



## MACIAS GINI & COMPANY LLP

The Board of Directors of the  
Golden Gate Bridge, Highway  
and Transportation District  
San Francisco, California

### INDEPENDENT AUDITOR'S REPORT

**W**e have audited the accompanying basic financial statements of the Golden Gate Bridge, Highway and Transportation District (District) as of and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the management of the District. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2005 and 2004, 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.

The Management's Discussion and Analysis is not a required part of the basic 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 principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying supplemental schedule of revenues and expenses by division is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

*Macias, Gini & Company LLP*

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Walnut Creek, California

November 4, 2005

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# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEARS ENDED JUNE 30, 2005 AND 2004

The following Management Discussion and Analysis (MD&A) of the Golden Gate Bridge, Highway and Transportation District's (District) activities and financial performance provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2005 and 2004.

Following this MD&A are the basic financial statements of the District together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

## DISTRICT ACTIVITIES HIGHLIGHTS

In FY 2005, the District saw stabilization and even growth in some areas of its service levels for the second year in a row. Patronage on the Bridge remained essentially flat, Ferry patronage continued its growth trend and Bus patronage continued to fall. It is expected that all of these trends will continue in the next year.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Total Southbound Vehicle Crossings</b>	19,398,353	19,440,842	19,428,278
% increase (decrease)	-0.2%	0.1%	
<b>Bus Patronage</b>	7,545,015	7,940,527	8,472,938
% decrease	-5.0%	-6.3%	
<b>Ferry Patronage</b>	1,751,945	1,660,990	1,575,072
% increase	5.5%	5.5%	
<b>Club Bus Riders</b>	74,861	95,828	108,511
% decrease	-21.9%	-11.7%	

The District is based in San Francisco and consists of four operating divisions: Bridge, Bus, Ferry, and Rail, and an administrative District Division. Overseeing more than 800 employees who work together in the public interest, the General Manager coordinates the operations of all divisions according to the policy and direction of the District Board of Directors. The District Board of Directors consists of 19 members representing the six member counties: San Francisco, Marin, Sonoma, Del Norte, and parts of Mendocino and Napa Counties. In FY 2005 approximately 19.4 million southbound vehicles crossed the Golden Gate Bridge and 9.3 million customers rode Golden Gate Transit.

The District is unique among Bay Area transit operations because it provides transit services without support from direct sales tax measures or dedicated general funds. As the District does not have the authority to levy taxes, the use of surplus Bridge toll revenue is the only

available local means the District has to support the District's regional and transbay transit services. Presently, Golden Gate Transit Bus and Ferry operations are funded approximately 41 percent by surplus Golden Gate Bridge tolls and 26 percent by transit fares. The remainder is primarily met by State and local funds received from Marin and Sonoma counties for the provision of transit services.

## FINANCIAL POSITION SUMMARY

Total net assets serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$468.5 million at June 30, 2005, a \$38 million increase from June 30, 2004.

A condensed summary of the District's net assets at June 30 is shown below (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Assets:</b>			
Current and other assets	\$136,042	\$123,851	\$110,957
Capital assets	444,145	421,443	356,106
Total Assets	<u>580,187</u>	<u>545,294</u>	<u>467,063</u>
<b>Liabilities:</b>			
Current Liabilities	31,639	34,369	32,639
Debt outstanding	61,000	61,000	61,000
Other non-current liabilities	19,002	19,187	18,154
Total Liabilities	<u>111,641</u>	<u>114,556</u>	<u>111,793</u>
<b>Net Assets</b>			
Invested in capital assets, net of debt	383,145	360,443	295,106
Restricted for debt requirements	14,961	13,730	13,624
Unrestricted	70,440	56,565	46,540
Total Net Assets	<u>\$468,546</u>	<u>\$430,738</u>	<u>\$355,270</u>

The largest portion of the District's net assets (81.8% at June 30, 2005) represents its investment in capital assets (e.g., Bridge, buses, ferries, buildings, improvements, and equipment), less the related debt outstanding used to acquire those capital assets. The District uses these capital assets to provide services to its patrons and passengers, and visitors to the Golden Gate Bridge. Although the District's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the District's net assets (3.2% at June 30, 2005) represents resources that are subject to external restrictions on how they can be used under Bond resolutions. The remaining unrestricted net assets (15.0% at June 30, 2005) may be used to meet the District's capital and ongoing obligations.

