

Peninsula Corridor Joint Powers Board

San Carlos, California

A Joint Exercise of Powers Agreement among:



City and County of San Francisco

San Mateo County Transit District

Santa Clara Valley Transportation Authority



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008



**PENINSULA CORRIDOR
JOINT POWERS BOARD**

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

Prepared by the Finance Division

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Table of Contents

	Page
I. INTRODUCTORY SECTION	
Letter of Transmittal.....	i
Government Finance Officers Association (GFOA) Certificate of Achievement.....	xi
Board of Directors	xii
Executive Management	xiii
Organization Chart	xiv
Map.....	xv
Table of Credits	xvi
II. FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statements of Net Assets – Years Ended June 30, 2008 and 2007.....	11
Statements of Revenues, Expenses and Changes in Net Assets - Years Ended June 30, 2008 and 2007.....	13
Statements of Cash Flows – Years Ended June 30, 2008 and 2007	14
Notes to the Financial Statements - Years Ended June 30, 2008 and 2007.....	15
SUPPLEMENTARY INFORMATION	
Supplementary Schedule of Revenues and Expenses - Comparison of Budget to Actual (Budgetary Basis) - Year Ended June 30, 2008.....	39
Notes to Supplementary Schedule - Year Ended June 30, 2008	40
III. STATISTICAL SECTION	
Financial Trends.....	41
Revenue Capacity.....	42
Debt Capacity.....	44
Demographics and Economic Information.....	48
Operating Information	51

Table of Contents

	Page
IV. SINGLE AUDIT SECTION	
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 <i>Governmental Auditing Standards</i>	54
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	56
Schedule of Expenditures of Federal Awards - Year Ended June 30, 2008.....	58
Notes to Schedule of Expenditures of Federal Awards – Year Ended June 30, 2008.....	60
Summary of Auditor’s Results – Year ended June 30, 2008.....	61
Financial Statement Findings and Recommendations – Year Ended June 30, 2008.....	62
Schedule of Federal Award Findings and Questioned Costs – Year Ended June 30, 2008	63
Status of Prior Year Findings and Recommendations – Year Ended June 30, 2008.....	64

Section I

INTRODUCTORY

Letter of Transmittal

GFOA Certificate of Achievement

Board of Directors

Executive Management

Organization Chart

Map

Table of Credits

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November 30, 2008

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

San Carlos, California

**Comprehensive Annual Financial Report
Year Ended June 30, 2008**

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, 2007 through June 30, 2008. This transmittal letter provides a summary of the JPB's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the JPB's financial results may refer to the Management's Discussion and Analysis portion of the Financial Section.

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

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

PROFILE OF THE ORGANIZATION

Purpose

The JPB is responsible for Caltrain passenger rail service on the San Francisco Peninsula and south into Santa Clara County. Caltrain operates a rail system that has been a central part of Peninsula communities for 145 years. The rail line currently extends from San Francisco 77 miles south to Gilroy, serving 32 stations. Spanning San Francisco, San Mateo and Santa Clara counties, Caltrain provides vital links to multiple transit properties in 20 cities.

**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

Entity

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

History

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

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

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

In July 1992, the JPB assumed control of the line from the State and commenced Caltrain passenger rail operations through a contractor, the National Railroad Passenger Corporation (Amtrak). In November 2001, Amtrak won a competitive bid for a new contract to run through fiscal year 2006. The JPB Board of Directors subsequently amended the contract in January 2005 to extend the term for an additional three years through June 30, 2009. In January 2008, the Board of Directors exercised the option to extend the contract for an additional year through June 30, 2010.

Governance

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

**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

Administration

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

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

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

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

The Executive Department is responsible for directing and overseeing all activities and for providing support to the Board of Directors.

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

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

Budgetary Control

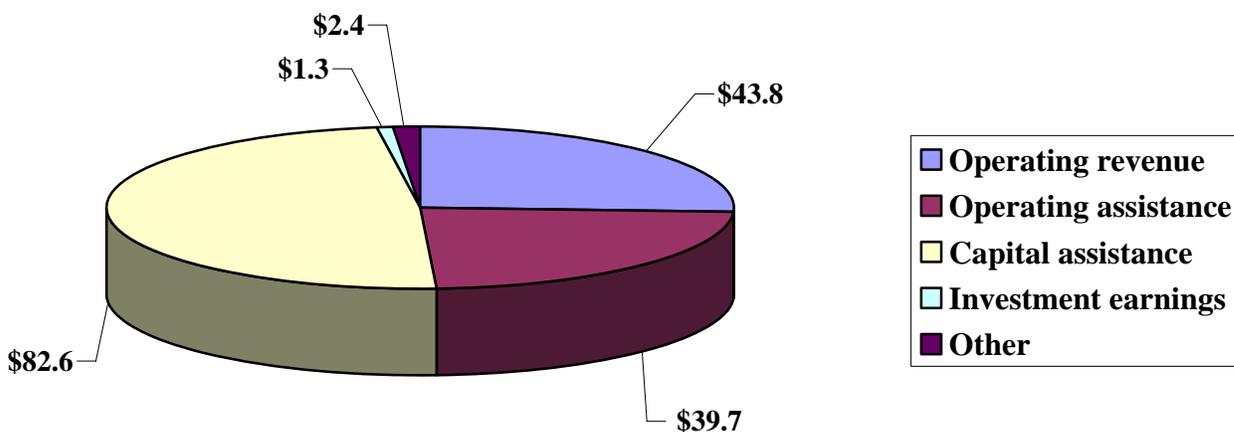
State law requires the JPB to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The Board of Directors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

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

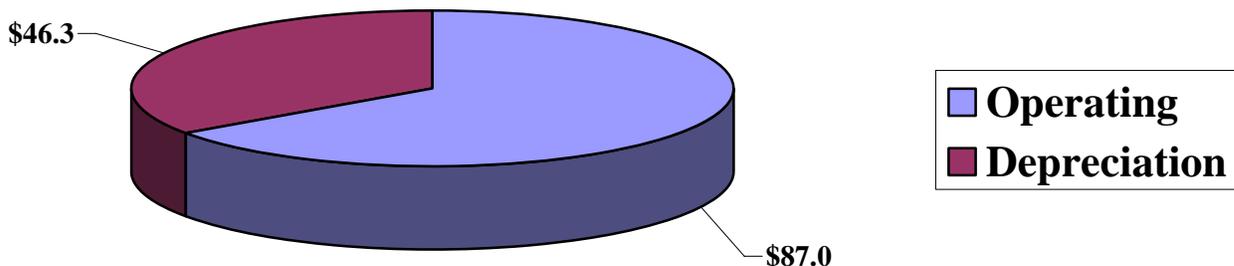
**PENINSULA CORRIDOR JOINT POWERS BOARD
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 NOVEMBER 30, 2008**

The JPB employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization established pursuant to joint powers legislation, the JPB is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The following pie charts show actual results for the major revenue and expense categories for fiscal year 2008.

**Peninsula Corridor Joint Powers Board
 2008 Revenues
 (\$ in millions)**



**Peninsula Corridor Joint Powers Board
 2008 Expenses
 (\$ in millions)**



**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

STRATEGIC PLANNING

Goals

The Caltrain strategic plan is an integral element in a regional effort to roll back current traffic congestion levels and restore the traditional quality of life in the member-agency counties. In this regard, the JPB is committed to the on-going improvement of Caltrain service for patrons and their communities. The JPB has experienced continual increases in ridership since 2004 but must still overcome financial and other constraints to succeed in the effort to deliver quality service to the patrons and their communities. The strategic plan identifies five attainable goals and associated objectives for Caltrain in the next decade. Performance measures and clear policies guide the way, as the Board of Directors and staff monitor progress periodically and update the plan as necessary.

The five goals are:

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

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

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

CURRENT PROGRAMS, PROJECTS AND ACCESS TO CALTRAIN

Caltrain Rail Service Levels and the Baby Bullet Express

The JPB suspended all weekend train service in July 2002 to allow for track, traffic control and other capital improvements in support of planned Baby Bullet express service. In June 2004, weekend service resumed and Baby Bullet trains began operating with new bi-level passenger cars and locomotives of streamlined design. This limited-stop service has reduced the travel time along the mainline (San Jose to San Francisco) from an hour-and-a-half to just under an hour.

The initial 10 Baby Bullet trains brought service to 86 trains per weekday, increasing total ridership approximately 25 percent and affecting boarding patterns throughout the line. Shortly after the end of fiscal year 2005, the JPB dramatically redesigned its service plan to add additional Baby Bullet express service to 96 total weekday trains and increased again to 98 trains per weekday in 2008. Results from these changes show fare revenue gains of another 16.2 percent and 14.6 percent for fiscal years 2008 and 2007, respectively. Furthermore,

**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

the increase in weekday trains was accomplished within the parameters of the existing operations contract with Amtrak with no increase in staffing levels or rolling stock.

Regional Service Coordination

Caltrain is at the heart of the Peninsula transportation network and collaborates with other Bay Area transit agencies to provide connections between systems. These connections are with the San Mateo County Transit District, the San Francisco Municipal Railway, VTA and the Bay Area Rapid Transit District (BART).

- *SamTrans Bus Service*: Passengers may connect to SamTrans at most stations in San Mateo County.
- *Muni Light Rail*: Passengers may connect to Muni light rail N-Judah and T-Third lines at the San Francisco Caltrain Station.
- *Millbrae/SFO*: Passengers may connect to BART at the Millbrae Intermodal Station.
- *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.

Caltrain Shuttles

During fiscal year 2008, Caltrain operated 43 routes shuttling Caltrain riders to local employers. Average ridership grew by 329 per day over the prior year to 5,457 persons per weekday.

Americans with Disabilities Act (ADA) Programs

Currently, 25 stations are wheelchair accessible to help passengers with mobility-impairments board the rail cars. Lift usage continued to increase from the prior year. In accordance with ADA regulations, one rail car on each train is wheelchair accessible and can accommodate two persons in wheelchairs.

Bikes-on-Board

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

Fare Administration

In September 2003, Caltrain implemented a "proof-of-payment" fare collection system that has increased internal controls and freed conductors from onboard ticket sales, allowing them to focus more on customer service and safety. The new system also corrected inequities in fare administration by standardizing zone distances and rates. The fare increases with the number of zones crossed. Caltrain currently has six zones and four fare categories: one-way tickets, day passes, 10-ride tickets and monthly passes. All four fare categories are available to seniors, youth, disabled and medicare cardholders at a 50 percent discount. Tickets are sold at two stations, Caltrain headquarters, by mail and at certain employment sites. Automated Ticket Vending Machines (TVMs) on station platforms account for most of Caltrain ticket sales.

Parking

The JPB implemented Pay-by-space (PBS) parking in eight stations in 2006. In 2007, PBS was implemented at two additional stations. As of June 30, 2008, there were 15 stations utilizing PBS parking which includes all stations where the Baby Bullet trains stop.

**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

In addition, Caltrain has initiated a program to incorporate parking ticket sales into existing TVMs. The pilot program was launched in August 2006 at four stations to demonstrate the feasibility of the electronic parking collection system. Customers who park cars in the lot pay for parking by selecting the numbered space at the TVM and no longer need to return to their cars to display a parking receipt. This pilot program was extended to four additional stations in 2007. Currently there are nine stations with the TVM parking functionality and two additional stations were recently converted. The pilot program was completed successfully and going forward the ability to purchase parking tickets through the TVM will be incorporated as part of future station improvements whenever possible.

TVMs offer customers more payment options by accepting credit and debit cards in addition to cash. The ability to purchase parking tickets through the TVM eliminated problems previously experienced by customers related to the older parking machines. TVMs are monitored electronically for maintenance problems, and TVMs that are temporarily out of service are generally repaired the same day.

Centralized Equipment Maintenance and Operations Facility (CEMOF)

After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations rail yard in November 2004 that consolidated several geographically separate facilities, increasing efficiency for maintenance personnel. A major objective of the project was to provide a state-of-the-art equipment and maintenance shop for handling of all light repairs to the railcar equipment. The facility opened for operation in September 2007. The project close out is expected to be completed by June 2009.

