# 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, 2017 and 2016

Caltrain®

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# PENINSULA CORRIDOR JOINT POWERS BOARD

*San Carlos, California*

*Comprehensive Annual Financial Report*
Fiscal Years Ended June 30, 2017 and 2016

**Prepared by the Finance Division**

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## INTRODUCTORY

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# PENINSULA CORRIDOR JOINT POWERS BOARD

## LETTER OF TRANSMITTAL

**December 19, 2017**

**To the 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, 2017**

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, 2016 through June 30, 2017. 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 in all material respects 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 the Caltrain passenger rail service on the San Francisco Peninsula and south into Santa Clara County. Caltrain owns and operates a rail system that has been a central part of Peninsula communities for 149 years. The rail line on which service is operated 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.

# PENINSULA CORRIDOR JOINT POWERS BOARD

## LETTER OF TRANSMITTAL

***Entity***

The JPB is a Joint Powers Authority that is legally separate and financially independent from its three member agencies San Mateo County Transit District (District), Santa Clara Valley Transportation Authority (VTA) and City and County of San Francisco (CCSF) and is not a component unit of 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 to cover its operating costs from Caltrans and the three member agencies and with Caltrans providing contract administration, service planning, marketing, engineering, scheduling, fare management, customer support and performance monitoring.

In 1988, CCSF, District and VTA commissioned a study that recommended transferring responsibility for the rail service from the state to the local level. The three member agencies accomplished this objective in October 1991, executing a new joint powers agreement that formed the current 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 in 1992. Amtrak served as the JPB’s contract operator until May 2012. The Caltrain Board of Directors, at its September 2011 meeting, authorized the award of a new contract to TransitAmerica Services, Inc. This operating contract was extended in 2017 and is currently scheduled to expire in 2022.

***Governance***

A joint powers agreement established a nine-person board of directors that governs the operations, maintenance, repair, improvements and expansion of Caltrain. The Three Member Agencies each appoints three persons to serve on the Board. 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 as first executed in 1988 and as amended and restated in 1996 designates the District as the Managing Agency to provide management, 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 in providing the Managing Agency services. 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 Division* is responsible for SamTrans bus service, employer and other shuttles, paratransit service pursuant to the requirements of the Americans with Disabilities Act (ADA), maintenance of revenue collection equipment, quality assurance, and service planning.

The *Rail Division* is responsible for Caltrain operations and maintenance oversight (including administration of the rail service operating contract), operations and long-term planning, 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 Modernization Program (CalMod)* 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 service.

The *Planning, Grants and Transportation Authority Division* is responsible for environmental planning, selected strategic planning and performance, grant administration, and property management.

The *Administrative Division* provides management assistance to executive divisions and 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 an encumbrance system to reduce budget balances by issuing purchase orders to avoid over-commitment of resources.

The JPB employs the same basis and principles of accounting 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. As a special purpose organization established pursuant to joint powers legislation, the JPB is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit.

## FINANCIAL AND ECONOMIC OUTLOOK

### *Local Economy*

The Bay Area's economy continues to grow slightly faster than the rest of the country, with employment growing 3.3 percent in 2016 (latest data available) and San Mateo County employment growing 4.5 percent. In 2016, the largest employment increases in San Mateo County were observed in professional services (+3,700 jobs), information (+3,300 jobs), and transportation and utilities (+3,100 jobs). Meaningful job losses were not observed in any major sector. San Mateo County currently has the lowest unemployment rate in the state of California. The county's June 2017 unemployment rate (not adjusted for seasonality) of 2.9 percent is better than the 2016 same period rate of 3.1 percent, the statewide rate of 4.9 percent and the nationwide rate of 4.5 percent.

San Mateo County remains one of the wealthiest counties in California. With significant employment in diverse industries, including aviation, technology, biotechnology, financial services, healthcare and education, San Mateo County is not dependent on any one employment sector for its prosperity. This broad base is helping to ensure long-term stability for San Mateo County residents. Between 2017 and 2022, employment growth is forecast to be led by professional services, information, education and healthcare, transportation and utilities, and leisure services. Together, these sectors are forecast to account for 88 percent of net employment growth over this period.

### *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 policy framework articulated by the Strategic Plan was reflected in Caltrain's 2015 Short Range Transit Plan. That plan outlined Caltain's operating plan and Capital Improvement Program for the coming 10-years and forms the current 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.

In 2017, Caltrain launched a Business Plan process that is intended to run through the end of calendar year 2018. The Caltrain Business Plan is intended to be a major update to Caltrain's plans, policies and financial projections. When complete, the Business Plan will constitute a wholesale update of Caltrain's current Strategic Plan and will form the basis for future Short Range Transit Plan updates. Similarly, the Business Plan will update and inform all of the service, financial and policy issues described below.

Today, Caltrain operates a total of 92 diesel locomotive-hauled trains per day on weekdays between San Francisco and San Jose with limited service further south to Gilroy. After the completion of electrification, Caltrain plans to 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.

## PENINSULA CORRIDOR JOINT POWERS BOARD

## LETTER OF TRANSMITTAL

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 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 address the structural deficit 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.

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 2022. The CIP also reflects Caltrain's ongoing planning for the next generation of system improvements that are needed in the through Fiscal Year 2024 timeframe to expand system capacity and continue preparations for Caltrain/High Speed Rail (HSR) blended system.

Revenue sources included in the CIP reflect Caltrain's reasonable expectation of funding levels. Caltrain will 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 partnerships.

### MAJOR INITIATIVES

***Caltrain Electrification***

The Peninsula Corridor Electrification Project (PCEP) is a key component of the Caltrain Modernization program. The PCEP is intended to electrify the Caltrain Corridor from San Francisco's 4th and King Caltrain Station to approximately the Tamien Caltrain Station, convert diesel-hauled to Electric Multiple Unit (EMU) trains, and increase service up to six Caltrain trains per peak hour per direction. The CalMod Program includes electrification and other projects that will upgrade the performance, efficiency, capacity, safety and reliability of Caltrain's service. Electrification provides the foundation for future improvements, including full conversion to an electric fleet, platform and station improvements, the extension of service to Downtown San Francisco, and other projects that allow Caltrain to grow and evolve with the Bay Area.

***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 region's 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 stations, including more than 400 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 2017 Annual Passenger Counts, Caltrain had 5,216 bike boardings on an average weekday. This represents a 5.5% decrease from fiscal year 2016.

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. The JPB Board will adopt a Bicycle Parking Management Plan in the near future 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 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. Failure to maintain this program could lead to higher costs of operating these assets due to higher maintenance costs and operational delays that occur when these assets are out of service or in a state of disrepair. Projects that are currently underway include replacement of the Los Gatos Creek Bridge, upgrade of the bridge structures at the Napoleon Street Bridge in San Francisco, the addition of a new control point at Brittan Street in San Carlos that will increase capacity and operational efficiency, and the upgrading of the cooling system at the Central Control Facility server room to prevent overheating of the electronics due to the expansion of equipment with the additions of CBOSS/Positive Train Control and Electrification.

Projects completed in Fiscal Year 2017 include the upgrading of the Crew Facilities at the San Francisco Yard that is used as rest facility for train crews, the replacement of 3 overhead roadway bridges in San Francisco at 22nd Street, 23rd Street and Paul Avenue that had become obsolete, replacement of 4 railroad bridges in San Mateo at Tilton Ave., Santa Inez, Monte Diablo and Poplar that had become obsolete and had insufficient roadway clearances, Train Voice Dispatch Communications system that replaces an outdated system that allows dispatchers from the Central Control Facility to communicate with train crews and field staff, the replacement of

Ticket Vending Machine cables from coaxial to fiber optic to enable high speed transactions, and rail grinding that modifies the rail profile to extend the life of the rail and to provide for smoother train rides. For Rolling Stock: Activities completed in Fiscal Year 2017 include In-Frame overhaul of (3) F40 PH-2 locomotives improving efficiency and reducing pollutants; Refurbishment of the cabs, toilets systems and HVAC refrigerant upgrade on (7) F40PH-2 locomotives as well as replacement of batteries in 8 F40 & MP36 locomotives and cleaning of fuel tanks on 27 F40 & MP36 locomotives improving the comfort of the crew and fuel efficiency of the locomotives. On our passenger cars, for safety and comfort, the following activities were completed: replacement of Cables / Receptacles, Diaphragm and Buffer Assemblies, Carpet and Flooring, Windows, Vestibule Stair Tread Anti-Skid surfaces as well as overhaul of Door Systems and Toilet Systems and replacement of exterior signage and Batteries. This work improved 10 Gallery and 7 Bombardier Passenger Cars.

***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 various 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 Francisco, San Mateo and Santa Clara Counties safer for both vehicular and pedestrian traffic. Some of the projects currently in progress include the South San Francisco Station 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, the rehabilitation of the station platform at the Sunnyvale Station that will include relocating the north pedestrian crossing to accommodate 6-car trains at the station, the Redwood City Grade Crossing improvements project that will upgrade safety features at Whipple Ave., Brewster Street, Main Street and Broadway, the Grade Crossing Improvements project that will upgrade safety features at 15 crossings from San Francisco through Santa Clara counties, the Santa Clara County Grade Crossing Medians that will install medians to discourage drivers from crossing over to go around down crossing gates, and Inward Facing Cameras that will record the train engineer during revenue operations as recommended by the Nation Transportation Safety Board (NTSB) for accident investigations. A Project completed in Fiscal Year 2017 is the installation of Closed Circuit Television monitors at the Santa Clara Station to allow remote video monitoring and recording of the station.

## 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 2022. The CalMod program is supported and partially funded through 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. There is also 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".

By 2022, the CalMod 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 trains with high-performance, electric trains called Electric Multiple Units (EMUs).

Together, the delivery of CBOSS PTC and the Peninsula Corridor Electrification Project constitute an "early investment" in the future shared operation of Caltrain and High Speed Rail on the corridor as a blended system. Prior to 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 log-term planning 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 six to eight cars, and modification of station platforms to accommodate longer trains and support level boarding. Over the next several years, Caltrain will work with the California High Speed Rail Authority, the state of California, 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.

### 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.

The Government Finance Officers Association (GFOA) recognized the JPB's 2016 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 2017 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 Board of Directors for their interest and support in the development of a reliable financial management and reporting system.