#### FISCAL YEAR 2005 FINANCIAL OPERATIONS HIGHLIGHTS

- Operating revenues remained stable at \$112.2 million. Gains in fare revenue were offset by the loss of Bus patronage revenue in 2004.
- Operating expenses before depreciation increased by 0.7% from \$116.9 million to \$117.7 million. Inflationary cost increases, primarily in medical benefits and salaries, were offset by full year savings from continuous efforts to control operations expenses, medical costs and administrative costs.
- The operating loss before depreciation increased by 17.3% or \$0.8 million from 2004. Depreciation increased from \$14.3 million in 2004 to \$18.3 million in 2005 due primarily to a review and subsequent revision of the useful life of a number of existing capital assets. Operating loss before non-operating revenues and expenses increased from a loss of \$19.1 million in 2004 to a loss of \$23.8 million in 2005.
- Nonoperating net revenue increased from \$19.4 million in 2004 to a net revenue of \$27.5 million in 2005 due to the newly enacted Regional Measure 2 Funds to support our existing regional service to the East Bay and to the negotiation of a new contract to provide local service in Marin County.
- Capital contributions received in the form of grants from the Federal and State governments decreased from \$75.1 million in 2004 to \$34.1 million in 2005 as a result of a planned reduction in spending on Phase II of the seismic retrofit of the Bridge and completion in FY 2004 of several major projects which included the purchase of new buses and the rehabilitation of our TMC buses.

#### FISCAL YEAR 2004 FINANCIAL OPERATIONS HIGHLIGHTS

- Operating revenues increased by 7.0% from \$104.8 million to \$112.2 million, principally due to increased transit fares and the full year impact of a toll increase which took effect on September 1, 2002.
- Operating expenses before depreciation decreased by 3.7% from \$121.3 million to \$116.9 million primarily as a result of decreases in transit services, offset by higher nation-wide employee health benefit costs, labor costs and higher pension contributions due to the drop in the nation's equity markets.
- As a result of the above, the operating loss before depreciation decreased by 71.4% or \$11.8 million from 2003. Depreciation decreased from \$15.2 million in 2003 to \$14.3 million in 2004. Operating loss before non-operating revenues and expenses decreased from a loss of \$31.8 million in 2003 to a loss of \$19.1 million in 2004.

- Nonoperating revenue (expenses) increased from a net revenue of \$16.9 million in 2003 to a net revenue of \$19.4 million in 2004 due principally to increased Federal operating assistance.
- Capital contributions received in the form of grants from the Federal and State governments increased from \$50.1 million in 2003 to \$75.1 million in 2004 due to Phase II of the seismic retrofit construction of the Bridge and the procurement of 80 buses for the District's Bus division.

#### SUMMARY OF CHANGES IN NET ASSETS

(In thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$112,153	\$112,155	\$104,781
Operating expenses	(117,706)	(116,891)	(121,344)
Loss before depreciation and other nonoperating revenue and expenses	(5,553)	(4,736)	(16,563)
Depreciation	(18,285)	(14,319)	(15,192)
Operating Loss	(23,838)	(19,055)	(31,755)
Other nonoperating revenue and expenses, net	27,514	19,383	16,880
Income (loss) before capital contributions	3,676	328	(14,875)
Capital contributions	34,132	75,140	50,098
Increase in net assets	<u>\$ 37,808</u>	<u>\$ 75,468</u>	<u>\$ 35,223</u>

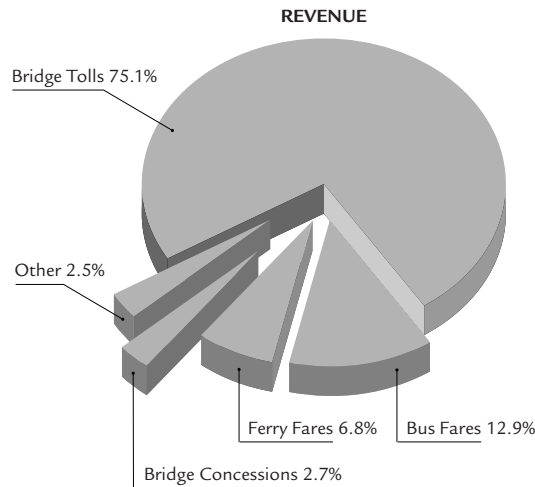
#### DISTRICT TOLLS AND FARES

Golden Gate Bridge tolls are set by Board Policy and change when determined necessary by the Board. In June of 2002, the District Board approved a 66% increase in the auto cash Bridge toll to \$5.00 and a 33% increase in the FasTrak toll to \$4.00, effective September 1, 2002. Since 1999, the District Board has set policy increasing both bus and ferry fares at varying percentages. The tolls and fares were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Average Bridge Toll	\$4.34	\$4.34	\$4.09
Average Bus Fare	\$1.90	\$1.73	\$1.73
Average Ferry Fare	\$4.32	\$4.16	\$3.39

## REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2005 (tolls, transit fares, Bridge concessions and other):



A summary of revenues for the years ended June 30, 2005 and 2004 and the amount and percentage of change in relation to prior year amounts is as follows (in thousands):

	Increase/ 2005 Amount	Percent Percent of Total	Increase/ (Decrease) From 2004	Percent Increase/ (Decrease)	2004 Amount	Percent of Total	(Decrease) From 2003	Increase/ (Decrease)
<b>Operating:</b>								
Bridge Tolls	\$ 84,213	48.2%	\$ (207)	-0.2%	\$ 84,420	40.7%	\$ 4,993	6.3%
Bus Fares	14,514	8.3%	764	5.6%	13,750	6.6%	(866)	-5.9%
Ferry Fares	7,570	4.3%	668	9.7%	6,902	3.3%	1,559	29.2%
Bridge Concessions	3,017	1.7%	249	9.0%	2,768	1.3%	111	4.2%
Other	2,839	1.6%	(1,476)	-34.2%	4,315	2.1%	1,577	57.6%
<b>Total Operating</b>	<b>112,153</b>	<b>64.1%</b>	<b>(2)</b>	<b>0.0%</b>	<b>112,155</b>	<b>54.1%</b>	<b>7,374</b>	<b>7.0%</b>
<b>Nonoperating:</b>								
Operating Assistance	25,937	14.8%	6,800	35.5%	19,137	9.2%	4,091	27.2%
Investment Income	2,635	1.5%	1,817	222.1%	818	0.4%	(1,773)	-68.4%
<b>Total Nonoperating</b>	<b>28,572</b>	<b>16.3%</b>	<b>8,617</b>	<b>43.2%</b>	<b>19,955</b>	<b>9.6%</b>	<b>2,318</b>	<b>13.1%</b>
Capital Contributions	34,132	19.5%	(41,008)	-54.6%	75,140	36.3%	25,042	50.0%
<b>Total Revenues</b>	<b>\$174,857</b>	<b>100.0%</b>	<b>\$(32,393)</b>	<b>-15.6%</b>	<b>\$207,250</b>	<b>100.0%</b>	<b>\$34,734</b>	<b>20.1%</b>

The operating assistance increase of 35.5% is mainly attributable to a new contract to provide local Bus service to Marin County and additional funding for regional Bus service to the East Bay. Capital contributions have decreased by 55% due to the previous years completion of the procurement of 80 new buses in FY 2004.

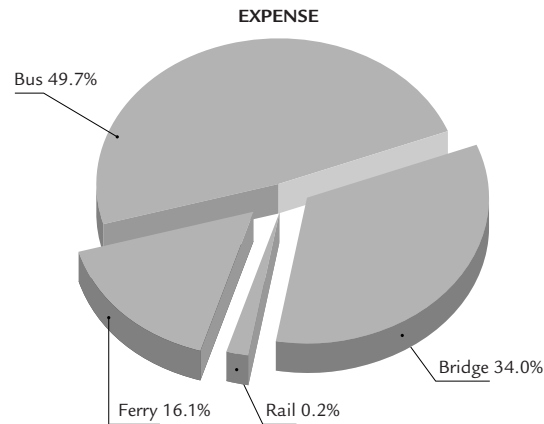
The District funds its operations with Bridge tolls, transit fares, government grants and other revenues from operations or investments. The operations of the Bridge Division produce a surplus of Bridge toll revenue that is used to subsidize the transit operations. In addition, in years where there is not sufficient Bridge toll revenue to fully subsidize the transit operations, funds are taken from District reserves to cover the shortfall. The reserves were funded with surplus Bridge toll revenues from past years. The following table, which is derived from the unaudited supplemental schedule, records how the divisions were funded in FY 2005. The table includes a \$9 million transfer to reserves to be used to fund capital projects.