State-of-Good-Repair Program

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

Caltrain Station Safety Improvement Program

The purpose of this program was to remove the “hold-out” rule to improve customer safety concerns and schedule delays at a number of Caltrain stations, including California Avenue, Hillsdale, South San Francisco, Santa Clara and Burlingame. Hillsdale and Burlingame stations improvements have been completed, and California Avenue improvements will be finished in early 2009. Work on the Santa Clara and South San Francisco stations should begin in the next year. Removing the hold out rule involves reconstructing the platforms to eliminate the center island platforms, which have several negative impacts upon Caltrain service, including customer safety concerns and schedule delays. Improvements to the stations will include demolition of existing narrow center platforms and construction of new outside boarding platforms, installation of center fencing between the existing mainline tracks through the platform area and installation of new signalized pedestrian at-grade crossings with pedestrian gates.

FUTURE OF CALTRAIN – SYSTEM EXPANSION AND CONNECTIONS

Caltrain 2015

Caltrain 2015 provides a comprehensive road map of what the agency must do to continue to be a vital commuter rail system throughout the 21st century. A current area of focus for this program is to identify specific capital

**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

improvement plans and actions to implement the strategic vision which was approved by the JPB in 2004. The strategic vision offers the opportunity for Caltrain to define itself as a preferred transportation service provider in an environment where the limits of the railroad infrastructure will soon be reached. Recent experience reinforces an interesting dynamic showing ridership elasticity is not affected by fare increases and gasoline price decreases. As a result, the project anticipates that there is additional latent demand yet to be captured and that adding system capacity during peak hours with increased frequency and reduced travel time will attract a significant number of new riders.

To deliver the service levels necessary to meet projected demand, investments are needed. Staff has identified that system improvements (as opposed to infrastructure improvements) will yield a greater capacity enhancement at lesser cost. The elements of the plan included electrifying the right of way, implementing European vehicle technology, and a communications-based signal system to enhance safety and performance.

Electrification: This project consists of converting the existing Caltrain diesel engine mode of propulsion to electric power and rehabilitating the Caltrain right of way to accommodate electrification. The type of equipment that will run on the electrified railroad is still under review.

Other System Expansion and Connections

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

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

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

San Francisco, San Mateo and Santa Clara counties are consistently ranked among the most affluent in California. With an extremely diverse employment market in industries such as air travel, technology, finance, education, conventions, tourism, agriculture and manufacturing, Caltrain's service area is not dependent on any one sector. This diversity of industry helps to ensure financial strength and stability for residents along the Caltrain corridor.

As a commuter rail service, Caltrain's ridership can be affected by many economic factors including employment levels and gas prices. Both unemployment and gas prices have been on the rise throughout 2008. Higher gas prices can contribute to higher ridership levels and the rising unemployment level would tend to offset this phenomenon; however Caltrain continues to experience record high ridership levels. Unemployment has

**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

increased over the last few months to a range of 5.0 to 6.5 percent in the region and gas prices have recently begun to decrease.

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

Cash Management

The Board of Directors has adopted an investment policy as prescribed by the State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the JPB pursues a prudent cash management and investment program to achieve maximum return on all available funds. The JPB's policy is to hold securities to maturity to avoid losses from a potential sale. All of the JPB's unrestricted cash and investments as of June 30, 2008 were on deposit with either the Bank of America or the San Mateo County Treasurer's investment pool. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or covered by collateral.

Risk Management

The JPB retains an independent consultant to conduct an actuarial study for the purposes of estimating outstanding losses and affirm compliance with the Governmental Accounting Standards Board. The JPB implements the recommendations and coordinates the annual insurance program. Current insurance policies provide public liability coverage to \$200 million in excess of the \$2 million self-insured retention. Staff monitors the program throughout the year.

Pension and other Post-employment Benefits

As mentioned above, the joint powers agreement that created the JPB designated the District as the agency to provide staff services in support of the JPB's mission. District staff participates in the Public Employees Retirement System of the State of California, including post-retirement health benefits. However, since the staff supporting the JPB are legally employees of the District, the JPB has no retirement or post-employment benefits obligation except to pay costs based on District policy. The District intends to allocate post-employment benefit costs based on the full-time employees utilized to support Caltrain's services.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) recognized the JPB's 2007 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 2008 Comprehensive Annual Financial Report also meets the requirements for a Certificate of

**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm, Vavrinek, Trine, Day and Company LLP, for its timely and expert guidance in this matter.

The employees of the JPB and its contracted service providers bring an effective combination of skill, experience and dedication to carrying out the agency's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. Although we have concerns about the current volatility in the financial markets that many experts have labeled a recession, the JPB expects the continued zeal and dedication of its transit professionals to meet the transportation challenges of the future.

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

Respectfully submitted,



Virginia Harrington
Chief Financial Officer



Patricia Reavey
Director of Finance

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Peninsula Corridor
Joint Powers Board
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



Chloe S. Cox

President

Jeffrey R. Emer

Executive Director

BOARD OF DIRECTORS

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Nathaniel Ford

Sean Elsbernd

Representing San Mateo County Transit District:

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Jerry Hill

Arthur L. Lloyd

Representing Santa Clara Valley Transportation Authority:

Don Gage, Vice Chair

Forrest Williams

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EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

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Virginia Harrington – Chief Financial Officer

Chuck Harvey – Chief Operating Officer

Rita Haskin – Chief Communications Officer

Ian McAvoy – Chief Development Officer

SPECIAL ASSISTANT TO THE EXECUTIVE DIRECTOR

Mark Simon

JPB SECRETARY

Martha Martinez

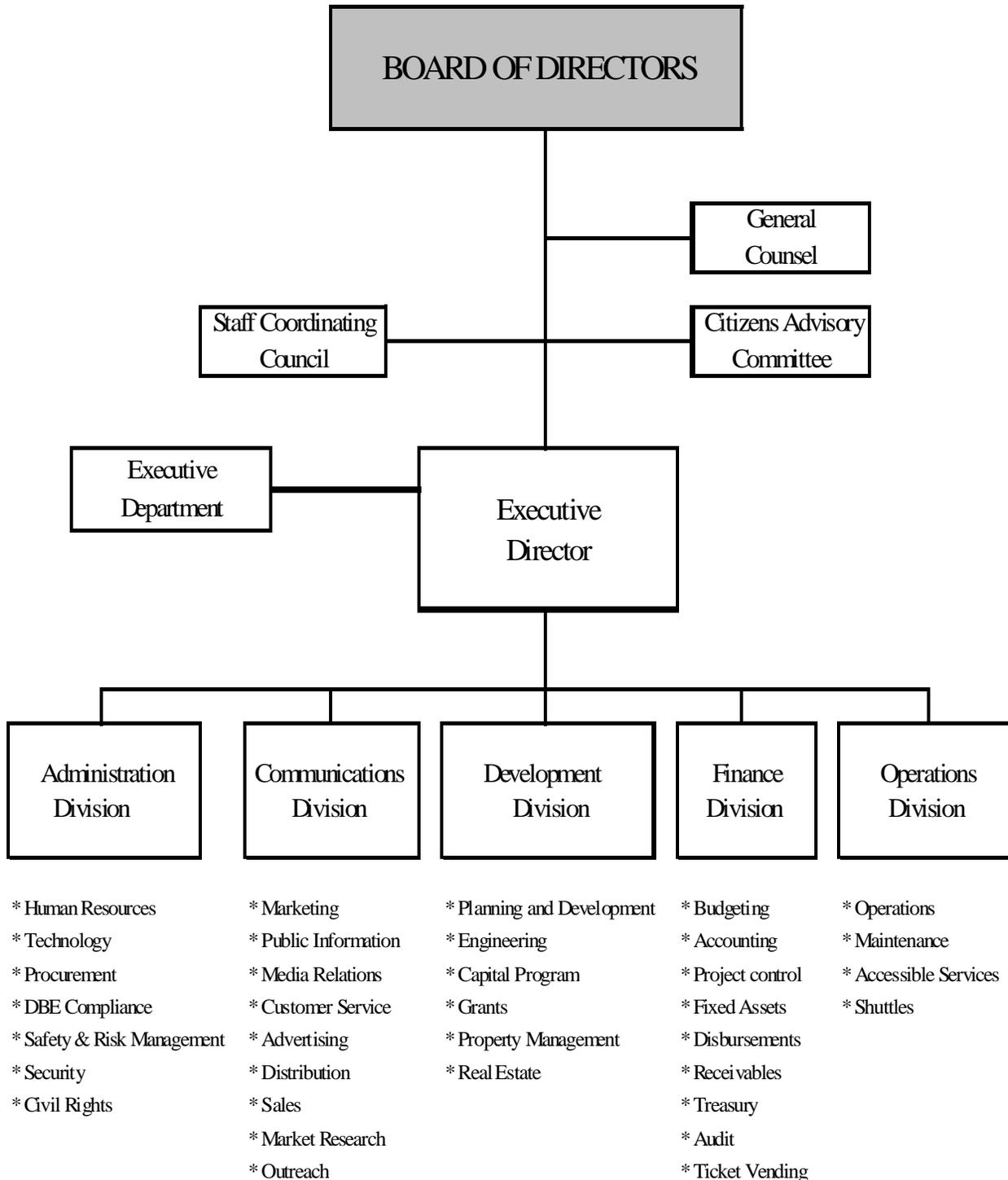
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Joan Cassman, Esq.

ORGANIZATION CHART



**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**



**PENINSULA CORRIDOR JOINT POWERS BOARD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOVEMBER 30, 2008**

TABLE OF CREDITS

The following individuals contributed to the production of the fiscal year 2008 Comprehensive Annual Financial Report:

<u>Finance:</u>	Manager, Budgets	Ladi Bhuller
	Manager, Capital & Grants Accounting	Donna Fong
	Manager, General Ledger	Rima Lobo
	Manager, Treasury	Brian Lee
	Senior Accountant	Jeannie Chen
	Senior Accountant	Mary Manders
	Senior Budget Analyst	Angela Ho
	Senior Systems Accountant	Angustia Pacumio
	Accountant	David Ramires
<u>Audit Firm:</u>	Partner	Leonard Danna
	Partner	Ahmad Gharaibeh

Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

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

Supplementary Information

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Peninsula Corridor Joint Powers Board

We have audited the accompanying basic financial statements of the JPB, as of and for the fiscal years ended June 30, 2008 and 2007. These financial statements are the responsibility of the management of the JPB. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the JPB as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2008, on our consideration of the JPB's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory section, supplementary information, statistical section and Schedule of Expenditures of Federal Awards listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the JPB. The supplementary information and Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Vawrinek Trime Day + Co. LLP

Palo Alto, California
November 30, 2008

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, 2008 with comparisons to prior fiscal years ended June 30, 2007 and June 30, 2006. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- Total assets on June 30, 2008 stand at \$1,175.5 million, an increase of \$52.2 million or 4.6 percent compared to June 30, 2007 which increased \$48.7 million or 4.5 percent compared to June 30, 2006, primarily due to an increase in capital assets.
- Total liabilities increased by \$15.9 million or 33.0 percent to \$64.2 million at June 30, 2008 compared to June 30, 2007 and decreased by \$11.1 million or 18.7 percent to \$48.3 million at June 30, 2007 compared to June 30, 2006. The 2008 increase was mostly due to an increase of \$21.0 million in farebox revenue bonds payable which was partially offset by a decrease of \$5.8 million in deferred member contributions in 2008.
- Total operating revenues in 2008 were \$43.8 million, an increase of \$5.8 million or 15.3 percent compared to 2007 and an increase of \$4.8 million or 14.6 percent in 2007 compared to 2006 as a result of increases in both ridership and fares during both years.
- Total operating expenses in 2008 were \$87.0 million, an increase of \$9.4 million or 12.2 percent over 2007 and an increase of \$5.0 million or 6.8 percent in 2007 compared to 2006. This was mainly due to an increase in the cost of contract services and fuel.
- Nonoperating revenues, net of nonoperating expenses, decreased \$1.9 million or 4.2 percent to \$43.2 million in 2008 from 2007 and increased \$1.9 million or 4.3 percent to \$45.1 million in 2007 compared to 2006. The 2008 result was mainly driven by a reduction in federal, state and local operating assistance.
- In 2008, the JPB recognized \$82.6 million in capital contributions, a decrease of \$8.7 million or 9.5 percent from 2007. In 2007, the JPB recognized \$91.2 million in capital contributions, a decrease of \$31.3 million or 25.5 percent from 2006. The decrease in 2008 and 2007 were primarily due to a contribution of the right of way from VTA and costs related to the centralized equipment maintenance and operations facility (CEMOF) in 2006.
- Net assets at June 30, 2008 were \$1,111.3 million, up \$36.3 million or 3.4 percent from June 30, 2007 and net assets at June 30, 2007 were \$1,075.1, up \$59.8 million or 5.9 percent from June 30, 2006, as capital assets, net of depreciation increased \$50.6 million and \$54.3 million during 2008 and 2007, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

Analysis of Basic Financial Statements

Total assets increased by \$52.2 million or 4.6 percent to \$1,175.5 million at June 30, 2008 compared to June 30, 2007 and increased by \$48.7 million or 4.5 percent to \$1,123.3 million at June 30, 2007 compared to June 30, 2006, primarily due to improvements to the right of way. Current assets increased by \$1.3 million or 2.3 percent to \$59.4 million in 2008 primarily due to an increase in cash and cash equivalents and receivables. In 2007, current assets decreased by \$5.6 million or 8.9 percent compared to 2006, primarily due to fluctuations in cash and cash equivalents.

**PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

Total capital assets, net of accumulated depreciation and amortization increased \$50.6 million or 4.8 percent at June 30, 2008 to \$1,115.8 million from \$1,065.2 million on June 30, 2007, and increased \$54.3 million or 5.4 percent from \$1,010.8 million in 2006 compared to 2007. Investments in capital assets, before depreciation, consists of acquisitions and improvements to the right of way (\$809.7 million or 60.3 percent), rail vehicles (\$254.5 million or 19.0 percent), facilities and equipment (\$117.5 million or 8.8 percent), intangible asset – trackage right (\$5.0 million or 0.4 percent) and construction in progress (\$151.2 million or 11.3 percent) in 2008. Investments in capital assets, before depreciation, consists of acquisition and improvements for right of way (\$707.5 million or 56.8 percent), rail vehicles (\$254.2 million or 20.4 percent), facilities and equipment (\$23.5 million or 1.9 percent), intangible asset – trackage right (\$5.2 million or 0.4 percent) and construction in progress (\$250.9 million or 20.2 percent) in 2007.

Total liabilities increased by \$15.9 million or 33.0 percent to \$64.2 million at June 30, 2008 compared to June 30, 2007 and decreased \$11.1 million or 18.7 percent to \$48.3 million at June 30, 2007 compared to June 30, 2006. The 2008 increase was primarily due to an increase in farebox revenue bonds payable of \$21.0 million which was partially offset by a decrease of \$5.8 million in deferred member contributions.

Total net assets stand at \$1,111.3 million at June 30, 2008 which represents an increase of \$36.3 million or 3.4 percent from June 30, 2007 and \$1,075.1 million at June 30, 2007, which represents an increase of \$59.8 million or 5.9 percent from June 30, 2006. Investments in capital assets, net of related debt is \$1,099.5 million at June 30, 2008, representing 98.9 percent of total net assets, \$1,062.9 million at June 30, 2007, representing 98.9 percent of total net assets and \$1,008.3 million at June 30, 2006, representing 99.3 percent of the total net assets.

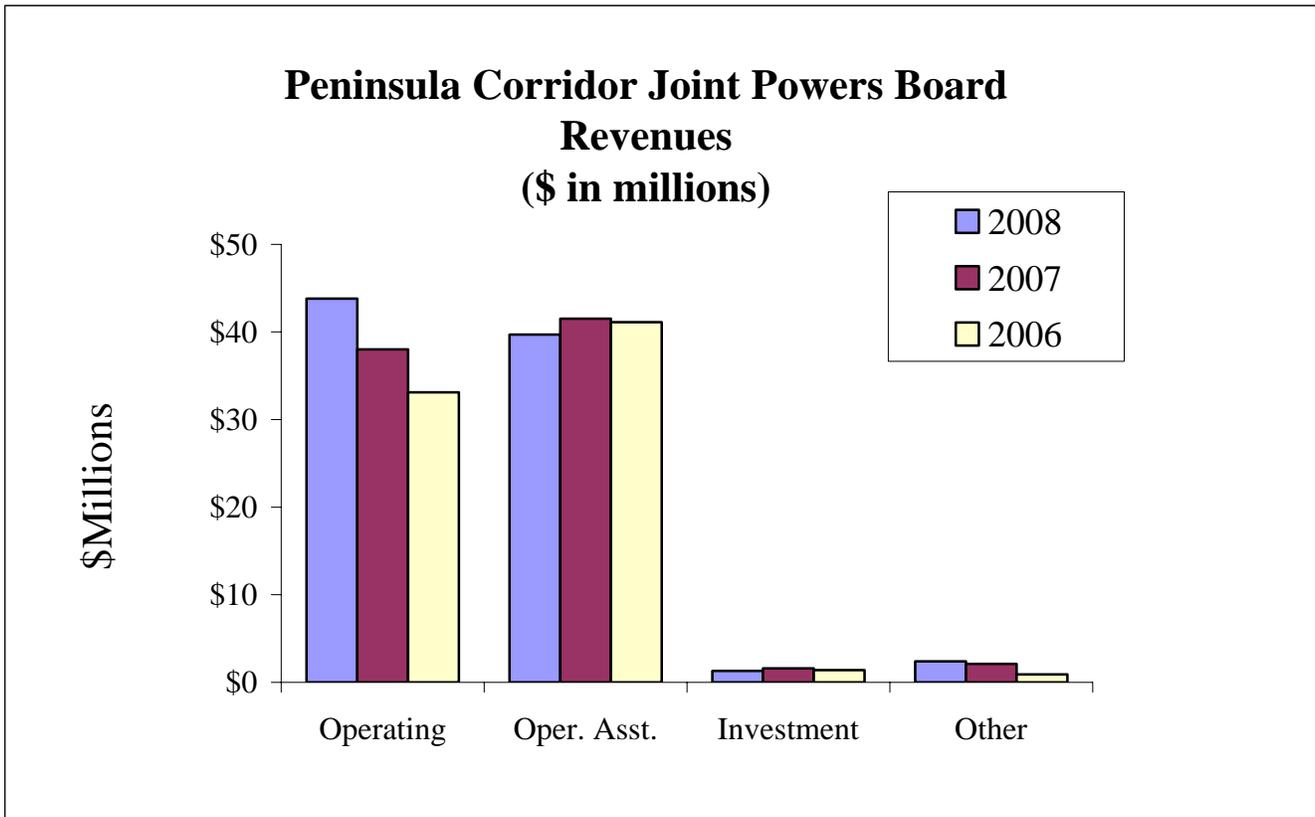
**PENINSULA CORRIDOR JOINT POWERS BOARD
NET ASSETS
(in thousands)**

	2008	2007	2006
Current assets	\$ 59,364	\$ 58,041	\$ 63,684
Capital assets, net of depreciation/amortization	1,115,795	1,065,162	1,010,818
Other Assets	332	100	114
Total assets	1,175,491	1,123,303	1,074,616
Current liabilities	39,235	45,111	55,977
Long-term liabilities	24,922	3,141	3,390
Total liabilities	64,157	48,252	59,367
Net assets			
Invested in capital assets, net of related debt	1,099,455	1,062,907	1,008,343
Restricted	529	296	173
Unrestricted	11,350	11,848	6,733
Total net assets	\$ 1,111,334	\$ 1,075,051	\$ 1,015,249

Revenues

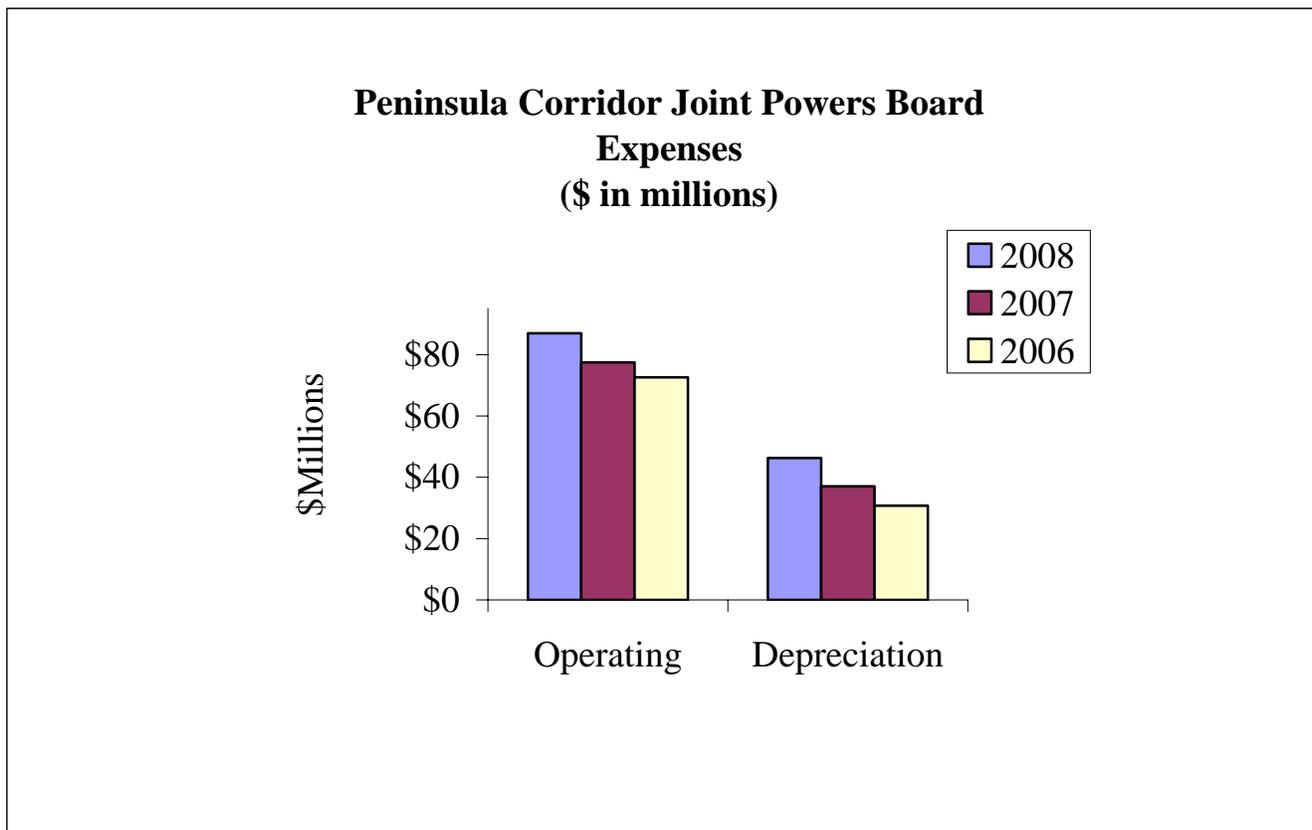
Operating revenues grew to \$43.8 million in 2008, a \$5.8 million or 15.3 percent increase over 2007 and \$38.0 million in 2007, a \$4.8 million or 14.6 percent increase over 2006 due to the continued success of Baby Bullet express service, the reinvention of Caltrain and fare increases in both fiscal years.

Nonoperating revenues decreased \$1.9 million or 4.3 percent to \$43.3 million at June 30, 2008 compared to June 30, 2007 and increased \$1.8 million or 4.1 percent in 2007 compared to 2006.



Expenses

Total operating expenses of \$87.0 million in 2008 were \$9.4 million or 12.2 percent higher than 2007, and in 2007 \$5.0 million or 6.8 percent higher than 2006. Total operating expenses in 2008 consisted of \$55.3 million or 63.6 percent for rail operator contract services, \$14.4 million or 16.5 percent for fuel and \$17.3 million or 19.9 percent for other expenses combined. The largest component of 2007 and 2006 operating expenses was rail operator contract services at \$50.8 million and \$48.7 million which represent 65.5 percent and 67.0 percent of the total expenses respectively. Depreciation and amortization for 2008 was \$46.3 million, a \$9.3 million or 25.2 percent increase over 2007. In 2007, depreciation and amortization was \$37.0 million, a \$6.2 million or 20.3 percent increase over 2006.



**PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

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

	2008	2007	2006
Operating revenues:			
Passenger fares	\$ 38,399	\$ 33,058	\$ 28,845
Parking, shuttle and pass revenues	4,972	4,667	4,164
Other	389	236	114
Total operating revenues	<u>43,760</u>	<u>37,961</u>	<u>33,123</u>
Operating expenses:			
Contract services	55,341	50,799	48,662
Insurance	3,641	4,172	3,098
Fuel	14,377	10,876	10,350
Parking, shuttle and pass revenues	3,904	3,579	3,332
Professional service	780	583	544
Wages and benefits	5,708	4,719	4,081
Utilities and supplies	1,295	1,009	790
Maintenance services	308	457	314
Temporary services, rent and other	1,604	1,337	1,406
Total Operating expenses	<u>86,958</u>	<u>77,531</u>	<u>72,577</u>
Operating loss before depreciation and amortization	(43,198)	(39,570)	(39,454)
Depreciation and amortization	<u>(46,290)</u>	<u>(36,985)</u>	<u>(30,743)</u>
Operating loss	(89,488)	(76,555)	(70,197)
Nonoperating revenues			
Federal, state and local operating assistance	39,661	41,538	41,125
Rental income	1,577	1,485	1,310
Interest income	1,260	1,631	1,411
Other income (expense)	832	602	(378)
Total Nonoperating revenues	<u>43,330</u>	<u>45,256</u>	<u>43,468</u>
Nonoperating expenses	<u>(111)</u>	<u>(121)</u>	<u>(199)</u>
Net loss before capital contributions	(46,269)	(31,420)	(26,928)
Capital contributions	<u>82,552</u>	<u>91,222</u>	<u>122,520</u>
Change in net assets	36,283	59,802	95,592
Net assets - beginning of year	1,075,051	1,015,249	919,657
Net assets - end of year	<u><u>\$ 1,111,334</u></u>	<u><u>\$ 1,075,051</u></u>	<u><u>\$ 1,015,249</u></u>

Capital Projects

The JPB incurred capital expenditures and recognized related revenue in the form of capital contribution of \$82.6 million in fiscal year 2008, which is \$8.7 million or 9.5 percent less than in fiscal year 2007. The 2008 capital sources consist of federal grants (\$48.6 million or 50.1 percent), state grants (\$3.5 million or 3.6 percent), local assistance including the three member agencies (\$30.5 million or 31.4 percent) and debt financing (\$14.4 million or 14.9 percent). The JPB incurred capital expenditures and recognized related revenue in the form of capital contribution of \$91.2 million in fiscal year 2007, which is \$31.3 million or 25.5 percent less than in fiscal year 2006. The 2007 capital sources consist of federal grants (\$64.9 million or 71.2 percent), state grants (\$4.6 million or 5.1 percent), and local assistance including the three member agencies (\$21.7 million or 23.7 percent).

Following is a summary of the JPB's major capital expenditures for 2008:

- Station improvement and repairs (\$29.4 million)
- System-wide track rehabilitation, signal, bridge and tunnel work (\$16.9 million)
- Procurement of Caltrain passenger cars and accessories (\$15.5 million)
- Construction of a Centralized Equipment Maintenance and Operations Facility (\$7.7 million)
- Engineering cost for grade separation planning along the Caltrain line (\$7.5 million)
- Station platform improvements (\$6.0 million).
- Preliminary engineering for electrifying the Caltrain line (\$5.7 million).
- Communication equipment to improve the reliability, quality and speed of signal, data and voice transmissions (\$3.2 million)
- Safety related features at stations, grade crossings and along the tracks (\$1.5 million)
- Preliminary planning to provide an efficient transportation network in the most cost effective manner by 2015 (\$1.2 million)

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

Debt

At the end of fiscal year 2008, the JPB had \$23.1 million in outstanding debt, a \$20.7 million increase compared to the end of fiscal year 2007. In fiscal year 2008, the JPB issued farebox revenue bonds to finance the acquisition of eight new rail cars and refinance the outstanding balance on the 1999 bonds. At the end of fiscal year 2007, the JPB had \$2.4 million in outstanding debt, a \$0.2 million or 9.1 percent decrease compared to the end of fiscal year 2006. This decrease was due to a scheduled principal payment in fiscal year 2007. 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

The economy is going into crisis mode nationwide. The stock market has plunged and world renowned "A" rated corporations have filed for bankruptcy. The recent blow to the economy was originally brought on by an over

**PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2008**

abundance of sub-prime mortgage defaults as interest rates were adjusted to levels much higher than affordable by the borrowers. This led to widespread foreclosures which led to equity issues for many banks and insurers. The problems permeated the economy creating problems in the job market and all other aspects of the economy with many experts indicating a recession.

Due to various factors over the last few years including the reinvention of Caltrain's service and the spike in fuel prices, average weekday ridership has been increasing at a steady pace and is now at a record high level. However without a dedicated funding source, Caltrain continues to struggle to meet the demands of the operating budget. With an inevitable recession looming and unemployment rates on the rise, the JPB is hopeful that any effect on farebox revenues can be held to a minimum.

Requests for Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 & 3)	\$ 32,497,640	\$ 24,122,617
Due from other governmental agencies	20,029,352	23,290,237
Receivables from member agencies (Note 14)	977,410	6,369,364
Accounts receivable - other, net of allowance (Note 2)	5,033,840	3,321,773
Inventory (Note 2)	641,038	641,038
Prepaid expenses	-	85,905
Restricted investments with fiscal agents (Notes 2 & 3)	185,001	209,553
Total current assets	<u>59,364,281</u>	<u>58,040,487</u>
NONCURRENT ASSETS		
Capital Assets		
Right of way improvements	582,783,380	496,553,504
Rail vehicles	254,536,600	254,200,566
Facilities and equipment	117,507,448	23,548,742
Office equipment	814,560	716,982
Intangible asset - trackage right (Note 4)	8,000,000	8,000,000
Sub-total	<u>963,641,988</u>	<u>783,019,794</u>
Less accumulated depreciation and amortization	(225,937,173)	(179,738,334)
Construction in progress (Note 2)	151,197,182	250,918,782
Right of Way	226,892,731	210,962,152
Capital assets, net (Note 6)	<u>1,115,794,728</u>	<u>1,065,162,394</u>
Bond issuance costs, net (Note 2)	332,372	100,042
Total noncurrent assets	<u>1,116,127,100</u>	<u>1,065,262,436</u>
TOTAL ASSETS	<u><u>\$ 1,175,491,381</u></u>	<u><u>\$ 1,123,302,923</u></u>

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 25,684,054	\$ 23,930,023
Interest payable	275,719	19,610
Self-insurance claims liabilities (Note 10)	283,837	1,434,604
Deferred member contributions (Notes 2 & 14)	9,681,706	15,510,301
Deferred revenue (Note 2)	3,230,333	3,903,490
Current portion of farebox revenue bonds payable (Note 9)	-	250,000
Other	79,468	63,350
Total current liabilities	<u>39,235,117</u>	<u>45,111,378</u>
NONCURRENT LIABILITIES		
Farebox revenue bonds payable - long-term (Note 9)	23,140,000	2,105,000
Self-insurance claims liabilities - long-term (Note 10)	1,782,019	1,035,456
Total noncurrent liabilities	<u>24,922,019</u>	<u>3,140,456</u>
Total liabilities	<u>64,157,136</u>	<u>48,251,834</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,099,454,901	1,062,907,436
Restricted for debt service and other	529,267	295,693
Unrestricted	11,350,077	11,847,960
TOTAL NET ASSETS	<u>\$ 1,111,334,245</u>	<u>\$ 1,075,051,089</u>

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Passenger fares	\$ 38,398,608	\$ 33,058,402
Parking, shuttle and pass revenues	4,972,030	4,667,276
Other	389,286	235,635
Total operating revenues	<u>43,759,924</u>	<u>37,961,313</u>
OPERATING EXPENSES:		
Contract services	55,341,319	50,799,329
Insurance	3,640,554	4,171,669
Fuel	14,377,366	10,876,247
Parking, shuttle and pass expenses	3,904,112	3,579,144
Professional services	779,495	582,765
Wages and benefits (Notes 2 & 14)	5,708,394	4,718,949
Utilities and supplies	1,295,031	1,008,694
Maintenance services	308,311	456,639
Temporary services, rent and other	1,603,751	1,337,224
Total operating expenses	<u>86,958,333</u>	<u>77,530,660</u>
Operating loss before depreciation and amortization	(43,198,409)	(39,569,347)
Depreciation and amortization	(46,290,259)	(36,984,643)
OPERATING LOSS	<u>(89,488,668)</u>	<u>(76,553,989)</u>
NONOPERATING REVENUES (EXPENSES):		
Federal, state and local operating assistance (Note 7)	39,661,420	41,537,929
Rental income	1,577,378	1,484,472
Interest income	1,260,252	1,630,900
Interest expense	(111,019)	(121,182)
Other income	831,842	601,839
Total nonoperating revenues, net	<u>43,219,873</u>	<u>45,133,958</u>
Net loss before capital contributions	(46,268,795)	(31,420,031)
Capital contributions (Note 11)	82,551,951	91,222,357
CHANGE IN NET ASSETS	<u>36,283,156</u>	<u>59,802,326</u>
Net assets, beginning of year	<u>1,075,051,089</u>	<u>1,015,248,763</u>
Net assets, end of year	<u><u>\$ 1,111,334,245</u></u>	<u><u>\$1,075,051,089</u></u>

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares, passes and other	\$ 46,697,053	\$ 34,953,638
Payments to vendors for services	(75,684,361)	(67,550,519)
Payments to employees	(5,708,394)	(4,718,799)
Payments for insurance claims and premiums	(4,044,758)	(825,999)
Net cash used in operating activities	<u>(38,740,460)</u>	<u>(38,141,679)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	<u>37,608,680</u>	<u>41,603,772</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions	81,983,674	78,402,097
Property additions	(96,922,593)	(91,328,604)
Proceeds from notes issuances	23,691,664	-
Principal paid on bonds	(2,355,000)	(235,000)
Interest and fiscal charges paid	(638,904)	(108,652)
Net cash provided (used) capital and related financing activities	<u>5,758,841</u>	<u>(13,270,159)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of restricted investments	24,552	356,694
Purchase of restricted investments with fiscal agents	-	(369,432)
Interest received	3,723,410	3,825,407
Net cash provided by investing activities	<u>3,747,962</u>	<u>3,812,669</u>
Net increase (decrease) in cash and cash equivalents	8,375,023	(5,995,397)
Cash and cash equivalents, beginning of year	24,122,617	30,118,014
Cash and cash equivalents, end of year	<u>\$ 32,497,640</u>	<u>\$ 24,122,617</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (89,488,668)	\$ (76,553,989)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	46,290,259	36,984,643
Effect of changes in:		
Receivables	(75,994)	(42,047)
Receivables from member agencies	2,863,992	(3,102,593)
Prepaid expenses	85,905	2,521,159
Accounts payable, accrued liabilities and claims liabilities	1,434,915	1,914,034
Deferred revenue	133,013	139,400
Other liabilities	16,118	(2,285)
Net cash used in operating activities	<u>\$ (38,740,460)</u>	<u>\$ (38,141,679)</u>

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

<i>INDEX TO THE NOTES</i>	<i>Pages</i>
(1) Organization	16
(2) Significant Accounting Policies	16
(3) Cash and Cash Equivalents	21
(4) Gilroy Extension	26
(5) Contributed Assets from Caltrans	26
(6) Capital Assets	27
(7) Operating Assistance	29
(8) Capital Assistance	29
(9) Farebox Revenue Bonds Payable	30
(10) Self-insurance	32
(11) Capital Contributions	32
(12) Commitment and Contingencies	33
(13) Leasing Transactions	34
(14) Related Parties	36
(15) Subsequent Event	37

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #1 - ORGANIZATION

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

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

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

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

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

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 45 – In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expenditures and related liabilities, assets, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective June 30, 2008. This statement did not have an impact on the JPB's financial statements.