Respectfully submitted,

| | |
|---|---|
| **Jim Hartnett** | **Derek Hansel** |
| Executive Director | Chief Financial Officer/Treasurer |

## GFOA CERTIFICATE OF ACHIEVEMENT

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Peninsula Corridor Joint Power Board**

**California**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**June 30, 2016**

Christopher P. Morrill

Executive Director/CEO

**PENINSULA CORRIDOR JOINT POWERS BOARD**

**BOARD OF DIRECTORS**

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Cheryl Brinkman

Gillian Gillett

Monique Zmuda

***Representing San Mateo County Transit District:***

Jeff Gee, Chair

Rose Guilbault

Dave Pine

***Representing Santa Clara Valley Transportation Authority:***

Jeannie Bruins

Devora “Dev” Davis

Ken Yeager, Vice Chair

# EXECUTIVE MANAGEMENT

**EXECUTIVE DIRECTOR**

Jim Hartnett

**EXECUTIVE OFFICERS**

Carter Mau – Deputy Executive Director

Michelle Bouchard – Chief Operating Officer, Rail

Michael Burns – Chief Officer, CalMod Program

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

Derek Hansel – Chief Financial Officer

Martha Martinez – Executive Officer District Secretary/Executive Administration

Seamus Murphy – Chief Communications Officer

David Olmeda – Chief Operating Officer, Bus

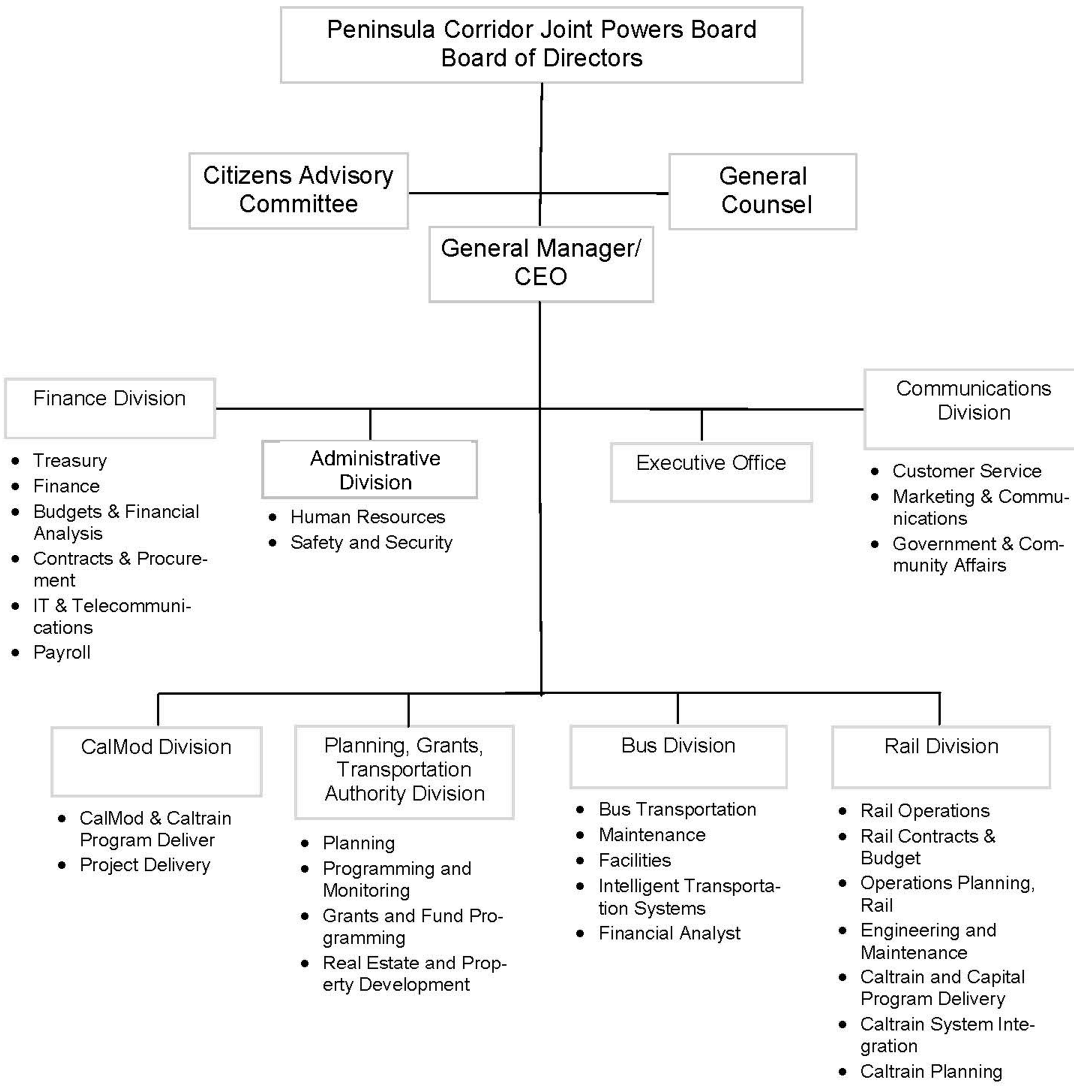
**GENERAL COUNSEL**

Hanson Bridgett LLP

Joan Cassman, Esq.

# PENINSULA CORRIDOR JOINT POWERS BOARD

# ORGANIZATION CHART



**PENINSULA CORRIDOR JOINT POWERS BOARD**

## MAPS

# TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2017 Comprehensive Annual Financial Report:

**Finance**:

| | |
|---|---|
| Director of Finance | Rima Lobo |
| Director of Treasury | Connie Mobley-Ritter |
| Director, Budgets and Financial Analysis | Ladi Millard |
| Manager, Grants and Capital Accounting | Brian Lee |
| Interim Manager, General Ledger | Jeannie Chen |
| Manager of Financial Planning and Analysis | Ryan Hinchman |
| Senior Accountant | Mary Manders |

**Audit Firm**:

| | |
|---|---|
| Partner | Ahmad Gharaibeh, CPA |
| Supervisor | Tomohito Oku, CPA |

# *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

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# 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, 2017 and 2016, 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, 2017 and 2016, 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.

***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 December 19, 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
December 19, 2017

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*MANAGEMENT'S DISCUSSION AND ANALYSIS*

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# MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the JPB’s financial performance provides an overview of the JPB's activities for the fiscal year ended June 30, 2017 with comparisons to prior fiscal years ended June 30, 2015 and June 30, 2016. 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*

- At June 30, 2017, the JPB’s assets exceeded its liabilities by $1,519.4 million (net position). Of this amount, $34.6 million represents unrestricted net position, which may be used to meet the JPB’s ongoing obligations. At June 30, 2016, the JPB’s assets exceeded its liabilities by $1,358.6 million. Of this amount, $35.1 million represents unrestricted net position.

- The District’s total net position increased by $160.7 million and $41.7 million in the fiscal year 2017 and 2016 respectively because of increase in passenger fares and capital contributions.

## *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 $268.5 million or 18.0% to $1,763.5 million at June 30, 2017 compared to June 30, 2016, and increased by $42.8 million or 2.9% at June 30, 2016 compared to June 30, 2015. The increases for fiscal year 2017 and fiscal year 2016 were mainly due to more activities on right of way improvement projects. Current assets increased by $107.3 million or 78.3% to $244.3 million in 2017. In 2016, current assets increased by $2.3 million or 1.7% compared to 2015, The increases for fiscal year 2017 and fiscal year 2016 were primarily due to increase in receivables from other governmental agencies, member agencies and others.

Total capital assets, net of accumulated depreciation and amortization increased $161.2 million or 11.9% at June 30, 2017 to $1,519.2 million from $1,358.0 million on June 30, 2016, and increased $40.5 million or 3.1% from $1,317.5 million in fiscal year 2016 compared to fiscal year 2015. Investments in capital assets, before depreciation, consist of acquisitions and improvements to the right of way $1,358.9 million or 59.2%), rail vehicles ($312.7 million or 13.6%), facilities and equipment $130.9 million or 5.7%), intangible asset – trackage rights ($8.0 million or 0.3%) and construction in progress ($486.3 million or 21.2%) in fiscal year 2017. In fiscal year 2016, investments in capital assets, before depreciation, consist of acquisitions and improvements to the right of way ($1,260.1 million or 54.9%), rail vehicles ($300.7 million or 13.1%), facilities and equipment ($128.4 million or 5.6%), intangible asset – trackage rights ($8.0 million or 0.3%) and construction in progress ($356.2 million or 15.5%).

Total liabilities increased by $107.8 million or 79.0% to $244.2 million at June 30, 2017 compared to June 30, 2016 and increased $1.1 million or 0.8% to $136.4 million at June 30, 2016 compared to June 30, 2015. The fiscal year 2017 increase was mainly due to more activities on right of way improvement projects resulting an increase in accounts payable and accrued liabilities. The fiscal year 2016 increase was due to increases in accounts payable, accrued liabilities and unearned member contribution.

Total net position was $1,519.4 million at June 30, 2017 which represents an increase of $160.7 million or 11.8% from June 30, 2016 and $1,358.6 million at June 30, 2016, which represents an increase of $41.7 million or 3.2% from June 30, 2015. The increase is due to additional capital contributions received from the Caltrain electrification project. Net investment in capital asset was $1,484.7 million at June 30, 2017, representing 97.7% of the total net position, $1,323.5 million at June 30, 2016, representing 97.4% of total net position and $1,282.9 million at June 30, 2015 representing 97.4% of total net position. The JPB's net investment in capital assets represents right of way improvements, rail vehicles, and facilities and equipment, less any related outstanding debt that was used to acquire those assets. The JPB uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the JPB's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate theses liabilities. The remaining balances of $34.6 million, $35.1 million and $34.0 million are unrestricted and may be used to meet the JPB's ongoing obligations to its citizens and creditors.

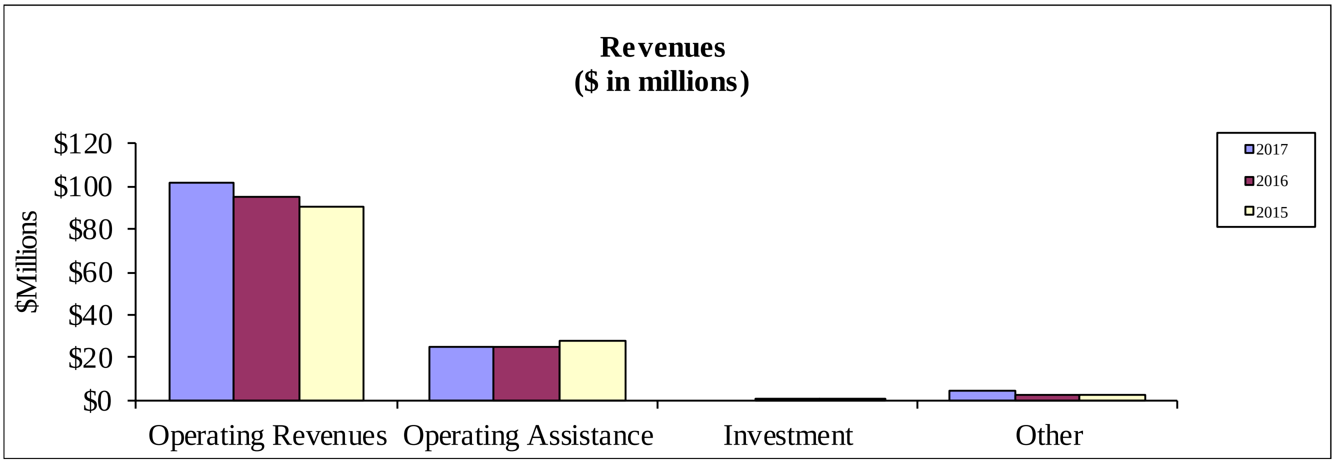
**PENINSULA CORRIDOR JOINT POWERS BOARD**
**NET POSITION**
**(in thousands)**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current assets | $ 244,294 | $ 136,999 | $ 134,732 |
| Capital assets, net of depreciation/amortization | 1,519,244 | 1,358,017 | 1,317,482 |
| Total assets | 1,763,538 | 1,495,016 | 1,452,214 |
| Current liabilities | 206,895 | 100,094 | 95,295 |
| Long-term liabilities | 37,278 | 36,287 | 39,943 |
| Total liabilities | 244,173 | 136,381 | 135,238 |
| Net investment in capital assets | 1,484,730 | 1,323,485 | 1,282,931 |
| Unrestricted | 34,636 | 35,150 | 34,043 |
| Total net position | $ 1,519,366 | $ 1,358,635 | $ 1,316,974 |

