

Peninsula Corridor Joint Powers Board

San Carlos, California

A Joint Exercise of Powers Agreement among:

City and County of San Francisco

San Mateo County Transit District

Santa Clara Valley Transportation Authority



Comprehensive Annual Financial Report Fiscal Years Ended June 30, 2013 and 2012



**PENINSULA CORRIDOR
JOINT POWERS BOARD**

San Carlos, California

Comprehensive Annual Financial Report
Fiscal Years Ended June 30, 2013 and 2012

Prepared by the Finance Division

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Section I

INTRODUCTORY

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GFOA Certificate of Achievement

Board of Directors

Executive Management

Organization Chart

Map

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November 30, 2013

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, 2013**

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, 2012 through June 30, 2013. 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 149 years. The rail line currently extends from San Francisco 77 miles south to Gilroy, serving 32 stations. Spanning San Francisco, San Mateo and Santa Clara counties, Caltrain provides vital links to multiple transit properties in 20 cities.

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Entity

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

History

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

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

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

The JPB assumed responsibility for the operation of Caltrain service from the Southern Pacific Transportation Company in 1992. Amtrak served as the JPB's operator until May of 2012. 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 contract to TransitAmerica Services, Inc. The amended first full year budget (FY2013) of the five-year contract was for \$64.9 million. The FY2014 approved budget contract amount is for \$64.5million. 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.

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Administration

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

The *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, 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, 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, TASI, 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, grant administration 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 fare media, customer service, marketing, sales, advertising, market research, website and distribution services.

Budgetary Control

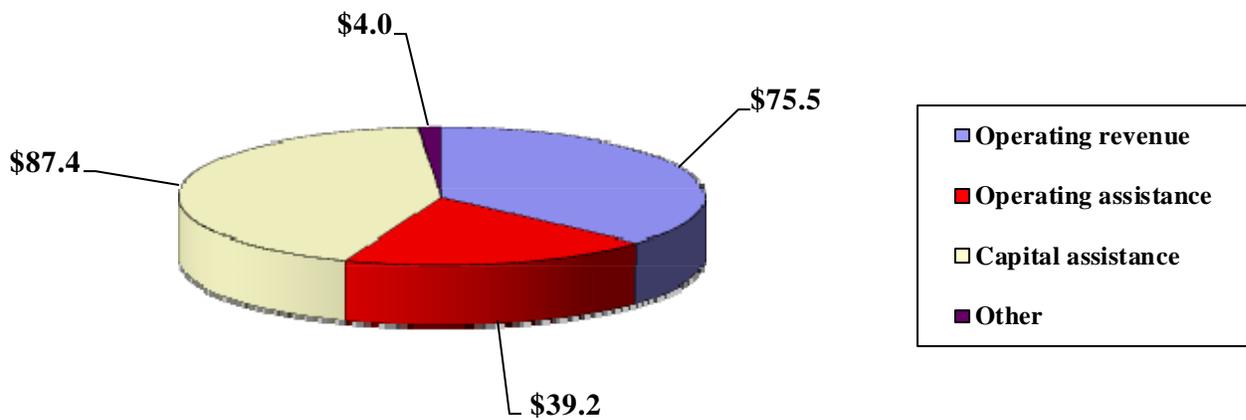
State law requires the JPB to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The Board of Directors 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.

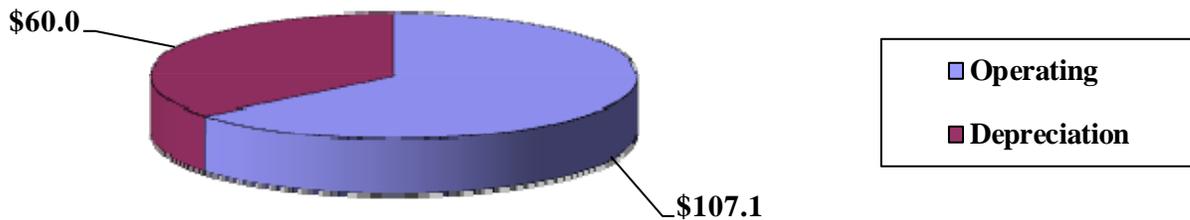
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The JPB employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses, depreciation and amortization and inter-fund transfers 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 2013.

**Peninsula Corridor Joint Powers Board
 2013 Revenues
 (\$ in millions)**



**Peninsula Corridor Joint Powers Board
 2013 Expenses
 (\$ in millions)**



ECONOMIC CONDITION

Local Economy

Unemployment rates in the counties of San Francisco, San Mateo and Santa Clara now range from 5.4 to 6.8 percent as of June 2013, which has moved lower from a range of 7.0 to 8.8 percent in June 2012 and from 8.4 to 10.2 percent in June 2011. This compares to the state of California's rate of 8.9 percent in June 2013, and 10.7 and 12.0 percent in June 2012 and 2011 respectively. The JPB farebox revenues were up by \$8.9 million to \$68.8 million in Fiscal Year 2013 from \$59.9 million in Fiscal Year 2012, which was also up from Fiscal Year 2011 by \$10.9 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.

For Fiscal Year 2013, Caltrain carried 15.6 million customers, a 10.3 percent increase compared to Fiscal Year 2012. This is evidence of economic recovery. While Fiscal Year 2010 ridership dropped below that of Fiscal Year 2009, Caltrain ridership has increased steadily for seven out of the last eight years.

Caltrain has adjusted the number of trains it operates over the past few years, in response to both fiscal constraints and ridership demands. There was a high of 98 trains in Fiscal Year 2009 and a low of 86 trains in Fiscal Year 2011. During Fiscal Year 2013, the number of trains was increased from 86 to 92. Caltrain envisions increasing the number of weekday trains once the system is electrified, which is scheduled for 2019.

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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 Early Investment Program. 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.

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- *AC Transit:* Passengers may connect to the M-line at the Caltrain Hillsdale station.

In addition to service connectivity, Caltrain is one of seven Bay Area transit agencies that are partners in Clipper, an electronic fare payment card. The program is coordinated by the Metropolitan Transportation Commission, which is the regions planning organization. Caltrain 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 2013 Annual Passenger Counts, Caltrain had 4,910 bike boardings on an average weekday. This represents a 15.7% increase from Fiscal Year 2012. 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 replacement of bridges in San Mateo.

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.

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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 underpass is being constructed, and the Signal Preemption project which will 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).

A regional \$1.5 billion funding plan is in place to implement the Caltrain Modernization Program. These investments will not only benefit Caltrain but also provide the necessary electrified infrastructure to support high speed rail service in the future. Caltrain is committed to the California High Speed Rail Authority (CAHSRA) to share the peninsula rail system to provide both commuter rail and high-speed rail service.

The CBOSS PTC component of the program is under construction with revenue service scheduled for late 2015. The electrification infrastructure and electric vehicles, targeted for revenue service by 2019, is currently going through the environmental process. The environmental process is scheduled to be completed by late 2014, leading to final design and construction.

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. Other project partners include the Alameda County Transportation Commission and the Capital Corridor Joint Powers Board. The DRC is a 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 in the Peninsula. The purpose of the project is to 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.

The Administrative Draft Environmental Impact Statement (EIS)/Environmental Impact Report (EIR) for the DRC project was originally scheduled to be completed by Fall 2012 with an anticipated Record of Decision (ROD) from the Federal Transit Administration (FTA) by Spring 2013. However, while all elements of the Administrative Draft EIS/EIR were completed, the funding plan for the project is deficient. FTA has indicated that if reasonable funding sources cannot be included in the Administrative Draft EIS/EIR to fully fund the rail alternatives, it is unlikely the FTA would issue an ROD for the project. In light of the substantial shortfall in the project budget, the project is placed on hold until the project partners can secure a funding plan that can advance the project further.

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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 2012 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 2013 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
Deputy CEO



Rima Lobo
Director of Finance



Government Finance Officers Association

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

Presented to

**Peninsula Corridor
Joint Powers Board
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012



Executive Director/CEO

BOARD OF DIRECTORS

Representing City and County of San Francisco:

José Cisneros

Malia Cohen

Tom Nolan, Vice Chair

Representing San Mateo County Transit District:

Jerry Deal

Arthur L. Lloyd

Adrienne Tissier

Representing Santa Clara Valley Transportation Authority:

Ash Kalra

Perry Woodward

Ken Yeager, Chair

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

EXECUTIVE OFFICERS

Virginia Harrington – Deputy CEO

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

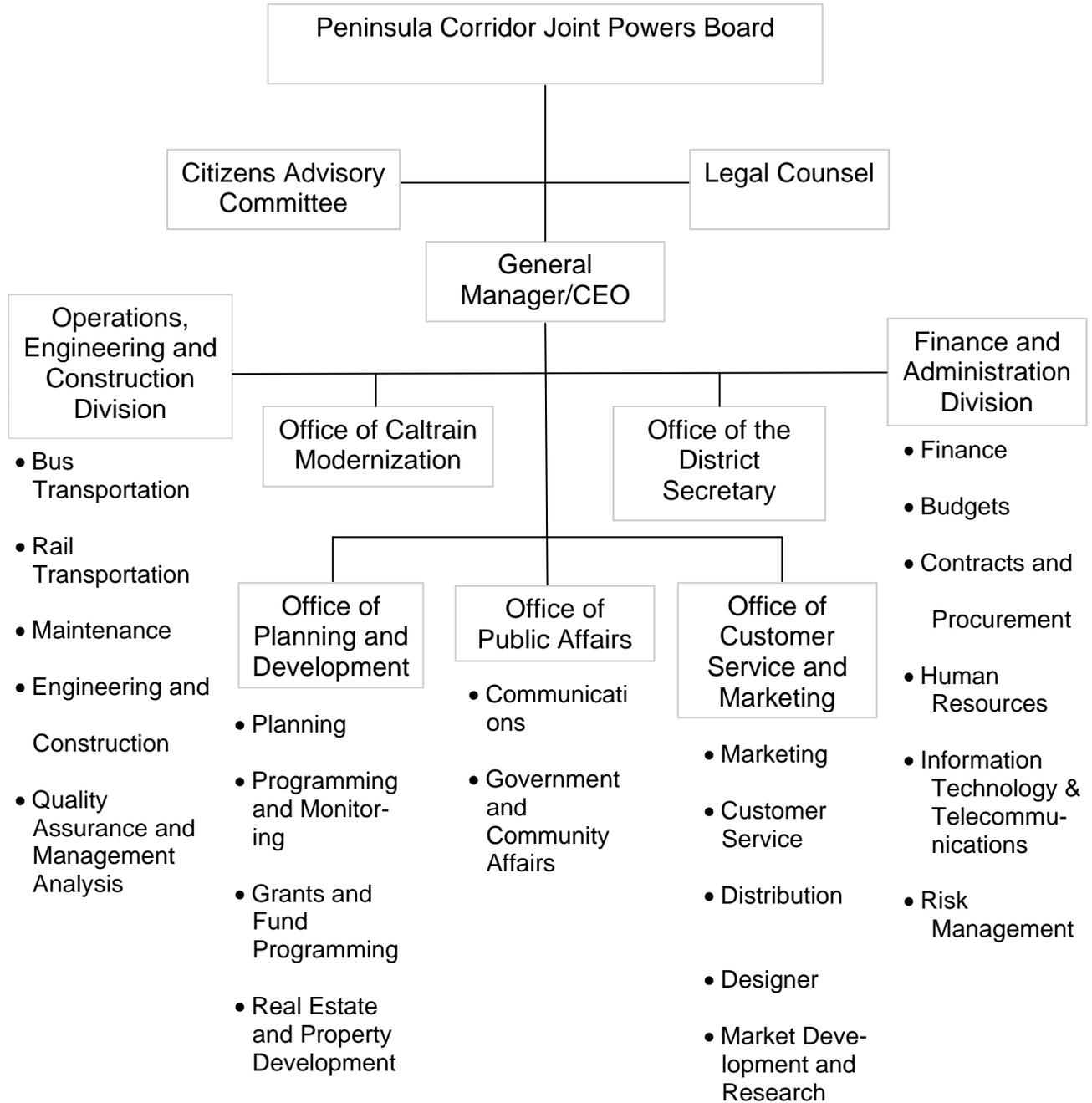
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David J. Miller, Esq.

