PENINSULA CORRIDOR JOINT POWERS BOARD

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006

Prepared by the Finance Division

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December 29, 2006

To the Executive Director, Board of Directors of the Peninsula 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, 2006

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Peninsula Corridor Joint Powers Board (JPB) for the fiscal year July 1, 2005 through June 30, 2006. This transmittal letter provides a summary of the JPB's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the JPB's financial results may refer to the Management's Discussion and Analysis portion of the Financial Section.

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

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

PROFILE OF THE ORGANIZATION

Purpose

The Peninsula Corridor Joint Powers Board is responsible for Caltrain passenger 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 143 years. The rail line currently extends from San Francisco 77 miles south to Gilroy, serving 31 stations. Spanning San Francisco, San Mateo and Santa Clara counties, Caltrain provides vital links to multiple transit properties in 19 cities.

Entity

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

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 1987, the City and County of San Francisco, the San Mateo County Transit District and the Santa Clara Valley Transportation Authority 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 Peninsula Corridor Joint Powers Board. Two months later, the JPB purchased the right of way to the rail corridor between San Francisco and San Jose (Mainline) and perpetual trackage rights between San Jose and Gilroy (Gilroy Extension) from Southern Pacific.

Contributions from the three 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 San Mateo County Transit District. The JPB owns title to the right of way property in the County of Santa Clara including the Palo Alto Station to the Tamien Station in San Jose. The County of Santa Clara owns the balance of the trackage rights south to Gilroy.

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

Governance

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

Administration

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

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

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

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

The *Executive Department* is responsible for directing and overseeing all activities and for supporting the Board of Directors.

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

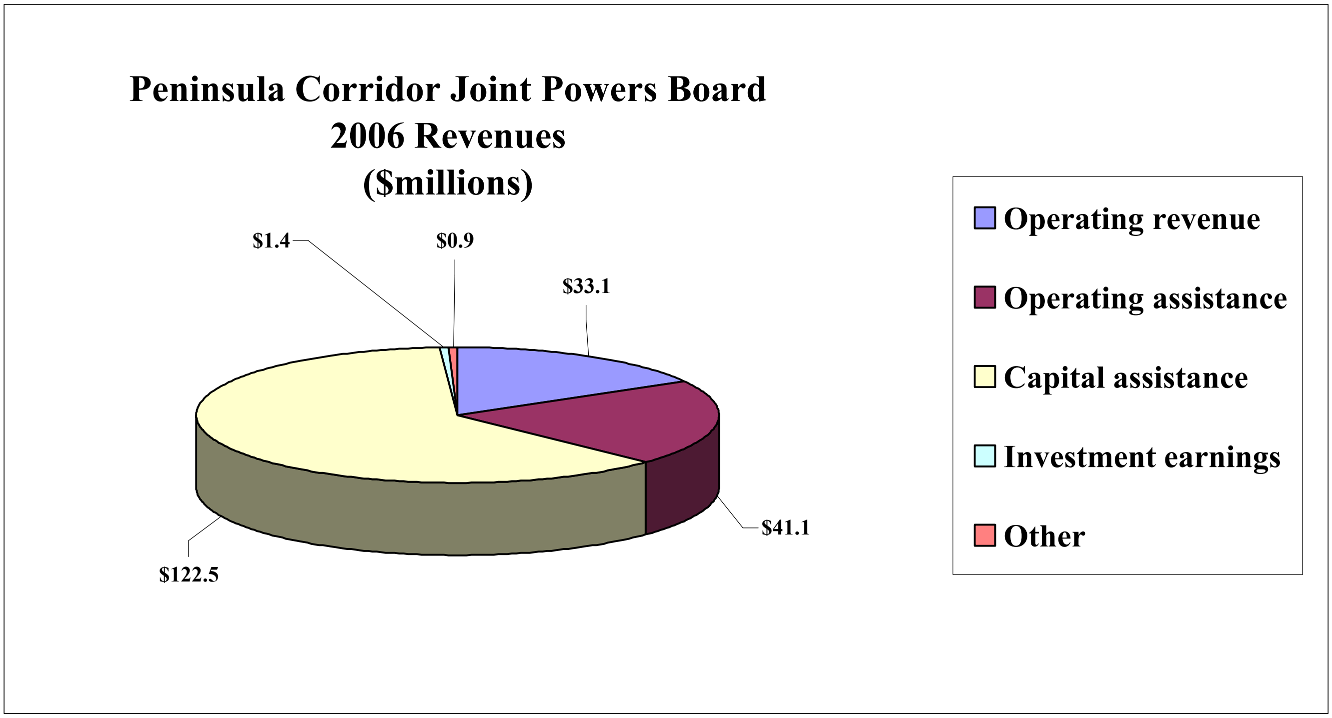
The Operations Division is responsible for the overall management of Caltrain, including contractor oversight, right of way activities, fare and schedule administration, employer and other shuttles, service planning and quality assurance, and accommodations for mobility-impaired persons pursuant to the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

Budgetary Control

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

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

The JPB employs the same basis and principles for both budgeted and actual revenues and expenditures, with the exceptions that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization established pursuant to joint powers legislation, the JPB is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The pie charts in this letter show actual results for the major revenue and expense categories of the 2006 budget.



STRATEGIC PLANNING

Goals

The JPB strategic plan is an integral element in a regional effort to roll back current traffic congestion levels and restore the traditional quality of life in the member agency counties. In this regard, the JPB is committed to the on-going improvement of Caltrain service for patrons and their communities. While the JPB experienced ridership decline during the weakened economy of the past few years, the long-term forecast continues to anticipate steady economic and population growth with the consequent effects on all transportation modes.

Acknowledging that the JPB must overcome financial and other constraints to succeed in this effort, the strategic plan identifies five attainable goals and associated objectives for Caltrain's next decade. Performance measures and clear policies guide the way, as the Board of Directors and staff monitor progress periodically and update the plan as necessary.

The five goals are:

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

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

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

System Expansion and Connections
The following expansion projects are under consideration for longer-term implementation:

- *San Francisco Downtown Extension:* This project will link Caltrain with San Francisco's Transbay Terminal providing Caltrain patrons with easier access to the center of the city.
- *Electrification:* This project consists of converting the existing Caltrain diesel engine mode of propulsion to electric power and rehabilitating the Caltrain right of way to accommodate electrification. Twenty-three electric locomotives will replace existing diesel locomotives.
- *Dumbarton Bridge Rail Service*: Construction of a rail corridor alongside the Dumbarton Bridge spanning the southern portion of San Francisco Bay will improve commute times between the East Bay and the San Francisco Peninsula. The San Mateo County Transportation Authority included support for this project in its renewed Measure A expenditure plan approved by San Mateo County voters at the November 2004 general election.

CURRENT PROGRAMS

Rail Service Levels and the Baby Bullet Express

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

The initial ten Baby Bullet trains brought service to 86 trains per weekday, increasing total ridership approximately 25 percent and affecting boarding patterns throughout the line. Shortly after the end of fiscal year 2005, the JPB dramatically redesigned its service plan to add additional Baby Bullet express service and there are now 96 total weekday trains. The early results from these changes project potential ridership and fare revenue gains of another 25 percent for fiscal year 2006. Furthermore, the increase in weekday trains was accomplished within the parameters of the existing operations contract with Amtrak without an increase in staffing levels or rolling stock.

Centralized Equipment Maintenance and Operations Facility

After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations rail yard in November 2004 that will consolidate several geographically separate facilities, increasing efficiency for maintenance personnel.

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 each other's systems. These connections are with the San Mateo County Transit District (July 1992), the San Francisco Municipal Railway (January 1998), the Santa Clara Valley Transportation Authority (December 1999) and the Bay Area Rapid Transit District (June 2003).

- *Samtrans Bus Service:* Passengers may connect to Samtrans at most stations in San Mateo County.
- *Muni Light Rail*: Passengers may connect to the City of San Francisco Municipal Railway's (Muni) light rail N-Judah line at the San Francisco Caltrain Station.
- *Millbrae/SFO*: Passengers may connect to Bay Area Rapid Transit (BART) at the Millbrae Intermodal Station. This connection is expected to serve 2,200 additional weekday riders eventually. While initial results have been significantly under the projection, the airport connection has experienced steady growth since inception.
- *VTA Light Rail*: Caltrain passengers may connect to this Santa Clara Valley Transportation Authority (VTA) system at the Mountain View Station, the Diridon and Tamien Stations in San Jose. The Versona Light Rail Line opened for revenue service on October 1, 2005 and added 4.2 miles to the existing 36.9 mile VTA Light Rail System.
- *VTA Bus Service:* Passengers may connect to VTA buses at most stations in Santa Clara County.
- The Translink program is a regional fare collection program that allows passengers to purchase combination tickets for various Bay Area transit systems. This system currently is being tested at several Caltrain stations.

Caltrain Shuttles

During fiscal year 2006, Caltrain operated 49 routes shuttling Caltrain riders to local employers and average ridership grew by 148 per day over the prior year to 4,539 persons per weekday.

Project 2025

A current area of focus is Project 2025 which was undertaken to identify specific capital improvement plans and actions to implement the strategic vision which was approved by the Joint Power Board in 2004. The strategic vision offers the opportunity for Caltrain to define itself as a preferred transportation service provider in an environment where the limits of the railroad infrastructure will soon be reached. Recent experience reinforces an interesting dynamic showing ridership elasticity is not affected by fare increases and gasoline price decreases. As a result, the project anticipates that there is additional latent demand yet to be captured and that adding system capacity during peak hours with increased frequency and reduced travel time will attract a significant number of new riders.

To deliver the service levels necessary to meet projected demand, infrastructure improvement is needed. Furthermore, electrification is planned for Caltrain to serve the Transbay Terminal, and to accommodate a future high-speed rail system. Prior to electrification a decision will need to be made with regard to two different paths for electrified equipment, electric locomotives with traditional passenger cars or individually powered electrical vehicles which are currently not compliant with US railroad rules and regulations. These two rolling stock alternatives bring with them fundamental differences in performance and risk.

Project 2025 identifies the key strategic decision that must be made during the next two years – selection of the preferred electrified vehicle technology and identifying significant issues that must be addressed in near term.

Americans with Disabilities (ADA) Programs
Currently 24 stations are wheelchair accessible to help passengers with mobility-impairments board the rail cars. Lift usage continued to increase from the prior year. In addition, one rail car on each train is equipped with lifts to enhance accessible service further.

Bikes-on-Board
During 2005, local trains accommodated up to 64 bicycles. The Baby Bullet limited stop express service began in June 2004 that accommodates 16 bicycles. Approximately 2,000 bicyclists ride Caltrain on an average weekday.

Fare Administration
In September 2003, Caltrain implemented a "proof-of-payment" fare collection system that has increased internal controls and freed conductors from onboard ticket sales, allowing them to focus more on customer service and safety concerns. The new system also corrected inequities in fare administration by standardizing zone distances and rates. The JPB is the first rail system in the nation to migrate from on-board ticket sales (the "hat check" system) to on-board proof-of-payment. Since this change, automated ticket vending machines on station platforms now account for most Caltrain ticket sales while mail and ticket office sales represent dwindling shares.

Parking
In 2006, JPB implemented Pay By Space (PBS) parking in 8 stations and more are targeted for PBS installation.

In addition, Caltrain has initiated a program to incorporate parking into the existing ticket vending machines. The pilot program was launched in mid-August at four stations to demonstrate the feasibility of the electronic parking collection system. Customer who parks a car in the lot will pay for parking by selecting the numbered space at the ticket vending machine and no longer needs to return to the car to display a parking receipt. This pilot program is currently under consideration for further deployment to other stations.

As a result of Caltrain's ongoing station improvement program, the Hillsdale station was reconfigured in 2006 to accommodate Baby Bullet Train service. In the process, 154 parking spaces were added to facilitate parking and access to the north bound platform. This addition increased JPB's system wide parking spaces to 7,379. The success of the Baby Bullet trains has continued to challenge the parking resources and temporary off-station spaces have been arranged for the highest demand stations. Continued efforts are being made to provide more parking to meet increased demand.