**Revenue Highlights**

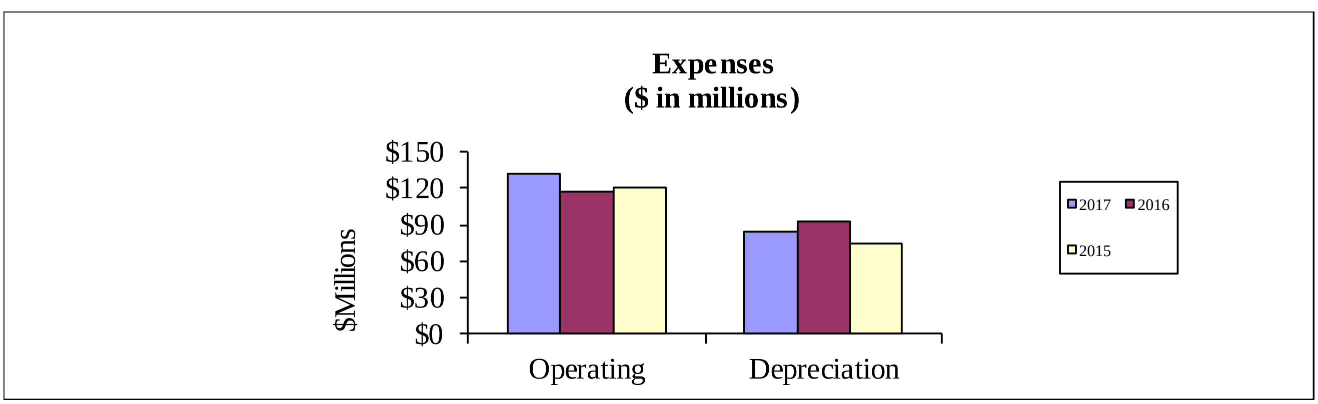
Operating revenues increased to $102.0 million in fiscal year 2017, a $6.6 million or 6.9% increase from fiscal year 2016 and increased to $95.4 million in fiscal year 2016, a $4.7 million or 5.1% increase from fiscal year 2015. Increases for both years were due to increases in passenger fares and ridership.

Non-operating revenues increased $2.2 million or 8.0% to $29.8 million at June 30, 2017 compared to June 30, 2016 and decreased $3.0 million or 9.8% in fiscal year 2016 compared to fiscal year 2015. The increase in 2017 was due to increase in State Transit Assistance Funds. The decrease in fiscal year 2016 was due to decreases in federal, state and local operating assistance.




**Expense Highlights**

Total operating expenses of $132.6 million in fiscal year 2017 were $14.8 million or 12.6% higher than fiscal year 2016, and in fiscal year 2016, $2.3 million or 1.9% lower than fiscal year 2015. The reason of the increase in fiscal year 2017 is mostly due to increases in contract services and insurance expenses by $6.7 million and $7.1 million respectively. Depreciation and amortization for fiscal year 2017 was $83.9 million, a $9.6 million or 10.3% decrease over fiscal year 2016. In fiscal year 2016, depreciation and amortization was $93.5 million, a $18.2 million or 24.2% increase over fiscal year 2015. The reason of the changes in fiscal year 2017 and 2016 was due to an adjustment on useful life of rail vehicles resulting an additional recognition of depreciation expenses retrospectively in fiscal year 2016.



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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Operating revenues: | | | |
| Passenger fares | $ 92,429 | $ 86,959 | $ 83,351 |
| Parking, shuttle and pass revenues | 7,911 | 7,226 | 5,990 |
| Other | 1,691 | 1,247 | 1,421 |
| Total operating revenues | 102,031 | 95,432 | 90,762 |
| Operating expenses: | | | |
| Contract services | 89,639 | 82,942 | 78,240 |
| Insurance | 7,105 | 35 | 6,593 |
| Fuel | 8,613 | 8,312 | 12,118 |
| Parking, shuttle and pass revenues | 5,629 | 6,104 | 5,316 |
| Professional service | 1,514 | 1,618 | 1,255 |
| Wages and benefits | 13,561 | 12,943 | 11,501 |
| Utilities and supplies | 2,179 | 2,172 | 2,068 |
| Maintenance services | 1,508 | 1,054 | 1,039 |
| Temporary services, rent and other | 2,886 | 2,664 | 1,981 |
| Total Operating expenses | 132,634 | 117,843 | 120,110 |
| Operating loss before depreciation and amortization | (30,603) | (22,411) | (29,348) |
| Depreciation and amortization | (83,922) | (93,540) | (75,300) |
| Operating loss | (114,525) | (115,951) | (104,648) |
| Nonoperating revenues | | | |
| Federal, state and local operating assistance | 25,489 | 25,078 | 27,578 |
| Rental income | 1,861 | 1,781 | 1,764 |
| Investment income (loss) | 28 | 110 | 242 |
| Other income (expense) | 2,413 | 613 | 1,007 |
| Total Nonoperating revenues | 29,790 | 27,581 | 30,590 |
| Nonoperating expenses | (1,301) | (1,300) | (1,192) |
| Net loss before capital contributions | (86,036) | (89,670) | (75,250) |
| Capital contributions | 246,767 | 131,330 | 115,225 |
| Change in net position | 160,731 | 41,660 | 39,975 |
| Net position - beginning of year | 1,358,635 | 1,316,975 | 1,277,000 |
| Net position - end of year | $ 1,519,366 | $ 1,358,635 | $ 1,316,975 |

**Capital Program**

The JPB incurred capital expenses of $245.1 million and recognized related revenue in the form of capital contributions of $246.8 million in fiscal year 2017, which is $115.4 million or 87.9% increase in capital contributions in fiscal year 2017 over fiscal year 2016. The fiscal year 2017 capital sources consisted of federal grant ($50.6 million or 20.6%), state grants ($103.7 million or 42.3%), local assistance including the three member agencies ($92.3 million or 37.6%) and debt refinancing ($2.7 million or 2.0%)

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% increase in capital contributions in fiscal year 2016 over fiscal year 2015. The JPB's capital contributions are comprised of federal grants, state grants and local assistance including member agencies which are on a reimbursement basis and therefore tied to the related capital expenses. The reason for the increase in both fiscal year 2017 and 2016 is due to more activities on right of way improvement projects.

Following is a summary of the JPB's major capital expenditures for fiscal year 2017:

- Caltrain modernization program ($167.6 million)
- Bridge repairs and replacements ($20.8 million)
- Caltrain passenger cars, accessories and improvements and miscellaneous other ($27.5 million)
- System-wide track rehabilitation, signal, bridge and tunnel work ($8.7 million)
- Cost of grade crossing and separation along the Caltrain right of way ($8.0 million)
- Communication equipment to improve the reliability, quality and speed of signal, data and voice transmissions ($4.8 million)
- Station improvements and repairs ($5.3 million)
- Other - Safety related features at stations, grade crossings and along the tracks ($2.4 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 2017, 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 2016. 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 2018 Operating Budget on June 1,2017 which was subsequently revised on September 7, 2017 to include the impact of the adoption of the revised Caltrain Codified Tariff and the identification of opportunities to further reduce expenditures. The Fiscal Year 2018 Revised Operating Budget continues to support the high level of service and reliability that the community has come to expect from Caltrain, as it makes every effort to control costs.

The fiscal year 2018 Revised Operating Budget is for $145.5 million in revenues and expenditures. The major components of revenue include operating revenue of $110.5 million, primarily from farebox, and $35.0 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 to be $119.7 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. The administrative expenses are projected to be $24.5 million.

The fiscal year 2018 Capital Budget was approved on June 1, 2017. The $64.9 million capital budget consists primarily of critical infrastructure and equipment state of good repair, legal mandates, and operational improvements. The fiscal year 2018 Capital Budget will be funded by Federal, State, regional and local grants.

Some of the highlights of the capital budget include:

- System-wide SOGR stations projects
- South San Francisco Station Improvement
- Tunnel 1 & 4 Track and Drainage Rehabilitation
- Rolling stock MP36 Mid-Life Overhauls
- Construction of the Los Gatos Creek Bridge replacement

### *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.

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*BASIC FINANCIAL STATEMENTS*

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**PENINSULA CORRIDOR JOINT POWERS BOARD**

**STATEMENTS OF NET POSITION**
**JUNE 30, 2017 AND 2016**

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents (Note 3) | $ 32,411,086 | $ 4,249,639 |
| Restricted cash (Note 3) | 20,073,793 | 15,685,197 |
| Total Cash and Cash Equivalents | 52,484,879 | 19,934,836 |
| Due from other governmental agencies | 105,970,571 | 68,071,132 |
| Receivables from member agencies (Note 14) | 51,367,520 | 23,082,422 |
| Accounts receivable - other, net of allowance | 18,093,603 | 11,945,289 |
| Inventory | 6,634,599 | 6,634,599 |
| Prepaid items | 5,963,049 | 2,151,723 |
| Restricted investment with fiscal agents (Note 3) | 3,779,889 | 5,178,939 |
| Total Current Assets | 244,294,110 | 136,998,940 |
| | | |
| Noncurrent Assets: | | |
| Capital Assets (Note 6) | | |
| Right-of-way improvements | 1,131,890,455 | 1,033,142,118 |
| Rail vehicles | 312,738,241 | 300,680,262 |
| Facilities and equipment | 130,941,630 | 128,365,308 |
| Office equipment | 2,669,104 | 1,083,825 |
| Capital Assets, Gross | 1,578,239,430 | 1,463,271,513 |
| Less accumulated depreciation | (780,300,085) | (696,378,157) |
| Construction in progress (Note 2L) | 486,332,631 | 356,151,695 |
| 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 | 1,519,244,165 | 1,358,017,240 |
| Total Noncurrent Assets | 1,519,244,165 | 1,358,017,240 |
| Total Assets | 1,763,538,275 | 1,495,016,180 |


The accompanying notes are an integral part of the financial statements

## PENINSULA CORRIDOR JOINT POWERS BOARD

## STATEMENTS OF NET POSITION (Continued)
## JUNE 30, 2017 AND 2016

| | | 2017 | | 2016 |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable and accrued liabilities | $ | 125,743,095 | $ | 53,093,121 |
| Interest payable | | 325,627 | | 320,544 |
| Self-insurance claims liabilities (Note 10) | | 3,200,406 | | 2,160,787 |
| Unearned member contributions (Note 14) | | 24,505,042 | | 26,241,912 |
| Unearned revenue | | 26,017,843 | | 18,217,892 |
| Revolving credit facility (Note 15) | | 27,038,000 | | - |
| Other | | 64,531 | | 60,058 |
| Total Current Liabilities | | 206,894,544 | | 100,094,314 |
| Noncurrent Liabilities: | | | | |
| Self-insurance claims liabilities - long-term (Note 10) | | 2,763,777 | | 1,754,781 |
| Farebox revenue bonds payable - long-term (Note 9) | | 34,513,906 | | 34,532,294 |
| Total Noncurrent Liabilities | | 37,277,683 | | 36,287,075 |
| Total Liabilities | | 244,172,227 | | 136,381,389 |
| NET POSITION | | | | |
| Net investment in capital assets | | 1,484,730,259 | | 1,323,484,946 |
| Unrestricted | | 34,635,789 | | 35,149,845 |
| Total Net Position | $ | 1,519,366,048 | $ | 1,358,634,791 |



