is expected to be complete. The size of the revolving credit facility is required to be reduced over time as PCEP delivery progresses. Specifically, as contemplated in the Credit Agreement, the revolving credit facility size will be $150 million through December 31, 2020, then reducing to $100 million through December 31, 2021, and to $50 million for the final year through December 31, 2022. The JPB can reduce the amount available to be drawn under the revolving credit facility, as PCEP project delivery progresses, based on the JPB's needs, without cost, prior to 2022.

Estimated interest costs and fees associated with the interim financing have been included in the PCEP budget and will be payable from funding sources already identified to support the PCEP. These costs of the interim financing will not be charged to or paid from operating capital of the JPB. Closing costs will be paid out of the proceeds of the transaction.

Fees are set forth in the Fee and Pricing Agreement. There are two ongoing fees associated with the revolving credit facility: an undrawn and a drawn fee. For those amounts available to the JPB but undrawn and not used at a particular time, the Lender will charge a fee equal to 0.50 percent times the undrawn amount. For those amounts drawn and used under the revolving credit facility, the Lender will charge a drawn fee (i.e., and interest rate). The drawn fee is equal to the following formula: 0.70 percent times one-month London Interbank Offered Rate (LIBOR), plus 2.10 percent. Taking 70 percent of the LIBOR approximately converts that taxable index to a tax-exempt rate. The one-month LIBOR resets on a daily basis. Under current rates (as of 11/11/2016), the one month LIBOR is equal to 0.54 percent, which translates to a total drawn fee—or revolving credit facility interest rate—increase/decrease with the LIBOR index. The Fee and Pricing Agreement also specifies closing costs payable to the Lender and Lender's Counsel.

Pursuant to California Government Code Section 6586.5, each of the three JPB member agencies held a public hearing and, subsequent to conducting the public hearing, adopted a resolution approving the interim financing of the PCEP and making a finding of significant public benefit in accordance with the criteria specified in Section 6586.5.

PENINSULA CORRIDOR JOINT POWERS BOARD

SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES – COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS) YEAR ENDED JUNE 30, 2016

	Budget (Unaudited)	Actual	Variance Positive/ (Negative)
OPERATING REVENUES:			
Passenger fares	$ 86,137,500	$ 86,959,371	$ 821,871
Parking, shuttle and pass revenues	6,985,300	7,226,245	240,945
Other	1,272,544	1,247,057	(25,487)
Total operating revenues	94,395,344	95,432,673	1,037,329
OPERATING EXPENSES:			
Contract services	87,064,119	82,941,883	4,122,236
Insurance	5,688,750	35,066	5,653,684
Fuel	17,428,852	8,311,751	9,117,101
Parking, shuttle and pass expenses	6,690,150	6,104,368	585,782
Professional services	1,425,000	1,617,726	(192,726)
Wages and benefits	13,125,349	12,942,580	182,769
Utilities and supplies	2,499,885	2,171,610	328,275
Maintenance services	1,072,560	1,054,342	18,218
Temporary services, rent and other	2,879,226	2,664,274	214,952
Total operating expenses	137,873,891	117,843,600	20,030,291
Operating loss	(43,478,547)	(22,410,927)	21,067,620
NONOPERATING REVENUES (EXPENSES):			
State and local operating assistance	26,352,712	25,078,370	(1,274,342)
Rental income	1,781,595	1,780,892	(703)
Interest income	175,962	90,940	(85,022)
Interest expense	(1,282,175)	(1,300,861)	(12,936)
Other income	107,780	242,086	134,306
Total nonoperating revenues	27,135,874	25,891,427	(1,238,697)
Net Income (loss)	(16,342,673)	3,480,500	19,828,923
CAPITAL OUTLAY:			
Capital assistance	199,141,820	131,328,850	67,812,970
Capital debt financing	2,746,274	2,746,274	-
Capital expenditures	(201,888,094)	(134,075,124)	(67,812,970)
Net capital outlay	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT	$ (16,342,673)	$ 3,480,500	$ 19,828,923

NOTES TO SUPPLEMENTARY SCHEDULE
YEAR ENDED JUNE 30, 2016

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 to the presentation of actual amounts in the Supplemental Schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and GAAP concerns capital assets. Depreciation and amortization expense per GAAP is not budgeted and budgeted capital expenditures are not recorded as an expense per GAAP. In addition, unrealized gains and losses under GASB Statement No. 31 are not recognized on a budgetary basis as well as some long-term expenses such as bond related payments.