Joan Cassman, Esq.

ORGANIZATION CHART



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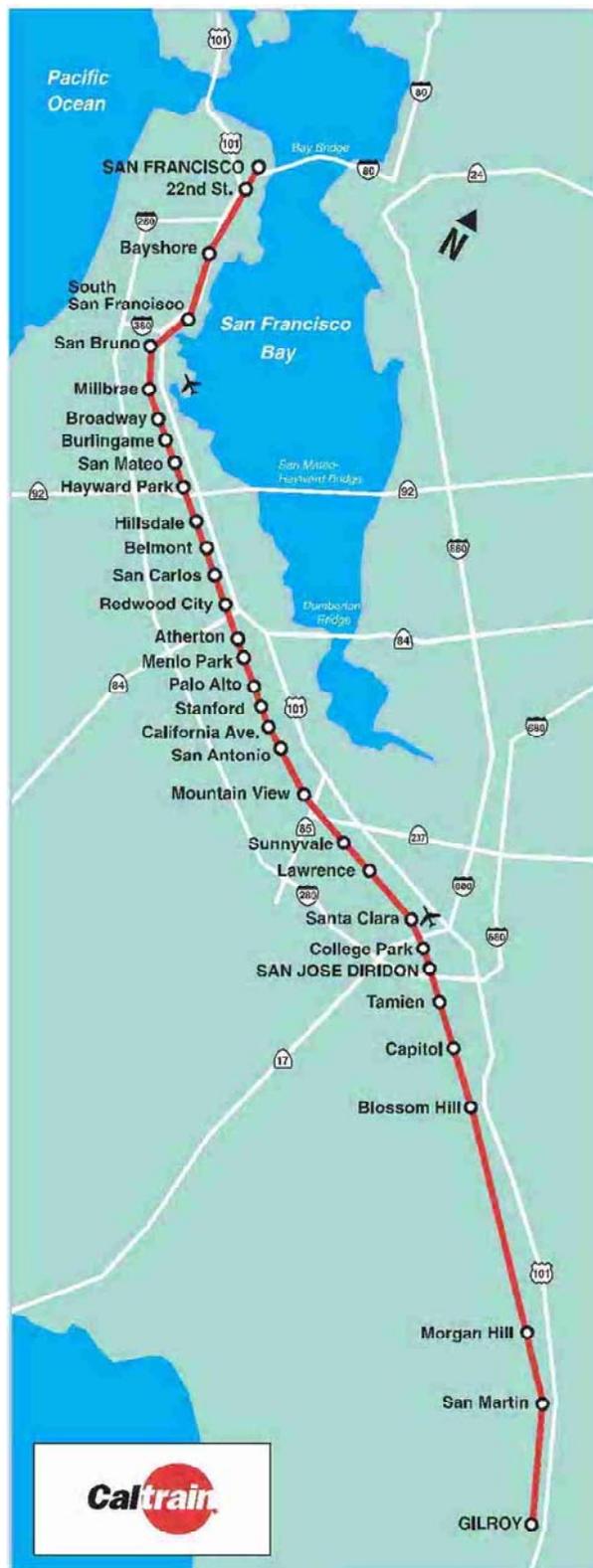


TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2013 Comprehensive Annual Financial Report:

<u>Finance:</u>	Manager, General Ledger	Sheila Tioyao
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	Senior Accountant	Jeannie Chen
		Brian Lee
		Mary Manders
	Senior Budget Analyst	Leslie Fong
<u>Audit Firm:</u>	Partner	Vikki C. Rodriguez

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Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

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

Supplementary Information

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Peninsula Corridor Joint Powers Board (JPB) as of and for the years ended June 30, 2013 and 2012, which collectively comprise the JPB's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the JPB's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the JPB's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Peninsula Corridor Joint Powers Board as of June 30, 2013 and 2012, and the changes in the financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2013 and required certain nomenclature changes and a restatement to the financial statements:

Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. See note 2B to the financial statements for relevant disclosures.

Statement 65 – *Items Previously Reported as Assets and Liabilities*. See note 2B to the financial statements for relevant disclosures.

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the JPB's basic financial statements as a whole. The Introductory Section, Supplementary Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The Supplementary 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 Supplementary 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the JPB's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
October 4, 2013

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MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the JPB's financial performance provides an overview of the JPB's activities for the fiscal year ended June 30, 2013 with comparisons to prior fiscal years ended June 30, 2012 and June 30, 2011. 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, 2013 stand at \$1,347.9 million, an increase of \$49.9 million or 3.9 percent compared to June 30, 2012 and increased \$36.8 million or 2.9 percent on June 30, 2012 compared to June 30, 2011, primarily due to an increase in capital assets in both years.
- Total liabilities increased by \$11.9 million or 12.2 percent to \$109.6 million at June 30, 2013 compared to June 30, 2012 and increased by \$16.4 million or 20.1 percent to \$97.6 million at June 30, 2012 compared to June 30, 2011. The fiscal year 2013 increase was mainly due to increases in accounts payable and accrued liabilities and unearned member contributions. The fiscal year 2012 increase was due to an increase in unearned revenue and unearned member contribution.
- Total operating revenues in fiscal year 2013 were \$75.5 million, an increase of \$10.9 million or 16.8 percent compared to fiscal year 2012 and increased by \$11.4 million or 21.4 percent in fiscal year 2012 compared to fiscal year 2011. The increases in both fiscal years were mainly due to increased farebox revenues.
- Total operating expenses in 2013 were \$107.1 million, an increase of \$5.9 million or 5.8 percent compared to 2012 and increased \$5.5 million or 5.8 percent in fiscal year 2012 over fiscal year 2011. The fiscal year 2013 increase was mainly due to increases in parking, shuttle and pass expenses, wages and benefits and professional expenses. The fiscal year 2012 increase was mainly due to increases in contract services, fuel costs, and maintenance services.
- Nonoperating revenues, net of nonoperating expenses, increased by \$3.4 million or 8.9 percent to \$42.1 million in fiscal year 2013 from fiscal year 2012 and decreased \$7.1 million or 15.6 percent to \$38.7 million in fiscal year 2012 compared to fiscal year 2011. The fiscal year 2013 increase was due to an increase in the federal, state and local operating assistance, 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.
- In fiscal year 2013 the JPB recognized \$87.4 million in capital contributions, an increase of \$6.0 million or 7.4 percent from fiscal year 2012. In fiscal year 2012, the JPB recognized \$81.4 million in capital contributions, a decrease of \$10.5 million or 11.4 percent from fiscal year 2011. Increases in fiscal year 2013 represent increased activity on the San Bruno Grade separation and Caltrain Modernization program. Decreases in fiscal year 2012 represent decreased activity on the South Terminal project, and the Santa Clara Station Platform projects.
- Net position at June 30, 2013 was \$1,238.3 million, up \$38.0 million or 3.2 percent from June 30, 2012 and the restated net position at June 30, 2012 was \$1,200.3 million up \$20.1 million or 1.7 percent from June 30, 2011, as capital assets, net of accumulated depreciation and amortization increased \$27.4 million and \$18.6 million during fiscal years 2013 and 2012, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

- *Cash flows from operating activities* include transactions and events reported as components of operating income in the statement of revenues, expenses and changes in net assets.
- *Cash flows from non-capital financing activities* include operating grant proceeds as well as operating subsidy payments from third parties 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 \$49.9 million or 3.8 percent to \$1,347.9 million at June 30, 2013 compared to June 30, 2012 and increased by \$36.8 million or 2.9 percent at June 30, 2012 compared to June 30, 2011. The increases for FY13 and FY12 were mainly due to right of way improvement projects. Current assets increased by \$22.5 million or 24.1 percent to \$115.7 million in 2013 mainly due to an increase in cash and cash equivalents and due from other governmental agencies. In 2012, current assets increased by \$21.1 million or 29.2 percent compared to 2011, primarily due to an increase in cash and cash equivalents.

Total capital assets, net of accumulated depreciation and amortization increased \$27.4 million or 2.3 percent at June 30, 2013 to \$1,232.2 million from \$1,204.7 million on June 30, 2012, and increased \$18.6 million or 1.6 percent from \$1,186.1 million in fiscal year 2012 compared to fiscal year 2011. Investments in capital assets, before depreciation, consist of acquisitions and improvements to the right of way (\$966.3 million or 56.7 percent), rail vehicles (\$285.0 million or 16.7 percent), facilities and equipment (\$127.6 million or 7.5 percent), intangible asset – trackage rights (\$8.0 million or 0.5 percent) and construction in progress (\$316.1 million or 18.6 percent) in fiscal year 2013. In fiscal year 2012, 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).

Total liabilities increased by \$11.9 million or 12.2 percent to \$109.6 million at June 30, 2013 compared to June 30, 2012 and increased \$15.9 million or 19.6 percent to \$97.2 million at June 30, 2012 compared to June 30, 2011. The fiscal year 2013 and 2012 increases were primarily due to increases in accounts payable and accrued liabilities.

Total net position was \$1,238.3 million at June 30, 2013 which represents an increase of \$38.0 million or 3.2 percent from June 30, 2012 and \$1,200.3 million at June 30, 2012, which represents an increase of \$20.1 million or 1.7 percent from June 30, 2011. Net investment in capital asset was \$1,208.3 million at June 30, 2013, representing 97.6 percent of the total net assets, \$1,182.0 million at June 30, 2012, representing 98.5 percent of total net assets and \$1,163.4 million at June 30, 2011 representing 98.6 percent of total net position.

**PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2013**

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

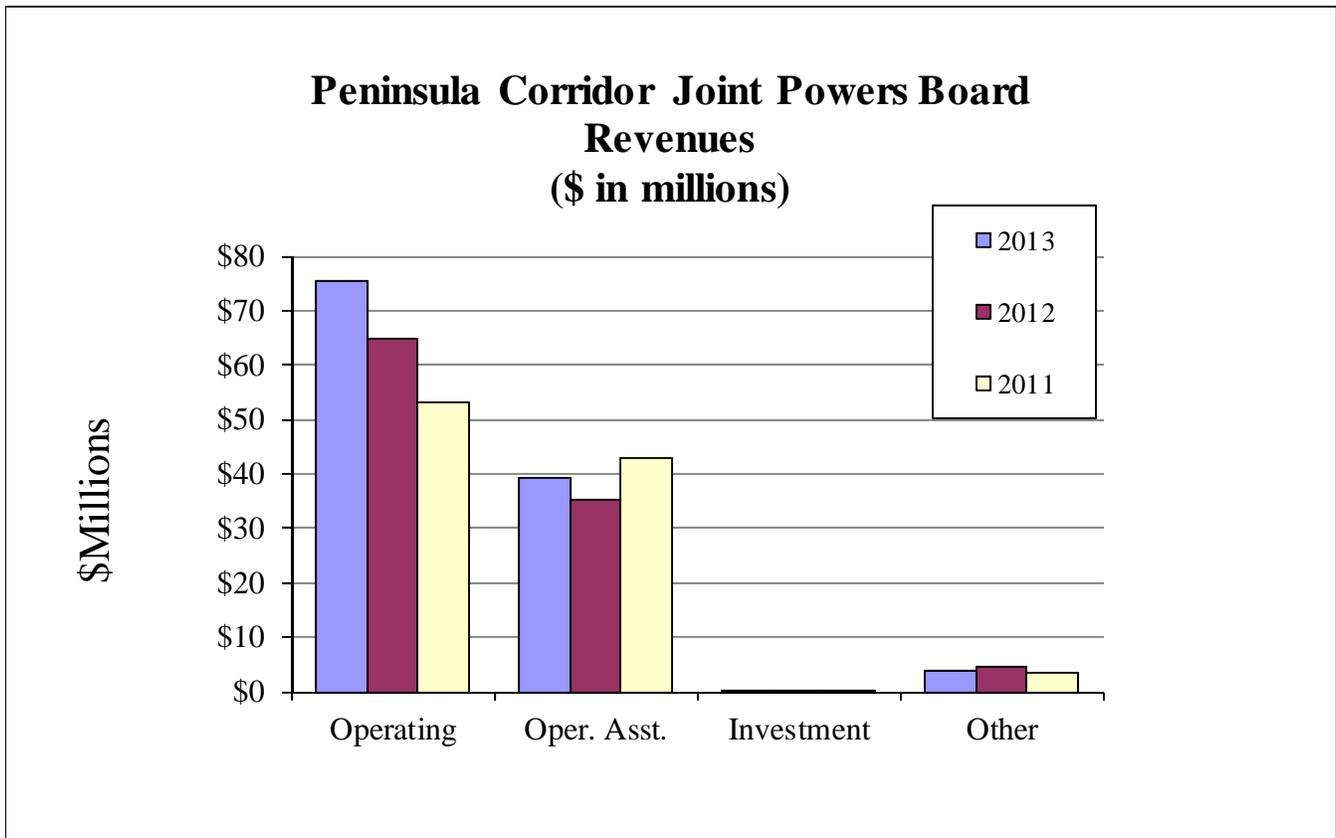
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 115,729	\$ 93,242	\$ 72,172
Noncurrent assets	-	-	3,179
Capital assets, net of depreciation/amortization	1,232,160	1,204,743	1,186,105
Total assets	<u>1,347,889</u>	<u>1,297,985</u>	<u>1,261,456</u>
Current liabilities	81,440	69,892	54,506
Long-term liabilities	28,110	27,756	26,766
Total liabilities	<u>109,550</u>	<u>97,648</u>	<u>81,272</u>
Net Position			
Net investment in capital assets	1,208,315	1,181,995	1,163,379
Unrestricted	30,023	18,341	16,805
Total net position	<u>\$ 1,238,338</u>	<u>\$ 1,200,336</u>	<u>\$ 1,180,184</u>

**PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2013**

Revenues

Operating revenues increased to \$75.5 million in fiscal year 2013, a \$10.9 million or 16.8 percent increase from fiscal year 2012 and increased \$64.7 million in fiscal year 2012, an \$11.4 million or 21.4 percent increase over fiscal year 2011. Increases for both years were due to increases in passenger fares.

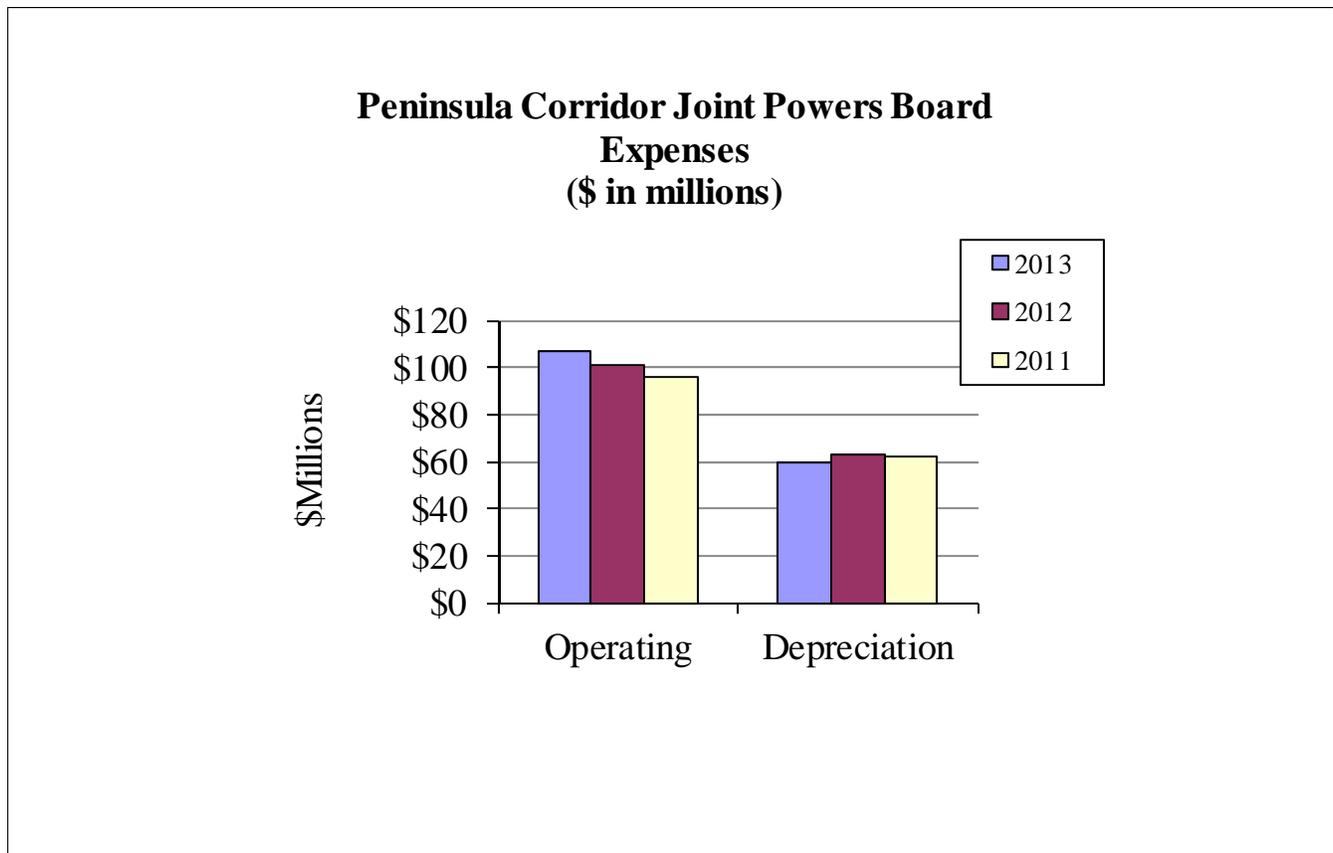
Nonoperating revenues increased \$3.4 million or 7.5 percent to \$42.1 million at June 30, 2013 compared to June 30, 2012 and decreased \$7.1 million or 16.0 percent in fiscal year 2012 compared to fiscal year 2011.



Expenses

Total operating expenses of \$107.1 million in fiscal year 2013 were \$5.9 million or 5.8 percent higher than fiscal year 2012, and in fiscal year 2012 \$5.5 million or 5.8 percent higher than fiscal year 2011. Total operating expenses in fiscal year 2013 consisted of \$65.5 million or 61.2 percent for rail operator contract services, \$15.3 million or 14.3 percent for fuel, and \$26.2 million or 24.5 percent for other expenses combined. The largest component of fiscal year 2013 and fiscal year 2012 operating expenses was rail operator contract services at \$65.5 million and \$65.9 million which represent 61.2 percent and 65.1 percent of the total expenses respectively.

Depreciation and amortization for fiscal year 2013 was \$60.0 million, a \$2.8 million or 4.4 percent increase over fiscal year 2012. In fiscal year 2012, depreciation and amortization was \$62.7 million, a \$0.6 million or 1.0 percent increase over fiscal year 2011.



PENINSULA CORRIDOR JOINT POWERS BOARD
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2013

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

	2013	2012	2011
Operating revenues:			
Passenger fares	\$ 68,767	\$ 59,891	\$ 49,026
Parking, shuttle and pass revenues	5,275	4,411	3,576
Other	1,504	382	694
Total operating revenues	75,546	64,684	53,296
Operating expenses:			
Contract services	65,486	65,882	60,637
Insurance	5,186	4,783	7,310
Fuel	15,350	15,288	12,937
Parking, shuttle and pass revenues	5,756	4,183	3,912
Professional service	1,098	885	1,046
Wages and benefits	9,322	5,731	6,026
Utilities and supplies	1,726	1,520	1,599
Maintenance services	1,011	1,070	382
Temporary services, rent and other	2,117	1,833	1,779
Total Operating expenses	107,052	101,175	95,628
Operating loss before depreciation and amortization	(31,506)	(36,490)	(42,332)
Depreciation and amortization	(59,968)	(62,724)	(62,119)
Operating loss	(91,474)	(99,214)	(104,451)
Nonoperating revenues			
Federal, state and local operating assistance	39,165	35,282	43,142
Rental income	1,783	1,760	1,733
Investment income (loss)	128	193	143
Other income (expense)	2,136	2,555	1,907
Total Nonoperating revenues	43,212	39,790	46,925
Nonoperating expenses	(1,120)	(1,123)	(1,123)
Net loss before capital contributions	(49,382)	(60,549)	(58,648)
Capital contributions	87,385	81,375	91,834
Change in net position	38,003	20,827	33,186
Net position - beginning of year	1,200,336	1,180,185	1,146,999
Prior Period adjustment per GASB 65 (Note 2B)	-	(676)	
Net position - end of year	\$ 1,238,338	\$ 1,200,336	\$ 1,180,185

Capital Projects

The JPB incurred capital expenses of \$87.4 million and recognized related revenue in the form of capital contributions of \$87.4 million in fiscal year 2013, which is \$6.0 million or 6.5 percent increase in capital contributions in fiscal year 2013 over fiscal year 2012. The fiscal year 2013 capital sources consist of federal grants (\$26.9 million or 30.7 percent), state grants (\$24.3 million or 27.8 percent), and local assistance including the three member agencies (\$36.2 million or 41.4 percent). 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 less than in 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).

Following is a summary of the JPB's major capital expenditures for fiscal year 2013:

- Cost of grade crossing and separation along the Caltrain line (\$41.7 million)
- Caltrain modernization program (\$20.9 million)
- Communication equipment to improve the reliability, quality and speed of signal, data and voice transmissions (\$7.6 million)
- Bridge repairs and replacements (\$4.4 million)
- Station platform improvements (\$3.4 million)
- Safety related features at stations, grade crossings and along the tracks (\$2.9 million)
- System-wide track rehabilitation, signal, bridge and tunnel work (\$2.6 million)
- Station improvements and repairs (\$1.5 million)
- Caltrain passenger cars, accessories and improvements and miscellaneous other (\$2.4 million)

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

Debt

At the end of fiscal year 2013, 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 2012 and fiscal year 2011. 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. has enjoyed more than three years of uninterrupted economic growth and falling unemployment since the recession ended, but economic growth has averaged less than 2.25 percent since the recovery began and unemployment is still above where it should be. California's unemployment rate is forecasted to remain below 10 percent and above 7 percent through 2015. Unemployment rate in San Mateo County was down to 5.4 percent in June 2013 from 7.4 percent in June 2012 and 8.7 percent in June 2011.