GASB Statement No. 47 – In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined OPEB plan, the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this statement is effective for periods beginning after June 15, 2005. This statement did not have an impact on the JPB's financial statements.

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

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

GASB Statement No. 50 – In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement was effective for periods ending June 30, 2008. This statement did not have an impact on the JPB's financial statements.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

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

GASB Statement No. 52 – In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged. The JPB has not determined its effect on the financial statements.

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

C. Basis of Accounting

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

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

D. Cash Equivalents

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

E. Accounts Receivable – Other

During the course of normal operations, the JPB carries various receivable balances for services and rent. At June 30, 2008 and 2007, allowance for doubtful accounts included in accounts receivable – other, are \$424,538 and \$424,914, respectively.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

F. Inventory

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

G. Investments

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

H. Restricted Investments with Fiscal Agents

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

I. Property and Equipment

Property and equipment is recorded at cost or appraised value. The JPB defines capital assets as assets with a cost greater than \$1,000 and an estimated useful life in excess of one year. Donated assets are recorded at estimated market value on the date donated. Major additions and replacements are capitalized. Maintenance repairs and additions of a minor nature are expensed as incurred.

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

J. Depreciation and Amortization

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

- Right of way improvements - 3 to 40 years
- Rail vehicles – 10 to 36 years
- Facilities and equipment - 4 to 35 years
- Office equipment - 3 to 5 years
- Intangible – 42 years

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

K. Construction in Progress

Construction in progress consists of the following projects at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Track improvements	\$ 64,279,511	\$ 83,466,628
Maintenance facilities	3,546,761	112,234,840
Station improvements	46,840,259	31,510,787
Other projects	12,600,453	13,492,208
ADA compliance project	7,796,350	8,912,480
Rolling stock - purchase/improvements	15,994,735	1,070,947
Ticket vending machines improvements	139,113	230,892
Total	<u>\$ 151,197,182</u>	<u>\$ 250,918,782</u>

Interest is capitalized on construction in progress in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. The net interest capitalized in fiscal year 2008 is \$499,943.

K. Bond Issuance Costs

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

L. Deferred Member Contributions

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

M. Deferred Revenue

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

N. 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.

O. Federal, State and Local operating Assistance

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, continued

P. Wages and Benefits

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

Q. 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.

R. Use of Estimates

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

S. Reclassifications

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

NOTE #3 - CASH AND CASH EQUIVALENTS

Cash and investments as of June 30, 2008 and 2007 are classified in the Statements of Net Assets as follows:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 32,391,890	\$ 24,016,867
Restricted cash	105,750	105,750
Total cash and cash equivalents	<u>\$ 32,497,640</u>	<u>\$ 24,122,617</u>
Restricted investments with fiscal agents	<u>\$ 185,001</u>	<u>\$ 209,553</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

Cash and investments as of June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Cash on hand	\$ 852,233	\$ 580,132
Deposits with financial institutions	(3,154,153)	(1,095,527)
Investments	34,984,561	24,847,565
	<u>\$ 32,682,641</u>	<u>\$ 24,332,170</u>

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

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

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

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

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

The JPB's weighted average maturity of its investment portfolio at June 30, 2008 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase agreements	\$ 1,796,028	0.00
San Mateo County investment pool	25,915,744	1.20
Money market mutual fund	7,087,788	0.05
Held by bond trustee:		
Money market mutual fund	185,001	0.05
	\$ 34,984,561	
Portfolio Weighted Average Maturity		0.90

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

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

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase agreements	\$ 4,143,922	0.00
San Mateo County investment pool	20,494,090	0.60
Held by bond trustee:		
Money market mutual fund	209,553	0.00
	\$ 24,847,565	
Portfolio Weighted Average Maturity		0.49

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the JPB's investment policy, or debt agreements, and the actual rating as of years ended 2008 and 2007 for each investment type:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosures	Rating as of June 30, 2008 Not Rated
Repurchase agreements	\$ 1,796,028	N/A	\$ 1,796,028	\$ -
San Mateo County Investment Pool	25,915,744	N/A	-	25,915,744
Money market mutual funds	7,087,788	N/A	-	7,087,788
Held by bond trustee:				
Money market mutual fund	185,001	N/A	-	185,001
	\$ 34,984,561		\$ 1,796,028	\$ 33,188,533

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

NOTE #3 - CASH AND CASH EQUIVALENTS, continued

Concentration of Credit Risk

The investment policy of the JPB contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The JPB does not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the JPB's total investments at June 30, 2008 and 2007.

Custodial Credit Risk

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

As of June 30, 2008 and 2007, the JPB had (\$3,154,153) and (\$1,095,527) of deposits with financial institutions recorded on the financial statements which included excess bank balances of \$590,119 and \$189,196, respectively. These excess balances are uninsured because the cash balances are over the Federal Depository Insurance limits. However, due to California State Law, these excess balances are collateralized by securities pledged by the financial institutions holding the JPB's deposits.

Investment in San Mateo County Investment Pool

The JPB had investments in the San Mateo County Treasurer's Investment Pool (the "County Pool") at June 30, 2008 and 2007 of \$25,915,744 and \$20,494,090, respectively. The County Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accrued discounts, accrued interest and realized gains and losses, net of expenses, are apportioned to participants on a quarterly basis. This method differs from the fair value method used to value investments as unrealized gains or losses are not apportioned to pool participants. The JPB's investments in the County Pool are stated at fair value, available upon demand and considered cash equivalents. (*See Note# 15 – Subsequent Event*).

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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #4 - GILROY EXTENSION

The JPB acquired the Gilroy Extension trackage rights through contributions from the California Transportation Commission and VTA. The perpetual trackage rights to the Gilroy Extension are recorded at cost in the amount of \$8,000,000 as other assets. The rights are amortized over a period of 42 years. As of June 30, 2008 and 2007, accumulated amortization related to these trackage rights totaled \$2,962,691 and \$2,770,182, respectively.

NOTE #5 - CONTRIBUTED ASSETS FROM CALTRANS

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

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008
Depreciable and amortized capital assets:				
Right of way improvements	\$ 496,553,504	\$ 86,229,876	\$ -	\$ 582,783,380
Rail vehicles	254,200,566	336,034	-	254,536,600
Facilities and equipment	23,548,742	94,057,860	(99,154)	117,507,448
Office equipment	716,982	126,200	(28,622)	814,560
Intangible Asset - Trackage Right	8,000,000	-	-	8,000,000
Total depreciable and amortized capital assets	<u>783,019,794</u>	<u>180,749,970</u>	<u>(127,776)</u>	<u>963,641,988</u>
Accumulated depreciation and amortization for:				
Right of way improvements	(100,572,895)	(30,582,876)	-	(131,155,771)
Rail vehicles	(65,495,421)	(10,736,591)	-	(76,232,012)
Facilities and equipment	(10,426,204)	(4,602,595)	62,798	(14,966,001)
Office equipment	(473,632)	(175,688)	28,622	(620,698)
Intangible Asset - Trackage Rights	(2,770,182)	(192,509)	-	(2,962,691)
Total accumulated depreciation and amortization	<u>(179,738,334)</u>	<u>(46,290,259)</u>	<u>91,420</u>	<u>(225,937,173)</u>
Capital assets nondepreciable:				
Right of way	210,962,152	15,930,579	-	226,892,731
Construction in progress	250,918,782	96,958,950	(196,680,550)	151,197,182
Total nondepreciable capital assets	<u>461,880,934</u>	<u>112,889,529</u>	<u>(196,680,550)</u>	<u>378,089,913</u>
Capital assets, net	<u>\$ 1,065,162,394</u>	<u>\$ 247,349,240</u>	<u>\$ (196,716,906)</u>	<u>\$ 1,115,794,728</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #6 - CAPITAL ASSETS, continued

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

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007
Depreciable and amortized capital assets:				
Right of way improvements	\$ 375,566,362	\$ 120,987,142	\$ -	\$ 496,553,504
Rail vehicles	253,032,655	1,167,911	-	254,200,566
Facilities and equipment	22,743,067	805,675	-	23,548,742
Office equipment	684,950	32,032	-	716,982
Intangible Asset - Trackage Rights	8,000,000	-	-	8,000,000
Total depreciable and amortized capital assets	<u>660,027,034</u>	<u>122,992,760</u>	<u>-</u>	<u>783,019,794</u>
Accumulated depreciation and amortization for:				
Right of way improvements	(75,765,706)	(24,807,189)	-	(100,572,895)
Rail vehicles	(55,343,060)	(10,152,361)	-	(65,495,421)
Facilities and equipment	(8,688,920)	(1,737,284)	-	(10,426,204)
Office equipment	(378,332)	(95,300)	-	(473,632)
Intangible Asset - Trackage Rights	(2,577,673)	(192,509)	-	(2,770,182)
Total accumulated depreciation and amortization	<u>(142,753,691)</u>	<u>(36,984,643)</u>	<u>-</u>	<u>(179,738,334)</u>
Capital assets nondepreciable:				
Right of way	210,962,152	-	-	210,962,152
Construction in progress	282,582,937	91,328,605	(122,992,760)	250,918,782
Total nondepreciable capital assets	<u>493,545,089</u>	<u>91,328,605</u>	<u>(122,992,760)</u>	<u>461,880,934</u>
Capital assets, net	<u>\$ 1,010,818,432</u>	<u>\$ 177,336,722</u>	<u>\$ (122,992,760)</u>	<u>\$ 1,065,162,394</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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, 2008 and 2007 were:

	<u>2008</u>	<u>2007</u>
District - Operating	41.92%	41.92%
VTA - Operating	40.28%	40.28%
CCSF - Operating	17.80%	17.80%

Federal, state and local operating assistance revenue amounts included in the Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2008 and 2007 were:

	<u>2008</u>	<u>2007</u>
Member Agency local funds	\$ 38,283,743	\$ 37,153,913
Assembly Bill 434 operating assistance	1,034,355	1,030,399
Federal	343,322	67,413
State	-	3,286,204
Total	<u>\$ 39,661,420</u>	<u>\$ 41,537,929</u>

NOTE #8 - CAPITAL ASSISTANCE

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

A. Member Agencies

On an annual basis, the Board determines the amount to be contributed to a Capital Contingency Fund to cover unanticipated necessary capital improvements. Each Member Agency is responsible for an equal share of these funds. Member Agency contributions to the Capital Contingency Fund for the years ended June 30, 2008 and 2007, were \$1,010,000 and \$710,000, respectively. Of the Capital Contingency Fund, \$960,000 was contributed by the Member Agencies for Mainline services and \$50,000 was contributed by the VTA for the Gilroy Extension. The unexpended amounts are shown in Deferred Member Contributions. (*See Note# 14 – Related Parties*).

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #8 - CAPITAL ASSISTANCE, continued

B. Federal and State Grants

At June 30, 2008, the JPB has 19 federal, eight state and 19 local grants that provide funding for Caltrain capital projects. Capital additions for the year ended June 30, 2008 applicable to these projects are \$96,971,197. The related federal participation is \$48,601,953.

The JPB has receivables of \$10,881,864 and \$15,268,594 at June 30, 2008 and 2007, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements, which is included in Due From Other Governmental Agencies. In addition, the JPB has receivables of \$2,296,512 and \$2,357,361 at June 30, 2008 and 2007, respectively, for qualifying capital project expenditures under various state grants, which is also included in Due From Other Governmental Agencies.

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

NOTE #9 - FAREBOX REVENUE BONDS PAYABLE

A. 1999 Series A Bonds

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

B. 2007 Series A Bonds

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

The refinancing of the 1999 Series A Bonds extended the length of the existing debt service obligations by 14 years, from 2014 to 2028. The net effect to the JPB when comparing the old debt service requirement to the new debt service requirement is an economic gain of \$20,304 (the difference between the present value of the old and new debt service requirements).