How Golden Gate District was funded in FY 2005 (in thousands):

	Bridge Division	Bus Division	Ferry Division	District Total
GGB Tolls	\$49,400	\$21,300	\$13,500	\$ 84,200
Patron Fares	-	14,500	7,600	22,100
Other Revenue	3,700	1,700	500	5,900
Government Grants	300	22,500	3,100	25,900
District Toll Reserves	-	-	-	-
<b>Total</b>	<b>\$53,400</b>	<b>\$60,000</b>	<b>\$24,700</b>	<b>\$138,100</b>

## EXPENSES

The following chart shows the major cost centers and the percentage of operating expenses (excluding depreciation) for the year ended June 30, 2005:



A summary of expenses for the years ended June 30, 2005 and 2004 and the amount and percentage of change in relation to prior year amounts is as follows:

	2005 Amount	Percent of Total	Increase/ (Decrease) From 2004	Percent Increase/ (Decrease)	2004 Amount	Percent of Total	Increase/ (Decrease) From 2003	Percent Increase/ (Decrease)
<b>Operating:</b>								
Bridge	\$ 39,966	29.2%	\$ 315	0.8%	\$ 39,651	30.1%	\$ 2,207	5.9%
Bus	58,525	42.7%	(1,688)	-2.8%	60,213	45.7%	(5,660)	-8.6%
Ferry	18,977	13.8%	1,997	11.8%	16,980	12.9%	(882)	-4.9%
Rail	238	0.2%	191	406.4%	47	0.0%	(118)	-71.5%
<b>Total Operating</b>	<u>117,706</u>	<u>85.9%</u>	<u>815</u>	<u>0.7%</u>	<u>116,891</u>	<u>88.7%</u>	<u>(4,453)</u>	<u>-3.7%</u>
<b>Interest Expense</b>	1,058	0.8%	486	85.0%	572	0.4%	(185)	-24.4%
<b>Depreciation</b>	18,284	13.3%	3,965	27.7%	14,319	10.9%	(873)	-5.7%
<b>Total Expenses</b>	<u>\$137,048</u>	<u>100.0%</u>	<u>\$5,266</u>	<u>4.0%</u>	<u>\$131,782</u>	<u>100.0%</u>	<u>\$(5,511)</u>	<u>-4.0%</u>

The 0.7% increase in operating expenses is mainly attributable to the full year impact of the significant reduction in transit services in the previous year and efforts to reduce medical and administrative expenses. That reduction is offset by normal inflationary cost increase and an increase in depreciation.

## FINANCIAL STATEMENTS

The District's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The District is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land and construction-in-progress) are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable, for construction purposes. See the notes to the financial statements for a summary of the District's significant accounting policies.

## CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During 2005, the District expended \$39.7 million, which is a decrease of \$40.0 million or 50.0% below the amount expended in 2004, on capital activities. This included major construction projects, principally the seismic retrofit projects (\$31.0 million), installation of particulate matter (PM) traps on buses (\$1.0 million), 80 bus replacements (\$4.0 million), Larkspur ferry terminal berth dredging (\$0.5 million), ferry security system improvement (\$1.1 million) and the financial maintenance and management information system (\$0.8 million).

During 2005, completed projects totaling \$17.4 million, which is a decrease of \$9.2 million or 34.6% below the amount completed in 2004, were closed from construction-in-progress to their respective capital accounts. The major completed projects included the core financial portion of the financial maintenance and management information system (\$1.6 million), public safety railing (\$5.2 million), 11 of the 80 bus replacements (\$3.9 million), bus rehabilitation (\$3.1 million) and the overhaul of the MV Del Norte (\$0.9 million).

Capital asset acquisitions are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including Federal grants, with matching State grants and District reserve funds, debt issuance, and District revenues. At June 30, 2005, the District had commitments of approximately \$12.1 million for bridge-related projects and approximately \$0.4 million for other projects. Additional information on the District's capital assets and commitments can be found in the notes to the financial statements.

During 2004, the District expended \$79.7 million, which is an increase of \$19.6 million or 32.7% over the amount expended in 2003, on capital activities. This included major construction projects, principally the seismic retrofit project (\$47.5 million), public safety railing (\$0.8 million), 80 bus replacements (\$24.3 million), bus rehabilitation (\$1.5 million), ferry vessel major components rehabilitation (\$0.9 million) and the financial maintenance and management information system (\$1.6 million).