Despite signs of economic rebound, the JPB continues to feel the effects 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 POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 49,326,085	\$ 37,943,011
Restricted cash (Note 3)	11,142,219	12,860,104
Total Cash and Cash Equivalents	60,468,304	50,803,115
Due from other governmental agencies	41,914,761	28,771,626
Receivables from member agencies (Note 14)	7,353,400	6,579,536
Accounts receivable - other, net of allowance	2,090,724	2,387,679
Inventory	3,128,739	3,733,190
Prepaid expenses	497,280	690,885
Restricted investment with fiscal agents (Note 3)	275,720	275,719
Total Current Assets	115,728,928	93,241,750
Noncurrent Assets:		
Capital assets (Note 6):		
Right-of-way improvements	739,383,231	719,324,312
Rail vehicles	285,040,033	285,124,615
Facilities and equipment	127,567,603	128,427,873
Office equipment	859,777	874,855
Capital Assets, Gross	1,152,850,644	1,133,751,655
Less accumulated depreciation	(471,708,898)	(425,673,186)
Construction in progress (Note 2L)	316,125,438	261,771,335
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	1,232,159,915	1,204,742,535
Total Noncurrent Assets	1,232,159,915	1,204,742,535
Total Assets	\$ 1,347,888,843	\$ 1,297,984,285

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF NET POSITION (Continued)
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 44,004,962	\$ 34,402,754
Interest payable	275,719	275,719
Self-insurance claims liabilities (Note 10)	3,383,154	2,317,595
Unearned member contributions (Note 14)	16,713,495	14,831,064
Unearned revenue	16,989,595	17,988,297
Other	73,101	76,935
	<u>81,440,026</u>	<u>69,892,364</u>
Noncurrent Liabilities:		
Farebox revenue bonds payable (Note 9)	23,140,000	23,140,000
Unamortized bond premium and discount, net	428,765	433,134
Self-insurance claims liabilities (Note 10)	4,541,362	4,182,948
	<u>28,110,127</u>	<u>27,756,082</u>
Total Liabilities	<u>109,550,153</u>	<u>97,648,446</u>
NET POSITION		
Net investment in capital assets	1,208,591,150	1,181,169,401
Unrestricted	29,747,540	19,166,438
	<u>1,238,338,690</u>	<u>1,200,335,839</u>
Total Net Position	<u>\$ 1,238,338,690</u>	<u>\$ 1,200,335,839</u>

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Passenger fares	\$ 68,767,170	\$ 59,891,344
Parking, shuttle and pass revenues	5,274,350	4,410,889
Other	1,504,289	381,982
Total Operating Revenues	<u>75,545,809</u>	<u>64,684,215</u>
OPERATING EXPENSES		
Contract services	65,485,410	65,881,692
Insurance	5,186,333	4,783,055
Fuel	15,349,835	15,287,988
Parking, shuttle and pass expenses	5,756,331	4,182,585
Professional services	1,098,098	884,704
Wages and benefits	9,322,476	5,731,384
Utilities and supplies	1,726,186	1,519,426
Maintenance services	1,010,854	1,070,434
Temporary services, rent and other	2,116,831	1,833,396
Total Operating Expenses	107,052,354	101,174,664
Operating loss before depreciation and amortization	(31,506,545)	(36,490,449)
Depreciation and amortization	<u>(59,967,645)</u>	<u>(62,723,507)</u>
OPERATING LOSS	<u>(91,474,190)</u>	<u>(99,213,956)</u>
NON-OPERATING REVENUES (EXPENSES)		
Federal, state, and local operating assistance (Note 7)	39,165,265	35,282,312
Rental income	1,783,323	1,759,216
Investment income	127,819	193,103
Interest expense	(1,120,418)	(1,122,649)
Other income	2,136,271	2,554,387
Total Non-Operating Revenues, net	<u>42,092,260</u>	<u>38,666,369</u>
Net Loss Before Capital Contributions	<u>(49,381,930)</u>	<u>(60,547,587)</u>
Capital contributions (Note 11)	<u>87,384,781</u>	<u>81,375,099</u>
Change in Net Position	<u>38,002,851</u>	<u>20,827,512</u>
NET POSITION		
Beginning of Year	1,200,335,839	1,180,184,534
Restatement due to implementation of GASB 65 (See Note 2B)	<u>-</u>	<u>(676,207)</u>
End of Year	<u>\$ 1,238,338,690</u>	<u>\$ 1,200,335,839</u>

See accompanying notes to basic financial statements

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares, passes and other	\$ 75,545,809	\$ 65,789,740
Payments to vendors for services	(103,887,062)	(74,941,649)
Payments to employees	(9,322,476)	(5,720,304)
Payments for insurance claims and premiums	(6,610,306)	(4,179,348)
Net cash (used for) operating activities	<u>(44,274,035)</u>	<u>(19,051,561)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	39,633,052	35,360,659
Rental and other income	4,287,746	4,397,013
Net cash provided by noncapital and financing activities	<u>43,920,798</u>	<u>39,757,672</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contribution	98,290,673	82,970,879
Property additions	(87,385,024)	(81,361,274)
Interest and fiscal charges paid	(1,102,875)	(1,102,875)
Net cash provided by capital and related financing activities	<u>9,802,774</u>	<u>506,730</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		6,035,000
Purchase of investment		(367,625)
Interest received	215,652	234,972
Net cash provided investing activities	<u>215,652</u>	<u>5,902,347</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	9,665,189	27,115,188
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	50,803,115	23,687,927
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 60,468,304</u>	<u>\$ 50,803,115</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED		
Operating loss	\$ (91,474,190)	\$ (99,213,956)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	59,967,645	62,723,507
Effect of changes in:		
Receivables	139,862	9,941
Prepaid expenses	798,056	(662,201)
Accounts payable, accrued liabilities and claims liabilities	(14,218,563)	16,994,217
Unearned revenue	505,859	1,095,589
Other liabilities	7,296	1,342
Net cash (used for) operating activities	<u>\$ (44,274,035)</u>	<u>\$ (19,051,561)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Increase (decrease) in fair value of investments	<u>\$ 108,247</u>	<u>\$ (148,481)</u>

See accompanying notes to basic financial statements

See accompanying notes to basic financial statements

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PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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. This statement had no impact on the JPB's June 30, 2013 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. This statement had no material impact on the JPB's June 30, 2013 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. This statement had no material impact on the JPB's June 30, 2013 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 provisions of this Statement are effective for the financial statements for periods beginning after December 15, 2011. This statement changed certain financial statement titles and nomenclature on JPB's financial statements for the fiscal year ending June 30, 2013

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 District early implemented this Statement. The implementation of this Statement resulted in a retroactive restatement of net position for deferred bond issuance costs previously recognized. The net impact to the ending balance of net position, in the amount of \$676 thousand, is shown on the Statement of Revenues, Expenses and Changes in Net Position.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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.

GASB Statement No. 69 - In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The provisions of the Statement are effective for financial statement for periods beginning after December 15, 2013. The JPB has not determined its effect on the financial statements.

GASB Statement No. 70 - In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The provisions of this Statement are effective for financial statement periods after June 15, 2013. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013 and 2012, the allowance for doubtful accounts included in Accounts receivable – other, are \$416,026 and \$418,078, respectively.

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. Capital Assets

Capital assets are 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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Construction in Progress

Construction in progress consists of the following projects at June 30, 2013 and 2012:

	2013	2012
Grade crossing and separations	\$ 125,798,650	\$ 84,335,628
Station improvements	37,440,446	35,982,817
Electrification	1,686,375	22,966,966
Communications	28,951,558	21,304,031
System-wide track improvements	10,029,294	7,434,636
Bridge improvements	33,446,075	29,058,486
Caltrain Modernization Program	42,513,716	23,391,965
Platform improvements	25,803,686	22,390,156
Rolling stock-purchase/ improvements	2,503,295	6,780,911
Other	7,952,343	8,125,739
Total Construction in Progress	\$ 316,125,438	\$ 261,771,335

M. Bond Issuance Costs

In accordance with GASB Statement No. 65, bond issuance costs are expensed upon the issuance of related debt.

N. Unearned Member Contributions

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

O. Unearned Revenue

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

P. Member Agency Assistance

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

Q. Federal, State and Local Operating Assistance

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

R. Wages and Benefits

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

U. Deferred Outflows and Inflows

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

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

V. Reclassifications

For the year ended June 30, 2013, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2013 presentation.

During fiscal year ending June 30, 2013, management determined the amounts of net position "restricted for capital projects" should have been classified as "unrestricted" as the amounts allotted to this particular grant funding had been received but not yet earned. Therefore, the JPB has corrected the classification in the current year and retrospectively.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 – CASH AND INVESTMENTS

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

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

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

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 49,326,085	\$ 37,943,011
Restricted cash	11,142,219	12,860,104
Restricted investments with fiscal agents	<u>275,720</u>	<u>275,719</u>
 Total Cash and Investments	 <u>\$ 60,744,024</u>	 <u>\$ 51,078,834</u>

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

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 945,567	\$ 871,817
Deposits with financial institutions	9,911,005	13,924,387
Investments	<u>49,887,452</u>	<u>36,282,630</u>
 Total Cash and Investments	 <u>\$ 60,744,024</u>	 <u>\$ 51,078,834</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Local Agency Investment Fund (LAIF)	\$ 26,742,061	2.70
San Mateo County Investment pool	20,124,674	1.97
Held by bond trustee:		
Money Market Mutual Funds	<u>275,720</u>	0.00
	<u>\$ 47,142,455</u>	
Portfolio Weighted Average Maturity		2.37

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
Held by bond trustee:		
Money Market Mutual Funds	<u>275,719</u>	0.00
	<u>\$ 36,282,630</u>	
Portfolio Weighted Average Maturity		0.73

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012 for each investment type:

Investment Type	Amount	Rating as of June 30, 2013		
		S & P Rating AAA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 26,742,061	\$ -	\$ -	\$ 26,742,061
San Mateo County Pool	20,124,674	-	-	20,124,674
Held by bond trustee: Money Market Mutual Funds	275,720	-	-	275,720
Total	\$ 47,142,455	\$ -	\$ -	\$ 47,142,455

Investment Type	Amount	Rating as of June 30, 2012		
		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

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, 2013.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 – CASH AND INVESTMENTS (continued)

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, 2013 and 2012, the JPB had \$12,656,003 and \$13,924,389, respectively, of deposits with financial institutions recorded on the financial statements. On December 31, 2013 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, 2013. 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.

Investment in San Mateo County Investment Pool

The JPB had funds invested in the San Mateo County Treasurer's Investment Pool (County Pool) at June 30, 2013 and 2012 in the amount of \$20,124,674 and \$0, respectively.