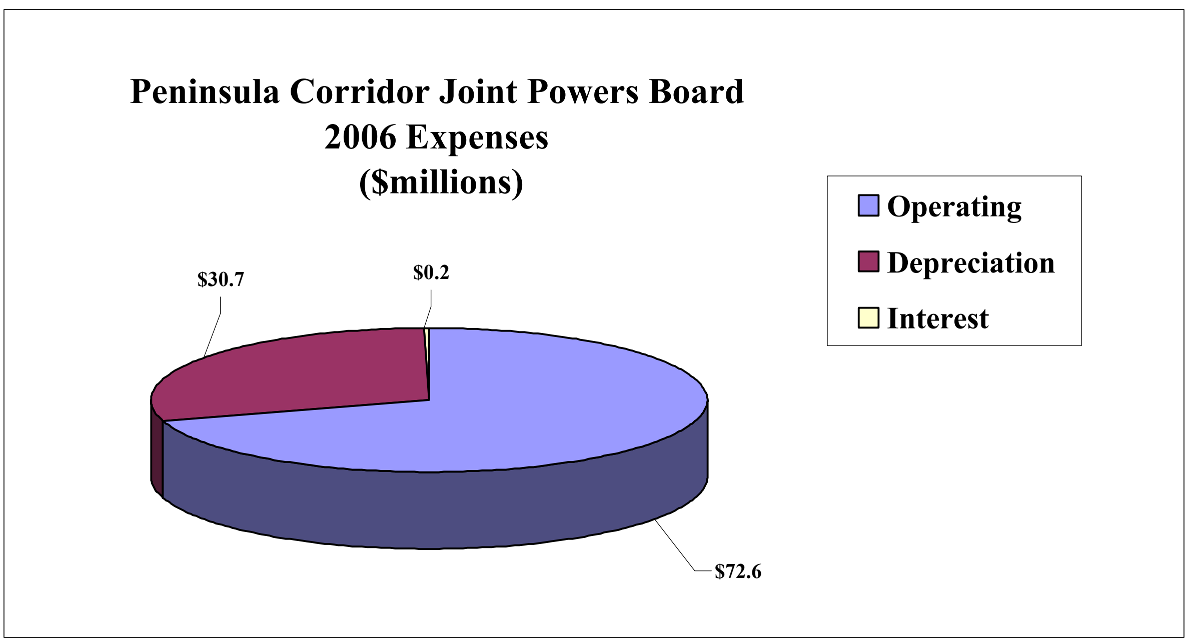
FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The three counties that comprise the Caltrain service area enjoy consistent ranking among the most affluent in California. With significant employment in diverse industries such as computer technology, biotechnology, finance, education, conventions, tourism, agriculture, and manufacturing, the JPB's service area does not depend on any one sector for its prosperity. Despite the recent economic downturn and a slower recovery than in other regions, particularly in the technology sector, this broad base promises long-term stability and job growth for San Mateo residents.

A few years ago, the economy began to slow, as unemployment rose, real estate prices fell and consumers curtailed spending. Although real estate prices recovered quickly, jobs continued to be lost and retail sales declined into 2004. Caltrain ridership also reflected this trend, declining moderately. In the last half of 2004, modest employment and consumer spending increases signaled the beginning of economic recovery and continued during fiscal year 2005 and 2006. However, this recovery remains slower than in other regions of California and the nation.

Despite the favorable long-term outlook for the general economy and the ridership success of the Baby Bullet express service, the JPB faces a significant structural deficit in its operating budget. Member agencies have held their financial support for operations essentially level or had modest increases since the economic downturn and are reluctant to fund the full cost of the current operation, due to budget pressures of their own. In fiscal year 2006, JPB revenues exceeded expenses.



Cash Management

The Board of Directors has adopted an investment policy as prescribed by the State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the JPB pursues a prudent, cash management and investment program to achieve maximum return on all available funds. The JPB's policy is to hold securities to maturity to avoid losses from a potential sale. All of the JPB's unrestricted cash and investments as of June 30, 2006 were held with either the Bank of America or the San Mateo County Treasurer's investment pool. Deposits are insured by the federal depository or covered by collateral.

Risk Management

The JPB retains an independent consultant to conduct an actuarial study every other year and to perform a review of the JPB's risk management programs every five years. The JPB implements the recommendations and coordinates the annual insurance program. Current insurance policies provide public liability coverage to $200 million in excess of the $2 million self-insured retention. For property damage, the coverage limit also is $200 million, with $100 thousand per occurrence self-insured. Staff monitors the program and adjusts reserves throughout the year as warranted.

Pension and other Post-employment Benefits

As mentioned above, the joint powers agreement that created the JPB designated the San Mateo County Transit District to provide staff services in support of the JPB's mission. District staff participates in the Public Employees Retirement System of the State of California, including post-retirement health benefits. However, since the staff supporting the JPB is legally employees of the District, the JPB has no retirement or post-employment benefits obligation except to pay costs based on District policy.

ACKNOWLEDGMENTS AND AWARDS

The Government Finance Officers Association (GFOA) recognized the JPB's 2005 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 2006 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We thank our independent audit firm, Vavrinek, Trine, Day and Company LLP, for its timely and expert guidance in this matter.

The employees of the Peninsula Corridor Joint Powers Board 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 opportunities of the Bay Area and beyond. As the region recovers from the economic downturn of recent years, the JPB expects the continued zeal and dedication of its transit professionals to meet the transportation challenges of the future. A comprehensive annual financial report requires the dedicated effort of many individuals working together as a team. We 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, I wish to thank the Executive Director and the Board of Directors for their interest and support in the development of a strong financial management and reporting system.

Respectfully submitted,

Virginia Harrington

Virginia Harrington
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Penninsula Corridor Joint Powers Board California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

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

President

Executive Director

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JOSE CISNEROS

NATHANIEL FORD

SOPHIE MAXWELL

Representing San Mateo County Transit District:

JIM HARTNETT

JERRY HILL

ARTHUR L. LLOYD

Representing Santa Clara Valley Transportation Authority:

DON GAGE

JOHN MC LEMORE

KEN YEAGER

CITIZENS ADVISORY COMMITTEE

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Surashis Bhattacharya | John Hronowski | Michael Kiesling

San Mateo

Paul Bendix | Gerald Graham | A. Sepi Richardson

Santa Clara

Michael Blackman | Bruce Jenkins | Brian P. Wilfley

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

DIVISION OFFICERS

George Cameron – Chief Administrative Officer

Virginia Harrington – Chief Financial Officer

Chuck Harvey – Chief Operations Officer

Rita Haskin – Chief Communications Officer

Ian McAvoy – Chief Development Officer

SPECIAL ASSISTANT TO THE EXECUTIVE DIRECTOR

Mark Simon

ADMINISTRATIVE & BOARD SUPPORT

Martha Martinez, Manager, Executive/Governing Boards Support

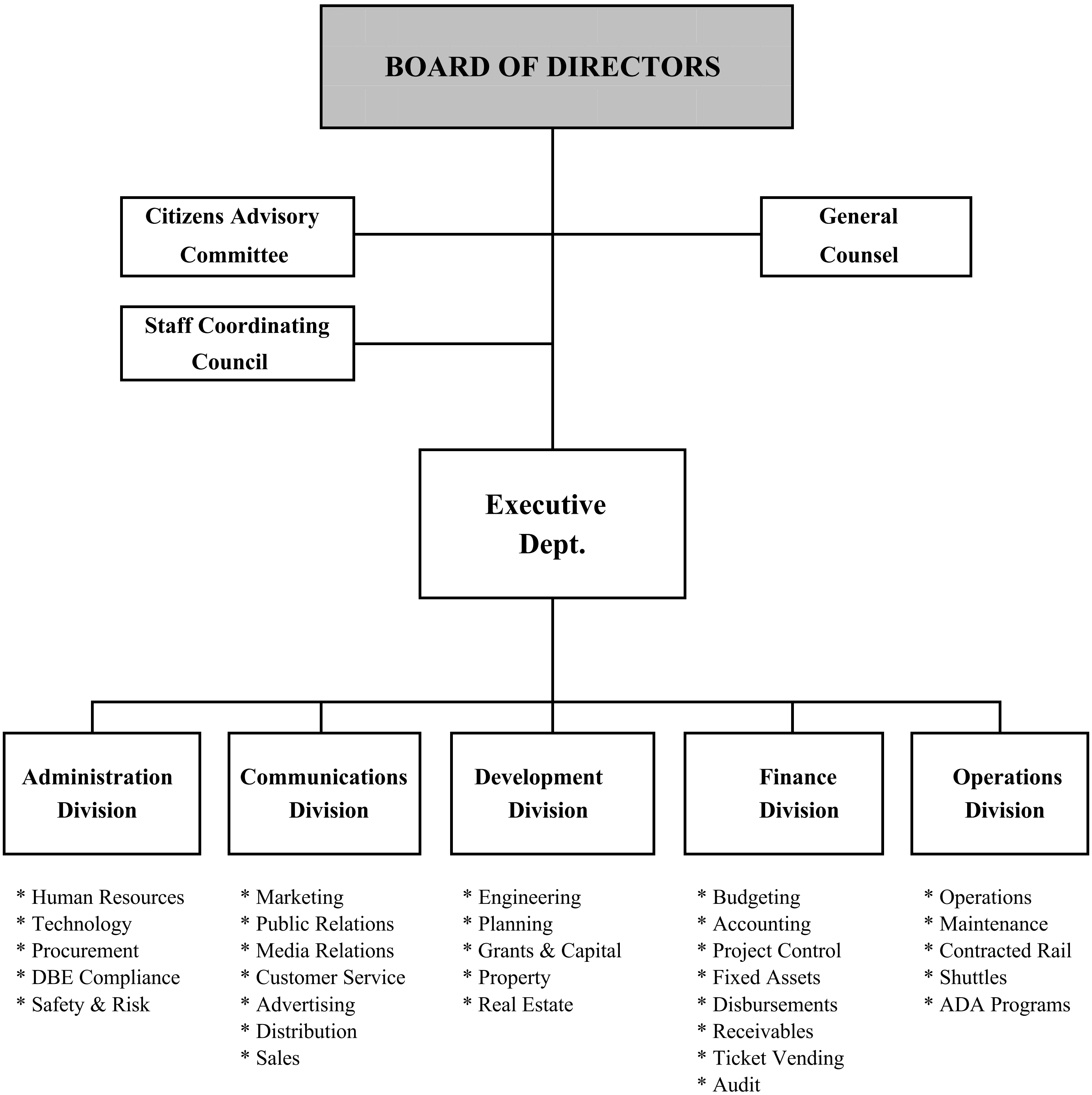
Jennifer Hardie, Administrative/Board Secretary

GENERAL COUNSEL

Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP

David J. Miller, Esq.
Joan Cassman, Esq.

ORGANIZATION CHART




San Mateo County, California
Sacramento
San Francisco
Area of Detail
San Mateo County
Los Angeles
San Diego


Caltrain
COMMUTER RAIL SYSTEM AND CONNECTIONS
San Francisco Bay
Pacific Ocean
CONTRA COSTA COUNTY
ALAMEDA COUNTY
SAN MATEO COUNTY
SANTA CLARA COUNTY

TABLE OF CREDITS

The following individuals contributed to the production of the fiscal year 2006 Comprehensive Annual Financial Report:

Finance:	Jeannie Chen	Senior Accountant
	Donna Fong	Manager, Capital & Grants Accounting
	Éva Goode	Senior Accountant
	Angela Ho	Senior Accountant
	John Ledbetter	Senior Accountant
	Brian Lee	Manager, Treasury
	Rima Lobo	Manager, General Ledger
	Ladi Millard	Manager, Budget
	Angustia Pacumio	Senior Accountant
	David Ramires	Accountant
Audit Firm:	Ahmad Gharaibeh	Audit Manager
	Leonard Danna	Partner

Section II

FINANCIAL

Independent Auditor’s Report

Management's Discussion and Analysis

Basic Financial Statements:

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

Supplementary Information

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

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

The Board of Directors of the
Peninsula Corridor Joint Powers Board

We have audited the accompanying basic financial statements of the Peninsula Corridor Joint Powers Board (the PCJPB), as of and for the fiscal years ended June 30, 2006 and 2005. These financial statements are the responsibility of the management of the PCJPB. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PCJPB as of June 30, 2006 and 2005 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the financial statements, the PCJPB adopted Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement No. 1.*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2006, on our consideration of the PCJPB's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

260 Sheridan Avenue, Suite 440, Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

FRESNO Ÿ LAGUNA Ÿ PALO ALTO Ÿ PLEASANTON Ÿ RANCHO CUCAMONGA

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

Vavrinek Trine Day + Co. LLP

Palo Alto, California
October 13, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the Peninsula Corridor Joint Powers Board (JPB) financial performance provides an overview of the JPB's activities for the fiscal year ended June 30, 2006 with comparisons to the prior fiscal year ended June 30, 2005. 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. All amounts have been rounded to the nearest one hundred thousand dollars and one-tenth of a percent.