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #9 - FAREBOX REVENUE BONDS PAYABLE, continued

B. 2007 Series A Bonds (continued)

Activity for the year ended June 30, 2008 is as follows:

	Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008	Amounts Due within One Year
1999 Series A	\$ 2,355,000	\$ -	\$ 2,355,000	\$ -	\$ -
2007 Series A	-	23,140,000	-	23,140,000	-
Farebox Revenue Bonds	<u>\$ 2,355,000</u>	<u>\$ 23,140,000</u>	<u>\$ 2,355,000</u>	<u>\$ 23,140,000</u>	<u>\$ -</u>

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

	Balance at July 1, 2006	Additions	Reductions	Balance at June 30, 2007	Amounts Due within One Year
1998 Series A Farebox Revenue Bonds	<u>\$ 2,590,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ 2,355,000</u>	<u>\$ 250,000</u>

Annual principal and interest payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2009	\$ -	\$ 1,102,875	\$ 1,102,875
2010	-	1,102,875	1,102,875
2011	-	1,102,875	1,102,875
2012	-	1,102,875	1,102,875
2013	-	1,102,875	1,102,875
2014-2018	-	5,514,375	5,514,375
2019-2023	2,380,000	5,336,203	7,716,203
2024-2028	5,335,000	4,466,272	9,801,272
2029-2033	6,755,000	3,045,625	9,800,625
2034-2038	8,670,000	1,127,000	9,797,000
Total	<u>\$ 23,140,000</u>	<u>\$ 25,003,850</u>	<u>\$ 48,143,850</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #10 - SELF-INSURANCE

Insurance

The JPB is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The JPB is self-insured for a portion of its public liability and property damage liability. As of June 30, 2008, coverage provided by self-insurance and excess coverage is generally as follows:

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

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

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

Changes in the balances of self-insured claims liabilities for public liability and property damage for the years ended June 30, 2008 and 2007 are as follows:

	2008	2007
Self-insured claims liabilities, beginning of year	\$ 2,470,060	\$ 1,706,832
Incurred claims and changes in estimates	1,078,514	1,441,086
Claim payments and related costs	(1,482,718)	(677,858)
Total self-insured claims liabilities	2,065,856	2,470,060
Less current portion	(283,837)	(1,434,604)
Noncurrent portion	\$ 1,782,019	\$ 1,035,456

NOTE #11 - CAPITAL CONTRIBUTIONS

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #11 - CAPITAL CONTRIBUTIONS, continued

Depreciation on assets acquired with capital contributions is included in the Statements of Revenues, Expenses and Changes in Net Assets. Capital contributions earned for the years ended June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Contributions from the Federal government	\$ 48,601,953	\$ 64,937,571
Contributions from the State	3,486,252	4,623,333
Contributions from local governments	30,463,746	21,661,453
Total Capital Contributions	<u>\$ 82,551,951</u>	<u>\$ 91,222,357</u>

NOTE #12 - COMMITMENT AND CONTINGENCIES

A. Contract with Amtrak

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

Total expenses billed to the JPB by Amtrak for operating the rail service for the years ended June 30, 2008 and 2007 are recorded as Contract Services in the Statement of Revenues, Expenses and Changes in Net Assets.

B. Diesel Fuel Contract

In July 2003, the JPB awarded a five-year contract to Golden Gate Petroleum at an estimated amount of \$20,089,500. In April 2007, the contract was renegotiated and a new two-year contract for an estimated amount of \$19,579,165 was awarded. Fuel costs incurred for the years ended June 30, 2008 and 2007 were \$14,377,366 and \$10,876,247, respectively.

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

The JPB contracted with Shimmick Construction Company Inc./Obayashi Corporation Joint Ventures for the construction of a state of the art equipment and maintenance shop for the handling of all light repairs to Caltrain commuter passenger railcar equipment for \$56,445,519. The work consisted of constructing equipment maintenance and storage facility and other improvements on the west side of the mainline tracks, including the shop building, yard tracks, train washer, access roads, storage building, oil/water separator, and drum storage. The facility opened for operation in September 2007. The project close out is expected to be completed by June 2009.

NOTE #12 - COMMITMENT AND CONTINGENCIES, continued

D. Litigation

As of June 30, 2008 and 2007, the JPB had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigations are outstanding for which the JPB cannot determine the ultimate and resulting liability, if any. However, the JPB's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the JPB's financial position.

NOTE #13 – LEASING TRANSACTIONS

A. Fiscal year 2001 Sales-Leaseback

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

B. Fiscal year 2002 Sale-Leaseback

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #13 - LEASING TRANSACTIONS, continued

C. Fiscal year 2002 Sale-Leaseback

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

D. Retirement of Equipment under Safe Harbor Lease

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

E. Tax Contingency

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

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

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #14 - RELATED PARTIES

A. Operating Expenses paid to District

The District serves as the managing agency of the JPB, providing administrative personnel and facilities (see Note 1). The District is compensated based on actual costs incurred. Beginning in fiscal year 1999, the JPB was also required to compensate the District for administrative overhead. Amounts due to the District as managing agency at June 30, 2008 and 2007 total \$2,822,063 and \$1,404,884, respectively, and are included in accrued liabilities. Total expenses billed to the JPB by the District which are included as operating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Assets are as follows:

	<u>2008</u>	<u>2007</u>
Wages and benefits	\$ 5,708,394	\$ 4,718,949
Rent, utilities, supplies and other	1,168,123	1,370,879
Total	<u>\$ 6,876,517</u>	<u>\$ 6,089,828</u>

B. Receivables from Member Agencies

The JPB is owed amounts from Member Agencies for grants and prior obligations. The balances at June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
District	\$ 30,685	\$ 2,563,944
VTA	-	5,297
CCSF	946,725	3,800,123
Total	<u>\$ 977,410</u>	<u>\$ 6,369,364</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #14 - RELATED PARTIES, continued

C. Deferred Member Contributions

The JPB recognizes Member Agencies' advances as operating assistance or contributed capital when expenses are incurred or assets are purchased. Accordingly, some Member Agencies' payments are classified as Deferred Member Contributions. The balances at June 30, 2008 and 2007 are as follows:

	2008	2007
District	\$ 6,542,435	\$ 6,857,867
VTA	904,696	5,089,437
CCSF	2,234,575	3,562,997
Total	\$ 9,681,706	\$ 15,510,301
Committed for:		
Capital project development	\$ 240,000	\$ 240,000
Centralized traffic control system	1,055	1,055
Farebox capital	97,940	122,567
Capital contingency fund	3,065,459	2,760,636
Capital contribution Member's local match	6,077,513	12,186,304
Total Committed	9,481,967	15,310,562
Uncommitted funds:		
District	100,000	100,000
VTA	(17,349)	(17,349)
CCSF	117,088	117,088
Total Uncommitted	199,739	199,739
Total	\$ 9,681,706	\$ 15,510,301

NOTE #15 – SUBSEQUENT EVENT

In September 2008, American International Group (AIG) was downgraded by both the Standard and Poor's and Moody's rating agencies. AIG is a guarantor on two of JPB's three active lease transactions (see note #13) which are referred to as Sale In/Lease Out (SILO) transactions. The downgrade of AIG was a trigger point within the lease documents that requires the JPB to replace AIG as guarantor within 60 days with a guarantor acceptable to the equity investor, Wells Fargo Bank. Wells Fargo Bank has granted the JPB a 30 day extension from November 10, 2008 to find an acceptable replacement. The JPB continues to make every effort to replace AIG with an acceptable guarantor while supporting the American Public Transportation Association (APTA) in its effort in working towards a regulatory or legislative solution to the SILO and Lease In/Lease Out (LILO) problems which are being experienced throughout the transit industry nationwide. In the event the JPB is unable to replace AIG with an acceptable guarantor and relief is not experienced at the regulatory or legislative level or as a result of negotiations with Wells Fargo Bank, the JPB in a worse case scenario could be required to pay Wells Fargo Bank the net termination value on the leases. However, it is reasonably anticipated that this negative consequence can be averted.

On November 21, 2008, Financial Security Assurance (FSA) was downgraded by Moody's rating agency from Aaa to Aa3. FSA is a guarantor on one of JPB's active SILO transactions (see note #13). The downgrade of FSA was a trigger point within the lease documents that requires the JPB to replace FSA as guarantor within 45 days with a guarantor acceptable to the equity investor, Banc of America Leasing & Capital LLC. The JPB will make

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE #15 – SUBSEQUENT EVENT, continued

every effort to replace FSA with an acceptable guarantor. In the event the JPB is unable to replace AIG with an acceptable guarantor and relief is not experienced at the regulatory or legislative level or as a result of negotiations with Banc of America Leasing & Capital LLC, the JPB in a worse case scenario could be required to pay Banc of America Leasing & Capital LLC the net termination value on the leases. However, it is reasonably anticipated that this negative consequence can be averted.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES –
COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2008

	Budget		Variance
	(Unaudited)	Actual	Positive/ (Negative)
OPERATING REVENUES:			
Passenger fares	\$ 37,332,831	\$ 38,398,608	\$ 1,065,777
Parking, shuttle and pass revenues	3,946,509	4,972,030	1,025,521
Other	215,300	389,286	173,986
Total operating revenues	<u>41,494,640</u>	<u>43,759,924</u>	<u>2,265,284</u>
OPERATING EXPENSES:			
Contract services	60,167,618	55,341,319	4,826,299
Insurance	3,810,000	3,640,554	169,446
Fuel	12,573,396	14,377,366	(1,803,970)
Parking, shuttle and pass expenses	3,873,540	3,904,112	(30,572)
Professional services	720,000	779,495	(59,495)
Wages and benefits	5,425,890	5,708,394	(282,504)
Utilities and supplies	1,827,570	1,295,031	532,539
Maintenance services	389,200	308,311	80,889
Temporary services, rent and other	1,788,621	1,603,751	184,870
Total operating expenses	<u>90,575,835</u>	<u>86,958,333</u>	<u>3,617,502</u>
Operating loss	<u>(49,081,195)</u>	<u>(43,198,409)</u>	<u>5,882,786</u>
NONOPERATING REVENUES (EXPENSES):			
Federal, state and local operating assistance	39,694,885	39,661,420	(33,465)
Rental income	1,401,210	1,577,378	176,168
Interest income	1,210,970	1,263,042	52,072
Interest expense	(603,900)	(111,019)	492,881
Debt service principal payment	(256,667)	(83,333)	173,334
Other income	700,000	831,842	131,842
Total nonoperating revenues	<u>42,146,498</u>	<u>43,139,330</u>	<u>992,832</u>
Net loss	<u>(6,934,697)</u>	<u>(59,079)</u>	<u>6,875,618</u>
CAPITAL OUTLAY:			
Capital assistance	48,850,020	82,551,951	33,701,931
Capital debt financing	13,770,400	14,391,021	620,621
Capital expenditures	(62,620,420)	(96,971,197)	(34,350,777)
Net capital outlay	<u>-</u>	<u>(28,225)</u>	<u>(28,225)</u>
DEFICIENCY OF REVENUES AND NONOPERATING			
INCOME OVER EXPENSES, CAPITAL OUTLAY AND			
DEBT PRINCIPAL PAYMENT			
	<u>\$ (6,934,697)</u>	<u>\$ (87,304)</u>	<u>\$ 6,847,393</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO SUPPLEMENTARY SCHEDULE
YEAR ENDED JUNE 30, 2008

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 differences between the budgetary basis of accounting and GAAP concerns capital assets. Depreciation and amortization expense, and unrealized gains and losses under GASB Statement No. 31 are not budgeted per GAAP and budgeted capital expenditures are not recorded as expenses per GAAP.