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

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 14, 2013, 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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 – CASH AND INVESTMENTS (continued)

As of June 30, 2013 and June 30, 2012, the JPB had a contractual withdrawal value of \$26,736,756 and \$33,221,396, respectively, that is recorded at \$26,742,061 and \$33,261,914 on the Statement of Net Position after the adjustment for unrealized gains/losses for Fiscal Year 2013 and 2012, respectively. The total value invested by all public agencies in LAIF at June 30, 2013 and 2012 was \$58,852,094,221 and \$60,612,199,285, respectively. Of these amounts, as of June 30, 2013 and 2012, 98.04 and 97.25 percent, respectively, was invested in non-derivative financial products, and 1.96 and 2.75 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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions and Transfers	Deletions And Transfers	Balance June 30, 2013
Depreciable capital assets:				
Right-of-way improvements	\$ 719,324,312	\$ 27,484,599	\$ (7,425,680)	\$ 739,383,231
Rail vehicles	285,124,615	4,794,804	(4,879,386)	285,040,033
Facilities and equipment	128,427,873	326,971	(1,187,241)	127,567,603
Office equipment	874,855	424,547	(439,625)	859,777
Total depreciable capital assets	<u>1,133,751,655</u>	<u>33,030,921</u>	<u>(13,931,932)</u>	<u>1,152,850,644</u>
Accumulated depreciation for:				
Right-of-way improvements	(264,091,466)	(37,319,386)	7,425,680	(293,985,172)
Rail vehicles	(126,010,906)	(16,177,264)	4,879,386	(137,308,784)
Facilities and equipment	(34,820,225)	(6,110,269)	1,187,241	(39,743,253)
Office equipment	(750,589)	(360,725)	439,625	(671,689)
Total accumulated depreciation	<u>(425,673,186)</u>	<u>(59,967,644)</u>	<u>13,931,932</u>	<u>(471,708,898)</u>
Capital assets nondepreciable:				
Right-of-way	226,892,731	-	-	226,892,731
Construction in progress	261,771,335	87,385,024	(33,030,921)	316,125,438
Intangible Asset – Trackage Rights	8,000,000	-	-	8,000,000
Total nondepreciable capital assets	<u>496,664,066</u>	<u>87,385,024</u>	<u>(33,030,921)</u>	<u>551,018,169</u>
Capital assets, net	<u>\$ 1,204,742,535</u>	<u>\$ 60,448,301</u>	<u>\$ (33,030,921)</u>	<u>\$ 1,232,159,915</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 6 – CAPITAL ASSETS (continued)

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	<u>1,089,903,626</u>	<u>46,970,815</u>	<u>(3,122,786)</u>	<u>1,133,751,655</u>
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	<u>(366,072,465)</u>	<u>(62,723,507)</u>	<u>3,122,786</u>	<u>(425,673,186)</u>
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	<u>462,273,606</u>	<u>81,361,275</u>	<u>(46,970,815)</u>	<u>496,664,066</u>
Capital assets, net	<u>\$ 1,186,104,767</u>	<u>\$ 65,608,583</u>	<u>\$ (46,970,815)</u>	<u>\$ 1,204,742,535</u>

NOTE 7 – OPERATING ASSISTANCE

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

	2013	2012
District – Operating	41.79%	41.92%
VTA – Operating	40.90%	40.28%
CCSF – Operating	17.31%	17.80%

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 – OPERATING ASSISTANCE (continued)

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

	2013	2012
Member Agency local funds	\$ 33,500,000	\$ 25,029,794
Assembly Bill 434 operating assistance	996,665	989,533
Other	4,668,600	9,262,985
Total	\$ 39,165,265	\$ 35,282,312

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, 2013 and 2012. 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 2013 and 2012, the JPB received capital reimbursements and capital advances from the member agencies totaling \$10,802,046 and \$8,634,931 respectively. The unexpended amounts at 2013 and 2012 are shown as Unearned Member Contributions. (See Note 14 - Related Parties).

B. Federal and State Grants

At June 30, 2013, the JPB has 20 federal, 17 state and 37 local grants that provide funding for Caltrain capital projects. Capital additions for the year ended June 30, 2013 and 2012, applicable to these projects are \$87,384,706 and \$81,375,099, respectively. The related federal participation was \$26,861,691.

The JPB has receivables of \$16,283,056 and \$7,374,930 at June 30, 2013 and 2012, 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 \$9,274,332 and \$16,622,770 at June 30, 2013 and 2012, 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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 is as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
2007 Series A Revenue Bonds	\$ 23,140,000	\$ -	\$ -	\$ 23,140,000	\$ -

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

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

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 9 – FAREBOX REVENUE BONDS PAYABLE (continued)

Annual principal and interest payments are as follows:

Year Ending June 30:	Principal	Interest	Total
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	-	1,102,875	1,102,875
2019-2023	2,380,000	5,336,203	7,716,203
2024-2028	5,335,000	4,466,272	9,801,272
2029-2033	6,755,000	3,045,625	9,800,625
2034-2038	8,670,000	1,127,000	9,797,000
Total	<u>\$ 23,140,000</u>	<u>\$ 19,489,475</u>	<u>\$ 42,629,475</u>

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, 2013, 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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012 are as follows:

	2013	2012
Self-insurance liabilities, beginning of year	\$ 6,500,543	\$ 5,896,836
Incurred claims and changes in estimates	2,639,265	1,196,369
Claim payments and related costs	(1,215,292)	(592,662)
Total self-insurance claims liabilities	7,924,516	6,500,543
Less: current portion	(3,383,154)	(2,317,595)
Noncurrent portion	\$ 4,541,362	\$ 4,182,948

NOTE 11 – CAPITAL CONTRIBUTIONS

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

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

	2013	2012
Contributions from Federal government	\$ 26,861,766	\$ 26,827,687
Contributions from the State	24,325,070	33,367,165
Contributions from local governments	36,197,945	21,180,247
	\$ 87,384,781	\$ 81,375,099

NOTE 12 – COMMITMENT AND CONTINGENCIES

A. Operating Contract

The JPB Board of Directors awarded a contract to TransitAmerica Services, Inc.(TASI) 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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

The expenses billed to the JPB by TASI for providing rail operation services for the years ended June 30, 2013 and 2012 are recorded as Contract Services in the Statement of Revenues, Expenses, and Changes in Net Position.

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, 2013 and June 30, 2012 were \$15,344,013 and \$15,281,681, respectively.

C. Litigation

As of June 30, 2013 and 2012, 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

In November 2000, September 2001 and February 2002, with the consent of the Federal Transit Administration, the JPB entered into separate leveraged lease-leaseback transactions (the "2000 Lease Transaction", the "2001 Lease Transaction" and the "2002 Lease Transaction," as the case may be, and, collectively, the "Lease Transactions") over a total of 23 General Motors locomotives and 93 Nippon Sharyo railcars (collectively, the "Equipment"). Each Lease Transaction was structured as a (a) head lease of specific items of Equipment to a special purpose trust created on behalf of an equity investor and (b) sublease of such Equipment back from such trust. The JPB may exercise an option to purchase the items of Equipment, following the scheduled sublease expiration dates, in 2025 in the case of the 2000 Lease Transaction and in 2026 in the case of the 2001 and 2002 Lease Transactions. During the terms of the subleases, the JPB maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

The JPB received an aggregate amount of \$316.88 million in full prepayment of the head leases. In the case of the 2000 and 2001 Lease Transactions, a portion of the head lease payments was deposited under an agreement with a debt payment undertaker whose repayment obligations are guaranteed by American International Group, Inc. (“AIG”); another portion was deposited under an agreement with an equity payment undertaker whose repayment obligations are guaranteed by AIG and collateralized with U.S. Treasury or Agency obligations. In the case of the 2002 Lease Transaction, a portion of the head lease payments was deposited under agreements with two debt payment undertakers whose repayment obligations are guaranteed, as the case may be, by Assured Guaranty Municipal Corporation (“AGM”) as successor to Financial Security Assurance (“FSA”) or Swiss Reinsurance Corporation (“Swiss Re”); another portion was deposited under an agreement with an equity payment undertaker whose repayment obligations are guaranteed by AGM as successor to FSA. The repayment obligations of AIG, AGM and Swiss Re under their respective debt undertaking agreements are due in amounts and at times that correspond to the JPB’s scheduled payments under the subleases. The repayment obligations of AIG and AGM under their respective equity payment agreements are due in amounts and at times that correspond to the JPB’s purchase option dates under each Lease Transaction.

The obligations of the JPB under each of the subleases are further guaranteed under financial guaranty insurance policies issued by AGM in its role as surety provider.

At the time of each Lease Transaction, AIG, FSA and Swiss Re were rated “Aaa/AAA” by Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”). Although the debt and equity payment undertaking arrangements do not represent a legal defeasance of the JPB’s obligations under the subleases, management believes that these transactions are structured in such a way that it is not probable that the JPB will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations are not recorded on the financial statements of the JPB as of June 30, 2013.

The terms of the Lease Transactions require the JPB to replace AIG, AGM and Swiss Re within certain timeframes if their ratings are downgraded below certain rating minimums.

In the case of the 2000 and 2001 Lease Transactions, the JPB is required to replace: (a) AIG as guarantor of the debt payment undertaker within 30 days of demand by the equity investor if AIG’s ratings are downgraded below “Baa1” by Moody’s or “BBB+” by S&P; (b) AIG as guarantor of the equity payment undertaker within 60 days of the earlier of notice of a downgrade or demand from the equity investor if AIG’s ratings are downgraded below “A2” by Moody’s or “A” by S&P; and (c) AGM as surety provider within 30 days of demand by the equity investor if AGM’s ratings are downgraded below “Aa3” by Moody’s or “AA-” by S&P.

With current ratings of “Baa1/A-” from Moody’s and S&P, AIG satisfies the minimum ratings required as guarantor of the debt payment undertaker. Those ratings have been below the required minimum as guarantor of the equity payment undertaker since S&P’s downgrade of AIG to “A-” on September 10, 2008. With Moody’s downgrade of AGM to “A2” on January 17, 2013, AGM’s current ratings of “A2/AA-” no longer satisfy the requirement for surety provider.

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

In the case of the 2002 Lease Transaction, the JPB is required to replace (a) AGM as guarantor of the debt payment undertaker within 30 days of demand by the equity investor if AGM's ratings are downgraded below "Baa1" by Moody's or "BBB+" by S&P; (b) AGM as guarantor of the equity payment undertaker within 45 days of the earlier of notice of a downgrade or demand from the equity investor if AGM's ratings are downgraded below "Aa1" by Moody's or "AA+" by S&P; (c) Swiss Re as guarantor of the debt payment undertaker within 45 days of the earlier of notice of a downgrade or demand from the equity investor if Swiss Re's ratings are downgraded below "Aa3" by Moody's or "AA-" by S&P; and (d) AGM as surety provider within 30 days of demand by the equity investor if its ratings are downgraded below "Aa3" by Moody's or "AA-" by S&P.

AGM's current ratings of "A2/AA-" satisfy the minimum required as guarantor of the debt payment undertaker but have been below the required minimum as guarantor of the equity payment undertaker since the Moody's downgrade to "Aa3" on October 1, 2008. Swiss Re's current ratings of "A1/AA-" have been below the minimum ratings required in its capacity as guarantor of the debt payment undertaker since the Moody's downgrade to "A1" on February 23, 2009. With Moody's downgrade of AGM to "A2" on January 17, 2013, AGM's current ratings of "A2/AA-" no longer satisfy the requirement for surety provider.

Failure of the JPB to replace AIG, AGM or Swiss Re, as the case may be, following a downgrade by either Moody's or S&P to below the applicable rating threshold within a specified timeframes could allow the equity investor to issue a default notice to the JPB. Because replacement of AIG, AGM or Swiss Re may not be practicable, the JPB could become liable to pay termination costs as provided in certain schedules of the Equipment transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2013, less the accreted value under the equity payment agreements, would approximate \$71.0 million in the aggregate. As of June 30, 2013, no investor has demanded that the JPB replace AIG, AGM or Swiss Re.