FINANCIAL HIGHLIGHTS

- Total assets at June 30, 2006 stand at $1,074.6 million, an increase of $92.6 million or 9.4 percent compared to June 30, 2005 primarily due to increase in capital assets.
- Total liabilities decreased by $3.0 million or 4.8 percent to $59.4 million at June 30, 2006 compared to June 30, 2005. A decrease of $6.0 million for deferred member contribution accounts for most of this result.
- Total operating revenues in 2006 were $33.1 million, an increase of $7.0 million or 26.9 percent compared to 2005 primarily due to fare increase at the beginning of this fiscal year.
- Total operating expenses in 2006 were $72.6 million, an increase of $2.5 million or 3.6 percent over 2005 primarily due to an increase in the cost of contract services related to the Baby Bullet express services and inflationary pressure from fuel costs.
- Non-operating revenue, net of non-operating expenses, increased $0.7 million or 1.7 percent between fiscal years to $43.3 million for 2006. This result was driven by $5.7 million growth in state and local operating assistance, offset with a decrease of $0.7 million interest income and $5.1 of other income combined.
- In 2006, the JPB recognized $122.5 million in capital contributions, an increase of $52.7 million or 75.5 percent from the 2005 amount of $69.8 million. The design and construction of a centralized equipment maintenance operations facility accounted for higher capital contributions in 2006.
- Net assets at June 30, 2006 are $1,015.2 million, up $95.6 million or 10.4 percent from June 30, 2005 as capital assets, net of related debt increased $93.3 million during 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

The *Statement of Net Assets* presents information on assets and liabilities, with the difference between the two reported as *net assets*. Changes in net assets over time may provide an indicator of whether the financial position of the JPB is improving or deteriorating. When both restricted and unrestricted net assets are available for the same purpose, the JPB uses restricted resources only after unrestricted resources are exhausted.

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

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

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

Notes to the Financial Statements

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

Other Information

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

Analysis of Basic Financial Statements

Total assets increased by $92.6 million or 9.4 percent to 1,074.6 million at June 30, 2006 and decreased by $52.6 million or 5.1 percent to $982.0 million at June 30, 2005 from $1,034.6 million at June 30, 2004. Current assets decreased by $0.5 million or 0.8 percent in 2006 to 63.7 million primarily due to lower restricted investments with fiscal agents and by $93.6 million or 59.3 percent in 2005 to 64.2 million primarily due to lower restricted proceeds from grant anticipation notes (GANs) on hand as this program was discontinued during the year.

Offsetting the decrease in current assets, total assets, net of accumulated depreciation increased $93.3 million or 10.2 percent during 2006 to $1,005.4 million and $41.2 million or 4.7 percent during 2005 to $912.1 million.

Investments in capital assets, before netting depreciation, consist of acquisitions and improvements for right of way ($586.5 million or 51.2 percent), rail vehicles ($253.0 million or 22.1 percent), facilities and equipment ($23.4 million or 2.0 percent) and construction in progress ($282.6 million or 24.7 percent). Significant capital projects in-progress include track rehabilitation, station improvement, construction of a centralized equipment maintenance and operational facility (CEMOF), and improvement and replacement of existing bridges and tunnels.

Total liabilities decreased by 3.0 million or 4.8 percent to 59.4 million at June 30, 2006 and $92.4 million or 59.7 percent to $62.4 million at June 30, 2005. Components of the decreases include grant anticipation notes of $9.7 million and deferred member contributions of $6.0 million for capital programs. Offsetting is an increase of $13.0 million in accounts payable and accrued liabilities and deferred revenue of $0.9 million.

Net assets stand at $1,015.2 million at June 30, 2006 and $919.7 million at June 30, 2005, an increase of $95.6 million or 10.4 percent from June 30, 2005 and $39.9 million or 4.5 percent from the June 30, 2004 amount of $879.8 million. Investment in capital assets, net of related debt is $1,008.3 million at June 30 2006, representing 99.3 percent and $915.0 million at June 30, 2005, representing 99.5 percent of the PCJPB's total net assets. There was an increase of $93.3 million or 10.2 percent during 2006 and $41.2 million or 4.7 percent during 2005.

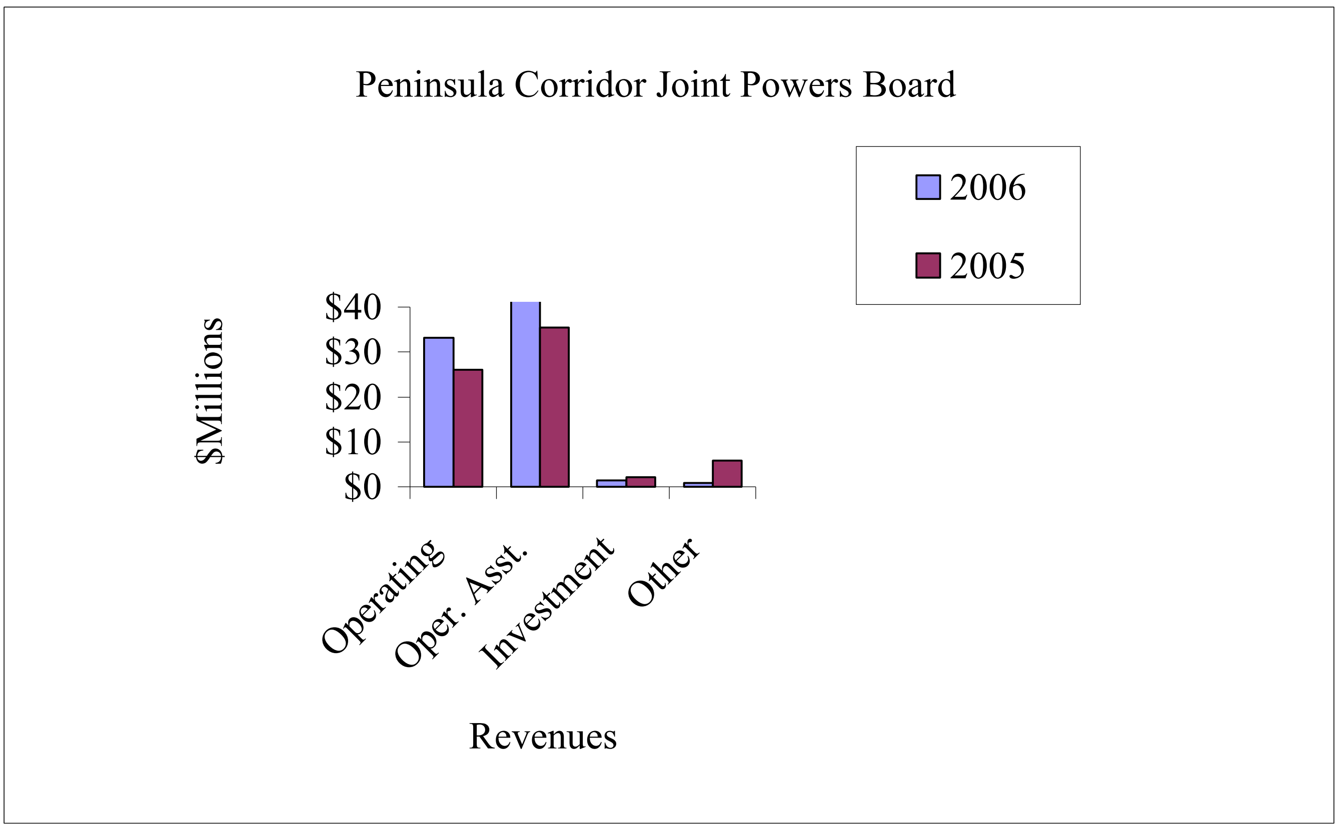
PENINSULA CORRIDOR JOINT POWERS BOARD
NET ASSETS
(In thousands)

	2006	2005	2004
Current assets	$63,684	$64,202	$157,809
Capital assets, net of depreciation	1,005,396	912,076	870,860
Other assets	5,537	5,743	5,947
Total assets	**$1,074,617**	**$982,021**	**$1,034,616**
Current liabilities	$55,977	$58,739	$150,960
Long-term liabilities	3,391	3,625	3,851
Total liabilities	**$59,368**	**$62,364**	**$154,811**
Net assets:			
Invested in capital assets, net of related debt	$1,008,343	$915,004	$873,775
Restricted	173	150	-
Unrestricted	6,733	4,503	6,030
Total net assets	**$1,015,249**	**$919,657**	**$879,805**

Revenues

Operating revenues grew to $33.1 million in 2006, a $7.0 million or 26.9 percent increase over 2005 principally due to the successful Baby Bullet express service introduced in June 2004 and the fare increases in fiscal year 2006.

Compared to 2005, non-operating revenue in 2006 remained the same at $43.5 million. State and local operating assistance represented 94.4 percent of this total and grew $5.7 million or 16.1 percent to $41.1 million, with member agency contributions providing $36.7 million and grant funding providing $4.4 million. Other income experienced a significant decline between fiscal years, reducing $5.1 million or 108.0 percent. Interest income decreased by $0.7 million or 33.6 percent to $1.4 million. The decrease is mostly due to the discontinuation of the Grant Anticipation Notes (GANs) program.



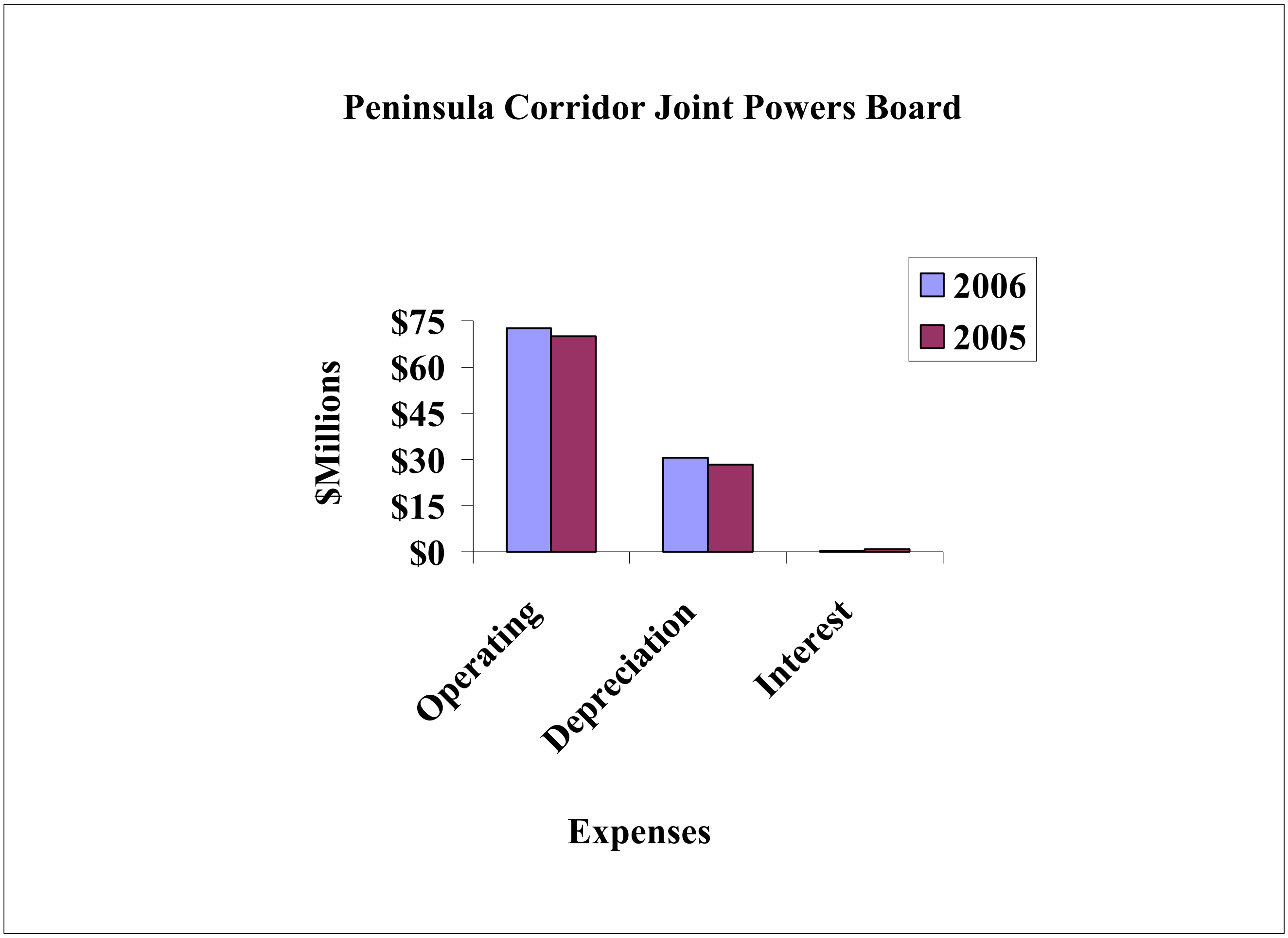
Expenses

Compared to 2005, total operating expenses in 2006 increased by $2.5 million or 3.6 percent to $72.6 million. The largest component of 2006 operating expenses is rail operator contract services at $48.7 million which represents 67.0 percent of the total. Compared to 2005, contract services increased $1.5 million or 3.2 percent primarily due to the Baby Bullet express service. Constrained supply drove diesel fuel costs to record heights during the year as 2006 fuel expense of $10.4 million eclipsed the 2005 amount by $3.0 million or 40.5 percent.