NOTE 2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

Excess of operating revenues and nonoperating revenues over expenses and capital outlay		$ 3,480,500
Reconciling Items		
Capital expenditures	$ 134,075,124	
Depreciation and amortization	(93,539,578)	
Capital debt financing	(2,746,274)	
Recollectible expense	370,466	
GASB 31 unrealized gain/loss	12,016	
Gain/loss on asset disposition	(10,920)	
Bond premium amortization	18,389	
Sub-total reconciling items		38,179,223
Change in net position, GAAP basis		$ 41,659,723

Section III

STATISTICAL

Financial Trends

- Net Position and Changes in Net Position

Revenue Capacity

- Revenue Base and Revenue Rate
- Principal Revenue Payers

Debt Capacity

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

Demographics and Economic Information

- Population and Income
- Unemployment Rates
- Principal Employers

Operating Information

- Farebox Recovery and Miles
- Employees (Full – Time Equivalents)
- Capital Assets

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD

FINANCIAL TRENDS – NET POSITION AND CHANGES IN NET POSITION FISCAL YEARS 2007 THROUGH 2016 (in thousands), (Continued)

	2016	2015	2014	2013
Operating revenues:				
Passenger fares	$ 86,959	$ 83,351	$ 74,846	$ 68,767
Parking, shuttle and pass revenues	7,226	5,990	5,859	5,275
Other	1,247	1,421	1,440	1,504
Total operating revenues	95,432	90,762	82,145	75,546
Operating expenses:				
Contract services	82,942	78,240	75,238	65,485
Insurance	35	6,593	3,874	5,186
Fuel	8,312	12,118	14,797	15,350
Parking, shuttle and pass expenses	6,104	5,316	5,476	5,756
Professional service	1,618	1,255	1,322	1,098
Wages and benefits	12,943	11,501	10,668	9,322
Utilities and supplies	2,172	2,068	1,524	1,726
Maintenance services	1,054	1,039	1,007	1,011
Temporary services, rent and other	2,664	1,981	1,854	2,117
Total operating expenses	117,843	120,110	115,760	107,051
Operating loss before depreciation and amortization	(22,411)	(29,348)	(33,616)	(31,506)
Depreciation and amortization	(93,540)	(75,300)	(73,452)	(59,968)
Operating loss	(115,951)	(104,648)	(107,068)	(91,474)
Nonoperating revenues				
Federal, state and local operating assistance	25,078	27,578	29,522	39,165
Rental income	1,781	1,764	1,728	1,783
Investment income (loss)	111	242	206	128
Other income (expense)	(688)	1,007	4,044	2,137
Total nonoperating revenues	26,281	30,590	35,500	43,213
Nonoperating expenses	(1,301)	(1,192)	(1,120)	(1,120)
Net loss before capital contributions	(89,670)	(75,250)	(72,688)	(49,383)
Capital contributions	131,329	115,225	111,349	87,385
Change in net position	41,659	39,975	38,661	38,002
Net position - beginning of year	1,316,975	1,277,000	1,238,339	1,200,336
Prior period adjustment per GASB 65 [1]	-	-	-	-
Prior period adjustment per GASB 51 [2]	-	-	-	-
Net position - end of year	1,358,634	$ 1,316,975	$ 1,277,000	$ 1,238,338

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

[1] Per GASB 65 effective as of fiscal year 2012 certain items deferred outflows/ inflows of resources were reclassified from assets and liabilities. Deferred bond issuance costs previously recognized were restated to reflect the change.

[2] Per GASB 51 effective as of fiscal year 2009, Trackage Rights are a non-depreciable capital asset. The activity for fiscal year 2009 has been restated to reflect the change.

Source: Current and prior years' CAFRs.

PENINSULA CORRIDOR JOINT POWERS BOARD

FINANCIAL TRENDS – NET POSITION AND CHANGES IN NET POSITION FISCAL YEARS 2007 THROUGH 2016 (in thousands), (Continued)

2012	2011	2010	2009	2008	2007
$ 59,891	$ 49,026	$42,732	$ 43,272	$ 38,399	$ 33,058
4,411	3,576	3,452	3,112	4,972	4,667
382	694	278	335	389	236
64,684	53,296	46,462	46,719	43,760	37,961
65,882	60,637	59,404	61,172	55,341	50,799
4,783	7,310	5,035	4,537	3,641	4,172
15,288	12,937	10,309	10,742	14,377	10,876
4,183	3,912	3,850	3,941	3,904	3,579
885	1,046	826	916	780	583
5,731	6,026	5,928	5,384	5,708	4,719
1,520	1,599	1,268	1,462	1,295	1,009
1,070	382	268	252	308	457
1,833	1,779	1,721	1,861	1,604	1,337
101,175	95,628	88,609	90,267	86,958	77,531
(36,490)	(42,332)	(42,147)	(43,548)	(43,198)	(39,570)
(62,724)	(62,119)	(57,374)	(53,183)	(46,290)	(36,985)
(99,214)	(104,451)	(99,521)	(96,731)	(89,488)	(76,555)
35,282	43,142	41,556	39,826	39,661	41,538
1,760	1,733	1,729	1,661	1,577	1,485
193	143	291	(486)	1,260	1,631
2,555	1,907	2,099	1,173	832	602
39,790	46,925	45,675	42,174	43,330	45,256
(1,123)	(1,123)	(1,140)	(767)	(111)	(121)
(60,549)	(58,648)	(54,986)	(55,324)	(46,269)	(31,420)
81,375	91,834	71, 579	71,241	82,552	91,222
20,827	33,186	16,593	15,917	36,283	59,802
1,180,185	1,146,999	1,130,406	1,111,334	1,075,051	1,015,249
(676)	-	-	-	-	-
-	-	-	3,155	-	-
$ 1,200,336	$ 1,180,185	$ 1,146,999	$ 1,130,406	$ 1,111,334	$ 1,075,051