The accompanying notes are an integral part of the financial statements

## PENINSULA CORRIDOR JOINT POWERS BOARD

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| OPERATING REVENUES | | |
| Passenger fares | $ 92,428,889 | $ 86,959,371 |
| Parking, shuttle and pass revenues | 7,910,679 | 7,226,245 |
| Other | 1,690,875 | 1,247,057 |
| Total operating revenues | 102,030,443 | 95,432,673 |
| OPERATING EXPENSES: | | |
| Contract services (Note 12A) | 89,637,862 | 82,941,883 |
| Insurance | 7,105,001 | 35,066 |
| Fuel | 8,613,116 | 8,311,751 |
| Parking, shuttle and pass expenses | 5,629,486 | 6,104,368 |
| Professional services | 1,514,052 | 1,617,726 |
| Wages and benefits | 13,560,800 | 12,942,580 |
| Utilities and supplies | 2,178,999 | 2,171,610 |
| Maintenance services | 1,508,497 | 1,054,342 |
| Temporary services, rent and other | 2,885,702 | 2,664,274 |
| Total operating expenses before depreciation and amortization | 132,633,515 | 117,843,600 |
| Depreciation and amortization | 83,921,928 | 93,539,578 |
| Total operating expenses | 216,555,443 | 211,383,178 |
| OPERATING LOSS | (114,525,000) | (115,950,505) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Federal, state and local operating assistance (Note 7) | 25,489,098 | 25,078,370 |
| Rental income | 1,860,920 | 1,780,892 |
| Investment income | 27,589 | 110,425 |
| Interest expense | (1,301,952) | (1,300,861) |
| Other income | 2,413,453 | 612,552 |
| Total Non-Operating Revenues, net | 28,489,108 | 26,281,378 |
| Loss Before Capital Contributions | (86,035,892) | (89,669,127) |
| Capital contributions (Note 11) | 246,767,149 | 131,328,850 |
| Change in net position | 160,731,257 | 41,659,723 |
| NET POSITION | | |
| Beginning of Year | 1,358,634,791 | 1,316,975,068 |
| End of year | $ 1,519,366,048 | $ 1,358,634,791 |



The accompanying notes are an integral part of the financial statements

## PENINSULA CORRIDOR JOINT POWERS BOARD

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | $ 95,882,129 | $ 89,346,177 |
| Rent and other cash receipts | 4,274,373 | 2,393,444 |
| Payments to vendors for services | (120,830,953) | (100,607,749) |
| Payments to employees | (13,560,800) | (12,942,580) |
| Net cash provided by (used for) operating activities | (34,235,251) | (21,810,708) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Operating grants received | 23,752,228 | 23,795,192 |
| Net cash provided by noncapital and financing activities | 23,752,228 | 23,795,192 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (172,498,879) | (134,075,124) |
| Capital contributions from grants | 188,382,563 | 89,922,610 |
| Proceeds of the revolving credit facility | 27,038,000 | - |
| Interest paid on capital debt | (1,315,257) | (1,319,250) |
| Net cash (used for) capital and related financing activities | 41,606,427 | (45,471,764) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment income received | 1,426,639 | 652,126 |
| Net cash provided by investing activities | 1,426,639 | 652,126 |
| Net increase (decrease) in cash and cash equivalents | 32,550,043 | (42,835,154) |
| Cash and cash equivalents, beginning of year | 19,934,836 | 62,769,990 |
| Cash and cash equivalents, end of year | $ 52,484,879 | $ 19,934,836 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | $ (114,525,000) | $ (115,950,505) |
| Adjustments to reconcile operating loss to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 83,921,928 | 93,539,578 |
| Rent and other cash receipts | 4,274,373 | 2,393,444 |
| Effect of changes in: | | |
| Receivables | (6,148,314) | (6,086,496) |
| Inventory | - | (1,429,523) |
| Prepaid items | (3,811,326) | 2,721,743 |
| Accounts payable, accrued liabilities | 4,473 | 7,556,268 |
| Claims liabilities | 2,048,615 | (4,555,217) |
| Net cash provided by (used for) operating activities | $ (34,235,251) | $ (21,810,708) |
| NONCASH INVESTING AND CAPITAL ACTIVITIES: | | |
| Change in fair value of investments | $ (17,415) | $ 12,016 |
| Noncash capital contributions | 58,384,586 | 41,406,240 |
| Net noncash investing and capital activities | $ 58,367,171 | $ 41,418,256 |



The accompanying notes are an integral part of the financial statements

## NOTES TO THE FINANCIAL STATEMENTS
## JUNE 30, 2017 AND 2016

***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 plan for the full transfer of administrative and financial 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 for Gilroy trackage right only, and the California Transportation Commission. The JPB holds title to the Mainline located in all 3 counties. Because the District advanced the initial contribution in the amount of $8,294,000 and $34,652,000 on behalf of the CCSF and VTA, respectively, to complete the funding package to acquire of the right of way, 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 MTC 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 Districts contributions on their behalf through a combination of gasoline tax “spillover” funds and population based “spillover” funds to be paid 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 in San Mateo County. This October 31, 2008 Agreement also designates the District as the Managing Agency of the JPB for so long as the District desires to assume this role.

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 Amtrak operated the rail service from July 1, 1992 through May 25, 1012. 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 a Member Agency’s withdrawal requiring a minimum one-year advance written notice to the JPB and the other Member Agencies. To ensure public involvement, the JPB established a Citizen 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. 74 – In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the JPB.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the fiscal year 2017-18. The JPB is evaluating the effect of this pronouncement.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the JPB.

GASB Statement No. 78 – In December 2015, GASB issued Statement No 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the JPB.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the JPB.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The JPB is evaluating the effect of this pronouncement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The JPB is evaluating the effect of this pronouncement.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The JPB is evaluating the effect of this pronouncement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The JPB is evaluating the effect of this pronouncement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The JPB is evaluating the effect of this pronouncement.

**C. <u>Basis of Accounting</u>**

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 Local Agency Investment Fund (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, 2017 and 2016, the allowance for doubtful accounts included in Accounts receivable – other, remains unchanged at $414,344.

**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 its 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. However, donated capital assets are recorded at estimated acquisition value at the date of donation plus ancillary charges, if any. 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**

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Caltrain Modernization Program | $ | 404,053,317 | $ | 129,179,506 |
| Bridge improvements | | 19,699,313 | | 158,318,900 |
| Rolling stock-purchase/ improvements | | 34,828,719 | | 18,478,176 |
| Grade crossing and separations | | 15,080,287 | | 7,067,022 |
| System-wide track improvements | | 2,562,925 | | 26,117,895 |
| Station improvements | | 6,174,714 | | 5,135,032 |
| Safety | | 2,172,809 | | 4,546,830 |
| Communications | | 1,760,547 | | 7,308,334 |
| Total Construction in Progress | $ | 486,332,631 | $ | 356,151,695 |

**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 the allocated costs of District employees addressing JPB functions in the District's 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 and disclosures at the date of the financial statements.

**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**

Generally Accepted Accounting Principles provide 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, 2017, 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 2017 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:

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | $ 32,411,086 | $ 4,249,639 |
| Restricted cash | 20,073,793 | 15,685,197 |
| Restricted Investments with fiscal agents | 3,779,889 | 5,178,939 |
| Total Cash and Investments | $ 56,264,768 | $ 25,113,775 |

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

| | 2017 | 2016 |
|---|---|---|
| Cash on hand | $ 294,713 | $ 976,403 |
| Deposits with financial institutions | 50,155,506 | 13,934,312 |
| Investments | 5,814,549 | 10,203,060 |
| Total Cash and Investments | $ 56,264,768 | $ 25,113,775 |

***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, when 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 | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 15% | 5% |
| Commercial Paper | 270 days | 15% | 10% |
| Negotiable Certificates of Deposit | 5 years | 10% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base value | None |
| Medium-term Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 10% | 5% |
| Money Market Mutual Funds | N/A | 20% | 5% |
| Mortgage Pass-through Securities | 5 years | 20% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| San Mateo County Pool | N/A | None | None |
| Municipal Bonds | 5 years | None | None |

***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's weighted average maturity of its investment portfolio at June 30, 2017 was as follows:

| Investment Type | Amount | Weighted Average Maturity (in years) |
|---|---|---|
| Local Agency Investment Fund (LAIF) | $ 72,466 | 0.53 |
| San Mateo County Investment Pool | 1,962,194 | 1.01 |
| Held by bond trustee: | | |
| Money Market Mutual Fund | 3,779,889 | 0.00 |
| Total investment portfolio | $ 5,814,549 | |
| Portfolio Weighted Average Maturity | | 0.35 |

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 |

***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, 2017 and 2016 for each investment type:

| | | Rating as of June 30, 2017 | |
|---|---|---|---|
| Investment Type | Amount | S & P Rating AAA | Not Rated |
| Local Agency Investment Fund (LAIF) | $ 72,466 | $ - | $ 72,466 |
| San Mateo County Pool | 1,962,194 | - | 1,962,194 |
| Held by bond trustee: | | | |
| Money Market Mutual Funds | 3,779,889 | 3,779,889 | - |
| Total | $ 5,814,549 | $ 3,779,889 | $ 2,034,660 |

| | | 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 |

***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, 2017 or June 30, 2016.

***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, 2017:

| Investment Type | Total | Level 2 Inputs | Uncategorized |
|---|---|---|---|
| Local Agency Investment Fund (LAIF) | $ 72,466 | $ - | $ 72,466 |
| San Mateo County Investment Pool | 1,962,194 | - | 1,962,194 |
| Money Market Mutual Fund | 3,779,889 | 3,779,889 | - |
| Total investments by fair value type | $ 5,814,549 | $ 3,779,889 | $ 2,034,660 |

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 | $ 5,178,939 | $ 5,024,121 |

***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, 2017 and 2016, the JPB had $54,296,554 and $24,805,912, respectively, of deposits with financial institutions. 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, 2017 and 2016 in the amount of  and , 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 the County Pool, 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, 2017 and June 30, 2016, the JPB had a contractual withdrawal value of $72,543 and $69,625, respectively, that is recorded at and on the statement of net position after the adjustment for unrealized gains/losses for fiscal year 2017 and 2016, 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, 2017, was as follows:

| | Balance at June 30, 2016 | Additions and Transfers | Deletions and Transfers | Balance at June 30, 2017 |
|---|---|---|---|---|
| Depreciable and amortized capital assets: | | | | |
| Right of way improvements | $ 1,033,142,118 | $ 98,748,337 | $ - | $ 1,131,890,455 |
| Rail vehicles | 300,680,262 | 12,057,979 | - | 312,738,241 |
| Facilities and equipment | 128,365,308 | 2,576,322 | - | 130,941,630 |
| Office equipment | 1,083,825 | 1,585,279 | - | 2,669,104 |
| Total depreciable and amortized capital assets | 1,463,271,513 | 114,967,917 | - | 1,578,239,430 |
| Accumulated depreciation for: | | | | |
| Right of way improvements | 452,150,729 | 63,124,436 | - | 515,275,165 |
| Rail vehicles | 190,839,735 | 15,321,620 | - | 206,161,355 |
| Facilities and equipment | 52,458,870 | 5,063,213 | - | 57,522,083 |
| Office equipment | 928,823 | 412,659 | - | 1,341,482 |
| Total accumulated description | 696,378,157 | 83,921,928 | - | 780,300,085 |
| Capital assets nondepreciable: | | | | |
| Right of way | 226,972,189 | - | - | 226,972,189 |
| Construction in progress | 356,151,695 | 245,148,852 | (114,967,916) | 486,332,631 |
| Intangible Asset - Trackage Rights | 8,000,000 | - | - | 8,000,000 |
| Total nondepreciable capital assets | 591,123,884 | 245,148,852 | (114,967,916) | 721,304,820 |
| Capital assets, net | $ 1,358,017,240 | $ 276,194,841 | $ (114,967,916) | $ 1,519,244,165 |

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 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 amortization | 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 Assets - 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 |

## 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:

| | 2017 | 2016 |
|---|---|---|
| District - Operating | 31.69% | 30.82% |
| VTA - Operating | 41.03% | 42.65% |
| CCSF - Operating | 27.28% | 26.53% |

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:

| | 2017 | 2016 |
|---|---|---|
| Member Agency local funds | $ 20,448,014 | $ 19,727,449 |
| Assembly Bill 434 operating assistance | 708,419 | 810,264 |
| State Transit Assitance | 4,324,362 | 4,525,550 |
| Other | 8,303 | 15,107 |
| Total | $ 25,489,098 | $ 25,078,370 |

**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 Joint Powers 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. The District contributed $990,000 to the CCF for the years ended June 30, 2017 and 2016.