Non-operating expenses consist of one item, interest expenses, which decreased $0.7 million or 78.1 percent to $0.2 million in 2006 compared to 2005.

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

	2006	2005	2004
Operating revenues			
Passenger fares	$ 28,845	$ 21,968	$ 18,427
Parking, shuttle and pass revenues	4,164	3,676	3,718
Other	114	448	80
Total operating revenue	33,123	26,092	22,225
Operating expenses			
Contract Services	48,662	47,164	44,236
Insurance	3,098	3,607	3,251
Fuel	10,350	7,365	4,571
Parking, shuttle and pass revenues	3,332	3,754	4,430
Professional Service	544	1,660	862
Wages and benefits	4,081	4,224	4,270
Utilities and Supplies	790	857	808
Maintenance services	314	259	30
Temporary services, rent and other	1,406	1,208	1,153
Total Operating expense	72,577	70,098	63,611
Operating loss before depreciation and amortization	(39,454)	(44,006)	(41,386)
Depreciation and amortization	30,743	28,515	21,215
Operating loss	(70,197)	(72,521)	(62,601)
Non-operating revenues			
State and local operating assistance	41,125	35,393	33,057
Rental Income	1,310	1,184	1,147
Interest Income	1,411	2,126	1,443
Other Income	(378)	4,750	1,278
Total Non-Operating revenues	43,468	43,453	36,925
Non-operating expenses	(199)	(908)	(1,484)
Net loss before capital contributions	(26,928)	(29,976)	(27,160)
Capital Contributions	122,520	69,828	122,602
Change in net assets	95,592	39,852	95,442
Net assets - Beginning of the year	919,657	879,805	781,895
Prior Period Adjustment	-	-	2,468
Net assets - Ending of the year	**$ 1,015,249**	**$ 919,657**	**$ 879,805**



Capital Projects

The JPB incurred capital expenditures and recognized related revenue in the form of capital contribution of $122.5 million in fiscal year 2006, which is $52.7 million or 75.5 percent more than in fiscal year 2005. The 2006 capital sources consist of federal grants ($66.6 million or 54.4 percent), state grants ($2.1 million or 1.6 percent), and local governments including the three member agencies ($53.8 million or 43.9 percent).

Following is a summary of the JPB's major capital expenditures for 2006:

- Design/construction of a centralized equipment maintenance operations facility ($44.6 million).
- Design/construction of bridge and tunnel improvements and replacements ($12.1 million).
- Interim Outboard Platform at various Caltrain stations ($8.2 million).
- Preliminary engineering cost for grade separation along the Caltrain line ($6.4 million)
- Station improvements ($3.4 million).
- System-wide track rehabilitation and signal work ($3.6 million).

- Close circuit security camera project (1.9 million).
- Preliminary engineering for electrifying the Caltrain line ($1.4 million).
- Separate Head End Power Units for locomotives ($1.2 million).

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

Debt

At the end of fiscal year 2006, the JPB had $2,590,000 in outstanding debt, a decrease of $9,925,000 or 79.3 percent from the end of fiscal year 2005. This decrease is due to the scheduled principal payment of $225,000 on the 1999 farebox revenue bonds and the maturity/redemption of $9,700,000 on the October 4, 2004 Grant Anticipation Notes which was issued at prevailing rates for a term of up to 365 days. As of the end of fiscal year 2006, the JPB had issued an aggregate amount of $326.1 million in GANs since program inception. More information on the JPB's long-term debt activity appears in Note 9 and 10 to the financial statements.

Economic Factors

In the last half of fiscal year 2001, the signs of economic contraction began to appear. As unemployment increased, consumers curtailed spending and real estate values fell. Caltrain ridership and fare revenue declined significantly as higher unemployment translated into fewer commuters.

Consumer confidence has rebounded as evidenced by increased retail spending and demonstrated by increased sales tax receipts. In addition to the effects of a positive economy, the attraction of the Baby Bullet express trains and innovative scheduling has driven Caltrain ridership beyond the levels enjoyed prior to the economic downturn.

Despite the renewed ridership success, Caltrain, like the majority of public transit systems, still requires additional operating assistance to cover costs. The JPB still faces financial challenges as the partner agencies have difficulty funding operating deficits. The JPB continues to pursue operating efficiencies and strategies for identifying new sources of operating funds.

Requests for Information

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

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 & 3)	$ 30,118,014	$ 38,229,833
Due from other governmental agencies	26,229,919	12,200,495
Receivables from member agencies (Note 15)	1,278,147	1,223,738
Accounts receivable - other, net of allowance (Note 2)	2,612,673	1,651,742
Inventory (Note 2)	641,038	819,369
Prepaid expenses	2,607,064	39,816
Restricted investments with fiscal agents (Notes 2 & 3)	196,815	10,036,986
Total current assets	63,683,670	64,201,979
NONCURRENT ASSETS		
Capital Assets		
Right of way	210,962,152	210,962,152
Right of way improvements	375,566,363	338,487,077
Rail vehicles	253,032,655	253,754,324
Facilities and equipment	22,743,066	17,978,267
Office equipment	684,950	304,875
Construction in progress (Note 2)	282,582,937	200,596,524
Total	1,145,572,123	1,022,083,219
Less accumulated depreciation	(140,176,018)	(110,007,538)
Capital assets - net (Note 6)	1,005,396,105	912,075,681
Bond issuance costs, net (Note 2)	114,334	128,627
Other assets, net (Notes 4 & 5)	5,422,327	5,614,835
Total noncurrent assets	1,010,932,766	917,819,143
TOTAL ASSETS	$ 1,074,616,436	$ 982,021,122

See accompanying notes to the financial statements.

	2006	2005
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 23,161,015	$ 10,207,273
Interest payable	21,372	187,070
Self-insurance claims liabilities (Note 11)	671,376	1,377,600
Deferred member contributions (Notes 2 & 15)	28,944,944	34,955,443
Deferred revenue (Note 2)	2,877,875	2,027,686
Current portion of farebox revenue bonds payable (Note 9)	235,000	225,000
Grant anticipation notes payable (Note 10)	-	9,700,000
Other	65,635	58,385
Total current liabilities	55,977,217	58,738,457
NONCURRENT LIABILITIES		
Farebox revenue bonds payable - long-term (Note 9)	2,355,000	2,590,000
Self-insurance claims liabilities - long-term (Note 11)	1,035,456	1,035,456
Total noncurrent liabilities	3,390,456	3,625,456
Total liabilities	59,367,673	62,363,913
NET ASSETS		
Invested in capital assets, net of related debt	1,008,342,766	915,004,143
Restricted for debt service	172,728	149,916
Unrestricted	6,733,269	4,503,150
Total net assets	$ 1,015,248,763	$ 919,657,209

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Passenger fares	$ 28,844,742	$ 21,968,325
Parking, shuttle and pass revenues	4,164,271	3,675,930
Other	113,554	447,730
Total operating revenues	33,122,567	26,091,985
OPERATING EXPENSES:		
Contract services	48,662,044	47,163,780
Insurance	3,097,634	3,607,200
Fuel	10,350,456	7,364,963
Parking, shuttle and pass expenses	3,331,503	3,754,205
Professional services	543,728	1,659,895
Wages and benefits (Notes 2 & 15)	4,081,130	4,223,488
Utilities and supplies	790,185	857,037
Maintenance services	313,678	259,442
Temporary services, rent and other	1,406,036	1,207,872
Total operating expenses	72,576,394	70,097,882
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(39,453,827)	(44,005,897)
DEPRECIATION AND AMORTIZATION	(30,743,490)	(28,514,634)
OPERATING LOSS	(70,197,317)	(72,520,531)
NONOPERATING REVENUES (EXPENSES):		
State and local operating assistance (Note 7)	41,124,985	35,392,578
Rental income	1,309,681	1,183,801
Interest income	1,411,321	2,126,118
Interest expense	(198,671)	(908,231)
Other income (expense)	(378,023)	4,749,690
Total nonoperating revenues, net	43,269,293	42,543,956
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(26,928,024)	(29,976,575)
CAPITAL CONTRIBUTIONS (Note 12)	122,519,578	69,828,376
CHANGE IN NET ASSETS	95,591,554	39,851,801
NET ASSETS, Beginning of year	919,657,209	879,805,408
NET ASSETS, End of year	$ 1,015,248,763	$ 919,657,209

See accompanying notes to the financial statements.

PENINSULA CORRIDOR JOINT POWERS BOARD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares, passes and other	$ 33,735,121	$ 26,179,601
Payments to vendors for services	(53,258,553)	(67,932,700)
Payments to employees	(4,081,280)	(4,092,655)
Payments for insurance claims and premiums	(6,386,300)	(3,099,913)
Net cash used in operating activities	(29,991,012)	(48,945,667)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	49,498,050	36,721,379
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions	94,385,040	65,632,602
Property additions	(123,871,406)	(69,538,046)
Proceeds from notes issuances	-	9,700,000
Principal paid on bonds	(225,000)	(220,000)
Principal paid on grant anticipation notes	(9,700,000)	(93,900,000)
Interest and fiscal charges paid	(350,076)	(1,527,998)
Net cash provided by (used in) capital and related financing activities	(39,761,442)	(89,853,442)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of restricted investments	9,931,186	92,915,771
Purchase of restricted investments with fiscal agents	(91,015)	(9,700,000)
Interest received	2,302,414	8,059,609
Net cash provided by (used in) investing activities	12,142,585	91,275,380
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,111,819)	(10,802,350)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,229,833	49,032,183
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 30,118,014	$ 38,229,833
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (70,197,317)	$ (72,520,531)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	30,743,490	28,514,634
Effect of changes in:		
Receivables	(32,412)	21,391
Receivables from member agencies	396,829	973,651
Prepaid expenses	(2,388,917)	8,541
Accounts payable, accrued liabilities and claims liabilities	11,239,328	(5,887,023)
Deferred revenue	240,737	66,225
Other liabilities	7,250	(122,555)
Net cash used in operating activities	$ (29,991,012)	$ (48,945,667)

See accompanying notes to the financial statements.

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INDEX TO THE NOTES ***Pages***

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

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NOTE #1 - ORGANIZATION

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

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

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

The PCJPB is governed by a nine-member Board representing the three Member Agencies. The Agreement establishing the PCJPB expired in 2001. Subsequent to 2001, the member agencies participated on a year-to-year basis, with withdrawal requiring a one-year notice.

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES

B. New Pronouncements

GASB Statement No. 42 – In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to measure, recognize, and disclose the effects of capital asset impairments in their financial statements when it occurs. This statement also clarifies and establishes accounting requirements for insurance recoveries, including those associated with capital asset impairment. This statement did not have an impact on the PCJPB financial statements.

GASB Statement No. 43 – In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement is not effective until June 30, 2007. This statement is not expected to have a significant impact on the financial statements of the PCJPB.

GASB Statement No. 44 – In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement No. 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The PCJPB adopted the provisions of GASB Statement No. 44 during fiscal year 2006.

GASB Statement No. 45 – In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. The PCJPB has not determined its effect on the financial statements.

GASB Statement No. 46 - In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. This statement did not have an impact on the PCJPB financial statements.

GASB Statement No. 47 - In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined Other Postemployment Benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. The PCJPB has not determined its effect on the financial statements.

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Basis of Accounting

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

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

D. Cash Equivalents

The PCJPB 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 PCJPB carries various receivable balances for services and rent. At June 30, 2006 and 2005, accounts receivable – other, is net of an allowance for doubtful accounts of $425,053 and $485,884, respectively.

F. Inventory

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

G. Investments

Investment transactions are recorded on the trade date. Investments in nonparticipating interest-earning investment contracts (guaranteed investment contracts) are reported at cost, and all other investments are at fair value. Fair value is defined as the amount that the PCJPB could reasonably expect to receive for an investment in a current sale from a willing buyer and seller and is based on current market prices.