PENINSULA CORRIDOR JOINT POWERS BOARD

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2007 THROUGH 2016

	2016	2015	2014	2013
Passenger fares (in thousands)	$ 86,959	$ 83,351	$ 74,846	$ 68,767
Revenue Base				
Number of passengers (in thousands)	19,233	18,567	17,029	15,596
Source: Based on ticket sales				
Four-zone fare structure				
Full adult fare:				
One-way	$ 9.75	$ 9.25	$ 9.25	$ 8.75
Day Pass	19.50	18.50	18.50	17.50
8-ride	68.10	64.75	64.75	59.50
10-ride	-	-	-	-
Monthly Pass	243.80	232.00	232.00	232.00
Eligible discount fare:				
One-way	$ 4.75	$ 4.50	$ 4.50	$ 4.25
Day Pass	9.75	9.25	9.25	8.75
8-ride[1]	34.05	32.25	32.25	29.75
10-ride[2]	-	-	-	-
Monthly Pass	121.90	116.00	116.00	116.00

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

Source: Current and prior years' CAFRs and National Transit Database.

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

PENINSULA CORRIDOR JOINT POWERS BOARD

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2007 THROUGH 2016 (Continued)

2012	2011	2010	2009	2008	2007
$ 59,891	$ 49,026	$ 42,732	$ 43,272	$ 38,399	$ 33,058
14,134	12,673	10,611	11,359	10,915	10,264
$ 8.75	$ 8.75	$ 7.75	$ 7.75	$ 7.50	$ 7.50
17.50	17.50	15.50	15.50	15.00	15.00
59.50	59.50	52.75	52.75	-	-
-	-	-	66.00	63.75	63.75
232.00	232.00	205.50	205.50	198.75	198.75
$ 4.25	$ 4.25	$ 3.75	$ 3.75	$ 3.75	$ 3.75
8.75	8.75	7.75	7.75	7.50	7.50
29.75	29.75	26.25	26.25	-	-
-	-	-	33.00	31.75	31.75
116.00	116.00	102.75	102.75	99.25	99.25

PENINSULA CORRIDOR JOINT POWERS BOARD

REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEAR ENDED JUNE 30, 2016

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

PENINSULA CORRIDOR JOINT POWERS BOARD

DEBT CAPACITY - RATIO OF OUTSTANDING DEBT
FISCAL YEARS 2007 THROUGH 2016

Fiscal Year	Farebox Revenue Bonds for JPB (in thousands)[1]	Personal Income for San Mateo County [2]	As a Percent of Personal Income
2016	$ 34,532	$ 72,155,945	0.048%
2015	34,551	70,054,316	0.049%
2014	23,564	68,013,899	0.035%
2013	23,569	64,281,690	0.037%
2012	23,140	63,553,559	0.036%
2011	23,140	56,090,723	0.041%
2010	23,140	51,263,749	0.045%
2009	23,140	50,174,954	0.046%
2008	23,140	53,434,258	0.043%
2007	2,355	53,643,534	0.004%

[1] Current and prior years' CAFRs
[2] County of San Mateo, California, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016. Personal Income data for 2015 and 2016 is based on an estimated three percent annual increase over 2014.

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

PENINSULA CORRIDOR JOINT POWERS BOARD

DEBT CAPACITY - BONDED DEBT
FISCAL YEARS 2007 THROUGH 2016

Fiscal Year	Farebox Revenue Bonds	Member Agency Operating Contributions	As a Percent of Member Agency Contributions
2016	$ 34,532	$ 19,727	175.0%
2015	34,551	19,829	174.2%
2014	23,564	17,236	136.7%
2013	23,140	33,500	69.1%
2012	23,140	25,030	92.4%
2011	23,140	35,093	65.9%
2010	23,140	39,424	58.7%
2009	23,140	38,688	59.8%
2008	23,140	38,284	60.4%
2007	2,355	37,154	6.3%

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

Source: Current and prior years' CAFRs

PENINSULA CORRIDOR JOINT POWERS BOARD

DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT
FISCAL YEAR ENDED JUNE 30, 2016

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

DEBT CAPACITY – DEBT LIMITATIONS
FISCAL YEAR ENDED JUNE 30, 2016

The JPB does not have a legal debt limit.

DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 2007 THROUGH 2016 (in thousands)

		Debt Service			
Year	Pledged Revenue	Principal	Interest	Total	Debt Coverage
2016	$ 97,577	$ -	$ 1,282	$ 1,282	76
2015	90,763	-	1,148	1,148	79
2014	82,145	-	1,103	1,103	74
2013	75,546	-	1,103	1,103	68
2012	64,684	-	1,103	1,103	59
2011	53,296	-	1,103	1,103	48
2010	46,461	-	1,103	1,103	42
2009	46,719	-	1,103	1,103	42
2008	43,760	250	521	771	57
2007	37,961	235	123	358	106

Note: Refer to Note 9 in the Financial Section for specifics of the JPB's debt and pledged farebox revenues.

Source: Current and prior years' CAFRs

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

DEMOGRAPHICS AND ECONOMIC INFORMATION–POPULATION, INCOME AND UNEMPLOYMENT RATES – SAN MATEO COUNTY
FISCAL YEARS 2007 THROUGH 2016

Year	Population [1]	Total Personal Income (in thousands) [1]	Per Capita Personal Income [1]	Average Unemployment Rates [1]
2016	766,041	$ 72,155,945 *	$ 94,193 *	3.3%
2015	759,155	70,054,316 *	92,279 *	3.3%
2014	758,581	68,013,899	89,659	4.2%
2013	750,489	64,281,690	85,653	5.7%
2012	740,738	63,553,559	85,798	7.0%
2011	729,425	56,090,723	76,897	8.3%
2010	719,951	51,263,749	71,204	8.9%
2009	713,617	50,174,954	70,311	8.9%
2008	703,830	53,434,258	75,919	4.8%
2007	693,849	53,643,534	77,313	4.0%

[1] County of San Mateo, California, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016.

*Personal Income and Per Capita Personal Income data for 2016 and 2015 is based on an estimated three percent annual increase over 2014.

This table highlights San Mateo County's total population, total personal and per capita income, and percentage of unemployed residents.

PENINSULA CORRIDOR JOINT POWERS BOARD

DEMOGRAPHICS AND ECONOMIC INFORMATION–POPULATION, INCOME, AND UNEMPLOYMENT RATES – CITY AND COUNTY OF SAN FRANCISCO FISCAL YEARS 2007 THROUGH 2016

Year	Population [1]	Total Personal Income (in thousands) [1]	Per Capita Personal Income [1]	Average Unemployment Rates [1]
2016	876,799 *	$ 84,010,283 *	$ 95,815 *	3.4%
2015	864,816 *	82,143,355 *	94,984 *	4.0%
2014	852,469	77,233,279	90,600	5.2%
2013	841,138	72,858,445	86,619	6.5%
2012	825,863	70,573,974	85,455	8.1%
2011	812,826	63,102,121	77,633	9.2%
2010	805,235	57,619,120	71,556	9.7%
2009	815,358	55,559,545	68,141	7.4%
2008	808,001	58,199,006	72,028	4.6%
2007	799,185	56,306,703	70,455	4.1%

[1] City and County of San Francisco, California, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2015.

*The 2014 Population data is updated from last year's CAFR with newly available data. The 2015 Population data is based on estimates provided by the June 30, 2015 City and County of San Francisco CAFR. Personal Income, and Per Capita Personal Income data for 2014 and 2015 is based on estimates provided by the June 30, 2015 City and County of San Francisco CAFR.

This table highlights City and County of San Francisco total population, total personal and per capita income, and percentage of unemployed residents.

DEMOGRAPHICS AND ECONOMIC INFORMATION–POPULATION, INCOME, AND UNEMPLOYMENT RATES – COUNTY OF SANTA CLARA
FISCAL YEARS 2007 THROUGH 2016

Year	Population [1]	Total Personal Income (in thousands) [1]	Per Capita Personal Income [1]	Average Unemployment Rates [1]
2016	1,927,888	n/a *	n/a *	4.0%
2015	1,889,638	n/a *	n/a *	4.6%
2014	1,868,558	$ 141,873,705	$ 74,883	6.1%
2013	1,842,254	130,624,491	70,151	7.6%
2012	1,816,486	122,259,021	66,535	9.0%
2011	1,797,375	111,880,131	61,833	10.5%
2010	1,880,876	103,636,350	58,018	11.6%
2009	1,857,621	99,549,995	55,781	8.7%
2008	1,837,075	103,992,999	59,227	5.1%
2007	1,808,056	104,102,421	60,107	4.4%

[1] County of Santa Clara, California, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016.