In fiscal years 2017 and 2016, the JPB received capital reimbursements and capital advances from the member agencies totaling $19,365,213 and $22,221,355, respectively. The unexpended amounts at June 30, 2017 and 2016 are shown as Unearned Member Contributions. (See Note 14 – Related Parties).

***B. Federal and State Grants***

At June 30, 2016, the JPB had 28 federal, 19 state and 41 local grants/allocations that provide funding for Caltrain capital projects. Capital additions for the years ended June 30, 2017 and 2016 applicable to these projects are $246,799,013 and $131,328,850, respectively. The related federal participation was $103,678,773 $37,928,011 for fiscal year ended 2017 and 2016, respectively.

The JPB had receivables of $50,367,814 and $32,120,125 at June 30, 2017 and 2016, 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 $32,887,106 and $12,619,878 at June 30, 2017 and 2016, 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, 2017 is as follows (in thousands):

| | Balance at July 1, 2016 | Additions | Retirements | Balance June 30, 2017 | 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 | 392,294 | - | 18,388 | 373,906 | - |
| Total long-term debt | $ 34,532,294 | $ - | $ 18,388 | $ 34,513,906 | $ - |

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

| | 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 | $ - |

### Description of the District's Long-Term Debt Issues

***A. 2007 Series A Bonds***

In 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 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 12 years, from 2016 to 2028.

The 2007 Series A Bonds carry coupon rates ranging from 4.0 to 5.0 percent with interest 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 October 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 and Annual Debt Service Payments***

The amount of farebox pledged revenues recognized during the fiscal years ended June 30, 2017 and 2016 were $102,030,443 and $95,432,673. 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, 2017 and 2016 were $1,291,800 and $1,282,186 resulting in a pledge revenue coverage of 79.0% and 74.4% for the years ended June 30, 2017 and 2016. 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 |
|---|---|---|---|
| 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 |
| 2022 | 1,420,000 | 1,442,689 | 2,862,689 |
| 2023-2027 | 8,020,000 | 6,209,671 | 14,229,671 |
| 2028-2032 | 9,990,000 | 4,162,039 | 14,152,039 |
| 2033-2037 | 9,910,000 | 1,625,768 | 11,535,768 |
| 2038-2042 | 1,910,000 | 47,750 | 1,957,750 |
| Total | $ 34,140,000 | $ 19,182,240 | $ 53,322,240 |

## NOTE 10 – INSURANCE PROGRAMS

The JPB is exposed to various risks of loss including but not limited to those 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, 2017, coverage provided by self-insurance and excess coverage (purchased by or for the JPB) is generally summarized as follows:

| Type of coverage | Self-Insured Retention | Excess Insurance |
|---|---|---|
| General Liability and Property of Others | $1,000,000 per occurrence | $100,000,000 per occurrence/ annual aggregate |
| Workers' Compensation | $1,000,000 per occurrence | $10,000,000 per occurrence |
| Employment Practices | $150,000 per occurrence | $5,000,000 aggregate |
| Bus Physical Damage | $50,000 maximum per occurrence | $238,381,802 Total Insurable Values (TIV) |
| Real and Personal Property | $10,000 per occurrence | $110,000,000 Total Insurable Values (TIV) |
| Environmental Liability | $50,000 per occurrence | $5,000,000 3-year policy aggregate |
| Fiduciary Liability | $10,000 per occurrence | $2,000,000 Aggregate |
| Cyber Liability | $10,000 per occurrence | $5,000,000 aggregate |
| Crime Insurance/Employee Dishonesty | $25,000 per occurrence Except Computer Fraud and Funds Transfer $50,000 per occurrence | $15,000,000 per loss |

All rolling stock is insured at full replacement value. Total insurable values (TIV) covering all rolling stock, real and personal property, tunnels, bridges and stations exceeds 1 billion. The JPB carries a $400,000,000 loss limit per occurrence. Terrorism coverage is included. JPB properties are not located in any known flood districts and coverage has not been sought. Earthquake coverage remains cost prohibitive. To date, there have been no significant reductions in any of the JPB'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, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Self-insured claims liabilities, beginning of year | $ 3,915,568 | $ 8,470,785 |
| Incurred claims and changes in estimates | 2,741,499 | (4,055,615) |
| Claim payments and related costs | (692,884) | (499,602) |
| Total self-insured claims liabilities | 5,964,183 | 3,915,568 |
| Less current portion | 3,200,406 | 2,160,787 |
| Noncurrent portion | $ 2,763,777 | $ 1,754,781 |

## 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:

| | 2017 | 2016 |
|---|---|---|
| Contributions from Federal government | $ 50,541,743 | $ 37,928,011 |
| Contributions from the State | 103,678,368 | 42,082,840 |
| Contributions from local governments | 92,547,038 | 51,317,999 |
| | $ 246,767,149 | $ 131,328,850 |

## 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 period.

This is a Cost Plus Performance Fee based contract. All direct costs are reimbursable and the firm has 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 are discussed and agreed upon annually by the parties in key areas such as safety and on-time performance. These

metrics are measured quarterly with the exception of adherence to the budget which will be measured annually. TASI's reported results are also 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, 2017 and 2016 are recorded as Contract Services in the Statement of Revenues, Expenses, and Changes in Net Position.

***B. Litigation***

As of June 30, 2017 and 2016, 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.

***C. Lawsuit between Peninsula Corridor Joint Powers Board v. Parsons Transportation Group, Inc., Zurich American Insurance Company, Federal Insurance Company, Fidelity and Deposit Company America Maryland***

The JPB and Parsons Transportation Group ("Parsons") have each sued each other in the San Mateo Superior Court for breach of contract, among other things, regarding Parsons' provision of the JPB's Positive Train Control System. The JPB has also sued Parsons' surety for failing to comply with its obligations under the contract's performance bond. The lawsuits have been consolidated and are presently in the discovery/pre-trial motion phase of the litigation. The contract underlying these actions is valued at $159 million. Parsons alleges damages of approximately $59 million. The JPB in its action against Parsons alleges damages of $98 million. The JPB is vigorously pursuing/defending its claims but an out-of-court settlement process has also commenced.

### *D. 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, 2017 (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) | PTMISEA Rolling Stock State of Good Repair (Fund 3634) |
|---|---|---|---|---|
| Total Allocations as of June 30, 2016 | $ 2,260,188 | $ 731,303 | $ 864,529 | $ 1,218,739 |
| Adjustment | - | - | 117,985 | - |
| Net Expenditures and Commitments | (900,716) | (100,971) | - | (124,576) |
| Commitment at June 30, 2017 | $ 1,359,472 | $ 630,332 | $ 982,514 | $ 1,094,163 |

| | PTMISEA Electrification Improvements (Fund 3638) | PTMISEA Community Based Overlay Signal System (Fund 3647) | PTMISEA Interest Earned (Fund 3636) |
|---|---|---|---|
| Total Allocations as of June 30, 2016 | $ 993,150 | $ - | $ 133,085 |
| Total Allocations Received FY17 | - | 6,377,666 | - |
| Interest Earned, Net of Bank Charges | - | - | 26,093 |
| Net Expenditures and Commitments | (210,548) | - | - |
| Commitment at June 30, 2017 | $ 782,602 | $ 6,377,666 | $ 159,178 |

## NOTE 13 – LEASING TRANSACTIONS

In February 2002, the JPB entered into a leasing transaction (the 2002 Lease 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 management and 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, 2017 and 2016 total $48,638,995 and $23,204,570, 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:

| | 2017 | 2016 |
|---|---|---|
| Wages and benefits | $ 7,808,373 | $ 7,428,292 |
| Overhead | 5,752,429 | 5,514,288 |
| Total | $ 13,560,802 | $ 12,942,580 |

### 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:

| | 2017 | 2016 |
|---|---|---|
| District | $ 7,713,330 | $ 2,387,552 |
| VTA | 20,306,960 | 11,829,343 |
| CCSF | 23,347,230 | 8,865,527 |
| Total | $ 51,367,520 | $ 23,082,422 |

### *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:

| | 2017 | 2016 |
|---|---|---|
| District | $ 13,330,627 | $ 12,273,764 |
| VTA | 10,219,807 | 12,915,964 |
| CCSF | 954,608 | 1,052,184 |
| Total | $ 24,505,042 | $ 26,241,912 |
| Committed for: | | |
| Centralized traffic control system | $ 840 | |
| Farebox capital | 919 | |
| Capital contingency fund | 3,816,510 | 3,683,163 |
| Capital contribution Member's local match | 20,486,934 | 22,358,910 |
| Total Committed | 24,305,203 | 26,042,073 |
| Uncommitted funds: | | |
| District | 100,000 | 100,000 |
| VTA | (17,249) | (17,249) |
| CCSF | 117,088 | 117,088 |
| Total Uncommitted | 199,839 | 199,839 |
| Total | $ 24,505,042 | $ 26,241,912 |

## NOTE 15 – REVOLVING CREDIT FACILITY

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. As of June 30, 2017, $27,038,000 of the revolving credit facility balance was outstanding.

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.

*SUPPLEMENTARY INFORMATION*

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## PENINSULA CORRIDOR JOINT POWERS BOARD

## SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES – COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS) YEAR ENDED JUNE 30, 2017

| | Budget (Unaudited) | Actual | Variance Positive/ (Negative) |
|---|---|---|---|
| OPERATING REVENUES: | | | |
| Passenger fares | $ 91,679,812 | $ 92,428,889 | $ 749,077 |
| Parking, shuttle and pass revenues | 7,128,900 | 7,910,679 | 781,779 |
| Other | 1,497,330 | 1,690,875 | 193,545 |
| Total operating revenues | 100,306,042 | 102,030,443 | 1,724,401 |
| OPERATING EXPENSES: | | | |
| Contract services | 93,327,505 | 89,637,862 | 3,689,643 |
| Insurance | 6,293,990 | 7,105,001 | (811,011) |
| Fuel | 15,471,477 | 8,613,116 | 6,858,361 |
| Parking, shuttle and pass expenses | 6,647,350 | 5,629,486 | 1,017,864 |
| Professional services | 1,565,920 | 1,514,052 | 51,868 |
| Wages and benefits | 14,262,838 | 13,560,800 | 702,038 |
| Utilities and supplies | 2,821,210 | 2,178,999 | 642,211 |
| Maintenance services | 1,306,380 | 1,508,497 | (202,117) |
| Temporary services, rent and other | 3,413,184 | 2,885,702 | 527,482 |
| Total operating expenses | 145,109,854 | 132,633,515 | 12,476,339 |
| Operating loss | (44,803,812) | (30,603,072) | 14,200,740 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| State and local operating assistance | 24,879,350 | 25,489,098 | 609,748 |
| Rental income | 1,731,400 | 1,860,920 | 129,520 |
| Interest income | 111,000 | 24,626 | (86,374) |
| Interest expense | (1,282,175) | (1,301,952) | (19,777) |
| Other income | 130,000 | 2,548,424 | 2,418,424 |
| Total nonoperating revenues | 25,569,575 | 28,621,116 | 3,051,541 |
| Net Income (loss) | (19,234,237) | (1,981,956) | 17,252,281 |
| CAPITAL OUTLAY: | | | |
| Capital assistance | 526,751,568 | 246,767,149 | (279,984,419) |
| Capital debt financing | (1,359,915) | (1,618,297) | (258,382) |
| Capital expenditures | (525,391,653) | (245,148,852) | 280,242,801 |
| Net capital outlay | - | - | - |
| EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT | $ (19,234,237) | $ (1,981,956) | $ 17,252,281 |

