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, 2012

PENINSULA CORRIDOR
JOINT POWERS BOARD

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

Prepared by the Finance Division

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Section I

INTRODUCTORY

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November 30, 2012

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, 2012

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, 2011 through June 30, 2012. This transmittal letter provides a summary of the JPB's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the JPB's financial results may refer to the Management's Discussion and Analysis in the Financial Section.

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

To test the performance of the internal control system, the JPB contracted for independent auditing services from Maze & Associates, 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 148 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.

Entity

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

History

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

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

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

The JPB assumed responsibility for the operation of Caltrain service from the Southern Pacific Transportation Company in 1992. Amtrak served as the JPB's operator until May 2012. After a competitive process that extended over more than 15 months, The Caltrain Board of Directors, at its September 2011 meeting, authorized the award of the contract to TransitAmerica Services, Inc. The first full year (FY2013) of the five-year contract is for $62.5 million. Subsequent contract amounts are subject to annual negotiations.

Governance

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

Administration
The joint powers agreement designates the District as the managing agency to provide administrative and staff services for Caltrain under the direction and oversight of the 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 *Office of the District Secretary* is responsible for directing and overseeing all activities and for providing support to the Board of Directors.

The *Finance and Administration Division* is responsible for financial accounting and reporting, capital and grant administration and budgeting, operational budgeting, payroll and vendor disbursements, cash and investment management, debt management, revenue control, purchasing, contract administration, risk management, information technology, security, safety and human resources.

The *Operations*, *Engineering and Construction 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), management of all capital projects, including right-of-way maintenance, from conceptual engineering planning through construction and acceptance. The contract operator, Amtrak, provides train service, maintains equipment and property, and prepares financial and operational reports.

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

The *Office of Planning and Development* is responsible for strategic planning and performance and property management.

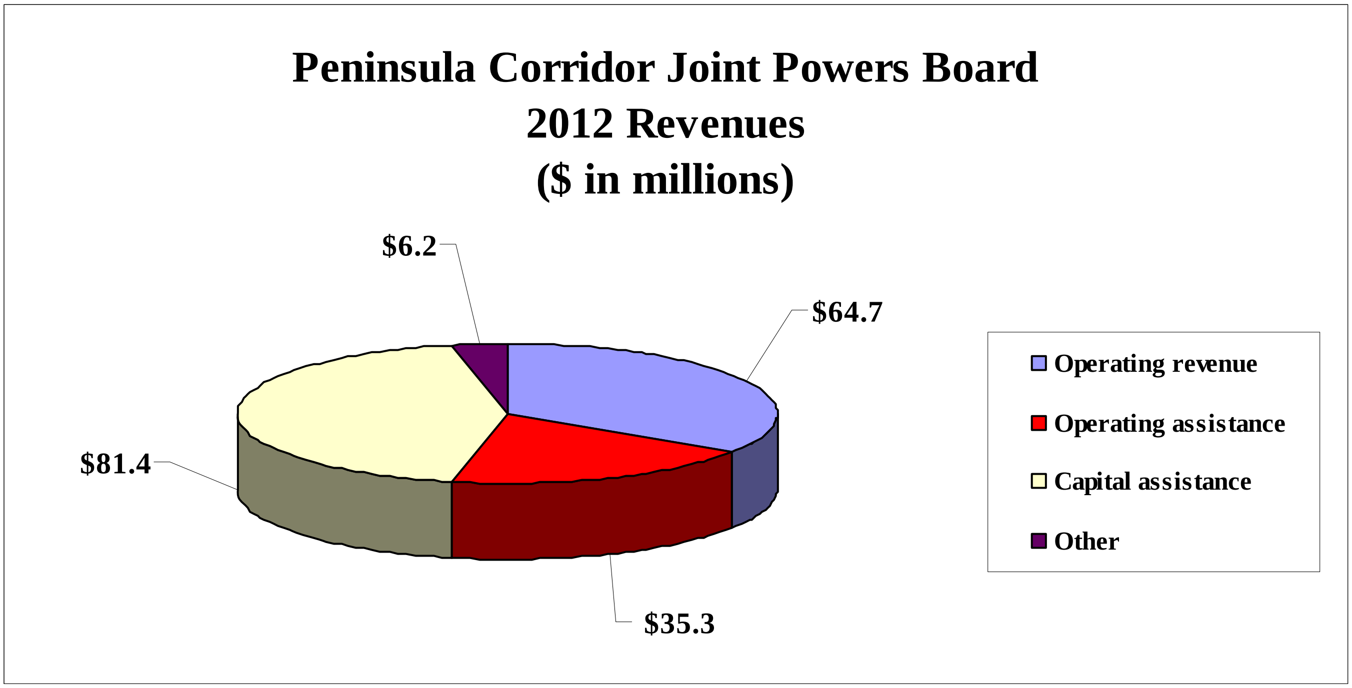
The *Office of Public Affairs* is responsible for public information, media relations, legislative activities and community outreach.

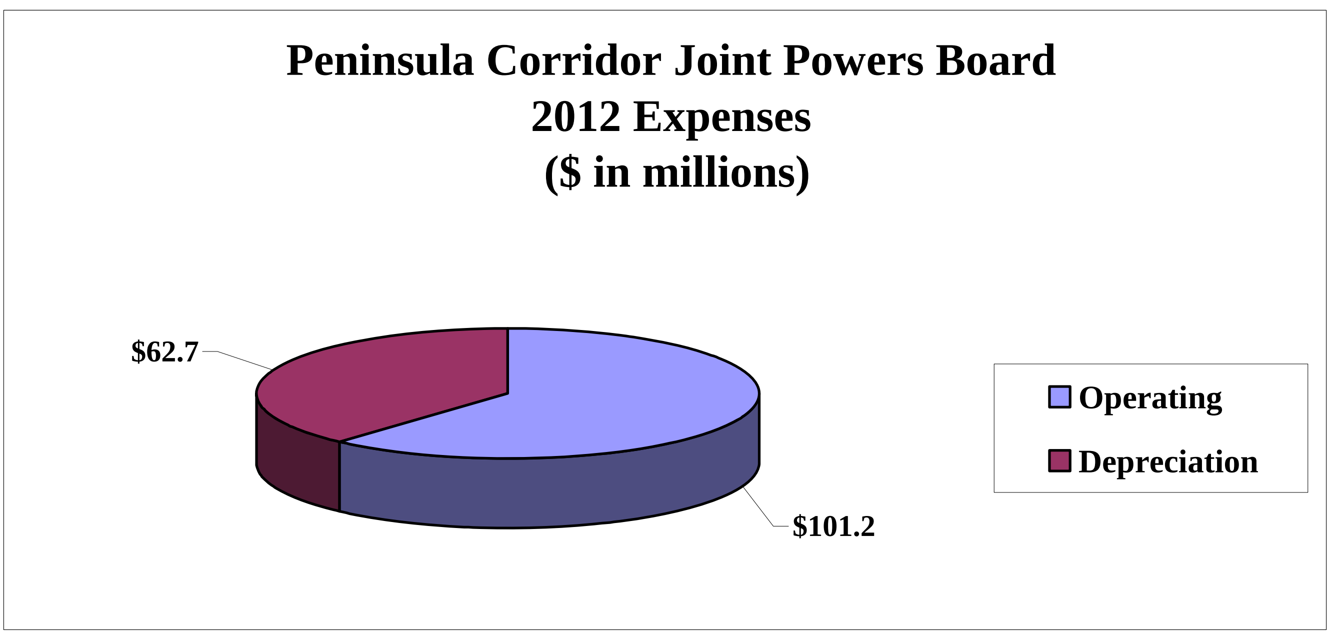
The *Office of Customer Service and Marketing* is responsible for customer service, marketing, sales, advertising, market research, website and distribution services.

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

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

The JPB employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses, depreciation and amortization and inter-fund transfers are not included in the budget. 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 2012.





ECONOMIC CONDITION

Local Economy

Unemployment rates in the counties of San Francisco, San Mateo and Santa Clara still remain high from 7.1 to 8.7 percent as of June 2012, which has moved lower from a range of 8.4 to 10.5 percent in June 2011 and from 9.2 to 11.3 percent in June 2010. This compares to the state of California's rate of 10.7 percent in June 2012, and 11.8 and 12.2 percent in June 2011 and 2010 respectively. The JPB farebox revenues were up by $10.9 million to $59.9 million in Fiscal Year 2012 from $49.0 million in Fiscal Year 2011, which was also up from Fiscal Year 2010 by $6.3 million.

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

Long-term Financial and Strategic Planning

The Caltrain strategic plan is an integral element in a partnership to address regional traffic congestion levels in the member-agency counties. With this purpose, the JPB is committed to the on-going improvement of the Caltrain system for customers and their communities. Acknowledging that the JPB must overcome financial constraints to succeed in delivering quality service, the strategic plan provides five policy goals:

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 strategic plan was adopted in 2004. Moving forward, the plan will be updated to address the greatest challenge to face the JPB: the California High Speed Rail (HSR) program that was approved by the state voters in 2008. The definition of how the HSR program will need to be integrated with the Caltrain goals is being worked on while Caltrain continues with its projects related to infrastructure rehabilitation and improvements, station access, passenger comfort and operational efficiencies.

In Fiscal Year 2012, Caltrain carried 14.1 million customers, an 11.5 percent increase compared to Fiscal Year 2011. This is evidence of economic recovery. While Fiscal Year 2010 ridership dropped below that of Fiscal Year 2009, Caltrain ridership has increased steadily for six out of the last seven years.

Due to fiscal constraints, Caltrain has adjusted the number of trains it operates over the past few years, from a high of 98 trains in Fiscal Year 2009 to a low of 86 trains in Fiscal Year 2011. For Fiscal Year 2012, staff went through an extensive budget balancing exercise with the Board of Directors, which included looking at more extensive service cuts. Fortunately, no additional trains were removed from service. Caltrain envisions running 12 trains per hour following electrification of the system once a financially sustainable model is developed.

The recent recession impacted not only Catrain's operating budget, but also its capital improvement program (CIP). Two major components of the capital program are the State-of-Good Repair and the Caltrain Modernization programs. The State-of-Good Repair component supports rehabilitation and replacement projects to maintain the railroad at a maximum state of efficiency and effectiveness avoiding substantial deferred maintenance. The Caltrain Modernization Program integrates the Caltrain system enhancements with future High Speed Rail development in the Caltrain corridor.

Both the operating budget and the capital program are funded in part by the three member agencies. The member agencies contribute to the operating budget based on usage of the system in their counties and provide equal shares of the local capital matching funds for system-wide improvement projects. Funding from the respective partners comes from their local sales tax measures, among other sources. Each JPB member agency has committed $60 million toward the electrification project. The most recent CIP totals $2.6 billion, a portion of which is currently unfunded. Significant work is needed to develop alternative funding strategies with the member agencies and regional partners in order to address the projected shortfall as the partners cannot currently meet both the projected long-term operating and capital needs.

In the near term, Caltrain will focus on its State-of-Good Repair Program, including the replacement and rehabilitation of infrastructure, communication and control systems and rolling stock, in order to continue to provide safe, quality service to its customers. Some of the more recent projects completed by Caltrain include the rebuild of the Palo Alto, California Avenue and Santa Clara Stations, the grade crossing safety improvement program, a station safety and improvement project in Burlingame, and installation of mini-high boarding platforms for persons with disabilities at 10 Caltrain stations. Some of the projects that are currently on-going include train voice communication system, narrow banding, public address and visual messaging system upgrades at 4 stations.

Major Initiatives

Regional Service Coordination

Caltrain is at the heart of the Peninsula transportation network and collaborates with other Bay Area transit agencies to provide connections between systems. These connections are with the District, the San Francisco Municipal Transportation Agency (SFMTA/Muni), the Bay Area Rapid Transit District (BART), VTA, Capitol Corridor, Altamont Commuter Express (ACE), Dumbarton Express and the Alameda-Contra Costa Transit District (AC Transit) as follows:

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

In addition to service connectivity, Caltrain is one of seven Bay Area transit agencies that are partners in Clipper, an electronic fare payment card. The program is coordinated by the Metropolitan Transportation Commission, which is the region's planning organization. Caltrain has eliminated its paper Monthly passes and 8-ride tickets and moved them exclusively to Clipper. The final transition occurred in early 2011.

Caltrain Bicycle Program

Caltrain offers a comprehensive bicycle program that helps provide options for the last-mile connection to the train station, as well as onboard the train. Caltrain offers a range of bicycle options at the station, including more than 400 rack spaces, 1,100 lockers and a staffed parking facility. In September 2008, Caltrain adopted a Bicycle Access and Parking Plan, which identified bicycle programs and innovative strategies to improve bicycle access to the stations. Caltrain's strategy is to encourage and promote bicycle access to stations by increasing and improving bicycle parking and pursuing innovative approaches to managing demand of the onboard bicycle program.