H. Restricted Investments With Fiscal Agents

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Property and Equipment

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

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

J. Depreciation

Depreciation is 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

K. Construction in Progress

Construction in progress consists of the following projects at June 30, 2006 and 2005:

	2006	2005
Track Improvements	$ 147,386,571	$ 117,078,000
Maintenance Facilities	74,184,062	37,922,843
Station Improvements	33,361,921	20,549,725
Other Projects	16,690,864	13,325,886
ADA Compliance Project	7,747,289	7,944,025
Rolling Stock	2,716,034	3,425,585
Ticket Vending Machines	496,196	350,460
Total	$282,582,937	$200,596,524

L. Bond Issuance Costs

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

NOTE #2 - SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Deferred Member Contributions

Deferred member contributions are the result of advances from the Member Agencies. To the extent that these amounts exceed committed funds (see Note 15), they may be refunded to the Member Agencies or used to offset future required contributions.

N. Deferred Revenue

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

O. Member Agency Operating 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 fixed assets or matching capital grants are recognized as capital contributions as capital expenditures are made.

P. Federal Operating Assistance

Federal operating assistance is recorded as revenue when approved by the granting authority.

Q. Wages and Benefits

Personnel costs of the PCJPB represent allocated costs of SamTrans' 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 SamTrans (see Note 15).

R. Operating and Nonoperating revenues

The PCJPB distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from directly providing services in connection with the PCJPB'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.

S. Use of Estimates

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

NOTE #3 - CASH AND CASH EQUIVALENTS

Cash and investments as of June 30, 2006 and 2005 are classified in the statement of net assets as follows:

	2006	2005
Cash and cash equivalents	$30,118,014	$38,229,833
Restricted investments with fiscal agents	196,815	10,036,986
	$30,314,829	$48,266,819

Cash and investments as of June 30, 2006 and 2005 consist of the following:

	2006	2005
Cash on hand	$ 549,367	$ 441,088
Deposits with financial institutions	(3,585,675)	(659,310)
Investments	33,351,137	48,485,041
	$ 30,314,829	$ 48,266,819

NOTE #3 - CASH AND CASH EQUIVALENTS, Continued

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

The table below identifies the investment types that are authorized for the PCJPB by the California Government Code or the PCJPB's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the PCJPB'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 PCJPB, rather than the general provisions of the PCJPB's investment policy.

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

Investments Authorized by Debt Agreements

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

NOTE #3 - CASH AND CASH EQUIVALENTS, Continued

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will 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 PCJPB manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer 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 PCJPB monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. With respect to this metric, the PCJPB 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 and,
- The weighted average maturity of the portfolio shall not exceed 5 years.

The PCJPB's weighted average maturity at June 30, 2006 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	$ 5,862,686	-
San Mateo County Investment Pool	27,291,636	-
Held by bond trustee:		
Mutual funds	196,815	-
	$ 33,351,137	
Portfolio Weighted Average Maturity		-

The PCJPB's weighted average maturity at June 30, 2005 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
Repurchase Agreements	$ 2,612,182	-
San Mateo County Investment Pool	35,835,873	-
Held by bond trustee:		
Mutual funds	187,416	-
Investment contracts	9,849,570	0.05
	$ 48,485,041	
Portfolio Weighted Average Maturity		0.01

NOTE #3 - CASH AND CASH EQUIVALENTS, Continued

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosures	Rating as of June 30, 2006 Not Rated
Repurchase Agreements	$ 5,862,686	N/A	$ 5,862,686	$ -
San Mateo County Investment Pool	27,291,636	N/A	-	27,291,636
Held by bond trustee:				
Mutual funds	196,815	N/A	-	196,815
	$ 33,351,137		$ 5,862,686	$ 27,488,451

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosures	Rating as of June 30, 2005 Not Rated
Repurchase Agreements	$ 2,612,182	N/A	$ 2,612,182	$ -
San Mateo County Investment Pool	35,835,873	N/A	-	35,835,873
Held by bond trustee:				
Money market funds	187,416	N/A	-	187,416
Mutual funds	9,849,570	N/A	-	9,849,570
	$ 48,485,041		$ 2,612,182	$ 45,872,859

NOTE #3 - CASH AND CASH EQUIVALENTS, Continued

Concentration of Credit Risk

The investment policy of the PCJPB contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the PCJPB's total investments are as follows:

There were no investments exceeding the 5% threshold as of June 30, 2006. As of June 30, 2005, the investments in one issuer that exceeded 5% were as follows:

Issuer	Investment Type	Reported Amount
AIG	Investment contracts	$ 9,849,570

Custodial Credit Risk

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

As of June 30, 2006 and 2005, the PCJPB had ($3,585,675) and ($659,310) of deposits with financial institutions recorded on the financial statements which included excess bank balances of $114,825 and $230,179, respectively. These excess balances are uninsured and uncollateralized because the cash balance is over the Federal Depository Insurance limits.

NOTE #3 - CASH AND CASH EQUIVALENTS, Continued

Investment in San Mateo County Investment Pool

The PCJPB had investments in the San Mateo County Treasurer's Investment Pool (the Pool) at June 30, 2006 and 2005 of $27,291,636 and $35,835,873, respectively. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the pool. Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accrued discounts, accrued interest and realized gains and losses, net of expenses, are apportioned to participants on a quarterly basis. This method differs from the fair value method used to value investments as unrealized gains or losses are not apportioned to pool participants. PCJPB's investments in the Pool are stated at fair value, available upon demand and considered cash equivalents.

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

NOTE #4 - GILROY EXTENSION

The PCJPB acquired the Gilroy Extension through contributions from the California Transportation Commission and VTA. The perpetual trackage rights to the Gilroy Extension are recorded at cost of $8,000,000 as other assets. The rights are amortized over a period of forty-two years. As of June 30, 2006 and 2005, accumulated amortization related to these trackage rights totaled $2,577,674 and $2,385,165, respectively.

NOTE #5 - CONTRIBUTED ASSETS FROM CALTRANS

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

On April 4, 1996, PCJPB's Board approved a resolution accepting transfer of rolling stock and station sites subject to certain terms and conditions outlined in the resolution. However, the actual transfer of these assets was delayed due to a disagreement between Caltrans and PCJPB over who would assume responsibility for liabilities attributable to the environmental condition of certain Caltrain station sites (see Note 13 – Commitment and Contingencies).

NOTE #5 - CONTRIBUTED ASSETS FROM CALTRANS, Continued

The transfer of rolling stock to PCJPB was completed in December 1996, and the transfer of station sites was completed in May 1997. The rolling stock and station sites transferred were recorded at their appraised value as contributed capital in the amount of $106,710,000 and $60,432,365, respectively. Station sites consist principally of land and were capitalized to right-of-way.

NOTE #6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	July 1, 2005	Additions	Deletions	June 30, 2006
Capital assets not being depreciated:				
Right of way	$ 210,962,152	$ -	$ -	$ 210,962,152
Construction in progress	200,596,524	98,130,595	(16,144,182)	282,582,937
Total Nondepreciable Capital Assets	411,558,676	98,130,595	(16,144,182)	493,545,089
Other capital assets:				
Right of way improvements	338,487,077	37,079,285	-	375,566,362
Rail vehicles	253,754,324	178,331	(900,000)	253,032,655
Facilities and equipment	17,978,267	4,764,800	-	22,743,067
Office equipment	304,875	380,075	-	684,950
Total Depreciable Capital Assets	610,524,543	42,402,491	(900,000)	652,027,034
Less accumulated depreciation for:				
Right of way improvements	(56,311,906)	(19,453,800)	-	(75,765,706)
Rail vehicles	(46,556,549)	(9,169,009)	382,498	(55,343,060)
Facilities and equipment	(6,877,179)	(1,811,741)	-	(8,688,920)
Office equipment	(261,904)	(116,428)	-	(378,332)
Total Accumulated Depreciation	(110,007,538)	(30,550,978)	382,498	(140,176,018)
Capital Assets, Net	$ 912,075,681	$109,982,108	$(16,661,684)	$1,005,396,105

NOTE #6 - CAPITAL ASSETS, Continued

Capital asset activity for the year ended June 30, 2005, was as follows:

	July 1, 2004	Additions	Deletions	June 30, 2005
Capital assets not being depreciated:				
Right of way	$ 210,963,552	$ -	$ (1,400.00)	$ 210,962,152
Construction in progress	259,423,812	70,135,962	(128,963,250)	200,596,524
Total Nondepreciable Capital Assets	470,387,364	70,135,962	(128,964,650)	411,558,676
Other capital assets:				
Right of way improvements	224,440,332	114,090,854	(44,109)	338,487,077
Rail vehicles	239,666,690	14,640,039	(552,405)	253,754,324
Facilities and equipment	17,813,244	165,023	-	17,978,267
Office equipment	237,543	67,332	-	304,875
Total Depreciable Capital Assets	482,157,809	128,963,248	(596,514)	610,524,543
Less accumulated depreciation for:				
Right of way improvements	(40,317,278)	(15,994,628)	-	(56,311,906)
Rail vehicles	(35,752,767)	(10,803,782)	-	(46,556,549)
Facilities and equipment	(5,416,809)	(1,460,370)	-	(6,877,179)
Office equipment	(198,558)	(63,346)	-	(261,904)
Total Accumulated Depreciation	(81,685,412)	(28,322,126)	-	(110,007,538)
Capital Assets, Net	$870,859,761	$170,777,084	$ (129,561,164)	$ 912,075,681

NOTE #7 - OPERATING ASSISTANCE

A. *State and Local Operating Assistance*

Member Agencies provide funding to the PCJPB. 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, 2006 and 2005 were:

	2006	2005
SamTrans - Operating/Administrative	41.91%	41.98%
VTA - Operating/Administrative	40.28%	40.34%
CCSF - Operating/Administrative	17.80%	17.68%

In addition, during fiscal year 2000, the Member Agencies agreed to equally share the net costs of operating the SBC Ballpark service. In fiscal years 2006 and 2005, the Member Agencies contributed a total of $642,260 in each year.

Local and state operating assistance amounts included in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2006 and 2005 were:

	2006	2005
Member Agency local funds	$ 36,691,759	$ 34,472,194
Assembly Bill 434 operating assistance	1,021,199	882,785
Other	3,412,027	37,599
Total	$ 41,124,985	$ 35,392,578

NOTE #8 - CAPITAL ASSISTANCE

Capital expenditures are primarily funded by state and federal grants. 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 and the Farebox Capital Fund. Each Member Agency is responsible for an equal share of these funds. Member Agencies contributed $710,000 and $1,010,000 to the Capital Contingency Fund for each of the years ended June 30, 2006 and 2005. Of the Capital Contingency Fund, $660,000 was contributed by the Member Agencies for Mainline services and $50,000 was contributed by the VTA for the Gilroy Extension. The unexpended amounts are shown in Deferred Member Contributions (See Note 15).

NOTE #8 - CAPITAL ASSISTANCE, Continued

B. <u>Federal and State Grants</u>

At June 30, 2006, the PCJPB has nineteen grants in process with the FTA that provide federal funds for capital projects. Budgeted capital additions for the year ended June 30, 2006 applicable to these projects are $83,858,845. The related federal participation is $68,221,004.

The PCJPB has receivables of $16,416,834 and $4,974,226 at June 30, 2006 and 2005, 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 PCJPB has receivables of $1,398,118 and $686,262 at June 30, 2006 and 2005, respectively, for qualifying capital project expenditures under various state grants, which is also included in Due From Other Governmental Agencies.

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

NOTE #9 - FAREBOX REVENUE BONDS PAYABLE

In October 1999, the PCJPB issued farebox revenue bonds in the amount of $3,820,000 to finance the acquisition of electrical power units for locomotives utilized for the Caltrain commuter rail service. These bonds, with interest rates ranging from 4 to 5.375 percent, are limited obligations of the PCJPB, and are payable from and secured by a pledge of its farebox revenues. Interest payments are due on April 1 and October 1 of each year. The bonds mature on October 1 of each year through October 1, 2014.