# PENINSULA CORRIDOR JOINT POWERS BOARD

# NOTES TO SUPPLEMENTARY SCHEDULE
# YEAR ENDED JUNE 30, 2017

## 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 | | $ (1,981,956) |
| Reconciling Items | | |
| Capital expenditures | $ 245,148,852 | |
| Depreciation and amortization | (83,921,928) | |
| Capital debt financing | 1,618,297 | |
| Recollectible expense | (134,971) | |
| GASB 31 unrealized gain/loss | (17,415) | |
| Gain/loss on asset disposition | 1,990 | |
| Bond premium amortization | 18,388 | |
| Sub-total reconciling items | | 162,713,213 |
| Change in net position, GAAP basis | | $ 160,731,257 |

# *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 2008 THROUGH 2017 (in thousands)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Passenger fares | $ 92,429 | $ 86,959 | $ 83,351 | $ 74,846 |
| Parking, shuttle and pass revenues | 7,911 | 7,226 | 5,990 | 5,859 |
| Other | 1,691 | 1,247 | 1,421 | 1,440 |
| Total operating revenues | 102,031 | 95,432 | 90,762 | 82,145 |
| Operating expenses: | | | | |
| Contract services | 89,639 | 82,942 | 78,240 | 75,238 |
| Insurance | 7,105 | 35 | 6,593 | 3,874 |
| Fuel | 8,613 | 8,312 | 12,118 | 14,797 |
| Parking, shuttle and pass expenses | 5,629 | 6,104 | 5,316 | 5,476 |
| Professional service | 1,514 | 1,618 | 1,255 | 1,322 |
| Wages and benefits | 13,561 | 12,943 | 11,501 | 10,668 |
| Utilities and supplies | 2,179 | 2,172 | 2,068 | 1,524 |
| Maintenance services | 1,508 | 1,054 | 1,039 | 1,007 |
| Temporary services, rent and other | 2,886 | 2,664 | 1,981 | 1,854 |
| Total operating expenses | 132,634 | 117,844 | 120,110 | 115,760 |
| Operating loss before depreciation and amortization | (30,603) | (22,412) | (29,348) | (33,616) |
| Depreciation and amortization | (83,922) | (93,540) | (75,300) | (73,452) |
| Operating loss | (114,525) | (115,952) | (104,648) | (107,068) |
| Nonoperating revenues | | | | |
| Federal, state and local operating assistance | 25,489 | 25,078 | 27,578 | 29,522 |
| Rental income | 1,861 | 1,781 | 1,764 | 1,728 |
| Investment income (loss) | 28 | 111 | 242 | 206 |
| Other income (expense) | 2,413 | 613 | 1,007 | 4,044 |
| Total nonoperating revenues | 29,791 | 27,583 | 30,590 | 35,500 |
| Nonoperating expenses | (1,302) | (1,301) | (1,192) | (1,120) |
| Net loss before capital contributions | (86,036) | (89,670) | (75,250) | (72,688) |
| Capital contributions | 246,767 | 131,329 | 115,225 | 111,349 |
| Change in net position | 160,731 | 41,659 | 39,975 | 38,661 |
| Net position - beginning of year | 1,358,635 | 1,316,975 | 1,277,001 | 1,238,339 |
| Prior period adjustment per GASB 65 [1] | - | - | - | - |
| Prior period adjustment per GASB 51 [2] | - | - | - | - |
| Components of net position | | | | |
| Net investment in capital assets | 1,484,730 | 1,323,485 | 1,282,932 | 1,246,218 |
| Restricted | - | - | - | - |
| Unrestricted | 34,636 | 35,150 | 34,043 | 30,783 |
| Net position - end of year | 1,519,366 | 1,358,635 | $ 1,316,975 | $ 1,277,001 |

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

Source: Current and prior years' CAFRs.

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| $ 68,767 | $ 59,891 | $ 49,026 | $42,732 | $ 43,272 | $ 38,399 |
| 5,275 | 4,411 | 3,576 | 3,452 | 3,112 | 4,972 |
| 1,504 | 382 | 694 | 278 | 335 | 389 |
| 75,546 | 64,684 | 53,296 | 46,462 | 46,719 | 43,760 |
| | | | | | |
| 65,485 | 65,882 | 60,637 | 59,404 | 61,172 | 55,341 |
| 5,186 | 4,783 | 7,310 | 5,035 | 4,537 | 3,641 |
| 15,350 | 15,288 | 12,937 | 10,309 | 10,742 | 14,377 |
| 5,756 | 4,183 | 3,912 | 3,850 | 3,941 | 3,904 |
| 1,098 | 885 | 1,046 | 826 | 916 | 780 |
| 9,322 | 5,731 | 6,026 | 5,928 | 5,384 | 5,708 |
| 1,726 | 1,520 | 1,599 | 1,268 | 1,462 | 1,295 |
| 1,011 | 1,070 | 382 | 268 | 252 | 308 |
| 2,117 | 1,833 | 1,779 | 1,721 | 1,861 | 1,604 |
| 107,051 | 101,175 | 95,628 | 88,609 | 90,267 | 86,958 |
| | | | | | |
| (31,506) | (36,490) | (42,332) | (42,147) | (43,548) | (43,198) |
| (59,968) | (62,724) | (62,119) | (57,374) | (53,183) | (46,290) |
| (91,474) | (99,214) | (104,451) | (99,521) | (96,731) | (89,488) |
| | | | | | |
| 39,165 | 35,282 | 43,142 | 41,556 | 39,826 | 39,661 |
| 1,783 | 1,760 | 1,733 | 1,729 | 1,661 | 1,577 |
| 128 | 193 | 143 | 291 | (486) | 1,260 |
| 2,137 | 2,555 | 1,907 | 2,099 | 1,173 | 832 |
| 43,213 | 39,790 | 46,925 | 45,675 | 42,174 | 43,330 |
| (1,120) | (1,123) | (1,123) | (1,140) | (767) | (111) |
| (49,383) | (60,549) | (58,648) | (54,986) | (55,324) | (46,269) |
| 87,385 | 81,375 | 91,834 | 71, 579 | 71,241 | 82,552 |
| 38,002 | 20,827 | 33,186 | 16,593 | 15,917 | 36,283 |
| 1,200,336 | 1,180,185 | 1,146,999 | 1,130,406 | 1,111,334 | 1,075,051 |
| - | (676) | - | - | - | - |
| - | - | - | - | 3,155 | - |
| | | | | | |
| 1,208,591 | 1,181,995 | 1,163,379 | 1,133,772 | 1,119,056 | 1,099,455 |
| - | - | 11,664 | 11,098 | 1,318 | 529 |
| 29,748 | 18,341 | 5,121 | 2,129 | 10,032 | 11,350 |
| $ 1,238,339 | $ 1,200,336 | $ 1,180,184 | $ 1,146,999 | $ 1,130,406 | $ 1,111,334 |

## PENINSULA CORRIDOR JOINT POWERS BOARD

## REVENUE CAPACITY - REVENUE BASE AND REVENUE RATE
## FISCAL YEARS 2008 THROUGH 2017

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Passenger fares (in thousands) | $ 92,429 | $ 86,959 | $ 83,351 | $ 74,846 |
| Revenue Base | | | | |
| Number of passengers (in thousands) | 18,743 | 19,233 | 18,567 | 17,029 |
| Source: National Transit Database (NTD) | | | | |
| Four-zone fare structure | | | | |
| Full adult fare: | | | | |
| One-way | $ 9.75 | $ 9.75 | $ 9.25 | $ 9.25 |
| Day Pass | 19.50 | 19.50 | 18.50 | 18.50 |
| 8-ride | 68.10 | 68.10 | 64.75 | 64.75 |
| 10-ride | - | - | - | - |
| Monthly Pass | 243.80 | 243.80 | 232.00 | 232.00 |
| Eligible discount fare: | | | | |
| One-way | $ 4.75 | $ 4.75 | $ 4.50 | $ 4.50 |
| Day Pass | 9.75 | 9.75 | 9.25 | 9.25 |
| 8-ride[1] | 34.05 | 34.05 | 32.25 | 32.25 |
| 10-ride[2] | - | - | - | - |
| Monthly Pass | 121.90 | 121.90 | 116.00 | 116.00 |

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

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| $ 68,767 | $ 59,891 | $ 49,026 | $ 42,732 | $ 43,272 | $ 38,399 |
| 15,596 | 14,134 | 12,673 | 10,611 | 11,359 | 10,915 |
| $ 8.75 | $ 8.75 | $ 8.75 | $ 7.75 | $ 7.75 | $ 7.50 |
| 17.50 | 17.50 | 17.50 | 15.50 | 15.50 | 15.00 |
| 59.50 | 59.50 | 59.50 | 52.75 | 52.75 | - |
| - | - | - | - | 66.00 | 63.75 |
| 232.00 | 232.00 | 232.00 | 205.50 | 205.50 | 198.75 |
| $ 4.25 | $ 4.25 | $ 4.25 | $ 3.75 | $ 3.75 | $ 3.75 |
| 8.75 | 8.75 | 8.75 | 7.75 | 7.75 | 7.50 |
| 29.75 | 29.75 | 29.75 | 26.25 | 26.25 | - |
| - | - | - | - | 33.00 | 31.75 |
| 116.00 | 116.00 | 116.00 | 102.75 | 102.75 | 99.25 |

## PENINSULA CORRIDOR JOINT POWERS BOARD

## REVENUE CAPACITY - PRINCIPAL REVENUE PAYERS
## FISCAL YEAR ENDED JUNE 30, 2017

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 2008 THROUGH 2017 (in thousands)

| Fiscal Year | Farebox Revenue Bonds for JPB (in thousands)[1] | Personal Income for San Mateo County [2] | As a Percent of Personal Income |
|---|---|---|---|
| 2017 | $ 34,514 | $ 79,186,861 | 0.044% |
| 2016 | 34,532 | 76,880,447 | 0.045% |
| 2015 | 34,551 | 74,641,211 | 0.046% |
| 2014 | 23,564 | 69,717,150 | 0.034% |
| 2013 | 23,569 | 65,192,835 | 0.036% |
| 2012 | 23,140 | 64,765,189 | 0.036% |
| 2011 | 23,140 | 57,964,665 | 0.040% |
| 2010 | 23,140 | 52,889,544 | 0.044% |
| 2009 | 23,140 | 51,620,897 | 0.045% |
| 2008 | 23,140 | 54,426,270 | 0.043% |

[1] Source: Current and prior years' CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2016 and 2017 are based on an estimated three percent annual increase over 2015.

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

## DEBT CAPACITY - BONDED DEBT
## FISCAL YEARS 2008 THROUGH 2017 (in thousands)

| Fiscal Year | Farebox Revenue Bonds for JPB (in thousands)[1] | Personal Income for San Mateo County [2] | As a Percent of Personal Income |
|---|---|---|---|
| 2017 | $ 34,514 | $ 79,186,861 | 0.044% |
| 2016 | 34,532 | 76,880,447 | 0.045% |
| 2015 | 34,551 | 74,641,211 | 0.046% |
| 2014 | 23,564 | 69,717,150 | 0.034% |
| 2013 | 23,569 | 65,192,835 | 0.036% |
| 2012 | 23,140 | 64,765,189 | 0.036% |
| 2011 | 23,140 | 57,964,665 | 0.040% |
| 2010 | 23,140 | 52,889,544 | 0.044% |
| 2009 | 23,140 | 51,620,897 | 0.045% |
| 2008 | 23,140 | 54,426,270 | 0.043% |

[1] Source: Current and prior years' CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2016 and 2017 are based on an estimated three percent annual increase over 2015.