Caltrain maintains the most generous onboard bicycle program of all U.S. commuter rail operators. Every train has a guaranteed 48-bike space capacity with some trains having as many as 80. There are no peak-hour or direction restrictions, other than capacity. According to the Caltrain 2012 Annual Passenger Counts, Caltrain had 4,243 bike boardings on an average weekday. This represents a 15.8% increase from Fiscal Year 2011. To accommodate demand for bicycles onboard the train, in Fiscal Year 2009, the Board of Directors authorized a staff plan to increase bicycle capacity by about 30 percent. All capacity increases were completed in 2009. In 2010, Caltrain formed a Bicycle Advisory Committee that serves as the primary venue for the interests of bicyclists to be integrated into Caltrain's planning processes.

State-of-Good-Repair Program

This program includes system-wide, scheduled improvements on infrastructure, tracks, bridges, signal and communication equipment, ticket vending and validation equipment, and preventative maintenance and strategic replacement of the Caltrain rolling stock. In order to ensure these assets are kept in a state of good repair, replacement and rehabilitation of these assets must be done at intervals recommended by industry or manufacturer standards. Otherwise, the cost of operating these assets could increase due to potentially higher maintenance costs and operational delays that occur when these assets are out of service or in a state of disrepair. Some of the projects that are currently underway include replacements of the SF Roadway Bridge, Quint Street Bridge, Los Gatos Creek Bridge and Jerrold Avenue Bridge.

Caltrain Station Safety Improvement Program

The Caltrain Station Safety Improvement Program includes station redesign, grade crossing improvements and right of way fencing. The primary purpose of the program is to remove the "hold-out" rule at a number of Caltrain stations. These stations have narrow center island platforms, which have several negative impacts on Caltrain service, including customer safety concerns and schedule delays. Improvements to the stations will include demolition of existing narrow center platforms and construction of new platforms, installation of center fencing between the existing mainline tracks through the platform area, and installation of new pedestrian underpasses and/or signalized pedestrian at-grade crossings with pedestrian gates. Work that started in Fiscal Year 2010 on the construction of a new platform and pedestrian underpass at the Santa Clara station was completed in 2012. Now there are only four hold-out rule stations remaining on the Caltrain line, including Atherton, Broadway, College Park and South San Francisco.

The grade crossing improvement program was developed to make grade crossings in San Mateo County safer for both vehicular and pedestrian traffic. Some of the projects currently in progress include the San Bruno Grade Separation project where a new elevated station and three pedestrian only underpasses are being constructed, and the Signal Preemption project which, another safety improvements, improve the safety at five signalized traffic intersections including Brewster Avenue in Redwood City, Churchill Avenue and East Meadow Avenue in Palo Alto, and Rengstorff Avenue and Castro Street in Mountain View.

FUTURE OF CALTRAIN – SYSTEM EXPANSION AND CONNECTIONS

Caltrain Modernization Program

The Caltrain 2004-2023 Strategic Plan provides a vision for modernizing the Caltrain commuter rail system to meet the region's future mobility needs with service enhancements and capacity improvements. The Caltrain Modernization Program has been defined to advance key efforts needed to realize the vision. Key efforts are electrification of the diesel rail system, acquisition and operations of electric trains and installation of an advanced signal system called CBOSS PTC (Communication-Based Overlay Signal System Positive Train Control).

Significant efforts are in place to coordinate with the California High-Speed Rail Authority (CAHSRA). This is necessary as the CAHSRA is planning to utilize the Caltrain corridor to access San Francisco. The key coordination efforts, identified as the Caltrain Modernization Program, include conducting and reviewing operations, engineering and planning studies associated with defining a blended system for both Caltrain and high speed rail.

Other System Expansion and Connections

Dumbarton Rail Corridor (DRC) Project: This project is being administered by the JPB staff at the request of the San Mateo County Transportation Authority, one of the regional project partners. The DRC is a new passenger rail service across the southern portion of San Francisco Bay between the Union City BART station in the East Bay and the Redwood City Caltrain station on the Peninsula. The purpose of the project is to measurably improve transbay public transportation service and interconnections to reduce roadway congestion, improve travel reliability, improve air quality, and address greenhouse gas emissions reduction goals from transportation and development. The new passenger rail service would be implemented by improving the existing 20.5-mile Dumbarton Rail Corridor (DRC). The DRC consists of portions of the Caltrain mainline, the Dumbarton Line (including the Dumbarton Rail Bridge across the San Francisco Bay), and the Union Pacific Railroad's Centerville Line and Oakland Subdivision. To accommodate passenger rail service on the DRC alignment, a range of capital improvements would be needed, including new and retrofitted bridges, new stations and modifications to existing stations, rehabilitation of existing track, and the addition of new track. Alternatives under consideration include various levels of passenger rail service on the DRC alignment, a Transportation Systems Management Alternative that involves bus service improvements, and the No Build Alternative.

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

AWARDS AND ACKNOWLEDGMENTS

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

The Government Finance Officers Association (GFOA) recognized the JPB's 2011 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 2012 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm, Maze & Associates, for its timely and expert guidance in this matter.

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

Respectfully submitted,

Virginia Harrington

Virginia Harrington
Deputy CEO

Rima Lobo

Rima Lobo
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, 2011

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Linda C. Davidson

President

Jeffrey R. Esser

Executive Director

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Malia Cohen

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Chuck Harvey – Deputy CEO

Rita Haskin – Executive Officer, Customer Service and Marketing

April Chan – Executive Officer, Planning and Development

Marian Lee –Executive Officer, Caltrain Modernization Program

Martha Martinez – JPB Secretary

Mark Simon – Executive Officer, Public Affairs

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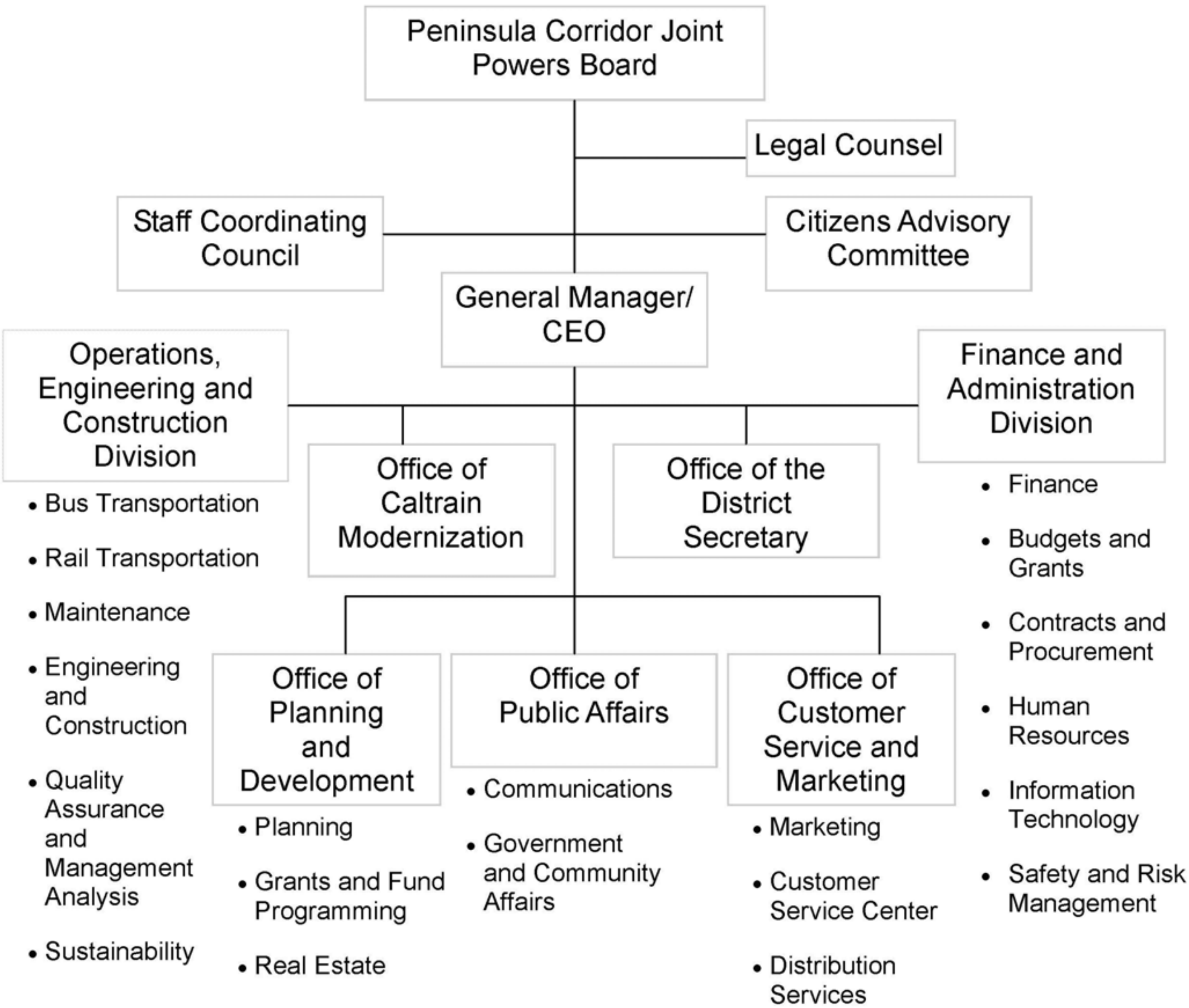
ORGANIZATION CHART




Pacific Ocean
San Francisco Bay
SAN FRANCISCO
22nd St.
Bayshore
South San Francisco
San Bruno
Millbrae
Broadway
Burlingame
San Mateo
Hayward Park
Hillsdale
Belmont
San Carlos
Redwood City
Atherton
Menlo Park
Palo Alto
Stanford
California Ave.
San Antonio
Mountain View
Sunnyvale
Lawrence
Santa Clara
College Park
SAN JOSE DIRIDON
Tamien
Capitol
Blossom Hill
Morgan Hill
San Martin
GILROY
Bay Bridge
San Mateo-Hayward Bridge
Dumbarton Bridge
N
101
80
24
280
380
92
880
84
680
85
237
17
Caltrain

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2012 Comprehensive Annual Financial Report:

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Section II

FINANCIAL

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

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

Supplementary Information

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- Notes to Supplementary Schedule

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the basic financial statements of the business-type activities and the major fund of the Peninsula Corridor Joint Powers Board (JPB) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the JPB's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the JPB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and the major fund of the Peninsula Corridor Joint Powers Board at June 30, 2012 and 2011, and the respective changes in the financial position and cash flows, where applicable, thereof for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 23, 2012 on our consideration of the Peninsula Corridor Joint Powers Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit.

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

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Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the JPB's financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Maze & Associates

October 23, 2012

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, 2012 with comparisons to prior fiscal years ended June 30, 2011 and June 30, 2010. 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, 2012 stand at $1,298.2 million, an increase of $36.8 million or 2.9 percent compared to June 30, 2011 and increased $39.1 million or 3.2 percent on June 30, 2011 compared to June 30, 2010, primarily due to an increase in capital assets in both years.
- Total liabilities increased by $16.0 million or 19.6 percent to $97.2 million at June 30, 2012 compared to June 30, 2011 and increased by $5.9 million or 7.8 percent to $81.3 million at June 30, 2011 compared to June 30, 2010. The fiscal year 2012 increase was mainly due to increases in deferred revenue and deferred member contributions. The fiscal year 2011 increase was due to an increase in self-insurance claims liabilities.
- Total operating revenues in Fiscal Year 2012 were $64.7 million, an increase of $11.4 million or 21.4 percent compared to Fiscal Year 2011 and increased by $6.8 million or 14.7 percent in Fiscal Year 2011 compared to Fiscal Year 2010. The increases in both fiscal years were mainly due to increased farebox revenues.
- Total operating expenses in 2012 were $101.2 million, an increase of $5.5 million or 5.8 percent compared to 2011 and increased $7.0 million or 7.9 percent in Fiscal Year 2011 over Fiscal Year 2010. The Fiscal Year 2012 increase was mainly due to increases in contract services, fuel costs, and maintenance services. The Fiscal Year 2011 increase was primarily due to increases in contract services, insurance and fuel costs.
- Nonoperating revenues, net of nonoperating expenses, decreased by $7.1 million or 15.6 percent to $38.7 million in Fiscal Year 2012 from Fiscal Year 2011 and increased $1.3 million or 2.8 percent to $45.8 million in Fiscal Year 2011 compared to Fiscal Year 2010. The Fiscal Year 2012 decrease was due to a decrease in the federal, state and local operating assistance, offset by a slight increase in other income. The Fiscal Year 2011 increase was due to an increase in the federal, state and local operating assistance, offset by a slight decrease in interest income and other income.
- In Fiscal Year 2012 the JPB recognized $81.4 million in capital contributions, a decrease of $10.4 million or 11.4 percent from fiscal year 2011. In Fiscal Year 2011, the JPB recognized $91.8 million in capital contributions, an increase of $20.3 million or 28.3 percent from Fiscal Year 2010. Decreases in Fiscal Year 2012 represent decreased activity on the South Terminal project, and the Santa Clara Station Platform projects. Increases in Fiscal Year 2011 represent increased activity on the San Bruno Grade Separation, the South Terminal project, and the Santa Clara Station Platform projects which were partially offset by decreases in Grade Crossing Improvement project costs.
- Net assets at June 30, 2012 were $1,201.0 million, up $20.8 million or 1.8 percent from June 30, 2011 and net assets at June 30, 2011 were $1,180.2 million up $33.2 million or 2.9 percent from June 30, 2010, as capital assets, net of accumulated depreciation and amortization increased $18.6 million and $30.0 million during Fiscal Years 2012 and 2011, 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 S*tatement of Revenues, Expenses and Changes in Net Assets* reports how net assets have changed during the year. It compares related operating revenues and operating expenses connected with the JPB's principal business of providing rail service. Operating expenses include the cost of direct services to passengers, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses are reported as 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 activitie*s include operating grant proceeds as well as operating subsidy payments from third parties as well as other non-operating items.
- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- *Cash flows from investing activities* include proceeds from sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

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

Other Information

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

Analysis of Basic Financial Statements

Total assets increased by $36.8 million or 2.9 percent to $1,298.2 million at June 30, 2012 compared to June 30, 2011 and increased by $39.1 million or 3.2 percent at June 30, 2011 compared to June 30, 2010. The increases for FY11 and FY12 were mainly due to right of way improvement projects. Current assets increased by $21.1 million or 29.2 percent to $93.2 million in 2012 mainly due to an increase in cash and cash equivalents. In 2011, current assets increased by $12.9 million or 21.8 percent compared to 2010, primarily due to an increase in receivables from other governmental agencies.