*Personal Income and Per Capita Personal Income data for 2015 and 2016 is "Not Available" per the County of Santa Clara June 30, 2016 CAFR.

This table highlights County of Santa Clara total population, total personal and per capita income, and percentage of unemployed residents.

PENINSULA CORRIDOR JOINT POWERS BOARD

DEMOGRAPHICS AND ECONOMIC INFORMATION–PRINCIPAL EMPLOYERS FISCAL YEARS 2014 AND 2006

	2014*			2006		
Employers in San Mateo County	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	10,000	1	2.42%	9,600	1	2.73%
Genentech Inc.	9,800	2	2.37%	7,845	2	2.23%
Oracle Corp.	6,750	3	1.63%	5,642	4	1.61%
County of San Mateo	5,472	4	1.32%	5,777	3	1.64%
Facebook Inc.	3,957	5	0.96%			
Kaiser Permanente	3,900	6	0.94%	3,609	5	1.03%
Visa USA/Visa International	3,500	7	0.85%			
Gilead Sciences Inc.	3,115	8	0.75%			
Mills-Peninsula Health Services	2,500	9	0.61%	1,800	9	0.51%
San Mateo County Community College District	2,285	10	0.55%			
Safeway Inc.				2,280	6	0.65%
United States Postal Service				2,174	7	0.62%
Applera (Applied Biosystems)				1,578	10	0.45%
Electronic Arts Inc.				2,000	8	0.57%
Total	51,279		12.40%	42,305		12.04%

* The latest information available for principal employers in the County.

Source: San Francisco Business Times - 2016 Book of Lists; California Employment Development Department (provided by San Mateo County Controller's office).

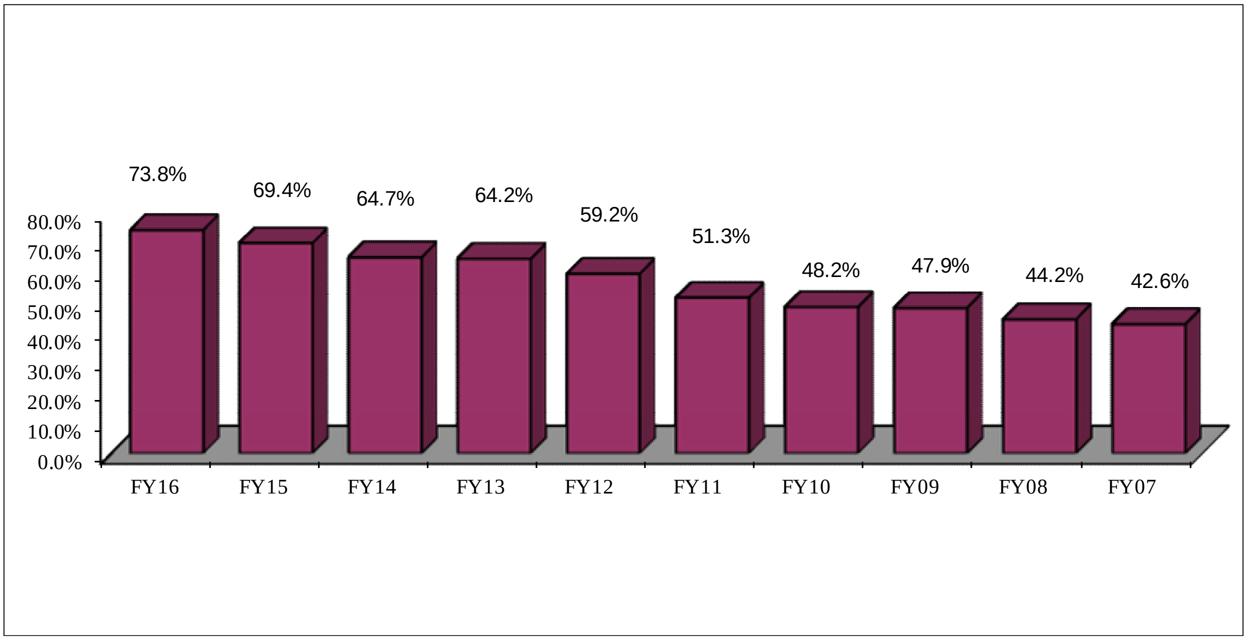
This table presents the top 10 principal employers in San Mateo County for years specified.

PENINSULA CORRIDOR JOINT POWERS BOARD

OPERATING INFORMATION – FAREBOX RECOVERY AND PASSENGER MILES FISCAL YEARS 2007 THROUGH 2016

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 45 percent to 65 percent effective fiscal year 2014.