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

## DEBT CAPACITY - DIRECT AND OVERLAPPING DEBT
## FISCAL YEAR ENDED JUNE 30, 2017

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

## PENINSULA CORRIDOR JOINT POWERS BOARD

## DEBT CAPACITY - DEBT LIMITATIONS
## FISCAL YEAR ENDED JUNE 30, 2017

The JPB does not have a legal debt limit.

## PENINSULA CORRIDOR JOINT POWERS BOARD

## DEBT CAPACITY - PLEDGED REVENUE COVERAGE
## FISCAL YEARS 2008 THROUGH 2017 (in thousands)

| Year | Pledged Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Debt Coverage |
|---|---|---|---|---|---|
| 2017 | $ 102,031 | $ - | $ 1,292 | 1,292 | 79 |
| 2016 | 95,433 | - | 1,282 | 1,282 | 74 |
| 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 |

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.

# PENINSULA CORRIDOR JOINT POWERS BOARD

## DEMOGRAPHICS AND ECONOMIC INFORMATION - POPULATION, INCOME AND UNEMPLOYMENT RATES - SAN MATEO COUNTY
## FISCAL YEARS 2008 THROUGH 2017

| Year | Population [1] | Total Personal Income (in thousands) [2] | Per Capita Personal Income [2] | Average Unemployment Rates [3] |
|---|---|---|---|---|
| 2017 | 770,203 | $ 79,186,861 * | $ 103,494 * | 2.9% |
| 2016 | 765,895 | 76,880,447 * | 100,480 * | 3.1% |
| 2015 | 759,609 | 74,641,211 | 97,553 | 3.5% |
| 2014 | 752,355 | 69,717,150 | 91,935 | 4.2% |
| 2013 | 745,639 | 65,192,835 | 86,911 | 5.6% |
| 2012 | 735,256 | 64,765,189 | 87,444 | 6.8% |
| 2011 | 726,305 | 57,964,665 | 79,465 | 7.9% |
| 2010 | 718,451 | 52,889,544 | 73,460 | 8.5% |
| 2009 | 713,818 | 51,620,897 | 72,337 | 8.6% |
| 2008 | 707,820 | 54,426,270 | 77,329 | 4.9% |

[1] Data include retroactive revisions by the State of California Department of Finance, Demographic Research Unit.

[2] Data include retroactive revisions by the U.S. Department of Commerce Bureau of Economic Analysis.

[3] Data include retroactive revisions by the State of California Employment Development Department. Unemployment rates are non-seasonally adjusted for June.

*Personal Income and Per Capital Personal Income data for 2016 and 2017 is based on an estimated three percent annual increase over 2015.

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 2008 THROUGH 2017

| Year | Population [1] | Total Personal Income (in thousands) [2] | Per Capita Personal Income [2] | Average Unemployment Rates [3] |
|---|---|---|---|---|
| 2017 | 874,228 | $ 94,986,037 * | $ 109,834 * | 3.2% |
| 2016 | 864,889 | 92,219,454 * | 106,635 * | 3.4% |
| 2015 | 857,410 | 89,533,450 | 103,529 | 3.7% |
| 2014 | 848,022 | 83,120,429 | 97,498 | 4.4% |
| 2013 | 839,242 | 74,676,689 | 88,825 | 5.8% |
| 2012 | 826,103 | 73,114,806 | 88,141 | 7.1% |
| 2011 | 815,854 | 66,093,535 | 80,974 | 8.4% |
| 2010 | 804,989 | 61,333,420 | 76,114 | 8.9% |
| 2009 | 800,239 | 58,673,898 | 73,167 | 9.2% |
| 2008 | 795,002 | 60,416,516 | 76,365 | 5.3% |

[1] Data include retroactive revisions by the State of California Department of Finance, Demographic Research Unit.

[2] Data include retroactive revisions by the U.S. Department of Commerce Bureau of Economic Analysis.

[3] Data include retroactive revisions by the State of California Employment Development Department. Unemployment rates are non-seasonally adjusted for June.

*Personal Income and Per Capital Personal Income data for 2016 and 2017 is based on an estimated three percent annual increase over 2015.

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

## PENINSULA CORRIDOR JOINT POWERS BOARD

## DEMOGRAPHICS AND ECONOMIC INFORMATION–POPULATION, INCOME, AND UNEMPLOYMENT RATES - COUNTY OF SANTA CLARA
## FISCAL YEARS 2008 THROUGH 2017

| Year | Population [1] | Total Personal Income (in thousands) [2] | Per Capita Personal Income [2] | Average Unemployment Rates [3] |
|---|---|---|---|---|
| 2017 | 1,938,180 | $ 168,395,294 * | $ 87,796 * | 3.5% |
| 2016 | 1,922,619 | 163,490,576 * | 85,239 * | 3.9% |
| 2015 | 1,903,209 | 158,728,715 | 82,756 | 4.2% |
| 2014 | 1,879,196 | 147,251,454 | 77,663 | 5.2% |
| 2013 | 1,856,416 | 135,181,879 | 72,246 | 6.7% |
| 2012 | 1,828,496 | 134,045,799 | 72,799 | 8.2% |
| 2011 | 1,803,362 | 120,140,052 | 66,222 | 9.6% |
| 2010 | 1,781,427 | 109,330,559 | 61,186 | 10.5% |
| 2009 | 1,767,204 | 101,442,813 | 57,470 | 11.1% |
| 2008 | 1,747,912 | 107,307,235 | 61,637 | 6.0% |

[1] Data include retroactive revisions by the State of California Department of Finance, Demographic Research Unit.

[2] Data include retroactive revisions by the U.S. Department of Commerce Bureau of Economic Analysis.

[3] Data include retroactive revisions by the State of California Employment Development Department. Unemployment rates are non-seasonally adjusted for June.

*Personal Income and Per Capital Personal Income data for 2016 and 2017 is based on an estimated three percent annual increase over 2015.

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

## PENINSULA CORRIDOR JOINT POWERS BOARD

## DEMOGRAPHICS AND ECONOMIC INFORMATION - PRINCIPAL EMPLOYERS FISCAL YEARS 2016 AND 2008

| | 2016* | | | 2008 | | |
|---|---|---|---|---|---|---|
| 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 | 10,500 | 1 | 2.41% | 9,600 | 1 | 2.73% |
| Genentech Inc. | 10,000 | 2 | 2.30% | 7,845 | 2 | 2.23% |
| Oracle Corp. | 6,750 | 3 | 1.55% | 5,642 | 4 | 1.61% |
| Facebook Inc. | 6,068 | 4 | 1.40% | | | |
| County of San Mateo | 5,500 | 5 | 1.26% | 5,777 | 3 | 1.64% |
| Visa Inc. | 3,500 | 6 | 0.80% | | | |
| Gilead Sciences Inc. | 3,500 | 7 | 0.80% | | | |
| Mills-Peninsula Health Services | 2,500 | 8 | 0.57% | 1,800 | 9 | 0.51% |
| Safeway Inc. | 2,393 | 9 | 0.55% | 2,280 | 6 | 0.65% |
| Electronic Arts Inc. | 2,367 | 10 | 0.54% | 2,000 | 8 | 0.57% |
| Kaiser Permanente | | | | 3,609 | 5 | 1.03% |
| United States Postal Service | | | | 2,174 | 7 | 0.62% |
| Applied Biosystems | | | | 1,578 | 10 | 0.45% |
| Total | 53,078 | | 12.20% | 42,305 | | 12.04% |

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

This table presents the top 10 principal employers in San Mateo County for 2016 and 2008.

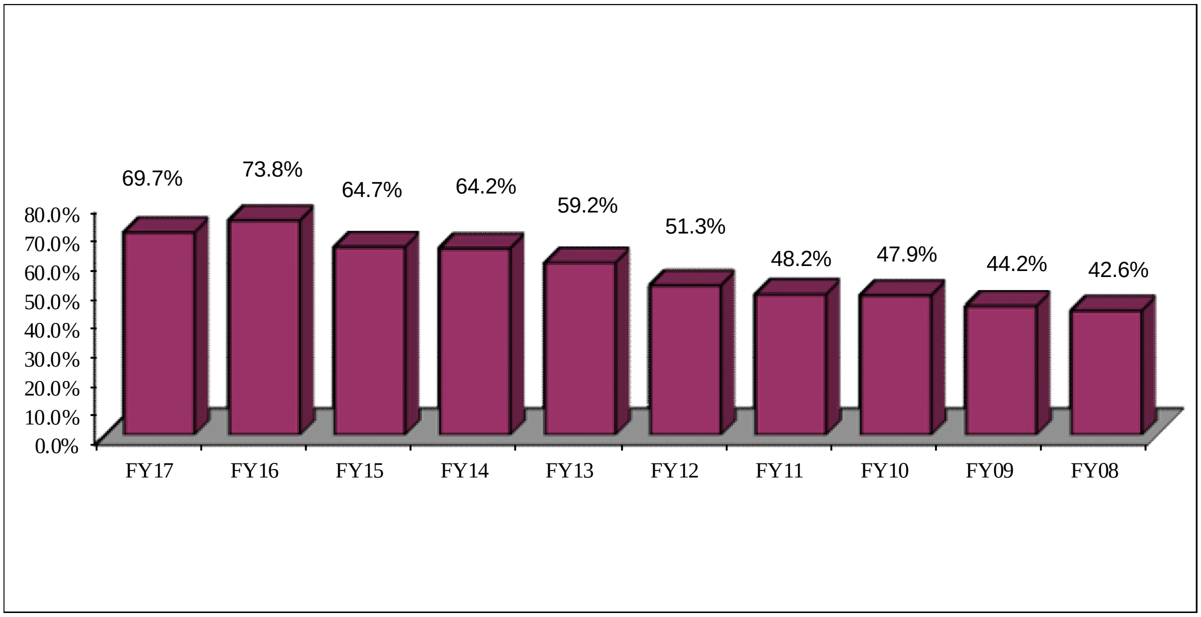
Source: San Francisco Business Times - 2017 Book of Lists; California Employment Development Department (provided by San Mateo County Controller's office) from the FY2017 County of San Mateo CAFR

## PENINSULA CORRIDOR JOINT POWERS BOARD

## OPERATING INFORMATION - FAREBOX RECOVERY AND PASSENGER MILES FISCAL YEARS 2008 THROUGH 2017

**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.

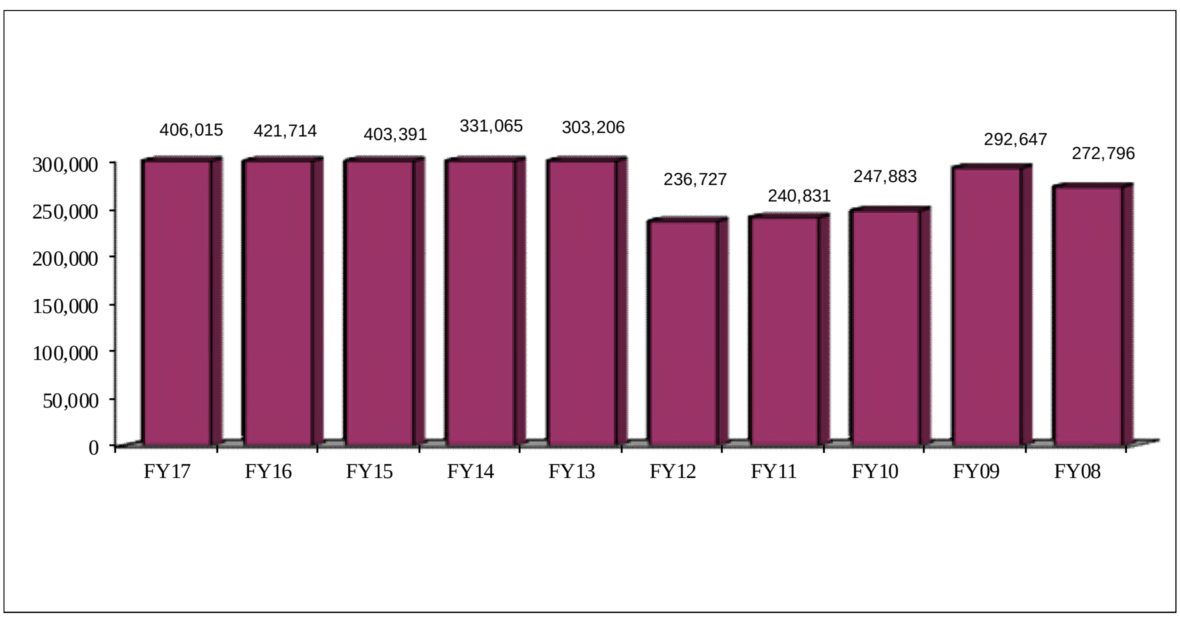



**PASSENGER MILES**

*(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.