Total capital assets, net of accumulated depreciation and amortization increased $18.6 million or 1.6 percent at June 30, 2012 to $1,204.7 million from $1,186.1 million on June 30, 2011, and increased $30.0 million or 2.6 percent from $1,156.1 million in fiscal year 2011 compared to Fiscal Year 2010. Investments in capital assets, before depreciation, consist of acquisitions and improvements to the right of way ($946.2 million or 58.1 percent), rail vehicles ($285.1 million or 17.5 percent), facilities and equipment ($128.4 million or 7.9 percent), intangible asset – trackage rights ($8.0 million or 0.5 percent) and construction in progress ($261.8 million or 16.1 percent) in Fiscal Year 2012. In Fiscal Year 2011, investments in capital assets, before depreciation, consist of acquisition and improvements for the right of way ($904.7 million or 58.3 percent), rail vehicles ($284.2 million or 18.3 percent), facilities and equipment ($127.0 million or 8.2 percent), intangible asset – trackage rights ($8.0 million or 0.5 percent) and construction in progress ($227.4 million or 14.7 percent).

Total liabilities increased by $15.9 million or 19.6 percent to $97.2 million at June 30, 2012 compared to June 30, 2011 and increased $5.9 million or 7.8 percent to $81.3 million at June 30, 2011 compared to June 30, 2010. The Fiscal Year 2012 and 2011 increases were primarily due to increases in accounts payable and accrued liabilities.

Total net assets were $1,201.0 million at June 30, 2012 which represents an increase of $20.8 million or 1.8 percent from June 30, 2011 and $1,180.2 million at June 30, 2011, which represents an increase of $33.2 million or 2.9 percent from June 30, 2010. Investments in capital assets, net of related debt was $1,182.0 million at June 30, 2012, representing 98.4 percent of the total net assets, $1,163.4 million at June 30, 2011, representing 98.6 percent of total net assets and $1,133.8 million at June 30, 2010, representing 98.8 percent of total net assets.

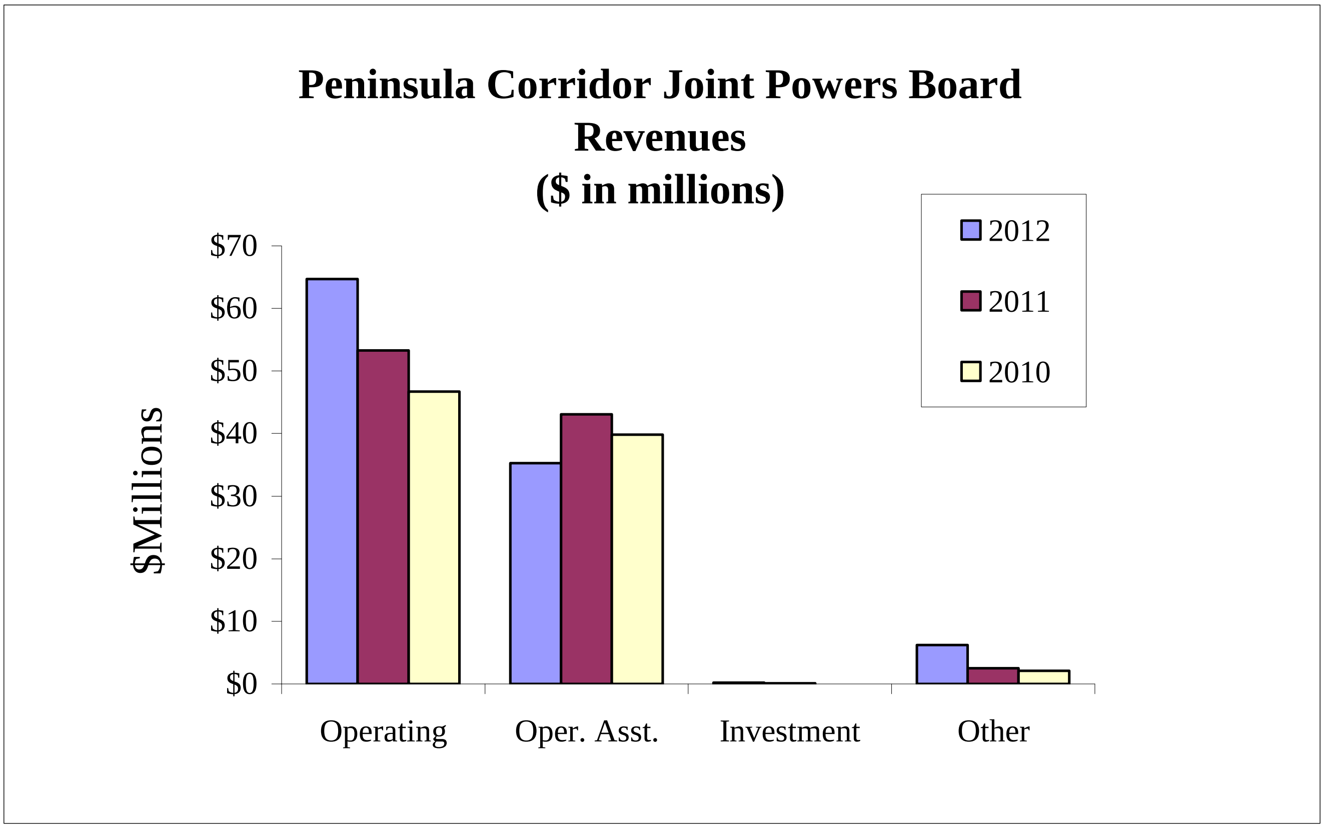
PENINSULA CORRIDOR JOINT POWERS BOARD
NET ASSETS
(in thousands)

	2012	2011	2010
Current assets	$ 93,242	$ 72,172	$ 59,274
Noncurrent assets	243	3,179	6,977
Capital assets, net of depreciation/amortization	1,204,743	1,186,105	1,156,128
Total assets	**1,298,228**	**1,261,456**	**1,222,379**
Current liabilities	69,892	54,506	48,957
Long-term liabilities	27,323	26,766	26,423
Total liabilities	**97,215**	**81,272**	**75,380**
Net assets			
Invested in capital assets, net of related debt	1,181,995	1,163,379	1,133,772
Restricted	12,860	11,664	11,098
Unrestricted	6,157	5,141	2,129
Total net assets	**$ 1,201,012**	**$ 1,180,184**	**$ 1,146,999**

Revenues

Operating revenues increased to $64.7 million in Fiscal Year 2012, an $11.4 million or 21.4 percent increase from Fiscal Year 2011 and increased to $53.3 million in Fiscal Year 2011, a $6.8 million or 14.7 percent increase over Fiscal Year 2010. Increases for both years were due to increases in passenger fares.

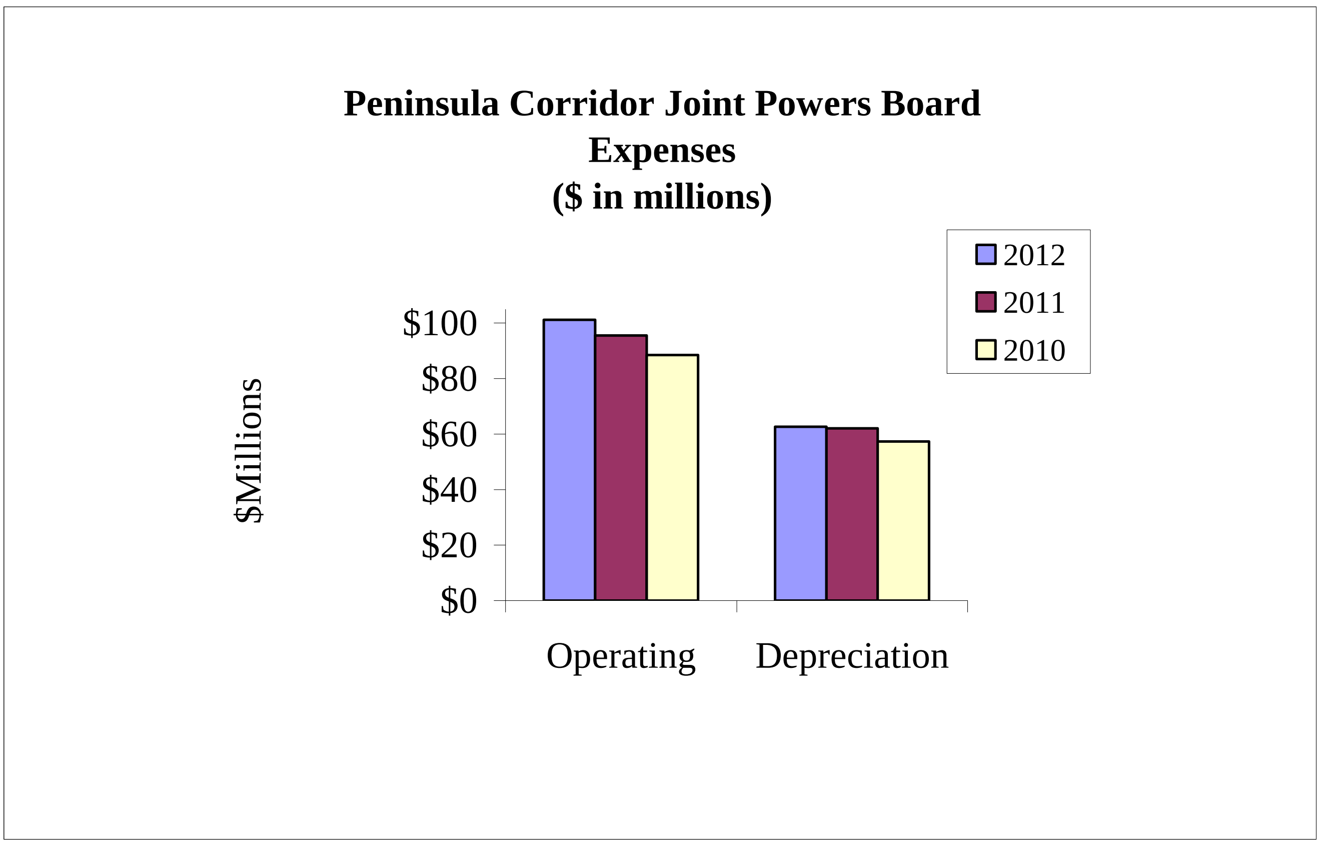
Nonoperating revenues decreased $7.1 million or 16.0 percent to $38.7 million at June 30, 2012 compared to June 30, 2011 and increased $1.3 million or 2.9 percent in Fiscal Year 2011 compared to Fiscal Year 2010.



Expenses

Total operating expenses of $101.2 million in Fiscal Year 2012 were $5.5 million or 5.8 percent higher than Fiscal year 2011, and in Fiscal Year 2011 $7.0 million or 7.9 percent higher than Fiscal Year 2010. Total operating expenses in Fiscal Year 2012 consisted of $65.9 million or 65.1 percent for rail operator contract services, $15.3 million or 14.7 percent for fuel and $20.0 million or 19.2 percent for other expenses combined. The largest component of Fiscal Year 2011 and Fiscal Year 2010 operating expenses was rail operator contract services at $60.6 million and $59.4 million which represent 63.4 percent and 67.0 percent of the total expenses respectively.

Depreciation and amortization for Fiscal Year 2012 was $62.7 million, a $0.6 million or 1.0 percent increase over Fiscal Year 2011. In Fiscal Year 2011, depreciation and amortization was $62.1 million, a $4.7 million or 8.3 percent increase over Fiscal year 2010.