NOTE #2 - RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

Excess of expenses and capital outlay over operating revenues and nonoperating revenues	\$	(87,304)
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Reconciling Items

Debt service principal payment	\$	83,333	
GASB 31 unrealized loss		(2,790)	
Depreciation and amortization of assets		(46,290,259)	
Capital debt financing		(14,391,021)	
Capital expenditures		<u>96,971,197</u>	
Subtotal reconciling items			<u>36,370,460</u>
Change in net assets, GAAP basis	\$		<u><u>36,283,156</u></u>

Section III

STATISTICAL

Financial Trends

- Net Assets and Changes in Net Assets

Revenue Capacity

- Revenue Base and Revenue Rate
- Principal Revenue Payers

Debt Capacity

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

Demographics and Economic Information

- Population and Income
- Unemployment Rates
- Principal Employers

Operating Information

- Farebox Recovery and Miles
- Employees
- Capital Assets

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:				
Passenger fares	\$ 38,399	\$ 33,058	\$ 28,845	\$ 21,968
Parking, shuttle and pass revenues	4,972	4,667	4,164	3,676
Other	389	236	114	448
Total operating revenues	<u>43,760</u>	<u>37,961</u>	<u>33,123</u>	<u>26,092</u>
OPERATING EXPENSES:				
Contract services	55,341	50,799	48,662	47,164
Insurance	3,641	4,172	3,098	3,607
Fuel	14,377	10,876	10,350	7,365
Parking, shuttle and pass expenses	3,904	3,579	3,332	3,754
Professional services	780	583	544	1,660
Wages and benefits	5,708	4,719	4,081	4,224
Utilities and supplies	1,295	1,009	790	857
Maintenance services	308	457	314	259
Temporary services, rent and other	1,604	1,337	1,406	1,208
Total operating expenses	<u>86,958</u>	<u>77,531</u>	<u>72,577</u>	<u>70,098</u>
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(43,198)	(39,570)	(39,454)	(44,006)
DEPRECIATION AND AMORTIZATION	(46,290)	(36,985)	(30,743)	(28,515)
OPERATING LOSS	<u>(89,488)</u>	<u>(76,555)</u>	<u>(70,197)</u>	<u>(72,521)</u>
NONOPERATING REVENUES (EXPENSES):				
Federal, state and local operating assistance	39,661	41,538	41,125	35,393
Lease-leaseback income	-	-	-	-
Rental income	1,577	1,485	1,310	1,184
Interest income	1,260	1,631	1,411	2,126
Interest expense	(111)	(121)	(199)	(908)
Other income (expenses)	832	602	(378)	4,750
Total nonoperating revenues, net	<u>43,219</u>	<u>45,135</u>	<u>43,269</u>	<u>42,545</u>
Net loss before capital contributions	(46,269)	(31,420)	(26,928)	(29,976)
Capital contributions	82,552	91,222	122,520	69,828
Depreciation on assets acquired with contributed capital	-	-	-	-
Prior period adjustment	-	-	-	-
CHANGES IN NET ASSETS	<u>36,283</u>	<u>59,802</u>	<u>95,592</u>	<u>39,852</u>
Net Asset Components				
Invested in capital assets, net of related debt	1,099,455	1,062,907	1,008,343	915,004
Restricted	529	296	173	150
Unrestricted	11,350	11,848	6,733	4,503
Net Assets, end of year	<u>\$ 1,111,334</u>	<u>\$ 1,075,051</u>	<u>\$ 1,015,249</u>	<u>\$ 919,657</u>

Source: CAFRs.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

2004	2003	2002	2001	2000	1999
\$ 18,427	\$ 19,430	\$ 21,433	\$ 22,788	\$ 20,863	\$ 19,093
3,718	3,202	2,686	2,805	2,666	2,551
80	31	44	40	33	12
<u>22,225</u>	<u>22,663</u>	<u>24,163</u>	<u>25,633</u>	<u>23,562</u>	<u>21,656</u>
44,236	41,305	41,183	41,657	34,401	30,533
3,251	2,538	3,649	3,200	2,787	3,943
4,570	3,761	3,670	4,747	3,381	2,353
4,430	4,477	4,876	4,925	4,648	4,362
862	758	1,128	1,346	1,162	1,229
4,270	4,111	3,718	2,859	2,332	2,027
808	1,097	1,091	905	690	892
30	89	171	29	556	236
1,153	1,718	2,138	1,715	1,203	1,173
<u>63,610</u>	<u>59,854</u>	<u>61,624</u>	<u>61,383</u>	<u>51,160</u>	<u>46,748</u>
(41,385)	(37,191)	(37,461)	(35,750)	(27,598)	(25,092)
(21,215)	(15,234)	(9,638)	(7,238)	(6,663)	(6,629)
<u>(62,600)</u>	<u>(52,425)</u>	<u>(47,099)</u>	<u>(42,988)</u>	<u>(34,261)</u>	<u>(31,721)</u>
33,057	32,193	34,000	30,622	23,638	23,436
-	-	3,133	-	-	-
1,147	1,406	995	914	1,010	803
1,443	2,801	3,567	4,995	2,114	85
(1,484)	(1,028)	(1,248)	(3,562)	(1,176)	(16)
1,277	3,294	151	2,782	2,011	785
<u>35,440</u>	<u>38,666</u>	<u>40,598</u>	<u>35,751</u>	<u>27,597</u>	<u>25,093</u>
(27,160)	(13,759)	(6,501)	(7,237)	(6,664)	(6,628)
122,602	106,093	84,255	77,377	97,944	-
-	-	-	-	-	6,629
2,468	-	7,554	-	-	-
<u>97,910</u>	<u>92,334</u>	<u>85,308</u>	<u>70,140</u>	<u>91,280</u>	<u>1</u>
873,775	753,944	671,881	605,210	532,113	440,833
-	-	950	3,227	-	-
6,030	27,951	16,730	(4,184)	2,000	2,000
<u>\$ 879,805</u>	<u>\$ 781,895</u>	<u>\$ 689,561</u>	<u>\$ 604,253</u>	<u>\$ 534,113</u>	<u>\$ 442,833</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1999 THROUGH 2008

Fiscal year	2008	2007	2006	2005
Passenger fares (in thousands)	\$ 38,399	\$ 33,058	\$ 28,845	\$ 21,968
 <u>Revenue Base</u>				
Number of passengers (in thousands)	11,962	10,981	10,149	8,121
 Four-zone fare structure				
Full adult fare:				
One-way	\$ 7.50	\$ 7.50	\$ 6.75	\$ 6.50
Day Pass	15.00	15.00	13.50	13.00
10-ride	63.75	63.75	57.50	55.25
Monthly Pass	198.75	198.75	179.00	172.25
 Eligible discount fare:				
One-way	\$ 3.75	\$ 3.75	\$ 3.25	\$ 3.25
Day Pass	7.50	7.50	6.75	6.50
10-ride	31.75	31.75	28.75	27.50
Monthly Pass	99.25	99.25	89.50	86.00

Source: CAFRs and National Transit Database.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1999 THROUGH 2008

	2004	2003	2002	2001	2000	1999
\$	18,427	\$ 19,430	\$ 21,433	\$ 22,788	\$ 20,863	\$ 19,093
	8,095	8,283	9,942	9,925	8,735	8,622
\$	5.50	\$ 5.50	\$ 5.25	\$ 4.75	\$ 4.75	\$ 4.75
	11.00	11.00	N/A	3.50	3.50	3.50
	46.75	46.75	43.75	39.75	39.75	39.75
	145.75	145.75	136.50	124.00	124.00	124.00
\$	2.75	\$ 2.75	\$ 2.50	\$ 2.25	\$ 2.25	\$ 2.25
	5.50	5.50	N/A	N/A	N/A	N/A
	23.50	23.50	N/A	N/A	N/A	N/A
	73.00	73.00	103.00	93.50	93.50	93.50

**PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEAR ENDED JUNE 30, 2008**

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 – RATIOS OF OUTSTANDING BONDS
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

Fiscal Year	Farebox Revenue		As a Percent of Personal	
	Bonds	Personal Income	Income	
2008	\$ 23,140	\$ 43,066,256		0.054%
2007	2,355	41,811,899		0.006%
2006	2,590	40,594,077		0.006%
2005	2,815	39,411,725		0.007%
2004	3,035	38,263,811		0.008%
2003	3,245	36,409,914		0.009%
2002	3,445	36,736,603		0.009%
2001	3,640	39,395,344		0.009%
2000	3,820	41,730,460		0.009%
1999	-	35,485,821		N/A

Source: The County of San Mateo

Personal income data is from the U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures.

Data for 2005, 2006, 2007, and 2008 are based on an estimated three percent annual increase over 2004.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – BONDED DEBT
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

Fiscal Year	Farebox Revenue Bonds	Member Agency Operating Contributions	As a Percent of Member Agency Contributions
2008	\$ 23,140	\$ 38,284	60.4%
2007	2,355	37,154	6.3%
2006	2,590	36,072	7.2%
2005	2,815	34,749	8.1%
2004	3,035	34,047	8.9%
2003	3,245	34,047	9.5%
2002	3,445	33,450	10.3%
2001	3,640	32,031	11.4%
2000	3,820	30,761	12.4%
1999	-	27,866	N/A

Source: CAFRs

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATION
FISCAL YEAR ENDED JUNE 30, 2008

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

Year	Pledged Revenue	Debt Service			Debt Coverage
		Principal	Interest	Total	
2008	\$ 43,760	\$ 250	\$ 111	\$ 361	121
2007	37,961	235	123	358	106
2006	33,123	225	132	357	93
2005	26,092	220	141	361	72
2004	22,225	210	151	361	62
2003	22,663	200	159	359	63
2002	24,163	195	167	362	67
2001	25,633	180	175	355	72
2000	23,562	-	120	120	196
1999	21,656	-	-	-	N/A

Source: CAFRs.

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

**PENINSULA CORRIDOR JOINT POWERS BOARD
 DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
 FISCAL YEARS 2007 AND 2000**

	<u>2007</u>	<u>2000</u>	<u>Percent Change 2000 - 2007</u>
Total Population	706,984 ^[1]	707,161	0.0%
Persons Per Household	2.77	2.74	1.1%
Mean Household Income	\$ 116,875	\$ 88,700	31.8%
Personal Income	\$ 46,847 ^[2]	\$ 41,512	12.9%
Per Capita Income	\$ 66,839 ^[1]	\$ 58,644	14.0%
Minority Population:			
Black	17,008	23,778	-28.5%
Hispanic	119,231	154,708	-22.9%
Asian	138,915	140,313	-1.0%
Native American	13,230	10,658	24.1%
Total	<u>288,384</u>	<u>329,457</u>	<u>-12.5%</u>
Percent of Minority Population to Total Population	40.8%	46.6%	-12.4%
Population by Age:			
4 years and younger	48,075	45,374	6.0%
5 to 19 years	127,964	131,912	-3.0%
20 to 64 years	439,037	441,790	-0.6%
65-Plus	91,908	88,085	4.3%
Percent of Employed Residents to Total Population	80.1%	55.0%	45.6%
Percent of Residents Working Outside of San Mateo County	42.0% ^[3]	41.0%	2.4%
Percent of People Commuting to the San Mateo County for Work	41.0% ^[3]	36.0%	13.9%

[1] Bureau of Economic Analysis, BEARFACTS 1996 - 2007, San Mateo, California [06081], most current information available.

[2] Personal income in millions of dollars.

[3] Commute Profile 2008 San Mateo County, Peninsula Traffic Congestion Relief Alliance

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

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

**PENINSULA CORRIDOR JOINT POWERS BOARD
DEMOGRAPHICS AND ECONOMIC INFORMATION – UNEMPLOYMENT RATES
FISCAL YEARS 1999 THROUGH 2008**

Year	Unemployment Rates
2008	4.7%
2007	4.0%
2006	4.0%
2005	4.3%
2004	4.9%
2003	5.9%
2002	5.7%
2001	3.8%
2000	2.9%
1999	2.0%

Source: Department of Transportation's economic forecast.

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

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

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

Note: Principal employer information for 2008 and 2007 are not available.