Activity for the year ended June 30, 2006 is as follows:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006	Amounts Due within One Year
Farebox Revenue Bonds	$ 2,815,000	$ -	$ 225,000	$ 2,590,000	$ 235,000

Activity for the year ended June 30, 2005 is as follows:

	Balance at July 1, 2004	Additions	Reductions	Balance at June 30, 2005	Amounts Due within One Year
Farebox Revenue Bonds	$ 3,035,000	$ -	$ 220,000	$ 2,815,000	$ 225,000

NOTE #9 - FAREBOX REVENUE BONDS PAYABLE, Continued

Annual principal and interest payments are as follows:

Year Ending June 30:	Principal	Interest	Total
2007	$ 235,000	$ 128,233	$ 363,233
2008	250,000	117,658	367,658
2009	260,000	106,158	366,158
2010	270,000	93,938	363,938
2011	285,000	80,978	365,978
2011-2015	1,290,000	173,438	1,463,438
Total	$ 2,590,000	$ 700,403	$ 3,290,403

NOTE #10 - GRANT ANTICIPATION NOTES PAYABLE

In October 1999, the PCJPB's governing board authorized a limit of $123,500,000 in total aggregate principal amounts of grant anticipation notes. In June 2000, the governing board increased this limit to $222,500,000. In October 2002, the governing board further increased the PCJPB's principal limit not to exceed $453,500,000.

Under this program, the PCJPB is able to issue grant anticipation notes at prevailing interest rates for periods of maturity not to exceed 365 days from the date of issuance of each series. Interest on each series of notes is payable upon maturity and is calculated on the basis of a 360-day year. The notes are secured by grant funds relating to the series issued, by investments held by the trustee in the principal and interest accounts, by investment earnings with respect to the principal, interest, project and cost of issuance accounts. The notes are also secured by a subordinate pledge of the PCJPB's farebox revenues.

During fiscal year 2006, the PCJPB had the following grant anticipation notes activity (in thousands):

Issue Closing Date	Principal	Term	Interest Rate	Balance at July 1, 2005	Issued	Redeemed	Balance at June 30, 2006
10/4/04	$ 9,700	365 days	2.39%	$ 9,700	$ -	$ 9,700	$ -

NOTE #10 - GRANT ANTICIPATION NOTES PAYABLE, Continued

During fiscal year 2005, the PCJPB had the following grant anticipation notes activity (in thousands):

Issue Closing Date	Principal	Term	Interest Rate	Balance at July 1, 2004	Issued	Redeemed	Balance at June 30, 2005
9/4/03	$ 36,300	365 days	1.45%	$ 36,300	$ -	$ 36,300	$ -
11/20/03	36,000	365 days	1.37%	36,000	-	36,000	-
5/4/04	21,600	365 days	1.76%	21,600	-	21,600	-
10/4/04	9,700	365 days	2.39%	-	9,700	-	9,700
Total	$ 103,600			$ 93,900	$ 9,700	$ 93,900	$ 9,700

NOTE #11 - SELF-INSURANCE

Insurance

The PCJPB 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 PCJPB is self-insured for a portion of its public liability and property damage liability. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2006.

Type of Coverage	Self-Insurance (in aggregate)	Excess Coverage (in aggregate)
Public Liability	Up to $2,000,000 per occurrence	Up to $200,000,000 per occurrence
Property Damage	Up to $100,000 per occurrence	Up to $200,000,000 per occurrence

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

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

NOTE #11 - SELF-INSURANCE, Continued

Changes in the balances of self-insured claims liabilities for public liability and property damage for the year ended June 30, 2006 and 2005 are as follows:

	2006	2005
Self-insured claims liabilities, Beginning of Year	$ 2,413,056	$ 1,905,769
Incurred claims and changes in estimates	342,539	536,770
Claim payments and related costs	(1,048,763)	(29,483)
Total Self-Insured Claims Liabilities	1,706,832	2,413,056
Less current portion	(671,376)	(1,377,600)
Noncurrent Portion	$ 1,035,456	$ 1,035,456

NOTE #12 - CAPITAL CONTRIBUTIONS

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

Depreciation on assets acquired with capital contributions is included in the statement of revenues, expenses and changes in net assets. Capital contributions earned for the year ended June 30, 2006 and 2005 are as follows:

	2006	2005
Contributions from the Federal government	$ 66,646,701	$ 40,932,031
Contributions from the State	2,047,336	7,852,499
Contributions from local governments	53,825,541	21,043,846
Total Capital Contributions	$ 122,519,578	$ 69,828,376

NOTE #13 - COMMITMENT AND CONTINGENCIES

A. Contract with Amtrak

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

Total expenses billed to the PCJPB by Amtrak for operating the rail service for the years ended June 30, 2006 and 2005 are recorded as Contract Services in the statement of revenues, expenses and changes in net assets.

NOTE #13 - COMMITMENT AND CONTINGENCIES, Continued

B. Diesel Fuel Contract

In July 2003, the PCJPB awarded a five-year contract to Golden Gate Petroleum at an estimated amount of $20,089,500. Fuel costs incurred under the contract for the year ended June 30, 2006 and 2005 were $10,350,456 and $7,364,963, respectively.

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

The PCJPB contracted with Shimmick Construction Company Inc. /Obayashi Corporation Joint Ventures for the construction of the CEMOF contract for $56,445,519. Notice to proceed with construction was given July 5, 2005 with completion expected at the end of 2007. The work consists of constructing an equipment maintenance and storage facility and other improvements on the west side of the mainline tracks including: the shop building, yard tracks, train washer, access roads, storage building, oil/water separator, and drum storage for the Centralized Equipment Maintenance and Operations Facility.

D. Environmental Remediation

During the year ended June 30, 1997, PCJPB approved an agreement with Caltrans providing for transfer to PCJPB of various station facilities ("the stations") (See Note 5). As part of this agreement, PCJPB and Caltrans established a cost sharing arrangement with respect to liabilities that may arise from the environmental condition of certain stations.

PCJPB agreed to take title "as is" under a cost sharing arrangement, and provide indemnity protection to Caltrans, for those station sites posing little risk of environmental liability. As owner, PCJPB assumed liability for and clean up of any hazardous materials that may be subsequently discovered on these station sites. Both PCJPB and Caltrans agreed to share the costs of environmental remediation of certain higher risk "designated stations" for a period of approximately ten years ending December 31, 2006. During this period, the PCJPB will bear the first $200,000 in clean up costs for each higher risk designated station, with a maximum aggregate exposure of $1.6 million. Caltrans will bear the second $200,000 in clean up costs for each higher risk designated station, also with a maximum aggregate exposure of $1.6 million. These reciprocal commitments will apply regardless of whether contamination is found to have occurred prior or subsequent to the PCJPB assumption of operating responsibility for Caltrain and assumption of control of the station sites and other assets in July 1992.

E. Litigation

As of June 30, 2006 and 2005, PCJPB 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 litigation are outstanding for which the PCJPB cannot determine the ultimate outcome and resulting liability, if any. However, the PCJPB's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the PCJPB's financial position.

NOTE #13 - COMMITMENT AND CONTINGENCIES, Continued

F. Contingency

On July 31, 2006, the Peninsula Corridor Joint Powers Board was notified that the Peninsula Corridor Joint Powers Board Grant Anticipation Notes, Series 2004 A and the Peninsula Corridor Joint Powers Board Grant Anticipation Notes, Series B had been selected for routine audit by the Internal Revenue Service

NOTE #14 - DEFERRED LEASE PROCEEDS

A. 1996 Lease-Leaseback

In fiscal year 1997, PCJPB entered into agreements to transfer a leasehold interest in seventy-three passenger cars and twenty locomotives (collectively, the Equipment) to an outside third party entity. The transaction took on the form of a lease of the above mentioned Equipment to the entity and a simultaneous sublease wherein the PCJPB leased back the Equipment from the entity. The PCJPB received net proceeds of $3,790,396, representing the difference between the prepayment of certain rental obligations made at closing by the outside third party entity under the lease and the calculated net present value of the future sublease obligation. PCJPB has no further continuing financial obligations under this agreement as it has been restructured as described in paragraph C below. The Equipment remains on the books of the PCJPB and its original cost is being depreciated to operations over the original useful life determined at the date of acquisition. The net proceeds were recorded as deferred revenue and were being amortized to income over a thirty-year period.

The PCJPB, in 2002, restated beginning net assets by reflecting the unamortized portion of the net proceeds referred to above as earned.

B. 2001 Sale-Leaseback

In fiscal year 2001, PCJPB entered into agreements to transfer the tax ownership of twenty rail cars and three locomotives (collectively, the Equipment) to an outside third party entity. The transaction took on the form of a lease of the Equipment to the entity and a simultaneous sublease wherein the PCJPB leased back the Equipment from the entity. The PCJPB received net proceeds of $6,243,784, representing the difference between the agreed-upon fair market value of the Equipment and the calculated net present value of the future sublease obligation. Title to the Equipment remains on the books of the PCJPB. The net proceeds were recorded as deferred revenue and were being amortized to income over a thirty-year period. The purchase option date is January 2025.

The PCJPB, in 2002, restated beginning net assets by reflecting the unamortized portion of the net proceeds referred to above as earned.

NOTE #14 - DEFERRED LEASE PROCEEDS, Continued

C. 2002 Sale-Leaseback

In fiscal year 2002, PCJPB entered into agreements to: (1) terminate a portion of the 1996 Lease-Leaseback transaction (described in paragraph A above) with respect to passenger cars and locomotives and to enter into an agreement to transfer tax ownership of such passenger cars and locomotives to an outside third party entity and (2) to restructure the 1996 Lease Leaseback noted above with respect to the remaining passenger cars and locomotives (the "Restructuring"). The Restructuring was essentially similar in form to the original 1996 Lease Leaseback transaction. The PCJPB received net proceeds from both agreements of $3,133,091, representing the difference between the recalculated agreed-upon fair market value of the Equipment and the recalculated net present value of the future sublease obligation. Title to the Equipment remains on the books of the PCJPB. The net proceeds have been recorded as Lease Leaseback income for the year ended June 30, 2002. The purchase option date is 2026.

D. Retirement of Equipment under Safe Harbor Lease

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

E. Tax Contingency

On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2005 was signed into law. Pursuant to this Act, Code Section 4965 that imposes a federal excise tax (the "New Excise Tax") on the net income or proceeds of certain types of leasing transaction entered into by tax-exempt entities, including states and their political subdivisions such as the PCJPB. Some of the PCJPB's leasing transactions could be subject to the New Excise Tax are described in Note 14 items A through D. The U.S. Treasury Department and the Internal Revenue Service are in the process of drafting regulations that will further clarify which transactions are subject to the New Excise Tax and the calculation of the New Excise Tax. The PCJPB is evaluating the New Excise Tax and is awaiting these regulations. At this time, the magnitude of the PCJPB's liability under the New Excise Tax is unclear. Accordingly, the PCJPB is unable to determine at this time whether the imposition of the New Excise Tax will have a material adverse effect on its financial statements

NOTE #15 - RELATED PARTIES

A. *Operating Expenses paid to SamTrans*

SamTrans serves as the managing agency of the PCJPB, providing administrative personnel and facilities (see Note 1). SamTrans is compensated based on actual costs incurred. Beginning in fiscal year 1999, PCJPB is also required to compensate SamTrans for administrative overhead. Amounts due to SamTrans as managing agency at June 30, 2006 and 2005 total $1,742,145 and $778,487, respectively, and are included in accrued liabilities. Total expenses billed to the PCJPB by SamTrans which are included as operating expenses in the accompanying statement of revenues, expenses and changes in net assets are as follows:

	2006	2005
Wages and benefits	$ 4,081,130	$ 4,223,488
Rent, utilities, supplies and other	628,023	546,040
Total	$ 4,709,153	$ 4,769,528

B. *Receivables from Member Agencies*

The PCJPB is owed amounts from Member Agencies for insurance premiums, grants and prior obligations. The balances at June 30, 2006 and 2005 are as follows:

	2006	2005
SamTrans	$ 599,211	$ 118,785
VTA	7,154	1,029,776
CCSF	671,782	75,177
Total	$ 1,278,147	$ 1,223,738

NOTE #15 - RELATED PARTIES, Continued

C. Deferred Member Contributions

The PCJPB recognizes Member Agency advances as operating assistance or contributed capital when expenses are incurred or assets are purchased, respectively. Accordingly, some Member Agency payments are classified as Deferred Member Contributions. The balances at June 30, 2006 and 2005 are as follows:

	2006	2005
SamTrans	$ 16,924,145	$ 18,797,650
VTA	7,451,357	9,128,630
CCSF	4,569,442	7,029,163
Total	$ 28,944,944	$ 34,955,443
Committed for:		
Capital project development	$ 240,000	$ 240,000
Centralized traffic control system	1,055	1,114
Farebox capital	240,866	1,478,536
Capital contingency fund	2,476,388	2,199,571
Capital contribution Member's local match	18,557,031	23,606,623
Total Committed	21,515,340	27,525,844
Uncommitted funds:		
SamTrans	7,329,865	7,329,860
VTA	(17,349)	(17,349)
CCSF	117,088	117,088
Total Uncommitted	7,429,604	7,429,599
Total	$ 28,944,944	$ 34,955,443