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

	2012	2011	2010
Operating revenues:			
Passenger fares	$ 59,891	$ 49,026	$ 42,732
Parking, shuttle and pass revenues	4,411	3,576	3,452
Other	382	694	278
Total operating revenues	64,684	53,296	46,462
Operating expenses:			
Contract services	65,882	60,637	59,404
Insurance	4,783	7,310	5,035
Fuel	15,288	12,937	10,309
Parking, shuttle and pass revenues	4,183	3,912	3,850
Professional service	885	1,046	826
Wages and benefits	5,731	6,026	5,928
Utilities and supplies	1,519	1,599	1,268
Maintenance services	1,070	382	268
Temporary services, rent and other	1,833	1,779	1,721
Total Operating expenses	101,174	95,628	88,609
Operating loss before depreciation and amortization	(36,490)	(42,332)	(42,147)
Depreciation and amortization	(62,724)	(62,119)	(57,374)
Operating loss	(99,214)	(104,451)	(99,521)
Nonoperating revenues			
Federal, state and local operating assistance	35,282	43,142	41,556
Rental income	1,759	1,733	1,729
Investment income (loss)	193	143	291
Other income (expense)	2,554	1,907	2,099
Total Nonoperating revenues	39,788	46,925	45,674
Nonoperating expenses	(1,123)	(1,123)	(1,140)
Net loss before capital contributions	(60,549)	(58,649)	(54,986)
Capital contributions	81,375	91,834	71,579
Change in net assets	20,826	33,185	16,593
Net assets - beEinning of year	1,180,184	1,146,999	1,130,406
Prior Period adjustment per GASB 51 (Note 4)	-	-	
Net assets - end of year	**$ 1,201,010**	**$ 1,180,184**	**$ 1,146,999**

Capital Projects

The JPB incurred capital expenses of $81.4 million and recognized related revenue in the form of capital contributions of $81.4 million in fiscal year 2012, which is $10.8 million or 11.4 percent decrease in capital contributions in Fiscal Year 2012 over Fiscal Year 2011. The Fiscal Year 2012 capital sources consist of federal grants ($26.8 million or 33.0 percent), state grants ($33.4 million or 41.0 percent), and local assistance including the three member agencies ($21.2 million or 26.0 percent). The JPB incurred capital expenses of $92.2 million and recognized related revenue in the form of capital contributions of $91.8 million in fiscal year 2011, which is $20.3 million or 28.3 percent more than in fiscal year 2010. The Fiscal Year 2011 capital sources consist of federal grants ($42.7 million or 46.3 percent), state grants ($17.6 million or 19.1 percent), local assistance including the three member agencies ($31.5 million or 34.2 percent) and debt financing ($0.4 million or 0.4 percent).

Following is a summary of the JPB's major capital expenditures for Fiscal Year 2012:

- Cost of grade crossing and separation along the Caltrain line ($32.7 million)
- Caltrain modernization program ($8.1 million)
- Bridge repairs and replacements ($7.7 million)
- System-wide track rehabilitation, signal, bridge and tunnel work ($7.5 million)
- Station improvements and repairs ($6.9 million)
- Station platform improvements ($5.8 million)
- Communication equipment to improve the reliability, quality and speed of signal, data and voice transmissions ($5.6 million)
- Safety related features at stations, grade crossings and along the tracks ($3.2 million)
- Caltrain passenger cars, accessories and improvements ($2.4 million)
- Maintenance facility improvements and others ($1.5 million)

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

Debt

At the end of Fiscal Year 2012, the JPB had $23.1 million in outstanding farebox revenue bonds representing no change from the $23.1 million outstanding at the end of Fiscal Year 2011 and Fiscal Year 2010. During Fiscal Year 2008, the JPB issued farebox revenue bonds to finance the purchase of eight new rail cars and refinance the balance of the 1999 farebox revenue bonds. Principal payments are not scheduled to begin on the 2007 farebox revenue bonds until Fiscal Year 2019. More information regarding the JPB's long-term debt activity can be found in Note #9 – *Farebox Revenue Bonds Payable* in the notes to the financial statements.

Economic Factors

The U.S economic recovery is progressing more slowly than previously expected. California's unemployment rate is forecasted to remain above 10 percent through mid-2014 and above 8 percent through the end of 2017. As confidence in the economy is restored, consumer spending in California is expected to rise and peak in late 2014, according to the San Mateo County Economic Development Association.

Despite signs of economic rebound, the JPB continues to feel the affects of the recession from the challenge each member agency experiences when trying to fund the JPB operating deficit. Without a dedicated funding source, Caltrain continues to struggle to meet the demands of the operating budget.

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: Deputy CEO, Finance and Administration, 1250 San Carlos Avenue, San Carlos, California, 94070-1306.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 37,943,011	$ 12,023,499
Restricted cash (Note 3)	12,860,104	11,664,428
Total Cash and Cash Equivalents	50,803,115	23,687,927
Investments (Note 3)	-	3,169,600
Due from other governmental agencies	28,771,626	37,627,170
Receivables from member agencies (Note 14)	6,579,536	2,697,723
Accounts receivable - other, net of allowance	2,387,679	1,044,978
Inventory	3,733,190	3,148,873
Prepaid expenses	690,885	611,868
Restricted investment with fiscal agents (Note 3)	275,719	183,813
Total Current Assets	93,241,750	72,171,952
Noncurrent Assets:		
Investments (Note 3)	-	2,914,092
Capital assets (Note 6):		
Right-of-way improvements	719,324,312	677,797,396
Rail vehicles	285,124,615	284,203,134
Facilities and equipment	128,427,873	127,047,985
Office equipment	874,855	855,111
Capital Assets, Gross	1,133,751,655	1,089,903,626
Less accumulated depreciation	(425,673,186)	(366,072,465)
Construction in progress (Note 2)	261,771,335	227,380,875
Right-of-way	226,892,731	226,892,731
Intangible asset - trackage rights (Note 4)	8,000,000	8,000,000
Total Capital Assets, Net	1,204,742,535	1,186,104,767
Bond issuance costs, net	243,073	265,398
Total Noncurrent Assets	1,204,985,608	1,189,284,257
Total Assets	$ 1,298,227,358	$ 1,261,456,209

See accompanying notes to basic financial statements

	2012	2011
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 34,402,754	$ 25,985,597
Interest payable	275,719	275,719
Self-insurance claims liabilities (Note 10)	2,317,595	2,270,965
Deferred member contributions (Note 14)	14,831,064	10,681,846
Deferred revenue	17,988,297	15,215,858
Other	76,935	75,818
Total Current Liabilities	69,892,364	54,505,803
Noncurrent Liabilities:		
Farebox revenue bonds payable (Note 9)	23,140,000	23,140,000
Self-insurance claims liabilities (Note 10)	4,182,948	3,625,872
Total Noncurrent Liabilities	27,322,948	26,765,872
Total Liabilities	97,215,312	81,271,675
NET ASSETS		
Invested in capital assets, net of related debt	1,181,994,847	1,163,379,255
Restricted for:		
Capital projects	12,860,104	11,664,427
Unrestricted	6,157,095	5,140,852
Total Net Assets	$ 1,201,012,046	$ 1,180,184,534

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	2012	2011
OPERATING REVENUES		
Passenger fares	$ 59,891,344	$ 49,025,572
Parking, shuttle and pass revenues	4,410,889	3,576,207
Other	381,982	694,282
Total Operating Revenues	64,684,215	53,296,061
OPERATING EXPENSES		
Contract services	65,881,692	60,637,134
Insurance	4,783,055	7,310,271
Fuel	15,287,988	12,936,716
Parking, shuttle and pass expenses	4,182,585	3,911,970
Professional services	884,704	1,045,969
Wages and benefits	5,731,384	6,026,001
Utilities and supplies	1,519,426	1,599,263
Maintenance services	1,070,434	381,801
Temporary services, rent and other	1,833,396	1,779,133
Total Operating Expenses	101,174,664	95,628,258
Operating loss before depreciation and amortization	(36,490,449)	(42,332,197)
Depreciation and amortization	(62,723,507)	(62,118,793)
OPERATING (LOSS)	(99,213,956)	(104,450,990)
NON-OPERATING REVENUES (EXPENSES)		
Federal, state, and local operating assistance (Note 7)	35,282,312	43,142,144
Rental income	1,759,216	1,733,170
Investment income	193,103	142,965
Interest expense	(1,122,649)	(1,122,559)
Other income	2,554,387	1,906,794
Total Non-Operating Revenues, net	38,666,369	45,802,514
Net Loss Before Capital Contributions	(60,547,587)	(58,648,476)
Capital contributions (Note 11)	81,375,099	91,833,772
Change in Net Assets	20,827,512	33,185,296
NET ASSETS		
Beginning of Year	1,180,184,534	1,146,999,238
End of Year	$ 1,201,012,046	$ 1,180,184,534

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares, passes and other	$ 65,789,740	$ 53,271,720
Payments to vendors for services	(74,941,649)	(84,048,159)
Payments to employees	(5,720,304)	(6,026,001)
Payments for insurance claims and premiums	(4,179,348)	(5,304,561)
Net cash (used for) operating activities	(19,051,561)	(42,107,001)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	35,360,659	42,524,745
Rental and other income	4,397,013	4,898,975
Net cash provided by noncapital and financing activities	39,757,672	47,423,720
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	82,970,879	71,616,276
Property additions	(81,361,274)	(92,127,005)
Interest and fiscal charges paid	(1,102,875)	(1,108,538)
Net cash provided by capital and related financing activities	506,730	(21,619,267)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	6,035,000	6,500,000
Purchase of investment	(367,625)	(3,409,347)
Interest received	234,972	372,797
Net cash provided investing activities	5,902,347	3,463,450
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	27,115,188	(12,839,098)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,687,927	36,527,025
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 50,803,115	$ 23,687,927
RECONCILIATION OF OPERATING LOSS TO NET CASH USED		
Operating (loss)	$ (99,213,956)	$ (104,450,990)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	62,723,507	62,118,793
Effect of changes in:		
Receivables	9,941	(327,653)
Prepaid expenses	(662,201)	(406,273)
Accounts payable, accrued liabilities and claims liabilities	16,994,217	652,309
Deferred revenue	1,095,589	303,313
Other liabilities	1,342	3,500
Net cash (used for) operating activities	$ (19,051,561)	$ (42,107,001)

See accompanying notes to basic financial statements

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

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NOTE 1 - ORGANIZATION

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

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

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

The JPB assumed an expanded role in July 1992 as the State of California Department of Transportation (Caltrans) and the District coordinated the transfer of Caltrain operations and administration to the JPB. The JPB selected the National Railroad Passenger Corporation (Amtrak) as the contract operator and operated the rail service from July 1, 1992 through May 25, 2012. TransitAmerica Services, Inc. (TASI), assumed operations and maintenance of the service on May 26, 2012.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 60 - In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnerships. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The JPB has not determined its effect on the financial statements.

GASB Statement No. 61 - In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The JPB has not determined its effect on the financial statements.

GASB Statement No. 62 - In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements, which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The JPB has not determined its effect on the financial statements.

GASB Statement No. 63 - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The JPB has not determined its effect on the financial statements.

GASB Statement No. 64 - In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. This statement did not have an impact on the JPB's financial statements.

GASB Statement No. 65 - In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The JPB has not determined its effect on the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 66 - In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The JPB has not determined its effect on the financial statements.

GASB Statement No. 67 - In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The JPB has not determined its effect on the financial statements.

GASB Statement No. 68 - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. 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 Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash Equivalents

The 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, 2012 and 2011, the allowance for doubtful accounts included in Accounts receivable – other, are $418,078 and $418,259, respectively.

NOTE 2 - SUMMARY OF 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 TransitAmerica Services, Inc. as part of their contractual agreement.

G. Investments

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

H. Restricted Investments with Fiscal Agents

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

I. Restricted and Unrestricted Resources

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

J. 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 $5,000 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.

K. Depreciation and Amortization

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Construction in Progress

Construction in progress consists of the following projects at June 30, 2012 and 2011:

	2012	2011
Grade crossing and separations	$ 84,335,628	$ 73,176,055
Station improvements	35,982,817	30,196,251
Electrification	22,966,966	22,947,627
Communications	21,304,031	17,254,614
System-wide track improvements	7,434,636	14,262,217
Bridge improvements	29,058,486	21,321,650
Peninsula rail program	23,391,965	15,294,947
Platform improvements	22,390,156	16,639,404
Rolling stock-purchase/ improvements	6,780,911	5,103,499
Other	8,125,739	11,184,611
Total Construction in Progress	$ 261,771,335	$ 227,380,875

M. Bond Issuance Costs

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

N. 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.

O. 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.

P. Member Agency Assistance

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

Q. Federal, State and Local Operating Assistance

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

R. Wages and Benefits

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Operating/Nonoperating Revenues and Expenses

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

T. Use of Estimates

The 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 (GAAP). Actual results may differ from those estimates.

NOTE 3 – CASH AND INVESTMENTS

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

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

The JPB's cash and investments as of June 30 are classified in the Statement of Net Assets as follows:

	2012	2011
Cash and cash equivalents	$ 37,943,011	$ 12,023,499
Restricted cash	12,860,104	11,664,428
Current investments	-	3,169,600
Restricted investments with fiscal agents	275,719	183,813
Noncurrent investments	-	2,914,092
Total Cash and Investments	$ 51,078,834	$ 29,955,432

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

	2012	2011
Cash on hand	$ 871,817	$ 660,459
Deposits with financial institutions	13,924,387	11,447,312
Investments	36,282,630	17,847,661
Total Cash and Investments	$ 51,078,834	$ 29,955,432

NOTE 3 – CASH AND INVESTMENTS (continued)

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

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

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

[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.