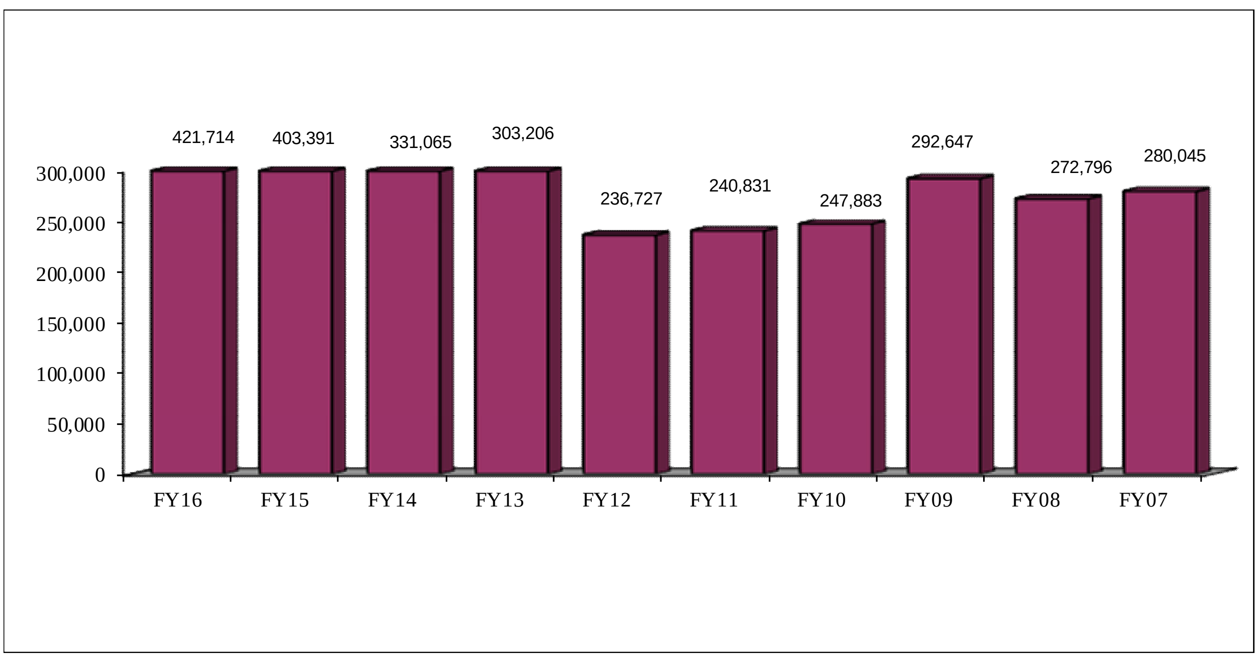


PASSENGER MILES

(In Thousands)

Weekday passenger miles

The number of weekday trains was increased from 86 to 92 on October 1, 2012.



Source: JPB's National Transportation Database.

OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS) FISCAL YEARS 2007 THROUGH 2016 2016

	FULL-TIME EQUIVALENTS (FTEs)				
DIVISION	2016	2015	2014	2013	2012
EXECUTIVE	0.70	0.76	0.85	0.87	0.91
PUBLIC AFFAIRS	5.35	4.80	4.80	4.00	4.46
OPERATIONS, ENGINEERING AND CONSTRUCTION	51.64	49.64	47.81	43.35	46.75
PLANNING AND DEVELOPMENT	6.43	5.95	6.40	3.04	5.09
FINANCE AND ADMINISTRATION	29.44	29.40	31.00	33.71	33.10
CALTRAIN MODERNIZATION PROGRAM	9.95	5.95	4.95	3.50	-
CUSTOMER SERVICE AND MARKETING	11.27	11.1	14.6	12.6	11.4
TOTAL FTEs	114.78	107.64	110.42	101.03	101.71

DIVISION	2011	2010	2009	2008	2007
EXECUTIVE	0.85	0.80	0.65	0.60	0.60
ADMINISTRATION	-	-	12.35	12.50	13.20
COMMUNICATIONS	-	-	14.77	15.03	20.25
CUSTOMER SERVICE AND MARKETING	10.88	18.05	-	-	-
DEVELOPMENT	-	-	45.75	49.75	45.10
FINANCE			9.80	9.80	10.65
FINANCE AND ADMINISTRATION	32.17	33.37	-	-	-
PLANNING AND DEVELOPMENT	5.21	6.20	-	-	-
PENINSULA RAIL PROGRAM	2.00	1.00	-	-	-
PUBLIC AFFAIRS	2.80	3.80	-	-	-
OPERATIONS	-	-	17.50	14.85	15.10
OPERATIONS, ENGINEERING AND CONSTRUCTION	45.52	46.54	-	-	-
TOTAL FTEs	99.43	109.76	100.82	102.53	104.90

Note: JPB went through a reorganization in fiscal year 2010; Caltrain Modernization Program division was added in fiscal year 2013 as a replacement for the Peninsula Rail department.

Source: JPB's annual capital and operating budget.