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.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 12 – COMMITMENT AND CONTINGENCIES (continued)

F. PTMISEA Grants

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

The following table shows the changes in activity related to the PTMISEA grant funds during the fiscal year as well as the remaining commitment as of June 30, 2013 (in thousands):

	PTMISEA South Terminal Project (Fund 3605)	PTMISEA Community Based Overlay Signal System (Fund 3607)	PTMISEA Rolling Stock State of Good Repair (Fund 3623)
Total Allocations as of June 30, 2012	\$ 4,990,276	\$ 2,006,374	\$ 3,876,572
Total Allocations received FY13	-	-	-
Interest Income	6,930	2,104	5,506
Net Expenditures and Commitments	(374,837)	(957,416)	(1,350)
Commitment at June 30, 2013	<u>\$ 4,622,369</u>	<u>\$ 1,051,062</u>	<u>\$ 3,880,728</u>

	PTMISEA Santa Clara Caltrain Station Improvements (Fund 3614)	PTMISEA Santa Clara Caltrain Station Improvements (Fund 3615)	PTMISEA Santa Clara Caltrain Station Improvements (Fund 3621)
Total Allocations as of June 30, 2012	\$ 54,059	\$ 82	\$ 68,122
Total Allocations received FY13	-	-	-
Interest Income	36	17	7
Net Change in Accrual for FY13	3,015	-	12,393
Net Expenditures and Commitments	(56,940)	-	(80,440)
Commitment at June 30, 2013	<u>\$ 170</u>	<u>\$ 99</u>	<u>\$ 82</u>

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. Note 12D provides correlative information to this leasing transaction.

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 12D provides correlative information to this leasing transaction.

C. *Fiscal Year 2002 Sale - Leaseback*

In February 2002, the JPB entered into a leasing transaction with respect to 38 Nippon Sharyo trailer cars, 14 Nippon Sharyo cab cars, and 13 GM F40PH-2 locomotives (collectively, the “Equipment”). The JPB leased the Equipment to a statutory trust under a Head Lease and simultaneously leased back the Equipment under a Sublease. The leasing transaction terminated and restructured a portion of the “1996 transaction” that had not been previously terminated. The JPB received net proceeds in the amount of \$2,392,510 which represents the difference between the appraised value of the Equipment and termination costs associated with the remaining portion of the 1996 Transaction, certain required deposits and expenses. Title to the Equipment remains on the books of the JPB at its original cost and is being depreciated over the original useful life determined at the date of acquisition. The net proceeds have been recorded as Lease-Leaseback income for the year ended June 30, 2002. The JPB has an option to purchase the Equipment for an agreed upon purchase price in January 2026. Note 12D provides correlative information to this leasing transaction.

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – LEASING TRANSACTIONS (Continued)

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, 2013 and 2012 total \$ 2,461,237 and \$1,088,687, respectively, and are included in accrued liabilities. Total expenses billed to the JPB by the District which are included as Operating Expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position are as follows:

	2013	2012
Wages and benefits	\$ 9,332,476	\$ 5,731,384
Rent, utilities, supplies and other	1,726,192	1,454,600
Total	\$ 11,048,668	\$ 7,185,984

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:

	2013	2012
District	\$ 828,722	\$ 61,341
VTA	5,642,070	4,161,061
CCSF	882,608	2,357,134
Total	\$ 7,353,400	\$ 6,579,536

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 14 – RELATED PARTIES (continued)

C. Unearned Member Contributions

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

	2013	2012
District	\$ 8,066,117	\$ 7,888,703
VTA	7,192,345	5,286,111
CCSF	1,455,033	1,656,250
Total	<u>\$ 16,713,495</u>	<u>\$ 14,831,064</u>
Committed for:		
Centralized traffic control system	\$ 840	\$ 840
Farebox capital	919	3,292
Capital contingency fund	2,187,359	2,198,107
Capital contribution Member's local match	14,324,638	12,429,086
Total Committed	<u>16,513,756</u>	<u>14,631,325</u>
Uncommitted funds:		
District	100,000	100,000
VTA	(17,349)	(17,349)
CCSF	117,088	117,088
Total Uncommitted	<u>199,739</u>	<u>199,739</u>
Total	<u>\$ 16,713,495</u>	<u>\$ 14,831,064</u>

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 August 14, 2013, and pursuant to the recovery payment reported in Note 3, the remaining Lehman Brothers Holdings were sold by the San Mateo County Treasurer, Sandie Arnott, on advice of County Council. The sale effectively removed the JPB from the bankruptcy liquidation plan, recovered the remaining proceeds immediately foregoing an additional one to two year wait for a final distribution, and increased the amount of the recovery from an anticipated twenty-five or thirty cents on the dollar to just over thirty-nine cents in total. The Treasurer notified the JPB on June 26, 2013 of their intention to act provided the sale netted an average recovery of thirty-nine cents or higher. The JPB's final payment of \$327,133 brings the overall loss recovered by the JPB to \$522,144.

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, 2013

	Budget (Unaudited)	Actual	Variance Positive/ Negative
OPERATING REVENUES:			
Passenger fares	\$ 64,783,776	\$ 68,767,170	\$ 3,983,394
Parking, shuttle and pass revenues	5,649,762	6,200,334	550,572
Other	273,760	578,305	304,545
Total operating revenues	<u>70,707,298</u>	<u>75,545,809</u>	4,838,511
OPERATING EXPENSES:			
Contract services	68,941,372	68,518,260	423,112
Insurance	5,100,500	5,186,334	(85,834)
Fuel	16,205,815	15,349,836	855,979
Parking, shuttle and pass expense	5,564,930	5,756,331	(191,401)
Professional services	962,800	1,098,098	(135,298)
Wages and benefits	9,556,141	9,322,476	233,665
Utilities and supplies	1,749,150	1,726,191	22,959
Maintenance services	1,053,011	1,010,854	42,157
Temporary services, rent and other	1,923,596	2,143,523	(219,927)
Total operating expense	<u>111,057,315</u>	<u>110,111,903</u>	945,412
Operating Loss	<u>(40,350,017)</u>	<u>(34,566,094)</u>	<u>(5,783,923)</u>
NONOPERATING REVENUES (EXPENSES):			
State and local operating assistance	39,750,897	39,165,265	585,632
Rental income	1,868,760	1,783,323	85,437
Interest income	117,790	19,572	98,218
Interest expense	(1,108,575)	(1,120,418)	11,843
Other income	9,452,412	2,136,272	7,316,140
Total nonoperating revenue, net	<u>50,081,284</u>	<u>41,984,014</u>	8,097,270
Net Income (loss)	<u>\$ 9,731,267</u>	<u>\$ 7,417,920</u>	<u>\$ 2,313,347</u>
CAPITAL OUTLAY:			
Capital assistance	62,087,679	87,384,706	(25,297,027)
Capital expenditures	(62,087,679)	(87,384,782)	25,297,103
Net capital outlay	<u>-</u>	<u>(76)</u>	<u>76</u>
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT			
	<u>\$ 9,731,267</u>	<u>\$ 7,417,920</u>	<u>\$ 2,313,347</u>

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

Excess of expenses and capital outlay over operating revenues and non-operating revenues		\$ 7,417,920
<u>Reconciling Items</u>		
GASB 31 unrealized loss	\$ 108,247	
Depreciation of assets	(59,967,645)	
Capital debt financing		
Capital expenditures	<u>87,384,782</u>	
		<u>27,525,384</u>
Change in net position, GAAP basis		<u>\$ 34,943,304</u>

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Section III

STATISTICAL

Financial Trends

- Net Position and Changes in Net Position Fiscal Years 2003 Through 2013

Revenue Capacity

- Revenue Base and Revenue Rate Fiscal Years 2003 Through 2013
- Principal Revenue Payers Fiscal Year Ended June 30, 2013

Debt Capacity

- Ratio of Outstanding Debt Fiscal Years 2003 Through 2013
- Bonded Debt Fiscal Years 2003 Through 2013
- Direct and Overlapping Debt Fiscal Year Ended June 30, 2013
- Debt Limitations Fiscal Year Ended June 30, 2013
- Pledged Revenue Coverage Fiscal Years 2003 Through 2013

Demographics and Economic Information

- Population and Income Fiscal Years 2001 and 2010
- Unemployment Rates Fiscal Years 2003 Through 2013
- Principal Employers Fiscal Years 2001 and 2010

Operating Information

- Farebox Recovery and Miles Fiscal Years 2003 Through 2013
- Employees (Full – Time Equivalents) Fiscal Years 2003 Through 2013
- Capital Assets Fiscal Years 2003 Through 2013

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL TRENDS - NET POSITION AND CHANGES IN NET POSITION
FISCAL YEARS 2004 THROUGH 2013 (in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:				
Passenger fares	\$ 68,767	\$ 59,891	\$ 49,026	\$ 42,732
Parking, shuttle and pass revenues	5,274	4,411	3,576	3,452
Other	1,504	382	694	278
Total operating revenues	<u>75,546</u>	<u>64,684</u>	<u>53,296</u>	<u>46,462</u>
OPERATING EXPENSES:				
Contract services	65,485	65,882	60,637	59,404
Insurance	5,186	4,783	7,310	5,035
Fuel	15,350	15,288	12,937	10,309
Parking, shuttle and pass expenses	5,756	4,183	3,912	3,850
Professional services	1,098	885	1,046	826
Wages and benefits	9,322	5,731	6,026	5,928
Utilities and supplies	1,726	1,519	1,599	1,268
Maintenance services	1,011	1,070	382	268
Temporary services, rent and other	2,117	1,833	1,779	1,721
Total operating expenses	<u>107,052</u>	<u>101,175</u>	<u>95,628</u>	<u>88,609</u>
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION				
DEPRECIATION AND AMORTIZATION	(31,506)	(36,490)	(42,332)	(42,147)
DEPRECIATION AND AMORTIZATION	<u>(59,968)</u>	<u>(62,724)</u>	<u>(62,119)</u>	<u>(57,374)</u>
OPERATING LOSS	<u>(91,474)</u>	<u>(99,214)</u>	<u>(104,451)</u>	<u>(99,521)</u>
NONOPERATING REVENUES (EXPENSES):				
Federal, state and local operating assistance	39,165	35,282	43,142	41,556
Lease-leaseback income	-	-	-	-
Rental income	1,783	1,759	1,733	1,729
Interest income	128	193	143	291
Interest expense	(1,120)	(1,123)	(1,122)	(1,140)
Other income (expenses)	2,136	2,554	1,907	2,099
Total nonoperating revenues, net	<u>42,092</u>	<u>38,666</u>	<u>45,802</u>	<u>44,535</u>
Net loss before capital contributions	<u>(49,382)</u>	<u>(60,548)</u>	<u>(58,649)</u>	<u>(54,986)</u>
Capital contributions	87,385	81,375	91,834	71,579
Depreciation on assets acquired with contributed	-	-	-	-
Prior period adjustment	-	-	-	-
CHANGES IN NET POSITION	<u>38,003</u>	<u>20,828</u>	<u>33,185</u>	<u>16,593</u>
Net Position Components				
Net Investment in capital assets	1,208,591	1,181,995	1,163,379	1,133,772
Restricted	-	12,860	11,664	-
Unrestricted	29,747	6,157	5,141	13,227
Net Position, end of year	<u>\$ 1,238,338</u>	<u>\$ 1,201,012</u>	<u>\$ 1,180,184</u>	<u>\$ 1,146,999</u>