Investments Authorized by Debt Agreements

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

NOTE 3 - CASH AND INVESTMENTS (continued)

Disclosure Relating to Interest Rate Risk

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

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

The JPB's weighted average maturity of its investment portfolio at June 30, 2012 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	$ 2,744,997	0.00
Local Agency Investment Fund (LAIF)	33,261,914	0.73
U.S. Agency Securities	-	0.00
Held by bond trustee:		
Money Market Funds	275,719	0.00
	36,282,630	
Portfolio Weighted Average Maturity		0.73

The JPB's weighted average maturity of its investment portfolio at June 30, 2011 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	$ 3,364,568	0.00
Local Agency Investment Fund (LAIF)	8,215,587	0.65
U.S. Agency Securities	6,083,693	1.19
Held by bond trustee:		
Money Market Mutual Funds	183,813	0.00
	$ 17,847,661	
Portfolio Weighted Average Maturity		0.88

NOTE 3 – CASH AND INVESTMENTS (continued)

Disclosures relating to Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the JPB's investment policy, or debt agreements, and the actual rating as of fiscal years ended June 30, 2012 and 2011 for each investment type:

		Rating as of June 30, 2012		
Investment Type	Amount	S & P Rating AAA	A	Not Rated
Repurchase Agreements	$ 2,744,997	$ -	$ -	$ 2,744,997
Local Agency Investment Fund (LAIF)	33,261,914	-	-	33,261,914
Held by bond trustee:				
Money Market Mutual Funds	275,719	-	-	275,719
Total	$ 36,282,630	$ -	$ -	$ 36,282,630

		Rating as of June 30, 2011		
Investment Type	Amount	S & P Rating AAA	A	Not Rated
Repurchase Agreements	$ 3,364,568	$ -	$ -	$ 3,364,568
Local Agency Investment Fund (LAIF)	8,215,587	-	8,215,587	-
U.S. Agency Securities	6,083,693	6,083,693	-	-
Held by bond trustee:				
Money Market Mutual Funds	183,813	-	-	183,813
Total	$ 17,847,661	$ 6,083,693	$ 8,215,587	$ 3,548,381

NOTE 3 – CASH AND INVESTMENTS (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, 2012 and 2011 are as follows:

Issuer	Investment Type	Fair Value 2012*	Fair Value 2011
Federal Home Loan Mortgage Corporation (FHLMC)	U.S. Agency Securities	$ -	$ 2,501,690
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	-	1,006,832
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	-	2,575,170
Total		$ -	$ 6,083,692

*Securities liquidated at maturity in 2012

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the JPB will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investment is the risk that in the event of the failure of the counter party (e.g. broker-dealer) to a transaction, the JPB will not be able to recover the value of its investment or collateral securities that are in possession of another party. 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. 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, 2012 and 2011, the JPB had $13,924,389 and $11,447,312, respectively, of deposits with financial institutions recorded on the financial statements. On December 31, 2012 the Dodd-Frank legislation, passed the previous July, became effective which essentially provides unlimited Federal Depository Insurance Corporation (FDIC) insurance on deposits in non-interest bearing accounts until its expiration on December 31, 2012. Additionally, the JPB is required to hold certain capital fund amounts in interest bearing accounts. These balances are in excess of the $250,000 FDIC limit, however due to California State Law, the excess balances must be collateralized with pledged securities by the financial institutions holding the JPB's deposits.

NOTE 3 – CASH AND INVESTMENTS (continued)

Investment in San Mateo County Investment Pool

The JPB did not have funds invested in the San Mateo County Treasurer's Investment Pool (County Pool) at June 30, 2012 and 2011.

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.

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. In April 2012, the bankruptcy court approved a settlement plan for creditors. The first of an anticipated four to five payment was made on April 17, 2012 in the amount of $79,100. As of August 21, 2012, the anticipated recovery value is still projected to be at least $0.21 on the dollar. Based on the JPB's participation rate, this equates to approximately $0.3 million.

Investment in State Investment Pool

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

As of June 30, 2012 and June 30, 2011, the JPB had a contractual withdrawal value of $33,221,396 and $8,202,656, respectively, that is recorded at $33,261,914 and $8,215,587 on the balance sheet after the adjustment for unrealized gains/losses for Fiscal Year 2012 and 2011, respectively. The total value invested by all public agencies in LAIF at June 30, 2012 and 2011 was $60,612,199,285 and $66,352,783,817, respectively. Of these amounts, as of June 30, 2012 and 2011, 97.25 and 95.0 percent, respectively, was invested in non-derivative financial products, and 2.75 and 5.0 percent, respectively, was invested in structured notes and asset-backed securities. The JPB relied upon information provided by the State Treasurer in estimating the JPB's fair value position of its holdings in LAIF.

NOTE 4 – GILROY EXTENSION

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

NOTE 5 – CONTRIBUTED ASSETS FROM CALTRANS

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

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

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Depreciable capital assets:				
Right-of-way improvements	$ 677,797,396	$ 44,233,444	$ (2,706,528)	$ 719,324,312
Rail vehicles	284,203,134	921,481	-	285,124,615
Facilities and equipment	127,047,985	1,761,208	(381,320)	128,427,873
Office equipment	855,111	54,682	(34,938)	874,855
Total depreciable capital assets	1,089,903,626	46,970,815	(3,122,786)	1,133,751,655
Accumulated depreciation for:				
Right-of-way improvements	(222,481,203)	(44,316,791)	2,706,528	(264,091,466)
Rail vehicles	(113,552,675)	(12,458,231)	-	(126,010,906)
Facilities and equipment	(29,336,733)	(5,864,812)	381,320	(34,820,225)
Office equipment	(701,854)	(83,673)	34,938	(750,589)
Total accumulated depreciation	(366,072,465)	(62,723,507)	3,122,786	(425,673,186)
Capital assets nondepreciable:				
Right-of-way	226,892,731	-	-	226,892,731
Construction in progress	227,380,875	81,361,275	(46,970,815)	261,771,335
Intangible Asset – Trackage Rights	8,000,000	-	-	8,000,000
Total nondepreciable capital assets	462,273,606	81,361,275	(46,970,815)	496,664,066
Capital assets, net	$ 1,186,104,767	$ 65,608,583	$ (46,970,815)	$ 1,204,742,535

NOTE 6 – CAPITAL ASSETS (continued)

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Depreciable capital assets:				
Right-of-way improvements	$ 652,968,384	$ 30,957,538	$ (6,128,526)	$ 677,797,396
Rail vehicles	280,200,602	4,048,678	(46,146)	284,203,134
Facilities and equipment	121,036,879	7,537,237	(1,526,131)	127,047,985
Office equipment	693,205	161,906	-	855,111
Total depreciable capital assets	1,054,899,070	42,705,359	(7,700,803)	1,089,903,626
Accumulated depreciation for:				
Right-of-way improvements	(186,212,740)	(42,396,992)	6,128,529	(222,481,203)
Rail vehicles	(101,158,901)	(12,408,704)	14,930	(113,552,675)
Facilities and equipment	(23,625,783)	(7,237,083)	1,526,133	(29,336,733)
Office equipment	(625,840)	(76,014)	-	(701,854)
Total accumulated depreciation	(311,623,264)	(62,118,793)	7,669,592	(366,072,465)
Capital assets nondepreciable:				
Right-of-way	226,892,731	-	-	226,892,731
Construction in progress	177,959,231	92,335,662	(42,914,018)	227,380,875
Intangible Asset – Trackage Rights	8,000,000	-	-	8,000,000
Total nondepreciable capital assets	412,851,962	92,335,662	(42,914,018)	462,273,606
Capital assets, net	$ 1,156,127,768	$ 72,922,228	$ (42,945,229)	$ 1,186,104,767

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, 2012 and 2011 were:

	2012	2011
District – Operating	41.92%	41.91%
VTA – Operating	40.28%	40.28%
CCSF – Operating	17.80%	17.81%

NOTE 7 – OPERATING ASSISTANCE (continued)

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, 2012 and 2011 were:

	2012	2011
Member Agency local funds	$ 25,029,794	$ 35,092,905
Assembly Bill 434 operating assistance	989,533	1,000,000
Other	9,262,985	7,049,239
Total	$ 35,282,312	$ 43,142,144

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 were $1,010,000 for each of the years ended June 30, 2012 and 2011. 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. In Fiscal Years 2012 and 2011, the JPB received capital reimbursements and capital advances from the member agencies totaling $8,634,931 and $9,067,013 respectively. The unexpended amounts at 2012 and 2011 are shown as Deferred Member Contributions. (See Note 14 - Related Parties).

B. Federal and State Grants

At June 30, 2012, the JPB has 22 federal, 16 State and 31 local grants that provide funding for Caltrain capital projects. Capital additions for the year ended June 30, 2012 and 2011, applicable to these projects are $81,375,099 and $91,833,772, respectively. The related federal participation was $26,827,687.

The JPB has receivables of $7,374,930 and $19,902,814 at June 30, 2012 and 2011, 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 $16,622,770 and $9,809,078 at June 30, 2012 and 2011, respectively, for qualifying capital project expenditures under various state grants, which also is 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.

Activity for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Current Portion
2007 Series A Revenue Bonds	$ 23,140,000	$ -	$ -	$ 23,140,000	$ -

Activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Current Portion
2007 Series A Revenue Bonds	$ 23,140,000	$ -	$ -	$ 23,140,000	$ -

NOTE 9 – FAREBOX REVENUE BONDS PAYABLE (continued)

Annual principal and interest payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2013	$ -	$ 1,102,875	$ 1,102,875
2014	-	1,102,875	1,102,875
2015	-	1,102,875	1,102,875
2016	-	1,102,875	1,102,875
2017	-	1,102,875	1,102,875
2018-2022	1,580,000	5,417,184	6,997,184
2023-2027	4,970,000	4,690,703	9,660,703
2028-2032	6,430,000	3,3,72,338	9,802,338
2033-2037	8,250,000	1,550,000	9,800,000
2038	1,910,000	47,750	1,957,750
Total	$ 23,140,000	$ 20,592,350	$ 43,732,350

NOTE 10 – SELF-INSURANCE

The JPB is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The JPB is self-insured for a portion of its public liability and damage to property. As of June 30, 2012, 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 & Property Damage	Up to $2,000,000 per occurrence	Up to $200,000,000 per occurrence
Public Officials Liability	$50,000 per claim	$5,000,000
Environmental Site Liability	$50,000 per claim	$5,000,000

All property is insured at full replacement value. 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.

NOTE 10 – SELF-INSURANCE (continued)

Changes in the balances of self-insured claims liabilities for public liability and property damage for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Self-insurance liabilities, beginning of year	$ 5,896,836	$ 3,891,126
Incurred claims and changes in estimates	1,196,369	2,551,075
Claim payments and related costs	(592,662)	(545,364)
Total self-insurance claims liabilities	6,500,543	5,896,837
Less: current portion	(2,317,595)	(2,270,965)
Noncurrent portion	$ 4,182,948	$ 3,625,872

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.

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, 2012 and 2011 are as follows:

	2012	2011
Contributions from Federal government	$ 26,827,687	$ 42,678,737
Contributions from the State	33,367,165	17,647,328
Contributions from local governments	21,180,247	31,507,707
	$ 81,375,099	$ 91,833,772

NOTE 12 – COMMITMENT AND CONTINGENCIES

A. *Operating Contract*

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

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

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

The expenses billed to the JPB by Amtrak and TASI for providing rail operation services for the years ended June 30, 2012 and 2011 are recorded as Contract Services in the Statement of Revenues, Expenses, and Changes in Net Assets.

B. Diesel Fuel Contract

In April 2007, the JPB entered into a two-year contract with Golden Gate Petroleum for the provision and delivery of Red-Dyed, Ultra Low Sulfur Diesel (USLD) for an estimated amount of $19.6 million. In May 2009, the JPB exercised the first of three authorized, one-year option terms with Golden Gate Petroleum for an estimated option term amount of $9.8 million.

In June 2009, the JPB joined the San Joaquin Regional Transit District (SJRTD), lead agency for the Regional Transit Coordinating Council, (RTCC) in issuing an Invitation for Bids for the provision and delivery of Clear and Red-Dyed ULSD fuel, bio-diesel and unleaded gasoline. Four agencies participated in the RTCC procurement: the SJRTD, the VTA, the District, and the JPB. The lowest responsive, responsible bidder for the fuel requirements of the District and the JPB was Pinnacle Petroleum.

In January 2010, the JPB terminated the existing contract with Golden Gate Petroleum, for convenience, and entered into a new two-year base contract, with up to three one year option terms, with Pinnacle Petroleum for an estimated base contract amount of $17.4 million.

JPB fuel costs incurred for the fiscal years ended June 30, 2012 and June 30, 2011 were $15,281,681 and $12,931,549, respectively.

C. Litigation

As of June 30, 2012 and 2011, the JPB had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigations are outstanding for which the JPB cannot determine the ultimate and resulting liability, if any. However, the JPB's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the JPB's financial position.