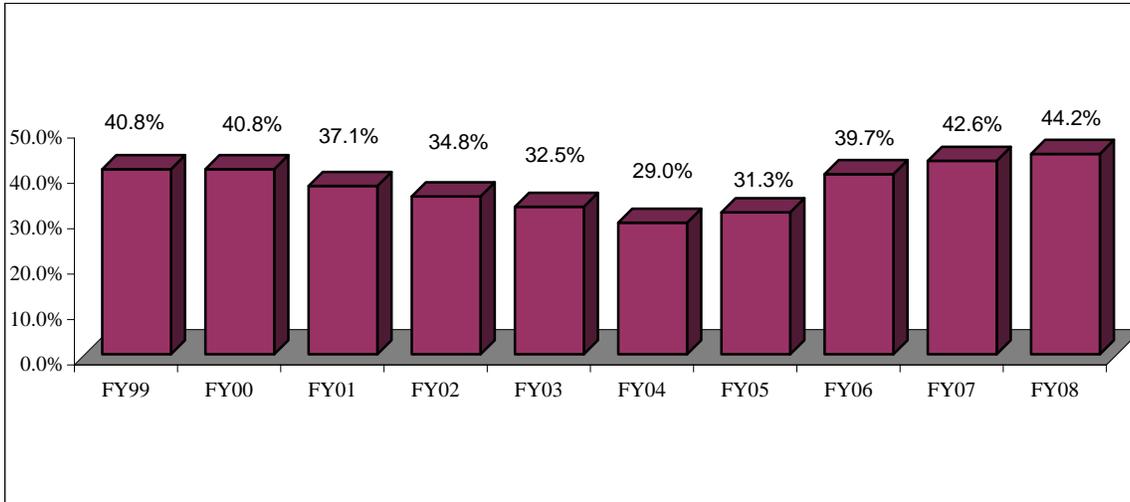
Source: County of San Mateo.

This table presents the top 10 principal employers in San Mateo County for 2006 and 1999.

**PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – FAREBOX RECOVERY AND MILES
 FISCAL YEARS 1999 THROUGH 2008**

FAREBOX RECOVERY

Farebox recovery table presents the relationship between total passenger fares and operating expenses. The Board-adopted farebox recovery rate goal range effective in fiscal year 2008 was 35 percent to 40 percent.

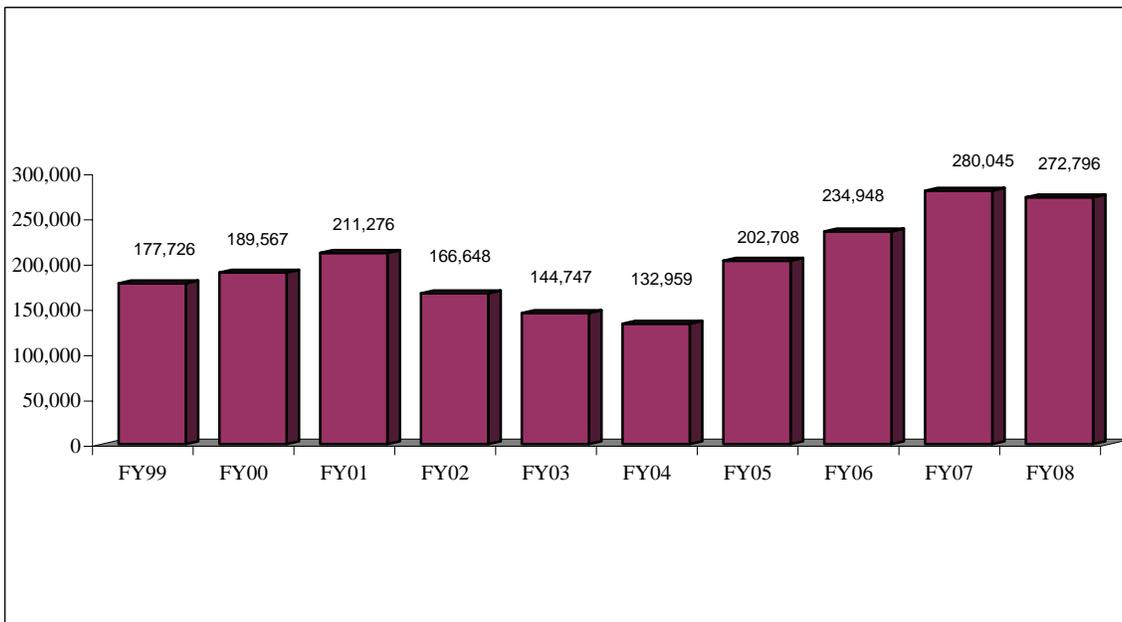


PASSENGER MILES

(in thousands)

Weekday passenger miles

In fiscal year 2008, there was a reduction in passenger miles as a result of 14 out of service cars in May and June due to Bolster repair work.



Source: JPB's National Transportation Database.

PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – EMPLOYEES
FISCAL YEARS 2002 THROUGH 2008

<u>DIVISION</u>	FULL-TIME EQUIVALENTS (FTEs)						
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
EXECUTIVE	0.86	0.60	-	-	-	2.25	2.00
ADMINISTRATION	12.42	13.20	14.05	13.24	7.59	19.51	13.55
COMMUNICATIONS	21.52	20.25	19.28	19.56	12.55	16.43	24.20
DEVELOPMENT	52.64	45.10	38.03	41.61	37.01	37.50	30.95
FINANCE	12.72	10.65	9.60	18.61	15.38	16.95	14.41
OPERATIONS	11.16	15.10	23.42	13.68	31.59	19.33	15.00
TOTAL FTEs	<u>111.32</u>	<u>104.90</u>	<u>104.38</u>	<u>106.70</u>	<u>104.12</u>	<u>111.97</u>	<u>100.11</u>

Note: Employee counts are for FTEs charged to the JPB. Data for 1999 through 2001 was not available.

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
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Depreciable and amortized capital assets				
Right of way improvements	\$ 582,783	\$ 496,553	\$ 375,566	\$ 338,487
Rail vehicles	254,537	254,201	253,033	253,754
Facilities and equipment	117,507	23,549	22,743	17,978
Office equipment	815	717	685	305
Intangible Asset - Trackage Right	8,000	8,000	8,000	8,000
Total depreciable and amortized capital assets	<u>963,642</u>	<u>783,020</u>	<u>660,027</u>	<u>618,525</u>
Accumulated depreciation and amortization				
Right of way improvements	(131,156)	(100,573)	(75,766)	(56,312)
Rail vehicles	(76,232)	(65,495)	(55,343)	(46,557)
Facilities and equipment	(14,966)	(10,426)	(8,689)	(6,877)
Office equipment	(621)	(474)	(378)	(262)
Intangible Asset - Trackage Right	(2,963)	(2,770)	(2,578)	(2,385)
Total accumulated depreciation and amortization	<u>(225,938)</u>	<u>(179,738)</u>	<u>(142,754)</u>	<u>(112,393)</u>
Nondepreciable capital assets				
Right of way	226,893	210,962	210,962	210,962
Construction in progress	151,197	250,919	282,583	200,597
Total nondepreciable capital assets	<u>378,090</u>	<u>461,881</u>	<u>493,545</u>	<u>411,559</u>
Capital assets, net	<u>\$ 1,115,794</u>	<u>\$ 1,065,163</u>	<u>\$ 1,010,818</u>	<u>\$ 917,691</u>

Source: CAFRs

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

PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
\$ 224,440	\$ 214,171	\$ 94,294	\$ 84,101	\$ 8,696	\$ 5,762
239,667	208,624	119,922	109,861	106,725	106,710
17,813	15,520	5,393	4,911	4,749	4,697
238	203	202	107	107	92
8,000	8,000	8,000	8,000	8,000	8,000
<u>490,158</u>	<u>446,518</u>	<u>227,810</u>	<u>206,980</u>	<u>128,277</u>	<u>125,261</u>
(40,317)	(29,830)	(20,383)	(16,310)	(11,163)	(8,067)
(35,753)	(26,847)	(20,773)	(16,118)	(10,274)	(7,425)
(5,417)	(3,866)	(4,447)	(3,762)	(1,836)	(1,327)
(199)	(120)	(119)	(87)	(55)	(40)
<u>(2,193)</u>	<u>(2,000)</u>	<u>(1,808)</u>	<u>(1,615)</u>	<u>(1,423)</u>	<u>(1,231)</u>
<u>(83,878)</u>	<u>(62,663)</u>	<u>(47,531)</u>	<u>(37,892)</u>	<u>(24,751)</u>	<u>(18,090)</u>
210,964	210,964	210,964	210,964	272,658	271,625
259,424	180,571	290,275	229,282	166,675	70,445
<u>470,387</u>	<u>391,534</u>	<u>501,239</u>	<u>440,246</u>	<u>439,333</u>	<u>342,070</u>
<u>\$ 876,667</u>	<u>\$ 775,390</u>	<u>\$ 681,518</u>	<u>\$ 609,333</u>	<u>\$ 542,859</u>	<u>\$ 449,241</u>

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Section IV

SINGLE AUDIT

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

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

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Summary of Auditor's Results

Financial Statement Findings and Recommendations

Schedule of Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Recommendations



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

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

We have audited the financial statements of the Peninsula Corridor Joint Powers Board (the “JPB”) as of and for the year ended June 30, 2008, and have issued our report thereon, dated November 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance And Other Matters

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

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

Vawter Trine Day + Co. LLP

Palo Alto, California
November 30, 2008



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

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

Compliance

We have audited the compliance of the Peninsula Corridor Joint Powers Board (the “JPB”) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The JPB’s major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the JPB’s management. Our responsibility is to express an opinion on the JPB’s compliance based on our audit.

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

In our opinion, the JPB complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the JPB as of and for the year ended June 30, 2008, and have issued our report thereon dated November 30, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements of the JPB. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Varinck Time Day + Co. LLP

Palo Alto, California
November 30, 2008

PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Capital Grants		
Grant Program	Federal Catalogue Number	Expenditures
U.S. Department of Transportation		
Federal Highway Administration		
STPLE-6170(018)	20.205	\$ 31,962
BRLO-6170 (023)	20.205	72,444
BRLO-6170 (021)	20.205	49,344
BRLO-6170 (022)	20.205	158,751
Subtotal		<u>312,501</u>
Federal Transit Administration		
Federal Transit Cluster:		
Federal Transit Capital Improvements Grants ⁽¹⁾		
CA-03-0628	20.500	3,026,270
CA-03-0665	20.500	3,440,840
CA-03-0691	20.500	9,036,875
CA-05-0207	20.500	6,192,981
CA-05-0209	20.500	14,644,212
CA-05-0218	20.500	292,020
CA-15-X002	20.500	84,128
Subtotal		<u>36,717,326</u>
Federal Transit Formula Grants ⁽¹⁾		
CA-90-Y123	20.507	3,763,144
CA-90-Y187	20.507	692,219
CA-90-Y246	20.507	3,655,810
CA-90-Y312	20.507	2,181,143
CA-90-Y379	20.507	95,651
CA-90-Y493	20.507	898,147
Subtotal		<u>11,286,114</u>
Transportation, Community, and System Preservation Program		
CA-26-0026	20.514	<u>22,523</u>
Passed-through Funding from State Office of Emergency Services		
FY05 TSGP (Transit Security Grant)	97.075	<u>263,489</u>
Total Expenditures of Federal Awards - Capital		<u><u>\$ 48,601,953</u></u>

(1) Major Program

PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Operating Grant		
Grant Program	Federal Catalogue Number	Expenditures
Federal Transit Administration		
Federal Transit Cluster:		
Federal Transit Formula Grants ⁽¹⁾		
CA-090-Y379	20.507	114,727
Federal pass through Metropolitan Transportation Commission		
Section 5305 Other Federal Grant	20.505	175,893
CA-81-2003(01) Section 5303 Grant	20.505	52,702
Subtotal		<u>228,595</u>
Total Expenditures of Federal Awards - Operating		<u>343,322</u>
Total Expenditures of Federal Awards		<u>\$ 48,945,275</u>

(1) Major Program

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note #2 of the JPB's financial statements.

C. Relationship to the Basic Financial Statements

Federal financial assistance is reported in the JPB's financial statements as operating assistance and capital contribution.

D. Relationship to Federal Financial Reports

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

PENINSULA CORRIDOR JOINT POWERS BOARD
SUMMARY OF AUDITOR'S RESULTS
YEAR ENDED JUNE 30, 2008

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiency identified not considered to be material weaknesses?	<u>No</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500 and 20.507</u>	<u>Federal Transit Cluster</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,457,605</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2008

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

**PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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

**PENINSULA CORRIDOR JOINT POWERS BOARD
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2008**

There were no prior year findings and recommendations.