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

PENINSULA CORRIDOR JOINT POWERS BOARD
 FINANCIAL TRENDS - NET POSITION AND CHANGES IN NET POSITION
 FISCAL YEARS 2004 THROUGH 2013 (in thousands)

2009	2008	2007	2006	2005	2004
\$ 43,272	\$ 38,399	\$ 33,058	\$ 28,845	\$ 21,968	\$ 18,427
3,112	4,972	4,667	4,164	3,676	3,718
335	389	236	114	448	80
<u>46,719</u>	<u>43,760</u>	<u>37,961</u>	<u>33,123</u>	<u>26,092</u>	<u>22,225</u>
61,172	55,341	50,799	48,662	47,164	44,236
4,537	3,641	4,172	3,098	3,607	3,251
10,742	14,377	10,876	10,350	7,365	4,570
3,941	3,904	3,579	3,332	3,754	4,430
916	780	583	544	1,660	862
5,384	5,708	4,719	4,081	4,224	4,270
1,462	1,295	1,009	790	857	808
252	308	457	314	259	30
1,861	1,604	1,337	1,406	1,208	1,153
<u>90,267</u>	<u>86,958</u>	<u>77,531</u>	<u>72,577</u>	<u>70,098</u>	<u>63,610</u>
(43,548)	(43,198)	(39,570)	(39,454)	(44,006)	(41,385)
<u>(53,183)</u>	<u>(46,290)</u>	<u>(36,985)</u>	<u>(30,743)</u>	<u>(28,515)</u>	<u>(21,215)</u>
(96,731)	(89,488)	(76,555)	(70,197)	(72,521)	(62,600)
39,826	39,661	41,538	41,125	35,393	33,057
-	-	-	-	-	-
1,661	1,577	1,485	1,310	1,184	1,147
(486)	1,260	1,631	1,411	2,126	1,443
(767)	(111)	(121)	(199)	(908)	(1,484)
1,173	832	602	(378)	4,750	1,277
<u>41,407</u>	<u>43,219</u>	<u>45,135</u>	<u>43,269</u>	<u>42,545</u>	<u>35,440</u>
<u>(55,324)</u>	<u>(46,269)</u>	<u>(31,420)</u>	<u>(26,928)</u>	<u>(29,976)</u>	<u>(27,160)</u>
71,241	82,552	91,222	122,520	69,828	122,602
-	-	-	-	-	-
-	-	-	-	-	2,468
<u>15,917</u>	<u>36,283</u>	<u>59,802</u>	<u>95,592</u>	<u>39,852</u>	<u>97,910</u>
1,119,056	1,099,455	1,062,907	1,008,343	915,004	873,775
375	529	296	173	150	-
10,974	11,350	11,848	6,733	4,503	6,030
<u>\$ 1,130,405</u>	<u>\$ 1,111,334</u>	<u>\$ 1,075,051</u>	<u>\$ 1,015,249</u>	<u>\$ 919,657</u>	<u>\$ 879,805</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2004 THROUGH 2013

Fiscal year	2013	2012	2011	2010
Passenger fares (in thousands)	\$ 68,767	\$ 59,891	\$ 49,026	\$ 42,732
Revenue Base				
Number of passengers (in thousands)	15,596	14,134	12,673	10,611
Source: National Transit Database (NTD)				
Four-zones fare structure				
Full adult fare:				
One-way	\$ 8.75	\$ 8.75	\$ 8.75	\$ 7.75
Day Pass	17.50	17.50	17.50	15.50
8-ride ^[1]	59.50	59.50	59.50	52.75
10-ride ^[2]	-	-	-	-
Monthly Pass	232.00	232.00	232.00	205.50
Eligible discount fare:				
One-way	\$ 4.25	\$ 4.25	\$ 4.25	\$ 3.75
Day Pass	8.75	8.75	8.75	7.75
8-ride ^[1]	29.75	29.75	29.75	26.25
10-ride ^[2]	-	-	-	-
Monthly Pass	116.00	116.00	116.00	102.75

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

[2] 10-ride fare increase effected on January 1, 2009.

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

Source: CAFRs and National Transit Database.

PENINSULA CORRIDOR JOINT POWERS BOARD
 REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
 FISCAL YEARS 2004 THROUGH 2013

2009	2008	2007	2006	2005	2004
\$ 43,272	\$ 38,399	\$ 33,058	\$ 28,845	\$ 21,968	\$ 18,427
11,359	10,915	10,264	9,005	8,121	6,625
\$ 7.75	\$ 7.50	\$ 7.50	\$ 6.75	\$ 6.50	\$ 5.50
15.50	15.00	15.00	13.50	13.00	11.00
52.75	-	-	-	-	-
66.00	63.75	63.75	57.50	55.25	46.75
205.50	198.75	198.75	179.00	172.25	145.75
\$ 3.75	\$ 3.75	\$ 3.75	\$ 3.25	\$ 3.25	\$ 2.75
7.75	7.50	7.50	6.75	6.50	5.50
26.25	-	-	-	-	-
33.00	31.75	31.75	28.75	27.50	23.50
102.75	99.25	99.25	89.50	86.00	73.00

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEAR ENDED JUNE 30, 2013

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY - RATIO OF OUTSTANDING DEBT
FISCAL YEARS 2004 THROUGH 2013 (in thousands)

Fiscal Year	Farebox Revenue Bonds for JPB (in thousands)^[1]	Personal Income for San Mateo County^[2]	As a Percent of Personal Income
2013	\$ 23,140	\$ 53,678,186	0.043%
2012	23,140	52,114,744	0.044%
2011	23,140	50,596,839	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%

[1] CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2012 and 2013 are based on an estimated three percent annual increase over 2011.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – BONDED DEBT
FISCAL YEARS 2004 THROUGH 2013 (in thousands)

Fiscal Year	Farebox Revenue Bonds	Member Agency Operating Contributions	As a Percent of Member Agency Contributions
2013	\$ 23,140	\$ 33,500	69.1%
2012	23,140	25,030	92.4%
2011	23,140	35,093	65.9%
2010	23,140	39,424	58.7%
2009	23,140	38,688	59.8%
2008	23,140	38,284	60.4%
2007	2,355	37,154	6.3%
2006	2,590	36,072	7.2%
2005	2,815	34,749	8.1%
2004	3,035	34,047	8.9%

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

Source: CAFRs

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT
FISCAL YEAR ENDED JUNE 30, 2013

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

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – DEBT LIMITATIONS
FISCAL YEAR ENDED JUNE 30, 2013

The JPB does not have a legal debt limit.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 2004 THROUGH 2013 (in thousands)

Year	Pledged Revenue	Debt Service			Debt Coverage
		Principal	Interest	Total	
2013	\$ 75,546	\$ -	\$ 1,103	\$ 1,103	\$ 68
2012	64,684	-	1,103	1,103	59
2011	53,296	-	1,103	1,103	48
2010	46,461	-	1,103	1,103	42
2009	46,719	-	1,103	1,103	42
2008	43,760	250	521	771	57
2007	37,961	235	123	358	106
2006	33,123	225	133	358	93
2005	26,092	220	143	363	72
2004	22,225	210	152	362	61

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

Source: CAFRs

PENINSULA CORRIDOR JOINT POWERS BOARD
 DEMOGRAPHICS AND ECONOMIC INFORMATION—POPULATION, INCOME AND UNEMPLOYMENT
 RATES
 FISCAL YEARS 2004 THROUGH 2013

Year	Population ^[1]	Total Personal Income ^[2]	Per Capita Personal Income ^[2]	Average Unemployment Rates ^[3]
2013	735,678	\$ 53,678,186 *	\$ 73,814 *	5.5%
2012	736,362	52,114,744 *	71,664 *	6.7%
2011	727,980	50,596,839	69,577	7.9%
2010	719,729	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%

^[1] California Department of Finance, Demographic Research Unit (2013 data as of Jan 1, 2013-Report E-1; 2004-2012 data as of July 1-Report E-6).

^[2] U.S. Department of Commerce, Bureau of Economic Analysis, BEARFACTS 2004-2011, San Mateo, California [06081], most current information available.

^[3] California Economic Development Department, Labor Force/Unemployment Data (2013 data average Jan-Aug, 2004-2012 data average for calendar year).

*Personal Income & Per Capita Personal Income data for 2012 and 2013 is based on an estimated three percent annual increase over 2011.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
 DEMOGRAPHICS AND ECONOMIC INFORMATION–PRINCIPAL EMPLOYERS
 FISCAL YEARS 2011 AND 2005

Employers in San Mateo County	2011*			2004		
	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
Genentech Inc.	8,600	1	2.43%	5,120	4	1.48%
Oracle Corporation	7,000	2	1.98%	7,000	2	2.02%
County of San Mateo	5,979	3	1.69%	5,663	3	1.63%
Kaiser Permanente	3,855	4	1.09%	3,494	5	1.01%
Visa USA/Visa International	3,100	5	0.88%	0		0.00%
Mills-Peninsula Health Services	2,500	6	0.71%	2,470	7	0.71%
San Mateo County Community College District	2,115	7	0.60%	0		0.00%
Safeway Inc.	2,075	8	0.59%	2,145	8	0.62%
Electronic Arts Inc.	2,000	9	0.57%	1,750	10	0.50%
Facebook Inc.	2,000	10	0.57%	0		0.00%
SLAC National Accelerator Laboratory				0		0.00%
Seton Medical Center				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%
Total	39,224		11.11%	43,068		12.41%

* Principal employer information for years 2013 and 2012 are not available.

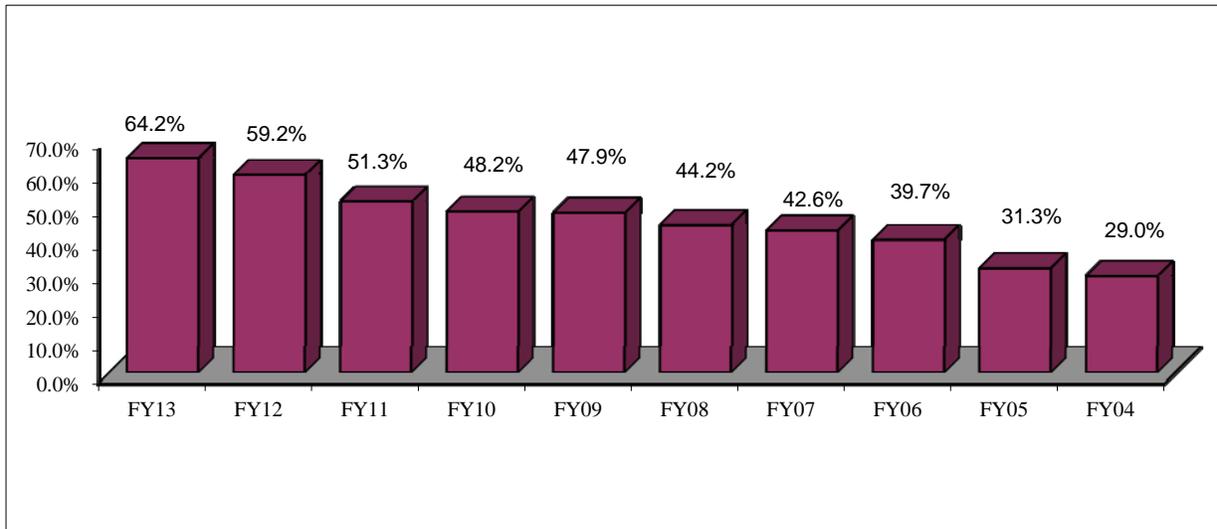
This table presents the top 10 principal employers in San Mateo County for 2011 and 2004.