D. Leases

The terms of the Fiscal Year 2001 Sale-Leaseback documents entered into in November 2000 and the Fiscal Year 2002 Sale-Leaseback documents entered into in September 2001 require the JPB to replace American International Group (AIG) and Financial Security Assurance Inc., now Assured Guaranty Municipal Corp. (AGM), in their roles as guarantors of certain payment and surety obligations, as the case may be, if their respective ratings fall below certain rating thresholds. In the case of AIG, the ratings threshold is “A2/A” by Moody’s and Standard & Poor’s, respectively. In the case of AGM, the ratings threshold is “Aa3/AA-”, respectively. If the ratings of AIG or AGM fall below the applicable thresholds, the JPB will be required to find a replacement guarantor acceptable to the equity investor, Wells Fargo Bank, within 60 days of such rating trigger event in the case of AIG and within 30 days after demand by Wells Fargo.

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

American International Group (AIG) has been rated "A3/A-" by Moody's and Standard & Poor's since September 10, 2008. These ratings are below the thresholds in the applicable Sale-Leaseback documents. Wells Fargo Bank originally granted the JPB a 30 day extension from November 10, 2008 to find an acceptable replacement for AIG. Since that date, it has not responded to letters requesting additional extensions. In those subsequent letters, the JPB has included language stating that the JPB assumes that the request for extension is approved unless Wells Fargo notifies the JPB to the contrary. The JPB's most recent request for an extension contains an extension date of December 31, 2012. The JPB continues to seek replacement options for AIG. In the event the JPB is unable to replace AIG and Wells Fargo seeks to assert its rights under the Fiscal Year 2001 and Fiscal Year 2002 Sale-Leaseback documents, the JPB in a worst case scenario could be required to pay Wells Fargo Bank the net termination value on the leases. However, the JPB reasonably anticipates that this outcome can be averted.

In August 2011 Standard & Poor's downgraded AGM's rating from "AA+" to "AA-". In February 2012, Moody's Investor Services announced it had placed AGM's financial strength rating of "Aa3" under review for a possible downgrade. However, as of June 30, 2012 AGM's ratings from Moody's and Standard & Poor's remain "Aa3/AA-" which are within the thresholds of the Fiscal Year 2001 and Fiscal Year 2002 Sale–Leaseback documents.

The terms of the Fiscal Year 2002 Sale-Leaseback documents entered into in February 2002 require the JPB to replace AGM and Swiss Re in their roles as guarantor of certain payment and surety obligations, as the case may be, if their respective ratings fall below certain rating thresholds. In the case of AGM, the ratings threshold is "Aa1/AA+" by Moody's and Standard & Poor's, respectively. In the case of Swiss Reinsurance Company (Swiss Re), the ratings threshold is "Aa3/AA-", respectively. If the ratings of AGM or Swiss Re fall below the applicable thresholds, the JPB will be required to find a replacement guarantor acceptable to the equity investor, Banc of America Leasing & Capital LLC, within 45 days of such rating trigger event.

Swiss Re has been rated "A1/A+" by Moody's and Standard & Poor's since February 2009. AGM is currently rated "Aa3/AA-" by Moody's and Standard & Poor's, with the downgrade by Moody's from Aaa to Aa3 occurring in November 2008 and the downgrade by Standard & Poor's occurring in August 2011. These ratings are below the thresholds in the applicable Sale-Leaseback documents. Banc of America Leasing & Capital LLC has granted the JPB extensions in which to replace AGM and Swiss Re, as the case may be, since December 2008. The most recent extension runs through January 31, 2013. The JPB continues to make every effort to replace AGM and Swiss Re with acceptable guarantors. In the event the JPB is unable to replace AGM and Swiss Re, and Banc of America Leasing & Capital LLC seeks to assert its rights under the Fiscal Year 2002 Sale-Leaseback documents, the JPB in a worst case scenario could be required to pay Banc of America Leasing & Capital LLC the net termination value on the lease. However, the JPB reasonably anticipates that this outcome can be averted.

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

E. Fuel Hedge Program

In May 2012, the JPB entered into a diesel fuel price cap agreement with Barclays Bank to hedge the cost of fuel for fiscal year 2013 which capped the price of fuel hedged by the JPB at $2.80 per gallon. The JPB's fiscal year 2013 adopted budget for fuel expenses is $17.2 million which is an increase of about $2,000,000 or 13 percent, over the revised fiscal year 2012 budget. The JPB purchases fuel based on the average weekly spot price for Oil Price Information Service (OPIS) index. This method leaves the JPB open to fluctuation in the market for diesel fuel. The primary goal of the fuel hedging program is to reduce volatility and uncertainty in the fuel budget. The JPB hedged 2.25 million gallons, which represents approximately 50 percent of estimated fuel consumption for fiscal year 2013. In order to maximize the hedging program's potential for economic efficiency, the JPB partnered with the District, which hedged 1.2 million gallons. The agreement documents include a Credit Support Annex which provides protection to the JPB in the event that the rating of Barclays Bank falls to or below A3/A-/A- by Moody's, Standard and Poor's or Fitch. Implementing this fuel hedging program allowed the JPB to reduce uncertainty in the fuel budget for fiscal year 2013 and to take advantage of the relatively low market prices on the closing date of the transaction. Staff will return to the Board with results of the fiscal year 2013 fuel hedging program and a recommendation on whether to continue the program in fiscal year 2014.

NOTE 13 – LEASING TRANSACTIONS

A. Fiscal Year 2001 Sale - Leaseback

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

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.

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

D. 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 received 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.

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 also was required to compensate the District for administrative overhead. Amounts due to the District as managing agency at June 30, 2012 and 2011 total $1,088,687 and $2,690,176, 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:

	2012	2011
Wages and benefits	$ 5,731,384	$ 6,026,001
Rent, utilities, supplies and other	1,454,600	1,528,249
Total	$ 7,185,984	$ 7,554,250

B. Receivables From Member Agencies

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

	2012	2011
District	$ 61,341	$ 7,030
VTA	4,161,061	66,106
CCSF	2,357,134	2,624,587
Total	$ 6,579,536	$ 2,697,723

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, are as follows:

NOTE 14 – RELATED PARTIES (continued)

	2012	2011
District	$ 7,888,703	$ 8,228,974
VTA	5,286,111	873,047
CCSF	1,656,250	1,579,825
Total	$ 14,831,064	$ 10,681,846
Committed for:		
Centralized traffic control system	$ 840	$ 840
Farebox capital	3,292	7,012
Capital contingency fund	2,198,107	1,868,995
Capital contribution Member's local match	12,429,086	8,605,260
Total Committed	$ 14,631,325	$ 10,482,107
Uncommitted funds:		
District	$ 100,000	$ 100,000
VTA	(17,349)	(17,349)
CCSF	117,088	117,088
Total Uncommitted	$ 199,739	$ 199,739
Total	$ 14,831,064	$ 10,681,846

D. San Bruno Grade Separation Project

On January 22, 2010, the JPB entered into a cooperative agreement with the District where by the District acts as JPB's agent for right-of-way certification purposes in connection with the acquisition of property in the City of San Bruno as part of the San Bruno Grade Separation Project ("Project"), as the JPB is not legally authorized to file condemnation actions. Per the agreement, the JPB is the lead agency responsible for acquisition of the property by negotiated agreement. The District is responsible for providing all right-of-way related, necessary certification services including submission to appropriate authorities of all required right of way certification documentation. The District is also responsible for reviewing the project right-of-way appraisal and acquisition process to assure such activities are proper and in accordance with Caltrans right of way certification requirements. Property that needs to be acquired by eminent domain shall be condemned by the District. The District shall take title to property acquired by eminent domain and transfer title to the JPB. The JPB is responsible for paying 100 percent of the acquisition costs as well as all costs for staff, consultants and legal counsel.

At the April 14, 2010 the District Board of Directors meeting, the District Board authorized an amendment to the budget allowing for up to $1.2 million to be spent in relation to the JPB's San Bruno Grade Separation Project. On April 15, 2010, the District wired $1.048 million to the California State Treasurer for the condemnation deposit on property being acquired by eminent domain for the Project. The JPB promptly reimbursed the District on May 10, 2010.

NOTE 15 – SUBSEQUENT EVENT

A. Lehman Brothers Holdings Settlement

On October 2, 2012, and pursuant to the recovery payment reported in Note 3, Lehman Brothers Holdings made a second settlement payment to creditors. The JPB's portion of $50,313.19 raises the total recovery amount to date received by the JPB to $129,412.73.

NOTE 15 – SUBSEQUENT EVENT (Continued)

B. Caltrain Modernization Program

A 9-party regional memorandum of understanding was approved by the JPB and the CHSRA to make an early investment of $1.5B to modernize the corridor. The funding is to pay for an advanced signal system (Communication-Based Operating Signal System), electrification and equipment of the peninsula corridor. These investments would allow Caltrain to provide improved performance and more service to support the growing demand and it would also prepare the foundation for high-speed rail service to reach the peninsula in the future. The advance signal system is scheduled for completion by 2015 and electrification by 2019. Electrified Caltrain service is expected by 2019 and high-speed rail service in the peninsula by 2026-2029.

PENINSULA CORRIDOR JOINT POWERS BOARD
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES –
COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2012

	Budget (Unaudited)	Actual	Variance Positive/ Negative
OPERATING REVENUES:			
Passenger fares	$ 54,069,757	$ 59,891,343	$ 5,821,586
Parking, shuttle and pass revenues	4,136,433	4,410,890	274,457
Other	286,840	381,978	95,138
Total operating revenues	58,493,030	64,684,211	6,191,181
OPERATING EXPENSES:			
Contract services	69,034,519	65,881,690	3,152,829
Insurance	4,870,000	4,783,055	86,945
Fuel	15,165,580	15,287,988	(122,408)
Parking, shuttle and pass expense	4,025,810	4,182,584	(156,774)
Professional services	954,760	884,704	70,056
Wages and benefits	6,339,559	5,720,304	619,255
Utilities and supplies	1,660,815	1,519,421	141,394
Maintenance services	1,057,100	1,070,435	(13,335)
Temporary services, rent and other	2,187,571	1,844,478	343,093
Total operating expense	105,295,714	101,174,659	4,121,055
Operating Loss	(46,802,684)	(36,490,448)	(10,312,236)
NONOPERATING REVENUES (EXPENSES):			
State and local operating assistance	35,608,962	35,282,312	326,650
Rental income	1,737,240	1,759,216	(21,976)
Interest income	304,100	341,583	(37,483)
Interest expense	(1,108,575)	(1,122,650)	14,075
Other income	(4,886,430)	2,554,388	(7,440,818)
Total nonoperating revenue, net	31,655,297	38,814,849	(7,159,552)
Net Income (loss)	$ (15,147,387)	$ 2,324,401	$ (17,471,788)
CAPITAL OUTLAY:			
Capital assistance	$ 62,087,679	$ 81,375,099	$ (19,287,420)
Capital debt financing	-	-	-
Capital expenditures	62,087,679	(81,375,158)	143,462,837
Net capital outlay	124,175,358	(59)	(59)
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT	$ (15,147,387)	$ 2,324,401	$ (17,471,788)

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The JPB prepares its budget on a basis of accounting that differs from generally accepted accounting principles ("GAAP"). The actual results of operations are presented in the Supplemental Schedule on the budgetary basis to provide a meaningful comparison of actual results with budget. In addition, certain budget amounts have been reclassified to conform to the presentation of actual amounts in the Supplemental Schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and GAAP concerns capital assets. Depreciation and amortization expense and unrealized gains and losses under GASB Statement No. 31 are not budgeted per GAAP and capital expenditures are not recorded as expenses per GAAP.