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

OPERATING INFORMATION – CAPITAL ASSETS (in thousands)
FISCAL YEARS 2007 THROUGH 2016

	2016	2015	2014
Depreciable and amortized capital assets			
Right of way improvements	$ 1,033,142	$ 972,866	$ 804,003
Rail vehicles	300,680	284,023	284,128
Facilities and equipment	128,365	128,584	127,653
Office equipment	1,084	1,084	869
Total depreciable and amortized capital assets	1,463,272	1,386,557	1,216,653
Accumulated depreciation and amortization			
Right of way improvements	(452,151)	(399,280)	(341,424)
Rail vehicles	(190,840)	(161,494)	(149,882)
Facilities and equipment	(52,459)	(48,396)	(43,790)
Office equipment	(929)	(854)	(648)
Intangible Asset - Trackage Right*	-	-	-
Total accumulated depreciation and amortization	(696,378)	(610,024)	(535,744)
Nondepreciable capital assets			
Right of way	226,972	226,972	226,893
Construction in progress	356,152	305,977	354,256
Intangible Asset - Trackage Right*	8,000	8,000	8,000
Total nondepreciable capital assets	591,124	540,949	589,149
Capital assets, net	$ 1,358,017	$ 1,317,482	$ 1,270,058

*Per GASB 51 effective as of fiscal yer2009 Trackage Rights are a non-depreciable capital asset. The activity for Fiscal Year 2009 has been restated to reflect the change.

Source: Current and prior years' CAFRs

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

PENINSULA CORRIDOR JOINT POWERS BOARD

OPERATING INFORMATION – CAPITAL ASSETS (in thousands)
FISCAL YEARS 2007 THROUGH 2016 (Continued)

2013	2012	2011	2010	2009	2008	2007
$ 739,383	$ 719,324	$ 677,797	$ 652,968	$ 596,170	$ 582,783	$ 496,553
285,040	285,125	284,203	280,201	275,326	254,537	254,201
127,568	128,428	127,048	121,037	118,197	117,507	23,549
860	875	855	693	726	815	717
1,152,851	1,133,752	1,089,903	1,054,899	990,419	955,642	775,020
(293,985)	(264,091)	(222,481)	(186,213)	(150,369)	(131,156)	(100,573)
(137,309)	(126,011)	(113,553)	(101,159)	(88,499)	(76,232)	(65,495)
(39,743)	(34,820)	(29,337)	(23,626)	(18,401)	(14,966)	(10,426)
(672)	(751)	(702)	(626)	(656)	(621)	(474)
-	-	-	-	-	(2,963)	(2,770)
(471,709)	(425,673)	(366,073)	(311,624)	(257,925)	(225,938)	(179,738)
226,893	226,893	226,893	226,893	226,893	226,893	210,962
316,125	261,771	227,381	177,959	173,488	151,197	250,919
8,000	8,000	8,000	8,000	8,000	8,000	8,000
551,018	496,664	462,274	412,852	408,381	386,090	469,881
$ 1,703,869	$ 1,204,743	$ 1,186,104	$ 1,156,127	$ 1,140,875	$ 1,115,794	$ 1,065,163

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Section IV

SINGLE AUDIT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND CALIFORNIA GOVERNMENT CODE SECTION 8879.50

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

We have audited, in accordance with the 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, the financial statements of Peninsula Corridor Joint Powers Board (JPB) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the JPB's basic financial statements, and have issued our report thereon dated January 26, 2017. Our report contains an emphasis of matter regarding adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement.*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the JPB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the JPB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described as finding 2016-01 in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the JPB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including the applicable provisions of section 6667 of Title 21 of California Code of Regulation and California Governmental Code Section 8879.50, 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*, Section 6667 of Title 21 of the California Regulations or the California Government Code 8879.50 et seq.

JPB's Response to Findings

The JPB's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The JPB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the JPB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 26, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Peninsula Corridor Joint Powers Board's (JPB) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the JPB's major Federal program for the year ended June 30, 2016. The major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of JPB's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 on compliance for the major Federal program. However, our audit does not provide a legal determination of the JPB's compliance.