PENINSULA CORRIDOR JOINT POWERS BOARD
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES –
COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2006

	Budget (Unaudited)	Actual	Variance Positive/ (Negative)
OPERATING REVENUES:			
Passenger fares	$ 28,977,000	$ 28,844,742	$ (132,258)
Parking, shuttle and pass revenues	3,486,636	4,164,271	677,635
Other	282,500	47,410	(235,090)
Total operating revenues	32,746,136	33,056,423	310,287
OPERATING EXPENSES:			
Contract services	49,410,333	48,662,044	748,289
Insurance	3,359,146	3,097,634	261,512
Fuel	9,168,385	10,350,456	(1,182,071)
Parking, shuttle and pass expenses	3,680,231	3,331,502	348,729
Professional services	740,360	543,728	196,632
Wages and benefits	4,207,642	4,079,945	127,697
Utilities and supplies	1,045,945	790,185	255,760
Maintenance services	579,800	313,677	266,123
Temporary services, rent and other	1,359,136	1,407,221	(48,085)
Total operating expenses	73,550,978	72,576,392	974,586
Operating loss	(40,804,842)	(39,519,969)	1,284,873
NONOPERATING REVENUES (EXPENSES):			
State and local operating assistance	38,650,770	41,124,986	2,474,216
Rental income	1,175,800	1,309,681	133,881
Interest income	919,520	1,650,740	731,220
Interest expense	(131,530)	(198,671)	(67,141)
Debt service principal payment	(235,000)	(231,667)	3,333
Other income	950,657	(311,880)	(1,262,537)
Total nonoperating revenues	41,330,217	43,343,189	2,012,972
Net Income	525,375	3,823,220	3,297,845
CAPITAL OUTLAY:			
Capital contingency fund	710,000	710,000	-
Less member agency contributions	(710,000)	(710,000)	-
Capital expenditures	(80,757,843)	(103,281,884)	(22,524,041)
Less capital grants	80,757,843	122,519,578	41,761,735
Net capital (outlay) grants	-	19,237,694	19,237,694
EXCESS OF EXPENSES AND CAPITAL OUTLAY OVER OPERATING REVENUES AND NONOPERATING REVENUES	$ 525,375	$ 23,060,914	$ 22,535,539

NOTE #1 - BUDGETARY BASIS OF ACCOUNTING

The PCJPB 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 with 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 expense per GAAP is not budgeted and budgeted capital expenditures is not recorded as an expense per GAAP.

NOTE #2 - RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

Excess of expenses and capital outlay over operating revenues and non-operating revenues		$ 23,060,914
Reconciling Items		
Debt service principal payment	$ 231,667	
GASB 31 unrealized loss	(239,421)	
Depreciation and amortization of assets	(30,743,490)	
Capital expenditures	103,281,884	
Subtotal- Total Reconciling Items		72,530,640
Change in net assets, GAAP basis		$ 95,591,554

Section III

STATISTICAL

Financial Trends

- Net Assets and Change in Net Assets

Revenue Capacity

- Revenue Base and Revenue Rate
- Principal Revenue Payers

Debt Capacity

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

Demographics and Economic Information

- Population and Income
- Unemployment Rates
- Principal Employers

Operating Information

- Fare Box Recovery and Miles
- Employees
- Capital Assets

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL TRENDS – NET ASSETS AND CHANGE IN NET ASSETS
FY 1997 through FY 2006 (In thousands)

	2006	2005	2004	2003
OPERATING REVENUES:				
Passenger fares	$ 28,845	$ 21,968	$ 18,427	$ 19,430
Parking, shuttle and pass revenues	4,164	3,676	3,718	3,202
Other	114	448	80	31
Total operating revenues	33,123	26,092	22,225	22,662
OPERATING EXPENSES:				
Contract services	48,662	47,164	44,236	41,305
Insurance	3,098	3,607	3,251	2,538
Fuel	10,350	7,365	4,570	3,761
Parking, shuttle and pass expenses	3,332	3,754	4,430	4,477
Professional services	544	1,660	862	758
Wages and benefits	4,081	4,223	4,270	4,111
Utilities and supplies	790	857	808	1,097
Maintenance services	314	259	30	89
Temporary services, rent and other	1,406	1,208	1,153	1,718
Total operating expenses	72,576	70,098	63,611	59,854
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(39,454)	(44,006)	(41,386)	(37,191)
DEPRECIATION AND AMORTIZATION	30,743	28,515	21,215	15,234
OPERATING LOSS	(70,197)	(72,521)	(62,601)	(52,425)
NON-OPERATING REVENUES (EXPENSES):				
State and local operating assistance	41,125	35,393	33,057	32,193
Lease-leaseback income	-	-	-	-
Federal operating assistance	-	-	-	-
Rental income	1,310	1,184	1,147	1,406
Interest income	1,411	2,126	1,443	2,801
Interest expense	(199)	(908)	(1,484)	(1,028)
Other income	(378)	4,750	1,277	3,294
Total non-operating revenues, net	43,269	42,544	35,440	38,666
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(26,928)	(29,977)	(27,160)	(13,759)
CAPITAL CONTRIBUTIONS	122,520	69,828	122,602	106,093
DEPRECIATION ON FIXED ASSETS ACQUIRED WITH CONTRIBUTED CAPITAL	-	-	-	-
Prior period adjustment	-	-	2,468	-
CHANGES IN NET ASSETS	95,592	39,852	97,910	92,334
Net Asset Components				
Invested in capital assets, net of related debt	1,008,343	915,004	873,775	753,944
Restricted	173	150	-	-
Unrestricted	6,733	4,503	6,030	27,951
NET ASSETS, End of year	$ 1,015,249	$ 919,657	$ 879,805	$ 781,895

Source: PCJPB's prior years Comprehensive Annual Financial Reports

This table shows operating revenues and expenses, non operating revenues and expenses, contributions, depreciation as well as restrictions of our net assets.

PENINSULA CORRIDOR JOINT POWERS BOARD
FINANCIAL TRENDS – NET ASSETS AND CHANGE IN NET ASSETS
FY 1997 through FY 2006 (In thousands)

2002	2001	2000	1999	1998	1997
$ 21,433	$ 22,788	$ 20,863	$ 19,093	$ 18,134	$ 15,987
2,686	2,805	2,666	2,551	1,884	1,924
44	40	33	12	32	38
24,163	25,634	23,561	21,657	20,050	17,949
41,183	41,657	34,401	30,533	30,355	28,747
3,649	3,200	2,787	3,943	2,968	2,869
3,670	4,747	3,381	2,353	2,428	2,713
4,876	4,925	4,648	4,362	3,332	3,242
1,128	1,346	1,162	1,229	871	904
3,718	2,859	2,332	2,027	2,213	2,128
1,091	905	690	892	860	901
171	29	556	236	626	549
2,138	1,715	1,203	1,173	1,123	1,130
61,626	61,384	51,158	46,749	44,776	43,183
(37,463)	(35,751)	(27,598)	(25,092)	(24,726)	(25,234)
9,638	7,238	6,663	6,629	7,674	2,621
(47,101)	(42,988)	(34,260)	(31,722)	(32,400)	(27,855)
34,000	30,622	23,627	23,367	21,755	19,886
3,133	-	-	-	-	-
-	-	11	69	46	4,108
995	914	1,010	803	808	563
3,567	4,995	2,114	85	497	388
(1,248)	(3,562)	(1,176)	(16)	(218)	(108)
151	2,782	2,011	785	1,837	396
40,599	35,751	27,598	25,092	24,726	25,234
(6,502)	(7,238)	(6,663)	(6,629)	(7,674)	(2,621)
84,255	77,377	97,944	-	-	-
-	-	-	6,629	7,674	2,621
7,554	-	-	-	-	-
85,306	70,139	91,281	(0)	0	0
671,881	605,212	532,116	440,834	440,834	440,834
950	3,227	-	-	-	-
16,730	(4,184)	2,000	2,000	2,000	2,000
$ 689,562	$ 604,255	$ 534,116	$ 442,834	$ 442,834	$ 442,834

PENINSULA CORRIDOR JOINT POWERS BOARD
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FY 1997 through FY 2006

Fiscal years ending	2006	2005	2004	2003
Passenger Fares in thousands of dollars	$ 28,845	$ 21,968	$ 18,427	$ 19,430
Revenue Base				
Number of Passengers	10,149	8,121	8,095	8,283
The most popular Travel within any four zones				
Full Adult Fare:				
One-way	$ 6.75	$ 6.50	$ 5.50	$ 5.50
Day Pass	13.50	13.00	11.00	11.00
10-ride	57.50	55.25	46.75	46.75
Monthly Pass	179.00	172.25	145.75	145.75
Senior / Disabled / Youth Fare:				
One-way	$ 3.25	$ 3.25	$ 2.75	$ 2.75
Day Pass	6.75	6.50	5.50	5.50
10-ride	28.75	27.50	23.50	23.50
Monthly Pass	89.50	86.00	73.00	73.00

This table shows passenger fares, number of passengers and each revenue fare structure.

2002	2001	2000	1999	1998	1997
$ 21,433	$ 22,788	$ 20,863	$ 19,093	$ 18,134	$ 15,987
9,942	9,925	8,735	8,622	8,632	8,022
$ 5.25	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.50
N/A	3.50	3.50	3.50	3.50	3.25
43.75	39.75	39.75	39.75	39.75	38.00
136.50	124.00	124.00	124.00	124.00	118.00
$ 2.50	$ 2.25	$ 2.25	$ 2.25	$ 2.25	$ 2.25
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
103.00	93.50	93.50	93.50	93.50	89.25

The Peninsula Corridor Joint Power Board does not have major revenue payers as most of the revenues are derived from passenger fares.

DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS

FY 1997 through FY 2006 (In thousands)

Fiscal Year	Farebox Revenue Bonds	Personal Income	As a % of Personal Income
1997	N/A	N/A	0.000%
1998	N/A	N/A	0.000%
1999	N/A	N/A	0.000%
2000	$ 3,820	$ 41,730,460	0.009%
2001	3,640	39,395,344	0.009%
2002	3,445	36,736,603	0.009%
2003	3,245	36,409,914	0.009%
2004	3,035	38,263,811	0.008%
2005	2,815	39,411,725	0.007%
2006	2,590	40,594,077	0.006%

Personal Income Data is from the U.S. Department of Commerce, Bureau of Economic Analysis, Calendar Year figures.

Data for 2005 and 2006 is based on an estimated 3% annual increase over 2004.

Source: County of San Mateo

This table shows the ability of the PCJPB to issue farebox revenue bonds based on the total personal income for County of San Mateo.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – BONDED DEBT
FY 1997 through FY 2006 (In thousands)

Fiscal Year	Farebox Revenue Bonds	Total Member Contributions	As a % of Total Member Contributions
1997	N/A	N/A	N/A
1998	N/A	N/A	N/A
1999	N/A	N/A	N/A
2000	$ 3,820	$ 22,917	16.7%
2001	3,640	29,800	12.2%
2002	3,445	33,132	10.4%
2003	3,245	31,389	10.3%
2004	3,035	32,174	9.4%
2005	2,815	34,472	8.2%
2006	2,590	48,178	5.4%

In October 1999, the PCJPB issued Farebox Revenue Bonds in the amount of $3,820,000.

This table shows the ability of the PCJPB to issue farebox revenue bonds based on the total Member Contributions from San Mateo County Transit District, Santa Clara Valley Transportation Authority and City and County of San Francisco.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATION
YEAR ENDED JUNE 30, 2006

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

FY 1997 through FY 2006 (In thousands)

	Available Revenue	Debt Service			
Fiscal Year	**Farebox Revenue**	**Principal**	**Interest**	**Total**	**Coverage**
1997	N/A	$ -	$ -	$ -	$ -
1998	N/A	-	-	-	-
1999	N/A	-	-	-	-
2000	20,863	-	120	120	174
2001	22,788	180	175	355	64
2002	21,433	195	167	362	59
2003	19,430	200	159	359	54
2004	18,427	210	151	361	51
2005	21,968	220	141	361	61
2006	28,845	225	132	357	81

Source: PCJPB's prior years Comprehensive Annual Financial Reports

This table shows the relationship between total farebox revenue and total principal and interest payments as well as the PCJPB's ability of to meet its debt obligations.