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

PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – FAREBOX RECOVERY AND PASSENGER MILES
 FISCAL YEARS 2004 THROUGH 2013

FAREBOX RECOVERY

Farebox recovery table shows the relationship between total passenger fares and operating expenses. The Board adopted a farebox recovery rate goal range of 45 percent to 65 percent effective FY2014.

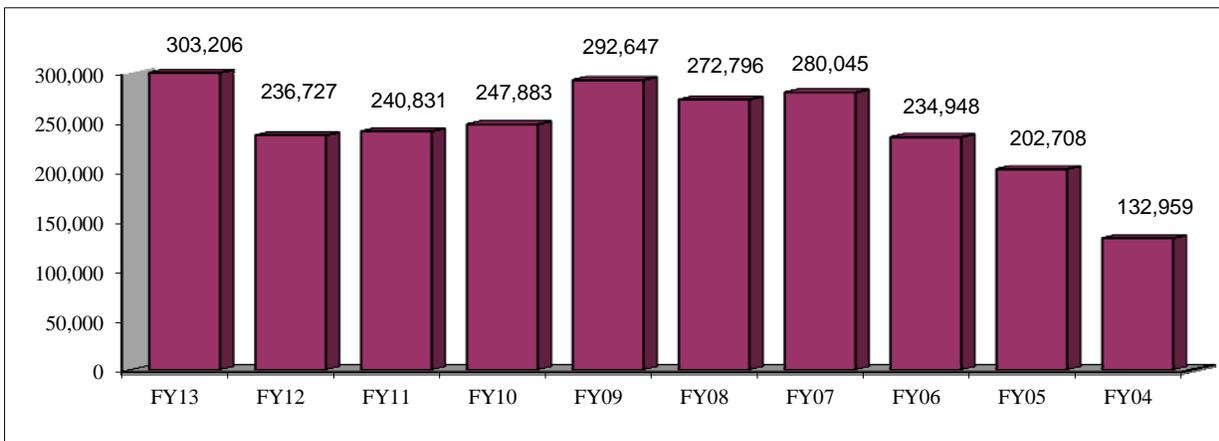


PASSENGER MILES

(In Thousands)

Weekday passenger miles

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



Source: JPB's National Transportation Database.

PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
 FISCAL YEARS 2004 THROUGH 2013

<u>DIVISION</u>	<u>FULL-TIME EQUIVALENTS (FTEs)</u>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
EXECUTIVE	0.87	0.91	0.85	0.80
PUBLIC AFFAIRS	4.00	4.46	2.80	3.80
OPERATIONS, ENGINEERING AND CONSTRUCTION	43.35	46.75	45.52	46.54
PLANNING AND DEVELOPMENT	3.04	5.09	5.21	6.20
FINANCE AND ADMINISTRATION	33.71	33.10	32.17	33.37
CALTRAIN MODERNIZATION PROGRAM	3.50	-	-	-
PENINSULA RAIL PROGRAM	-	-	2.00	1.00
CUSTOMER SERVICE AND MARKETING	12.56	11.40	10.88	18.05
TOTAL FTEs	101.03	101.71	99.43	109.76

Note: The organization went through a reorganization in FY2010; Caltrain Modernization Program division was added in FY2013 as a replacement for the Peninsula Rail department.

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

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

Source: JPB's annual capital and operating budget.

PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – CAPITAL ASSETS (in thousands)
 FISCAL YEARS 2004 THROUGH 2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Depreciable and amortized capital assets			
Right of way improvements	\$ 739,383	\$ 719,324	\$ 677,797
Rail vehicles	285,040	285,125	284,203
Facilities and equipment	127,568	128,428	127,048
Office equipment	860	875	855
Total depreciable and amortized capital assets	<u>1,152,851</u>	<u>1,133,752</u>	<u>1,089,903</u>
Accumulated depreciation and amortization			
Right of way improvements	(293,985)	(264,091)	(222,481)
Rail vehicles	(137,309)	(126,011)	(113,553)
Facilities and equipment	(39,743)	(34,820)	(29,337)
Office equipment	(672)	(751)	(702)
Intangible Asset - Trackage Right*	-	-	-
Total accumulated depreciation and amortization	<u>(471,709)</u>	<u>(425,673)</u>	<u>(366,073)</u>
Nondepreciable capital assets			
Right of way	226,893	226,893	226,893
Construction in progress	316,125	261,771	227,381
Intangible Asset - Trackage Right*	8,000	8,000	8,000
Total nondepreciable capital assets	<u>551,018</u>	<u>496,664</u>	<u>462,274</u>
Capital assets, net	<u>\$ 1,232,160</u>	<u>\$ 1,204,743</u>	<u>\$ 1,186,104</u>

*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.

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

Source: CAFRs

PENINSULA CORRIDOR JOINT POWERS BOARD
 OPERATING INFORMATION – CAPITAL ASSETS (in thousands)
 FISCAL YEARS 2004 THROUGH 2013

2010	2009	2008	2007	2006	2005	2004
\$ 652,968	\$ 596,170	\$ 582,783	\$ 496,553	\$ 375,566	\$ 338,487	\$ 224,440
280,201	275,326	254,537	254,201	253,033	253,754	239,667
121,037	118,197	117,507	23,549	22,743	17,978	17,813
693	726	815	717	685	305	238
<u>1,054,899</u>	<u>990,420</u>	<u>955,642</u>	<u>775,020</u>	<u>652,027</u>	<u>610,525</u>	<u>482,158</u>
(186,213)	(150,369)	(131,156)	(100,573)	(75,766)	(56,312)	(40,317)
(101,159)	(88,499)	(76,232)	(65,495)	(55,343)	(46,557)	(35,753)
(23,626)	(18,401)	(14,966)	(10,426)	(8,689)	(6,877)	(5,417)
(626)	(656)	(621)	(474)	(378)	(262)	(199)
-	-	(2,963)	(2,770)	(2,578)	(2,385)	(2,193)
<u>(311,624)</u>	<u>(257,925)</u>	<u>(225,938)</u>	<u>(179,738)</u>	<u>(142,754)</u>	<u>(112,393)</u>	<u>(83,878)</u>
226,893	226,893	226,893	210,962	210,962	210,962	210,964
177,959	173,488	151,197	250,919	282,583	200,597	259,424
8,000	8,000	8,000	8,000	8,000	8,000	8,000
<u>412,852</u>	<u>408,381</u>	<u>386,090</u>	<u>469,881</u>	<u>501,545</u>	<u>419,559</u>	<u>478,387</u>
<u>\$ 1,156,127</u>	<u>\$ 1,140,876</u>	<u>\$ 1,115,794</u>	<u>\$ 1,065,163</u>	<u>\$ 1,010,818</u>	<u>\$ 917,691</u>	<u>\$ 876,667</u>

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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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PENINSULA CORRIDOR JOINT POWERS BOARD
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

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: Unmodified

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:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
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)

Dollar threshold used to distinguish between type A and type B programs: \$803,571

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 4, 2013, 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 EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Expenditures
Federal Transit Cluster:			
Department of Transportation Federal Transit Administration			
Federal Transit-Capital Improvement Grants (Sec 5309)	20.500		
Capital Improvement (Fund # 2228)		CA-05-0209	\$ 231,859
Capital Improvement (Fund # 2229)		CA-02-0218	80,191
Track, Signal/Communication, Station Rehab (Fund # 2231)		CA-05-0238	1,888,065
Track, Signal/Communication Rehab (Fund # 2233)		CA-05-0242	1,021,431
Track, Vehicle, Signal/Communication Rehab (Fund # 2234)		CA-05-0251	1,742,297
Track, Signal/Communication & Vehicle Rehab (Fund # 2235)		CA-05-0262	<u>3,279,858</u>
Program Subtotal	20.500		<u>8,243,701</u>
Federal Transit-Formula Grants (Urbanized Area Formula Program (Sec 5307)	20.507		
Capital Improvement (Fund #2133)		CA-90-Y246	1,581,566
Capital Improvement (Fund #2137)		CA-90-Y312	431,875
Capital Improvement (Fund #2145)		CA-90-Y592	38,380
Track, Signal & Station Rehab & ADA Enhancement (Fund #2149)		CA-90-Y696	588,483
ARRA - Track, Bridge, Signal & Bike Improvements (Fund #2151)		CA-96-X022	251,867
Station Upgrades (Fund #2154)		CA-90-Y761	305,053
Station,Signal, Communication & Rolling Stock Rehab (Fund #2156)		CA-90-Y788	651,220
Track, Bridge, Vehicle Rehab & Prevent Maint. (Fund #2162)		CA-90-Y895	255,869
Rehab Revenue Vehicles and Prevent Maint. (Fund #2169)		CA-90-Y944	<u>12,552</u>
Program Subtotal	20.507		<u>4,116,865</u>
Total Federal Transit Cluster			<u>12,360,566</u>
Department of Transportation Federal Highway Administration			
Public Transportation Research			
Caltrain Transit Asset Management System (Fund #2726)	20.514	CA-26-0056	<u>393,949</u>
Program Subtotal	20.514		<u>393,949</u>
Highway Planning and Construction (Federal-Aid Highway Program)	20.205		
Bridge Replacement (Fund #2508)		BRLO-6170 (023)	291,520
Bridge Replacement (Fund #2509)		BRLO-6170 (021)	335,843
Bridge Replacement (Fund #2510)		BRLO-6170 (022)	236,891
Bridge Rehab from Federal Highway Bridge Replacement Funds (Fund #2512)		STPLZ-6170(026)	<u>659,480</u>
Program Subtotal Direct Programs	20.205		<u>1,523,734</u>
Total Department of Transportation Federal Highway Administration			<u>1,917,683</u>
Department of Homeland Security			
Rail and Transit Security Grant Program - California Emergency Management Agency	97.075		
FY08 TSGP (Transit Security Grant) (Fund #2809)		2008-RL-T8-K111	<u>247,966</u>
Total Department of Homeland Security	97.075		<u>247,966</u>
Pass-through Funding from the California Department of Transportation			
ARRA-Station Improvement Project (Fund #2511)	20.319	75FRA0002	258,734
Community Based Overlay Signal System/Positive Train Control System Project (Fund #2514)		FR-HSR-0037-11-01-01	<u>12,000,747</u>
Total Pass-through Funding from the California Department of Transportation	20.319		<u>12,259,481</u>
Total Expenditures of Federal Awards			<u>\$ 26,785,696</u>

PENINSULA CORRIDOR JOINT POWERS BOARD
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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.

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Peninsula Corridor Joint Powers Board (The Board), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2013. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Maze & Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California
October 4, 2013

**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

Report on Compliance for Each Major Federal Program

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 JPB's major federal programs for the year ended June 30, 2013. The JPB's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the JPB's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the JPB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the JPB's compliance.

Opinion on Each Major Federal Program

In our opinion, the JPB complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the JPB as of and for the year ended June 30, 2013, and have issued our report thereon dated October 4, 2013, which contained an unmodified on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Maze & Associates

Pleasant Hill, California
October 4, 2013

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