NOTE 2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

Excess of expenses and capital outlay over operating revenues and non-operating revenues		$ 2,324,401
Reconciling Items		
GASB 31 unrealized loss	$ (148,481)	
Depreciation of assets	(62,723,507)	
Capital debt financing		
Capital expenditures	81,375,158	
		$ 18,503,170
Change in net assets, GAAP basis		$ 20,827,571

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Section III

STATISTICAL

Financial Trends

- Net Assets and Changes in Net Assets Fiscal Years 2003 Through 2012

Revenue Capacity

- Revenue Base and Revenue Rate Fiscal Years 2003 Through 2012
- Principal Revenue Payers Fiscal Year Ended June 30, 2012

Debt Capacity

- Ratio of Outstanding Debt Fiscal Years 2003 Through 2012
- Bonded Debt Fiscal Years 2003 Through 2012
- Direct and Overlapping Debt Fiscal Year Ended June 30, 2012
- Debt Limitations Fiscal Year Ended June 30, 2012
- Pledged Revenue Coverage Fiscal Years 2003 Through 2012

Demographics and Economic Information

- Population and Income Fiscal Years 2001 and 2010
- Unemployment Rates Fiscal Years 2003 Through 2012
- Principal Employers Fiscal Years 2001 and 2010

Operating Information

- Farebox Recovery and Miles Fiscal Years 2003 Through 2012
- Employees (Full – Time Equivalents) Fiscal Years 2003 Through 2012
- Capital Assets Fiscal Years 2003 Through 2012

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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 2003 THROUGH 2012 (in thousands)

	2012	2011	2010	2009
OPERATING REVENUES:				
Passenger fares	$ 59,891	$ 49,026	$ 42,732	$ 43,272
Parking, shuttle and pass revenues	4,411	3,576	3,452	3,112
Other	382	694	278	335
Total operating revenues	64,684	53,296	46,462	46,719
OPERATING EXPENSES:				
Contract services	65,882	60,637	59,404	61,172
Insurance	4,783	7,310	5,035	4,537
Fuel	15,288	12,937	10,309	10,742
Parking, shuttle and pass expenses	4,183	3,912	3,850	3,941
Professional services	885	1,046	826	916
Wages and benefits	5,731	6,026	5,928	5,384
Utilities and supplies	1,519	1,599	1,268	1,462
Maintenance services	1,070	382	268	252
Temporary services, rent and other	1,833	1,779	1,721	1,861
Total operating expenses	101,175	95,628	88,609	90,267
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(36,490)	(42,332)	(42,147)	(43,548)
DEPRECIATION AND AMORTIZATION	(62,724)	(62,119)	(57,374)	(53,183)
OPERATING LOSS	(99,214)	(104,451)	(99,521)	(96,731)
NONOPERATING REVENUES (EXPENSES):				
Federal, state and local operating assistance	35,282	43,142	41,556	39,826
Lease-leaseback income	-	-	-	-
Rental income	1,759	1,733	1,729	1,661
Interest income	193	143	291	(486)
Interest expense	(1,123)	(1,122)	(1,140)	(767)
Other income (expenses)	2,554	1,907	2,099	1,173
Total nonoperating revenues, net	38,666	45,802	44,535	41,407
Net loss before capital contributions	(60,548)	(58,649)	(54,986)	(55,324)
Capital contributions	81,375	91,834	71,579	71,241
Depreciation on assets acquired with contributed capital	-	-	-	-
Prior period adjustment	-	-	-	-
CHANGES IN NET ASSETS	20,828	33,185	16,593	15,917
Net Asset Components				
Invested in capital assets, net of related debt	1,181,995	1,163,379	1,133,772	1,119,056
Restricted	12,860	11,664	-	375
Unrestricted	6,157	5,141	13,227	10,974
Net Assets, end of year	$ 1,201,012	$ 1,180,184	$ 1,146,999	$ 1,130,405

Source: CAFRs.

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

FISCAL YEARS 2003 THROUGH 2012 (in thousands)

2008	2007	2006	2005	2004	2003
$ 38,399	$ 33,058	$ 28,845	$ 21,968	$ 18,427	$ 19,430
4,972	4,667	4,164	3,676	3,718	3,202
389	236	114	448	80	31
43,760	37,961	33,123	26,092	22,225	22,663
55,341	50,799	48,662	47,164	44,236	41,305
3,641	4,172	3,098	3,607	3,251	2,538
14,377	10,876	10,350	7,365	4,570	3,761
3,904	3,579	3,332	3,754	4,430	4,477
780	583	544	1,660	862	758
5,708	4,719	4,081	4,224	4,270	4,111
1,295	1,009	790	857	808	1,097
308	457	314	259	30	89
1,604	1,337	1,406	1,208	1,153	1,718
86,958	77,531	72,577	70,098	63,610	59,854
(43,198)	(39,570)	(39,454)	(44,006)	(41,385)	(37,191)
(46,290)	(36,985)	(30,743)	(28,515)	(21,215)	(15,234)
(89,488)	(76,555)	(70,197)	(72,521)	(62,600)	(52,425)
39,661	41,538	41,125	35,393	33,057	32,193
-	-	-	-	-	-
1,577	1,485	1,310	1,184	1,147	1,406
1,260	1,631	1,411	2,126	1,443	2,801
(111)	(121)	(199)	(908)	(1,484)	(1,028)
832	602	(378)	4,750	1,277	3,294
43,219	45,135	43,269	42,545	35,440	38,666
(46,269)	(31,420)	(26,928)	(29,976)	(27,160)	(13,759)
82,552	91,222	122,520	69,828	122,602	106,093
-	-	-	-	-	-
-	-	-	-	2,468	-
36,283	59,802	95,592	39,852	97,910	92,334
1,099,455	1,062,907	1,008,343	915,004	873,775	753,944
529	296	173	150	-	-
11,350	11,848	6,733	4,503	6,030	27,951
$ 1,111,334	$ 1,075,051	$ 1,015,249	$ 919,657	$ 879,805	$ 781,895

Fiscal year	2012		2011	2010	2009
Passenger fares (in thousands)	$ 59,891		$ 49,026	$ 42,732	$ 43,272
Revenue Base					
Number of passengers (in thousands)	12,382	[3]	12,574	10,611	11,359
Source: National Transit Database (NTD)					
Four-zones fare structure					
Full adult fare:					
One-way	$ 8.75		$ 8.75	$ 7.75	$ 7.75
Day Pass	17.50		17.50	15.50	15.50
8-ride[1]	59.50		59.50	52.75	52.75
10-ride[2]	-		-	-	66.00
Monthly Pass	232.00		232.00	205.50	205.50
Eligible discount fare:					
One-way	$ 4.25		$ 4.25	$ 3.75	$ 3.75
Day Pass	8.75		8.75	7.75	7.75
8-ride[1]	29.75		29.75	26.25	26.25
10-ride[2]	-		-	-	33.00
Monthly Pass	116.00		116.00	102.75	102.75

Source: CAFRs and National Transit Database.

[1] 8-ride tickets replaced 10-ride tickets effective on March 2, 2009.
[2] 10-ride fare increase effected on January 1, 2009.
[3] A preliminary ridership number for FY2012.

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

2008	2007	2006	2005	2004	2003
$ 38,399	$ 33,058	$ 28,845	$ 21,968	$ 18,427	$ 19,430
10,915	10,264	9,005	8,121	6,625	6,710
$ 7.50	$ 7.50	$ 6.75	$ 6.50	$ 5.50	$ 5.50
15.00	15.00	13.50	13.00	11.00	11.00
63.75	63.75	57.50	55.25	46.75	46.75
198.75	198.75	179.00	172.25	145.75	145.75
$ 3.75	$ 3.75	$ 3.25	$ 3.25	$ 2.75	$ 2.75
7.50	7.50	6.75	6.50	5.50	5.50
31.75	31.75	28.75	27.50	23.50	23.50
99.25	99.25	89.50	86.00	73.00	73.00

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

FISCAL YEARS 2003 THROUGH 2012 (in thousands)

Fiscal Year	Farebox Revenue Bonds for JPB[1]	Personal Income for San Mateo County[2]	As a Percent of Personal Income
2012	$ 23,140	$ 51,885,721	0.045%
2011	23,140	50,374,486	0.046%
2010	23,140	48,907,268	0.047%
2009	23,140	47,279,930	0.049%
2008	23,140	49,416,583	0.047%
2007	2,355	50,610,056	0.005%
2006	2,590	47,695,895	0.005%
2005	2,815	43,554,177	0.006%
2004	3,035	40,272,935	0.008%
2003	3,245	37,311,626	0.009%

[1] CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2011 and 2012 are based on an estimated three percent annual increase over 2010.

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

FISCAL YEARS 2003 THROUGH 2012 (in thousands)

Fiscal Year	Farebox Revenue Bonds	Member Agency Operating Contributions	As a Percent of Member Agency Contributions
2012	$ 23,140	$ 25,030	92.4%
2011	23,140	35,093	65.9%
2010	23,140	39,424	58.7%
2009	23,140	38,688	59.8%
2008	23,140	38,284	60.4%
2007	2,355	37,154	6.3%
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%

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.

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

The JPB does not have a legal debt limit.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 2003 THROUGH 2012 (in thousands)

Year	Pledged Revenue	Debt Service			Debt Coverage
		Principal	Interest	Total	
2012	$ 64,684	$ -	$ 1,103	$ 1,103	$ 59
2011	53,296	-	1,103	1,103	48
2010	46,461	-	1,103	1,103	42
2009	46,719	-	1,103	1,103	42
2008	43,760	250	521	771	57
2007	37,961	235	123	358	106
2006	33,123	225	133	358	93
2005	26,092	220	143	363	72
2004	22,225	210	152	362	61
2003	22,663	200	161	361	63

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 it debt obligations.

Year	**Population** [1]	**Total Personal Income** [2]		**Per Capita Personal Income** [2]	**Average Unemployment Rates** [3]
2012	729,443	$ 51,885,721	*	$ 72,103	7.0%
2011	725,245	50,374,486	*	70,003	7.9%
2010	719,582	48,907,268		67,964	8.8%
2009	716,264	47,279,930		66,254	8.4%
2008	711,374	49,416,583		70,211	4.8%
2007	704,272	50,610,056		72,941	3.8%
2006	699,398	47,695,895		69,107	3.7%
2005	699,277	43,554,177		63,115	4.3%
2004	701,401	40,272,935		58,353	4.9%
2003	703,062	37,311,626		53,836	5.8%

[1] California Department of Finance, Demographic Research Unit (2012 data as of Jan 1,2012-Report E-1; 2003-2011 data as of July 1-Report E-6).

[2] U.S. Department of Commerce, Bureau of Economic Analysis, BEARFACTS 2003-2010, San Mateo, California [06081], most current information available.

[3] California Economic Development Department, Labor Force/Unemployment Data (2012 data average Jan-Sept, 2003-2011 data average for calendar year).

*Personal Income data for 2011 and 2012 is based on an estimated three percent annual increase over 2010.

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

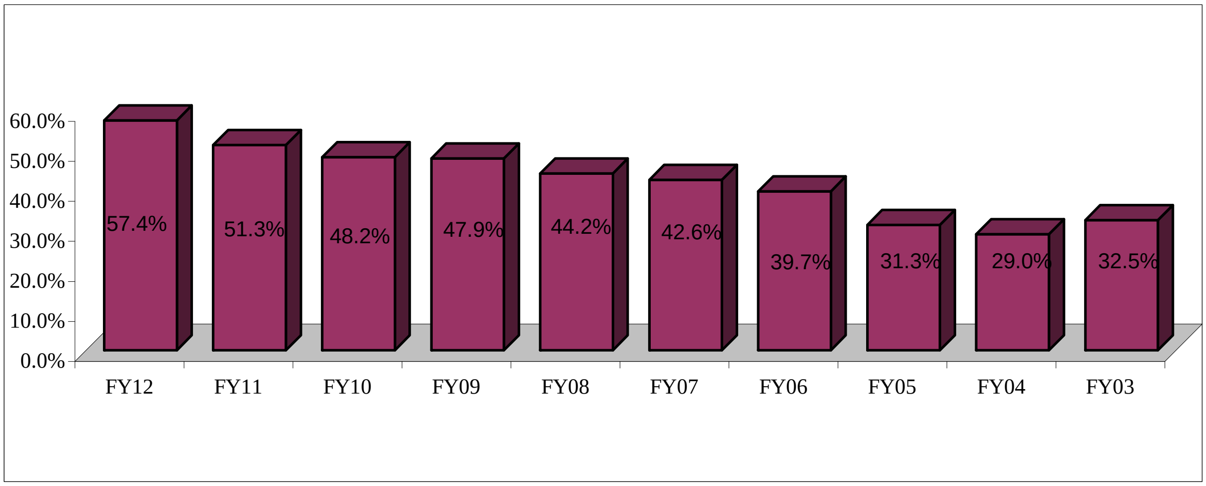
	2010			2004		
Employers in San Mateo County	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
Genentech Inc.	8,800	1	2.57%	5,120	4	1.48%
County of San Mateo	6,079	2	1.78%	5,663	3	1.63%
Oracle Corporation	5,600	3	1.64%	7,000	2	2.02%
Kaiser Permanente	3,777	4	1.10%	3,494	5	1.01%
Mills-Peninsula Health Services	2,500	5	0.73%	2,470	7	0.71%
Visa USA/Visa International	2,462	6	0.72%	0		0.00%
Safeway Inc.	2,075	7	0.61%	2,145	8	0.62%
San Mateo County Community College District	1,951	8	0.57%	0		0.00%
SLAC National Accelerator Laboratory	1,764	9	0.52%	0		0.00%
Seton Medical Center	1,672	10	0.49%	0		0.00%
United Airlines				10,933	1	3.15%
Applied Biosystems				2,640	6	0.76%
United States Postal Service				1,853	9	0.53%
Electronic Arts Inc.				1,750	10	0.50%
Total	36,680		10.73%	43,068		12.41%

Source: San Francisco Business Times - Book of Lists
California Employment Development Department

* Principal employer information for years 2003 and 2012 are not available.
This table presents the top 10 principal employers in San Mateo County for 2010 and 2004.

FAREBOX RECOVERY

Farebox recovery table shows the relationship between total passenger fares and operating expenses. The Board adopted a farebox recovery rate goal range of 35 to 40 percent effective FY2009.