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Opinion on the Major Federal Program

In our opinion, the JPB complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the JPB is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the JPB 's internal control over compliance with the types of requirements that could have a direct and material effect on the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 controls over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 26, 2017

PENINSULA CORRIDOR JOINT POWERS BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Program Title	Federal CFDA Number	Grant Identification Number		Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION				
Federal Transit Cluster:				
Direct Grant				
Federal Transit Capital Investment Grants	20.500	CA-05-0209	$	92,309
Federal Transit Capital Investment Grants	20.500	CA-05-0218		16,087
Federal Transit Capital Investment Grants	20.500	CA-05-0238		249,200
Federal Transit Capital Investment Grants	20.500	CA-05-0242		139,179
Federal Transit Capital Investment Grants	20.500	CA-05-0251		4,882,470
Federal Transit Capital Investment Grants	20.500	CA-05-0262		1,092,551
Federal Transit Formula Grants	20.500	CA-05-0276		2,564,865
Total Federal Transit Capital Investment Grants				9,036,661
Federal Transit Formula Grants				
Federal Transit Formula Grants	20.507	CA-90-Y-246		6,679
Federal Transit Formula Grants	20.507	CA-90-Y-312		2,733
Federal Transit Formula Grants	20.507	CA-90-Y-696		100,819
Federal Transit Formula Grants	20.507	CA-90-Y-788		310,684
Federal Transit Formula Grants	20.507	CA-90-Y-895		1,842,300
Federal Transit Formula Grants	20.507	CA-95-X-074		77,831
Federal Transit Formula Grants	20.507	CA-90-Y-944		29,261
Federal Transit Formula Grants	20.507	CA-90-Z-042		659,978
Federal Transit Formula Grants	20.507	CA-90-Z-159		549,176
Federal Transit Formula Grants	20.507	CA-95-X-299		322,237
Federal Transit Formula Grants	20.507	CA-90-Z-237		73,631
Total Federal Transit Formula Grants				3,975,329
State of Good Repair Grants				
State of Good Repair Grants	20.525	CA-54-0004		3,880,907
State of Good Repair Grants	20.525	CA-54-0020		4,562,854
State of Good Repair Grants	20.525	CA-54-0034		10,125,262
Total State of Good Repair Grants				18,569,023
Total Federal Transit Cluster				31,581,013

PENINSULA CORRIDOR JOINT POWERS BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2016

Direct Grant			
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	74A0778	6,634
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	N/A	7,424
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			14,058
Direct Grant			
Public Transportation Research, Technical Assistance, and Training	20.514	N/A	1,048
Passed Through California Department of Transportation:			
Highway Planning and Construction	20.205	BRLO-6170 (023)	1,133,988
Highway Planning and Construction	20.205	BRLO-6170 (021)	3,369,759
Highway Planning and Construction	20.205	BRLO-6170 (022)	1,843,249
Total Highway Planning and Construction			6,346,996
Total U.S. Department of Transportation			37,943,115
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 37,943,115

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 - REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (Schedule) includes expenditures of federal awards for the JPB as disclosed in the notes to the Basic Financial Statements.

NOTE 2 - BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. JPB has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PENINSULA CORRIDOR JOINT POWERS BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiency identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ?	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
20.500/20.507/20.525	Department of Transportation-Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,138,293
Auditee qualified as low-risk auditee?	Yes

PENINSULA CORRIDOR JOINT POWERS BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENT FINDINGS

The following finding represents a reportable condition related to the financial statements that is required to be reporting in accordance with Government Auditing Standards:

2016-01 Year-End Accounting Closing Procedures

Criteria or specific requirement
JPB should maintain policies and procedures to ensure that the accounting records are properly closed and all significant general ledger accounts are reconciled and agreed to subsidiary ledgers, in a timely manner.

Condition
It was noted that the JPB's cash balances were not fully reconciled for the fiscal year ended June 30, 2016. Upon further review, it was noted that several months out of the fiscal year were not reconciled.

Context
The above referenced condition was identified during our detailed examination of individual significant account balances and other testing performed.

Effect
JPB's accounting records required significant adjustments to account balances in order to properly reconcile amounts to supporting information and close the accounting period.

Cause
It was noted that the post closing adjustments to the accounting records were attributed to the lack of a timely review, analysis and reconciliation to supporting documentation and/or subsidiary ledgers. In other instances, interagency balances were not reconciled on a timely basis.

Recommendation
We recommend that the JPB implement policies and procedures to reconcile all cash account balances to subsidiary ledgers and/or supporting information on a timely basis. These procedures can include, reconciliation on a monthly/quarterly basis and/or establishing monthly/year-end closing checklists.

Views of responsible officials and planned corrective actions
The necessary upgrade of our PeopleSoft accounting and auditing software system, the validation and clean-up of the PeopleSoft data converted from the old system, identified as a priority in the prior year's audit, the related PeopleSoft "subclass" tracking project, staff turnover, including the departure of our Chief Financial Officer, caused delays in our preparation for the audit by the pre-established deadline. Through diligent efforts by staff to produce the information required by the auditors, while simultaneously continuing to validate and troubleshoot the PeopleSoft upgrade, all the monthly reporting deadlines required by the audit were met and the audit was successfully completed on time and on schedule. While we agree to make the necessary changes to ensure that such initial delays will not be repeated, it is worth noting, again, that many of the reasons for the initial delays were one-time events and extraordinary circumstances that are not systemic and are unlikely to be repeated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

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