PENINSULA CORRIDOR JOINT POWERS BOARD
DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
FY 1990, FY 2000 and FY 2005

	1990	2000	2005	% Change 2000-2005
Total Population	649,623	707,161	689,271	-2.5%
Persons Per Household	2.64	2.74	2.71	-1.1%
Mean Household Income	$ 63,672	$ 88,700	$ 101,524	14.5%
Personal Income	$ 18,727	$ 41,512	n/a	n/a
Per Capita Income	$ 28,806	$ 58,644	n/a	n/a
Minority Population:				
Black	35,283	23,778	20,188	-15.1%
Hispanic	114,627	154,708	155,964	0.8%
Asian	109,281	140,313	160,562	14.4%
Native American	2,987	10,658	10,347	-2.9%
Total	262,178	329,457	347,061	5.3%
% of Minority Population to Total Population	40.4%	46.6%	50.4%	8.1%
Population by Age:				
4 years and younger	44,793	45,374	49,797	9.7%
5 to 19 years	113,091	131,912	128,721	-2.4%
20 to 64 years	411,741	441,790	424,122	-4.0%
65 Plus	79,998	88,085	86,631	-1.7%
% of Employed Residents to Total Population	54.0%	55.0%	61.1%	11.1%
% of Residents Working Outside San Mateo County	41.0%	41.0%	40.7%	-0.7%
% of People Commuting to the County San Mateo to Work	36.0%	38.0%	[1]	[1]

Source: United States Bureau of the Census, 1980-2000, adopted by MTC and ABAG and 2005 American Community Survey.

[1] Data not yet available

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

Unemployment Rates for the past 10 years	2006	2005	2004	2003	2002
Unemployment Rates	4.02%	4.55%	5.53%	5.98%	5.06%
	2001	**2000**	**1999**	**1998**	**1997**
	2.98%	2.41%	2.28%	2.52%	3.05%

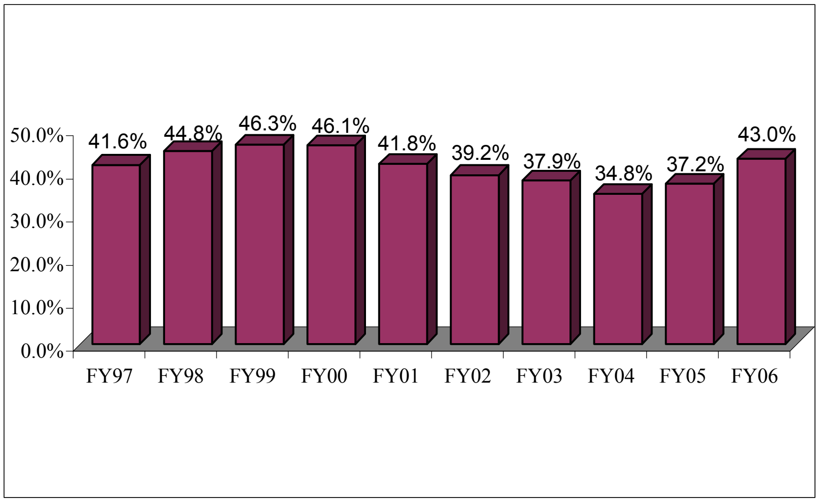
Source: California Labor MarketInfo, Data Library.edd.ca.gov

This table shows the unemployment rates for County of San Mateo.

	2005			1997		
Employers in County of San Mateo	Number of employees	Rank	Percentage of Total County Employment	Number of employees	Rank	Percentage of Total County Employment
United Airlines	10,328	1	2.95%	17,600	1	4.67%
Oracle Corporation	7,000	2	2.00%	5,800	2	1.54%
Genentech Inc.	5,763	3	1.65%	2,670	6	0.71%
County of San Mateo	5,288	4	1.51%	4,154	3	1.11%
Kaiser Permanente	3,992	5	1.14%			
United State Postal Service	2,396	6	0.68%	2,937	4	0.78%
Safeway Inc.	2,140	7	0.61%	1,900	9	0.50%
Applera (Applied Biosystems)	2,000	8	0.57%			
Visa USA	1,901	9	0.54%			
Electronic Arts	1,800	10	0.51%			
Raychem				2,850	5	0.76%
American Airlines				2,400	7	0.64%
Franklin Resources				2,260	8	0.60%
Mill-Peninsula Health				1,802	10	0.48%
Total	42,608		12.16%	44,373		11.79%

Source: County of San Mateo

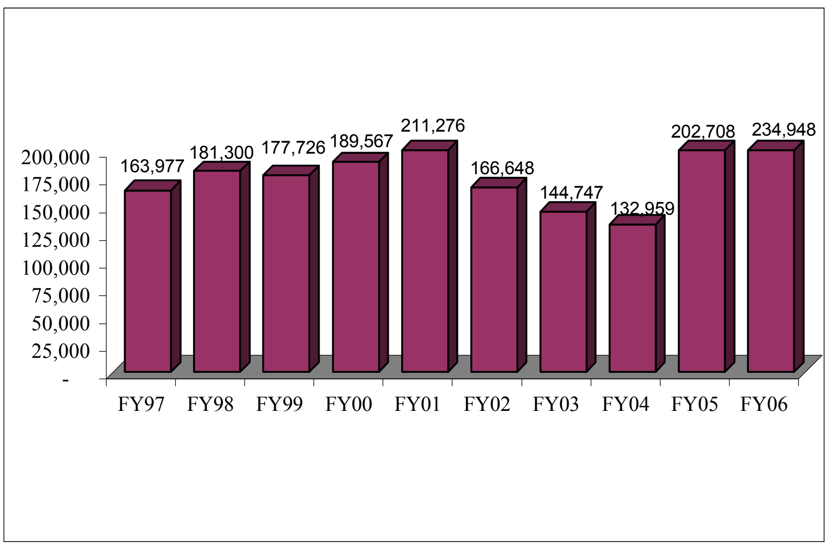
This table shows the top 10 principal employers in County of San Mateo for 2005 and 1997.



FAREBOX RECOVERY

Operating income from patron fares was mandated to cover 40% of applicable operating expenses by fiscal year 97 to receive Prop 116 funding. Starting in fiscal year 96, insurance premiums and loss payments are included in the calculation of the farebox recovery ratio.

Fare box recovery table shows the relationship between total passenger fares and operating expenses.



PASSENGER MILES

(In Thousands)

Weekday passenger miles

Source: PCJPB's National Transportation Database (NTD)

Passenger miles table show the total weekday passenger miles traveled.

PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – EMPLOYEES
FY 2002 through FY 2006

	Authorized Positions				
STAFFING SUMMARY	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
EXECUTIVE	-	-	-	2.25	2.00
ADMINISTRATION	14.05	13.24	7.59	19.51	13.55
COMMUNICATIONS	19.28	19.56	12.55	16.43	24.20
DEVELOPMENT	38.03	41.61	37.01	37.50	30.95
FINANCE	9.60	18.61	15.38	16.95	14.41
OPERATIONS	23.42	13.68	31.59	19.33	15.00
TOTAL EMPLOYEES	**104.38**	**106.70**	**104.12**	**111.97**	**100.11**

Note: Employee counts are for FTEs charged to the Peninsula Corridor Joint Powers Board. Data for 1997 through 2001 was not available.

Source: PCJPB's prior years Comprehensive Annual Financial Reports

This table shows the total full time equivalents by division.

PENINSULA CORRIDOR JOINT POWERS BOARD
OPERATING INFORMATION – CAPITAL ASSETS
FY 1997 through FY 2006 (In thousands)

	2006	2005	2004	2003
Capital Assets Not Being Depreciated				
Right of way	$ 210,962	$ 210,962	$ 210,964	$ 210,964
Construction in progress	282,583	200,597	259,424	180,571
Total Capital Assets, Not Being Depreciated	493,545	411,559	470,387	391,534
Other Capital Assets				
Right of way improvements	375,566	338,487	224,440	214,171
Rail vehicles	253,033	253,754	239,667	208,624
Facilities and equipment	22,743	17,978	17,813	15,520
Office equipment	685	305	238	203
Total Capital Assets, Being Depreciated	652,027	610,525	482,158	438,518
Less Accumulated Depreciation				
Right of way improvements	(75,766)	(56,312)	(40,317)	(29,830)
Rail vehicles	(55,343)	(46,557)	(35,753)	(26,847)
Facilities and equipment	(8,689)	(6,877)	(5,417)	(3,866)
Office equipment	(378)	(262)	(199)	(120)
Total Accumulated Depreciation	(140,176)	(110,008)	(81,685)	(60,663)
Capital Assets, Net	$ 1,005,396	$ 912,076	$ 870,860	$ 769,390

Source: PCJPB's prior years Comprehensive Annual Financial Reports

This table shows the total non depreciable capital assets, total depreciable capital assets and total accumulated depreciation.

FY 1997 through FY 2006 (In thousands)

2002	2001	2000	1999	1998	1997
$ 210,964	$ 210,964	$ 272,658	$ 271,625	$ 271,625	$ 266,544
290,275	229,282	166,675	70,445	38,505	21,182
501,239	440,246	439,333	342,070	310,131	287,726
94,294	84,101	8,696	5,762	4,581	3,217
119,922	109,861	106,725	106,710	106,710	106,710
5,393	4,911	4,749	4,697	4,457	2,797
202	107	107	92	92	90
219,810	198,980	120,277	117,261	115,840	112,814
(20,383)	(16,310)	(11,163)	(8,067)	(4,993)	(1,419)
(20,773)	(16,118)	(10,274)	(7,425)	(4,595)	(1,306)
(4,447)	(3,762)	(1,836)	(1,327)	(821)	(233)
(119)	(87)	(55)	(40)	(25)	(7)
(45,723)	(36,277)	(23,328)	(16,858)	(10,434)	(2,965)
$ 675,326	$ 602,948	$ 536,282	$ 442,473	$ 415,537	$ 397,575

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Section IV

SINGLE AUDIT

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

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Summary of Auditors Results

Financial Statement Findings and Recommendations

Schedule of Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Recommendations

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

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

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

We have audited the financial statements of the Peninsula Corridor Joint Powers Board ("the PCJPB") as of and for the year ended June 30, 2006, and have issued our report thereon, dated October 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the PCJPB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

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

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

Vavrinek Trine Day + Co. LLP

Palo Alto, California
October 13, 2006

260 Sheridan Avenue, Suite 440, Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

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

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

Compliance

We have audited the compliance of the Peninsula Corridor Joint Powers Board ("the PCJPB") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The PCJPB's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the PCJPB's management. Our responsibility is to express an opinion on the PCJPB's compliance based on our audit.

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

In our opinion, the Peninsula Corridor Joint Powers Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the PCJPB is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the PCJPB's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Peninsula Corridor Joint Powers Board as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements of the Peninsula Corridor Joint Powers Board. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Vavrinek Trine Day + Co. LLP

Palo Alto, California
October 13, 2006

PENINSULA CORRIDOR JOINT POWERS BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grant Program	Federal Catalog Number	Expenditures
U.S. Department of Transportation		
Federal Highway Administration		
STPLMA Grant (STPLE-6170-011)	20.205	$ 39,591
STPLMA Grant (STPLE-6170-018)	20.205	1,260,217
		1,299,808
Federal Transit Administration		
Federal Transit Cluster:		
Federal Transit Capital Improvements Grants (1)		
CA-03-0542	20.500	15,758
CA-03-0565	20.500	4,987,171
CA-03-0598	20.500	645,590
CA-03-0628	20.500	18,516,104
CA-03-0665	20.500	14,973,601
CA-03-0691	20.500	5,323,337
Subtotal		44,461,561
Federal Transit Formula Grants (1)		
CA-05-0207	20.507	1,510,368
CA-115-X002	20.507	41,538
CA-26-0026	20.507	9,477
CA-90-X978	20.507	16,718
CA-90-Y044	20.507	5,084,386
CA-90-Y123	20.507	3,757,516
CA-90-Y187	20.507	1,422,548
CA-90-Y246	20.507	5,694,086
CA-90-Y312	20.507	2,405,263
CA-90-Y379	20.507	403,819
Subtotal		20,345,719
FY04 UASI #2004-14, OES ID #081-91024	NA	539,613
Total Expenditures of Federal Awards (2)		$ 66,646,701

(1) Major Program
(2) Includes $2,625,417 in operating grants.

See accompanying notes to supplementary information.

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Basis Of Accounting

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

C. Relationship To The Basic Financial Statements

Federal financial assistance is reported in the Peninsula Corridor Joint Powers Board's financial statements as Capital Contribution.

D. Relationship To Federal Financial Reports

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

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reporting conditions identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major programs:	
Material weaknesses identified?	No
Reporting conditions identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
20.500 and 20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,999,401
Auditee qualified as low-risk auditee?	Yes

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

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

PENINSULA CORRIDOR JOINT POWERS BOARD
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

There were no prior year findings and recommendations.