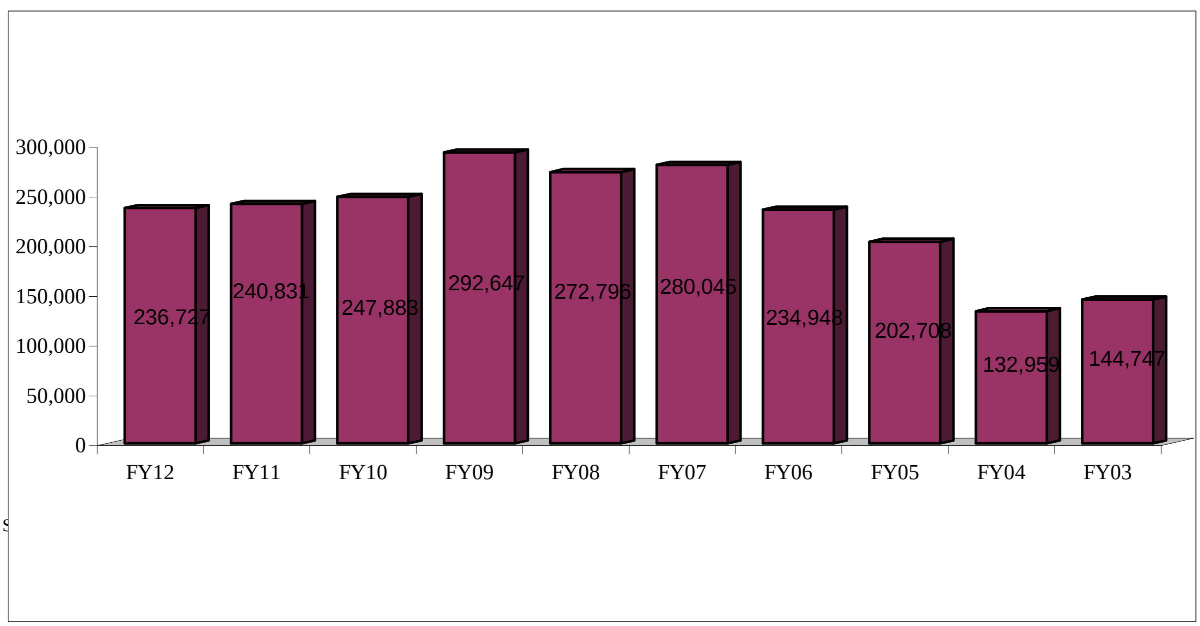


PASSENGER MILES

(In Thousands)

Weekday passenger miles

The number of weekday trains was reduced from 90 to 86 effective January 3, 2011.



Source: JPB's National Transportation Database.

PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
FISCAL YEARS 2003 THROUGH 2012

	FULL-TIME EQUIVALENTS (FTEs)		
DIVISION	**2012**	**2011**	**2010**
EXECUTIVE	0.91	0.85	0.80
PUBLIC AFFAIRS	4.46	2.80	3.80
OPERATIONS, ENGINEERING AND CONSTRUCTION	46.75	45.52	46.54
PLANNING AND DEVELOPMENT	5.09	5.21	6.20
FINANCE AND ADMINISTRATION	33.10	32.17	33.37
PENINSULA RAIL PROGRAM	-	2.00	1.00
CUSTOMER SERVICE AND MARKETING	11.40	10.88	18.05
TOTAL FTEs	**101.71**	**99.43**	**109.76**

Note: The organization went through a reorganization in FY2010.

DIVISION	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
EXECUTIVE	0.65	0.60	0.60	-	-	-	2.25
ADMINISTRATION	12.35	12.50	13.20	14.05	13.24	7.59	19.51
COMMUNICATIONS	14.77	15.03	20.25	19.28	19.56	12.55	16.43
CUSTOMER SERVICE AND MARKETING	-	-	-	-	-	-	-
DEVELOPMENT	45.75	49.75	45.10	38.03	41.61	37.01	37.50
FINANCE	9.80	9.80	10.65	9.60	18.61	15.38	16.95
FINANCE AND ADMINISTRATION	-	-	-	-	-	-	-
PLANNING AND DEVELOPMENT	-	-	-	-	-	-	-
PLANNING AND DEVELOPMENT	-	-	-	-	-	-	-
PUBLIC AFFAIRS	-	-	-	-	-	-	-
OPERATIONS	17.50	14.85	15.10	23.42	13.68	31.59	19.33
OPERATIONS, ENGINEERING AND CONSTRUCTION	-	-	-	-	-	-	-
TOTAL FTEs	**100.82**	**102.53**	**104.90**	**104.38**	**106.70**	**104.12**	**111.97**

Source: JPB's annual capital and operating budget.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – CAPITAL ASSETS (in thousands)
FISCAL YEARS 2003 THROUGH 2012

	2012	2011	2010
Depreciable and amortized capital assets			
Right of way improvements	719,324	$ 677,797	$ 652,968
Rail vehicles	285,125	284,203	280,201
Facilities and equipment	128,428	127,048	121,037
Office equipment	875	855	693
Total depreciable and amortized capital assets	1,133,752	1,089,903	1,054,899
Accumulated depreciation and amortization			
Right of way improvements	(264,091)	(222,481)	(186,213)
Rail vehicles	(126,011)	(113,553)	(101,159)
Facilities and equipment	(34,820)	(29,337)	(23,626)
Office equipment	(751)	(702)	(626)
Intangible Asset - Trackage Right*	-	-	-
Total accumulated depreciation and amortization	(425,673)	(366,073)	(311,624)
Nondepreciable capital assets			
Right of way	226,893	226,893	226,893
Construction in progress	261,771	227,381	177,959
Intangible Asset - Trackage Right*	8,000	8,000	8,000
Total nondepreciable capital assets	496,664	462,274	412,852
Capital assets, net	$ 1,204,743	$ 1,186,104	$ 1,156,127

*Per GASB 51 effective as of FY2009 Trackage Rights are a non-depreciable capital asset. The activity for FY2009 has been restated to reflect the change.

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 (in thousands)
FISCAL YEARS 2003 THROUGH 2012

2009	2008	2007	2006	2005	2004	2003
$ 596,170	$ 582,783	$ 496,553	$ 375,566	$ 338,487	$ 224,440	$ 214,171
275,326	254,537	254,201	253,033	253,754	239,667	208,624
118,197	117,507	23,549	22,743	17,978	17,813	15,520
726	815	717	685	305	238	203
990,420	955,642	775,020	652,027	610,525	482,158	438,518
(150,369)	(131,156)	(100,573)	(75,766)	(56,312)	(40,317)	(29,830)
(88,499)	(76,232)	(65,495)	(55,343)	(46,557)	(35,753)	(26,847)
(18,401)	(14,966)	(10,426)	(8,689)	(6,877)	(5,417)	(3,866)
(656)	(621)	(474)	(378)	(262)	(199)	(120)
-	(2,963)	(2,770)	(2,578)	(2,385)	(2,193)	(2,000)
(257,925)	(225,938)	(179,738)	(142,754)	(112,393)	(83,878)	(62,663)
226,893	226,893	210,962	210,962	210,962	210,964	210,964
173,488	151,197	250,919	282,583	200,597	259,424	180,571
8,000	8,000	8,000	8,000	8,000	8,000	8,000
408,381	386,090	469,881	501,545	419,559	478,387	399,534
$ 1,140,876	$ 1,115,794	$ 1,065,163	$ 1,010,818	$ 917,691	$ 876,667	$ 775,390

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Section IV

SINGLE AUDIT

Schedule of Findings and Questioned Costs

- Summary of Auditor's Results
- Financial Statement Finding
- Federal Award Findings and Questioned Costs
- Status of Prior Year Findings and Questioned Costs

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report On Compliance with Requirements That Could Have a Direct and Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

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SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unqualified			
Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?		Yes	X	No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
20.500 & 20.507	ARRA - Department of Transportation Federal Transit Administration (FTA) – Federal Transit - Capital Investment Grants/Federal Transit – Formula Grants (Urbanized Area Formula Program)
20.319	ARRA - Department of Transportation Federal Railroad Administration (FRA) – High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
20.205	Department of Transportation Federal Highway Administration (FHWA) – Highway Planning and Construction (Federal-Aid Highway Program)
20.514	Department of Transportation Federal Transit Administration (FTA) – Public Transportation Research
97.075	Department of Homeland Security – Rail and Transit Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: $956,047

Auditee qualified as low-risk auditee?	X	Yes		No

FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated October 23, 2012, which is an integral part of our audits and should be read in conjunction with this report.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –

Prepared by Management

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

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

PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Federal Transit Cluster:			
Department of Transportation Federal Transit Administration			
Federal Transit-Capital Improvement Grants (Sec 5309)	20.500		
Capital Improvement		CA-05-0207	$134,459
Capital Improvement		CA-05-0209	113,082
Capital Improvement		CA-02-0218	431,127
Track, Signal/Communication, Station Rehab		CA-05-0238	1,855,993
Track, Signal/Communication Rehab		CA-05-0242	4,335,626
Track, Vehicle, Signal/Communication Rehab		CA-05-0251	2,884,307
Track, Signal/Communication & Vehicle Rehab		CA-05-0262	272,697
Program Subtotal	20.500		**10,027,291**
Federal Transit-Formula Grants (Urbanized Area Formula Program (Sec 5307)	20.507		
Capital and Operating Grants			
Capital Improvement		CA-90-Y246	202,037
Capital Improvement		CA-90-Y312	323,894
Capital Improvement		CA-90-Y379	14,612
Capital Improvement		CA-90-Y493	295,853
Capital Improvement		CA-90-Y592	214,715
Track, Signal & Station Rehab & ADA Enhancement		CA-90-Y696	1,466,305
ARRA - Track, Bridge, Signal & Bike Improvements		CA-96-X022	676,302
Station Upgrades		CA-90-Y761	(193,091)
Station, Signal, Communication & Rolling Stock Rehab		CA-90-Y788	1,382,121
Track, Bridge, Vehicle Rehab, and Preventative Maintenance		CA-90-Y895	5,037,550
Program Subtotal	20.507		**9,420,298**
Total Federal Transit Cluster, Direct Programs			**19,447,589**
Public Transportation Research	20.514		
Caltrain Transit Asset Management System		CA-26-0056	282,120
Program Subtotal, Direct Programs	20.514		**282,120**
Highway Planning and Construction (Federal-Aid Highway Program)	20.205		
Bridge Replacement		BRLO-6170 (023)	214,647
Bridge Replacement		BRLO-6170 (021)	159,495
Bridge Replacement		BRLO-6170 (022)	143,770
Program Subtotal, Direct Programs	20.205		**517,912**
Pass-through funding from California Department of Transportation			
Bridge Rehabilitation from Federal Highway Bridge Replacement Funds		STPLZ-6170 (026)	2,136,394
Program Subtotal, Pass-Through Programs	20.205		**2,136,394**
Total Highway Planning and Construction (Federal-Aid Highway Program)			**2,654,306**
Department of Transportation Federal Railroad Administration	20.313		
Caltrain Community Based Overlay Signal System/Positive Train control CBOSS/PTC Development Project		FR-RRD-0004-10-01-00	1,060,474
Program Subtotal	20.313		**1,060,474**
Program Subtotal, Direct Programs			**23,444,489**
Department of Transportation Federal Transit Administration Pass-Through Programs From:			
Pass-through funding from the California Department of Transportation	20.319		
ARRA - Station Improvement Project		75FRA0002	5,607,941
CBOSS/PTC System Project		FR-HSR-0037-11-01-01	1,633,952
Program Subtotal, Pass-Through Programs	20.319		**7,241,893**
Total Department of Transportation Federal Highway Administration			**30,686,382**
Department of Homeland Security Pass-Through Programs From:			
Pass-through funding from the Rail and Transit Security Grant Program - California Emergency Management Agency	97.075		
FY07 TSGP (Transit Security Grant)		2007-RL-T7-K111	709,897
FY07 TSGP (Transit Security Grant)		2007-RL-T7-K001	386,873
FY08 TSGP (Transit Security Grant)		2008-RL-T8-K111	85,068
Total Department of Homeland Security, Direct Programs	97.075		**1,181,838**
Total Expenditures of Federal Awards			**$ 31,868,220**

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Peninsula Corridor Joint Powers Board, San Carlos, California as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

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

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

MAZE & ASSOCIATES

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

Board of Directors
of the Peninsula Corridor Joint Powers Board, California

We have audited the financial statements of the Peninsula Corridor Joint Powers Board as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012. We conducted our audit in accordance with generally accepted auditing standards 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

Management of the Peninsula Corridor Joint Powers Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Joint Powers Board'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 Joint Powers Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Joint Powers Board's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 Joint Powers Board'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 and other matters that are required to be reported under *Government Auditing Standards.*

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We have also issued a separate Memorandum on Internal Control dated October 23, 2012 which is an integral part of our audits and should be read in conjunction with this report.

This report is intended solely for the information and use of Board members, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

October 23, 2012

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
of the Peninsula Corridor Joint Powers Board, California

Compliance

We have audited Peninsula Corridor Joint Powers Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Joint Powers Board's major federal programs for the year ended June 30, 2012. The Joint Powers Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Joint Powers Board's management. Our responsibility is to express an opinion on the Joint Powers Board'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. 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 Joint Powers Board'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 of the Joint Powers Board's compliance with those requirements.

In our opinion, the Joint Powers complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Joint Powers Board 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 Joint Powers Board's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Joint Powers Board's internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 Joint Powers Board as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Joint Powers Board's Entity's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, Board members, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

October 26, 2012