## PENINSULA CORRIDOR JOINT POWERS BOARD

## OPERATING INFORMATION - EMPLOYEES (FULL-TIME EQUIVALENTS) FISCAL YEARS 2008 THROUGH 2017

| | FULL-TIME EQUIVALENTS (FTEs) | | | | |
|---|---|---|---|---|---|
| **DIVISION** | **2017** | **2016** | **2015** | **2014** | **2013** |
| **EXECUTIVE** | 0.56 | 0.70 | 0.76 | 0.85 | 0.87 |
| **PUBLIC AFFAIRS** | - | 5.35 | 4.80 | 4.80 | 4.00 |
| **OPERATIONS, ENGINEERING AND CONSTRUCTION** | 42.88 | 51.64 | 49.64 | 47.81 | 43.35 |
| **PLANNING AND DEVELOPMENT** | 8.45 | 6.43 | 5.95 | 6.40 | 3.04 |
| **FINANCE AND ADMINISTRATION** | 33.71 | 29.44 | 29.40 | 31.00 | 33.71 |
| **CALTRAIN MODERNIZATION PROGRAM** | 8.25 | 9.95 | 5.95 | 4.95 | 3.50 |
| **CUSTOMER SERVICE AND MARKETING** | 24.01 | 11.3 | 11.1 | 14.6 | 12.6 |
| **TOTAL FTEs** | **117.86** | **114.78** | **107.64** | **110.42** | **101.03** |

| **DIVISION** | **2012** | **2011** | **2010** | **2009** | **2008** |
|---|---|---|---|---|---|
| **EXECUTIVE** | 0.91 | 0.85 | 0.80 | 0.65 | 0.60 |
| **ADMINISTRATION** | - | - | - | 12.35 | 12.50 |
| **COMMUNICATIONS** | - | - | - | 14.77 | 15.03 |
| **CUSTOMER SERVICE AND MARKETING** | 11.40 | 10.90 | 18.05 | - | - |
| **DEVELOPMENT** | - | - | - | 45.75 | 49.75 |
| **FINANCE** | - | - | - | 9.80 | 9.80 |
| **FINANCE AND ADMINISTRATION** | 33.10 | 32.17 | 33.37 | - | - |
| **PLANNING AND DEVELOPMENT** | 5.09 | 5.21 | 6.20 | - | - |
| **PENINSULA RAIL PROGRAM** | - | 2.00 | 1.00 | - | - |
| **PUBLIC AFFAIRS** | 4.46 | 2.80 | 3.80 | - | - |
| **OPERATIONS** | | - | - | 17.50 | 14.85 |
| **OPERATIONS, ENGINEERING AND CONSTRUCTION** | 46.75 | 45.52 | 46.54 | - | - |
| **TOTAL FTEs** | **101.71** | **99.43** | **109.76** | **100.82** | **102.53** |

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.

## PENINSULA CORRIDOR JOINT POWERS BOARD

## OPERATING INFORMATION - CAPITAL ASSETS (in thousands)
## FISCAL YEARS 2008 THROUGH 2017

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Depreciable and amortized capital assets | | | |
| Right of way improvements | $ 1,131,890 | $ 1,033,142 | $ 972,866 |
| Rail vehicles | 312,738 | 300,680 | 284,023 |
| Facilities and equipment | 130,942 | 128,365 | 128,584 |
| Office equipment | 2,669 | 1,084 | 1,084 |
| Total depreciable and amortized capital assets | 1,578,239 | 1,463,272 | 1,386,557 |
| Accumulated depreciation and amortization | | | |
| Right of way improvements | (515,275) | (452,151) | (399,280) |
| Rail vehicles | (206,161) | (190,840) | (161,494) |
| Facilities and equipment | (57,522) | (52,459) | (48,396) |
| Office equipment | (1,341) | (929) | (854) |
| Intangible Asset - Trackage Right* | - | - | - |
| Total accumulated depreciation and amortization | (780,300) | (696,378) | (610,024) |
| Nondepreciable capital assets | | | |
| Right of way | 226,972 | 226,972 | 226,972 |
| Construction in progress | 486,333 | 356,152 | 305,977 |
| Intangible Asset - Trackage Right* | 8,000 | 8,000 | 8,000 |
| Total nondepreciable capital assets | 721,305 | 591,124 | 540,949 |
| Capital assets, net | $ 1,519,244 | $ 1,358,017 | $ 1,317,482 |

*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

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

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| $ 804,003 | $739,383 | $719,324 | $677,797 | $652,968 | $596,170 | $582,783 |
| 284,128 | 285,040 | 285,125 | 284,203 | 280,201 | 275,326 | 254,537 |
| 127,653 | 127,568 | 128,428 | 127,048 | 121,037 | 118,197 | 117,507 |
| 869 | 860 | 875 | 855 | 693 | 726 | 815 |
| 1,216,653 | 1,152,851 | 1,133,752 | 1,089,903 | 1,054,899 | 990,419 | 955,642 |
| | | | | | | |
| (341,424) | (293,985) | (264,091) | (222,481) | (186,213) | (150,369) | (131,156) |
| (149,882) | (137,309) | (126,011) | (113,553) | (101,159) | (88,499) | (76,232) |
| (43,790) | (39,743) | (34,820) | (29,337) | (23,626) | (18,401) | (14,966) |
| (648) | (672) | (751) | (702) | (626) | (656) | (621) |
| - | - | - | - | - | - | (2,963) |
| (535,744) | - | (425,673) | (366,073) | (311,624) | (257,925) | (225,938) |
| | | | | | | |
| 226,893 | 226,893 | 226,893 | 226,893 | 226,893 | 226,893 | 226,893 |
| 354,256 | 316,125 | 261,771 | 227,381 | 177,959 | 173,488 | 151,197 |
| 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| 589,149 | 551,018 | 496,664 | 462,274 | 412,852 | 408,381 | 386,090 |
| | | | | | | |
| $ 1,270,058 | $ 1,703,869 | $ 1,204,743 | $ 1,186,104 | $ 1,156,127 | $ 1,140,875 | $ 1,115,794 |

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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 8879.55

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 the Peninsula Corridor Joint Powers Board (JPB) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the JPB’s basic financial statements, and have issued our report thereon dated December 19 2017.

## 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.



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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 8879.55, 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 8879.55 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
December 19, 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2017.

**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
December 19, 2017

# PENINSULA CORRIDOR JOINT POWERS BOARD

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2017

| 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 | $ 43,182 |
| Federal Transit Capital Investment Grants | 20.500 | CA-05-0218 | 19,869 |
| Federal Transit Capital Investment Grants | 20.500 | CA-05-0238 | 92,786 |
| Federal Transit Capital Investment Grants | 20.500 | CA-05-0242 | 143,423 |
| Federal Transit Capital Investment Grants | 20.500 | CA-05-0251 | 2,478,684 |
| Federal Transit Capital Investment Grants | 20.500 | CA-05-0262 | 1,589,841 |
| Federal Transit Capital Investment Grants | 20.500 | CA-2017-014 | 28,153,884 |
| Federal Transit Formula Grants | 20.500 | CA-05-0276 | 2,465,552 |
| Total Federal Transit Capital Investment Grants | | | 34,987,221 |
| | | | |
| Federal Transit Formula Grants | | | |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-246 | 62,787 |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-312 | 18,418 |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-696 | 967,334 |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-788 | 412,939 |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-895 | 1,721,585 |
| Federal Transit Formula Grants | 20.507 | CA-95-X-074 | 30,190 |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-944 | 192,718 |
| Federal Transit Formula Grants | 20.507 | CA-90-Z-042 | 538,507 |
| Federal Transit Formula Grants | 20.507 | CA-90-Z-159 | 76,717 |
| Federal Transit Formula Grants | 20.507 | CA-95-X-299 | 222,555 |
| Federal Transit Formula Grants | 20.507 | CA-90-Z-237 | 36,018 |
| Federal Transit Formula Grants | 20.507 | CA-2016-008 | 45,382 |
| Total Federal Transit Formula Grants | | | 4,325,150 |
| State of Good Repair Grants | | | |
| State of Good Repair Grants | 20.525 | CA-54-0004 | 274,957 |
| State of Good Repair Grants | 20.525 | CA-54-0020 | 1,131,973 |
| State of Good Repair Grants | 20.525 | CA-54-0034 | (3,629,010) |
| State of Good Repair Grants | 20.525 | CA-2017-003 | 6,755,389 |
| State of Good Repair Grants | 20.525 | CA-2017-054 | 2,007,169 |
| Total State of Good Repair Grants | | | 6,540,478 |
| Total Federal Transit Cluster | | | 45,852,849 |

## PENINSULA CORRIDOR JOINT POWERS BOARD

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
## YEAR ENDED JUNE 30, 2017

| | | | |
|---|---|---|---|
| Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research | | | |
| Direct Grant | 20.505 | Not available | 8,303 |
| Passed Through California Department of Transportation: | | | |
| Highway Planning and Construction | 20.205 | BRLO-6170 (023) | 3,454,051 |
| Highway Planning and Construction | 20.205 | BRLO-6170 (021) | 284,444 |
| Highway Planning and Construction | 20.205 | BRLO-6170 (022) | 986,246 |
| Total Highway Planning and Construction | | | 4,724,741 |
| **Total U.S. Department of Transportation** | | | 50,585,893 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | $ 50,585,893 |

# NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# YEAR ENDED JUNE 30, 2017

## NOTE 1 - REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the 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, 2017

### 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? | None Reported |
| 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? | None Reported |
| 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: | $ 1,517,577 |
| Auditee qualified as low-risk auditee? | Yes |

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# YEAR ENDED JUNE 30, 2017

## FINANCIAL STATEMENT FINDINGS

None reported.

# PENINSULA CORRIDOR JOINT POWERS BOARD

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# YEAR ENDED JUNE 30, 2017

## FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

# NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# YEAR ENDED JUNE 30, 2017

## STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

***Financial Statement Prior Year Findings***

**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.

Current year status

Implemented.

***Federal Award Prior Year Findings and Questioned Costs***

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