During 2004, completed projects totaling \$26.6 million, which is a decrease of \$69.7 million or 72.4% below the amount completed in 2003, were closed from construction-in-progress to their respective capital accounts. The major completed projects included the 80

bus replacements (\$24.4 million) and ferry vessel major components rehabilitation (\$0.7 million).

Capital asset acquisitions are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including Federal grants, with matching State grants and District reserve funds, debt issuance, and District revenues. At June 30, 2004, the District had commitments of approximately \$37.2 million for bridge-related projects and approximately \$0.1 million for other projects.

## DEBT ADMINISTRATION

On July 12, 2000, the District issued commercial paper notes in Series A and Series B in an amount of \$30,500,000 for each series to provide funds for the Golden Gate Bridge (Bridge) seismic retrofit project and the renovation of main cables of the Bridge. The commercial paper notes are secured by a pledge of the District's revenues and two dedicated reserves, and additionally secured by a line of credit. Under this program, the District is able to issue commercial paper notes at prevailing interest rates for period of maturity not to exceed 270 days. At June 30, 2005, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 1.04% to 2.88% (0.79% to 1.06% in 2004). Once the project is complete, the District plans to pay off the commercial paper over 22 years, beginning in 2008.

## CREDIT RATINGS AND BOND ISSUANCE

Standard & Poor's and Fitch began rating the District in 2000 when the District issued commercial paper for the first time. The District has the highest credit rating (AA- and A+) in the nation for a single toll facility. These are implied credit ratings as the District has no outstanding long-term debt. Currently, the District has \$61 million in outstanding commercial paper and has no plans at this time to increase that amount.

In connection with the sale of the commercial paper, the District has secured a Line of Credit with J.P. Morgan to guarantee the payment of interest when due. As additional security, the District established both an Operating Reserve Fund and a Debt Service Reserve Fund. In FY 2003 Fitch set the short-term rating at F1 due to the economic and financial condition of the District and the change in J. P. Morgan's rating, the provider of the liquidity facility.

## ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Auditor-Controller at Box 9000, Presidio Station, San Francisco, California 94129-0601.

## STATEMENTS OF NET ASSETS

JUNE 30, 2005 AND 2004 (In thousands)

ASSETS	2005	2004
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents	\$ 38,747	\$ 47,447
Investments	69,600	45,522
Capital and operating grants receivable	3,874	7,509
Accounts receivable	3,254	4,296
Maintenance inventories and supplies - at average cost	2,503	2,761
Prepaid expenses	2,293	1,879
Total unrestricted assets	<u>120,271</u>	<u>109,414</u>
Restricted assets:		
Cash and cash equivalents	14,961	13,730
Total current assets	<u>135,232</u>	<u>123,144</u>
NONCURRENT ASSETS:		
Capital assets		
Nondepreciable capital assets:		
Land	18,026	18,026
Construction in progress	160,181	137,884
Total nondepreciable capital assets	<u>178,207</u>	<u>155,910</u>
Depreciable capital assets:		
Property and equipment:		
Bridge, related buildings and equipment	256,954	249,255
Bus transit property and equipment	126,215	123,922
Ferry transit property and equipment	77,886	77,295
Rail transit property and equipment	438	438
Accumulated depreciation	(195,555)	(185,377)
Total depreciable capital assets	<u>265,938</u>	<u>265,533</u>
Total capital assets	<u>444,145</u>	<u>421,443</u>
Other assets		
	810	707
Total noncurrent assets	<u>444,955</u>	<u>422,150</u>
TOTAL ASSETS	<u>\$ 580,187</u>	<u>\$ 545,294</u>

See accompanying notes to the financial statements.

## STATEMENTS OF NET ASSETS

JUNE 30, 2005 AND 2004 (In thousands)

LIABILITIES:	2005	2004
CURRENT LIABILITIES:		
Trade accounts payable	\$ 11,022	\$ 8,400
Accrued liabilities	4,429	4,825
Deferred revenue	1,697	5,465
Accrued compensated absences	647	591
Contract retentions	6,528	7,972
Self-insurance liabilities	7,316	7,116
Commercial notes payable	61,000	61,000
Total current liabilities	<u>92,639</u>	<u>95,369</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	6,186	6,026
Self-insurance liabilities	12,816	13,161
Total noncurrent liabilities	<u>19,002</u>	<u>19,187</u>
TOTAL LIABILITIES	<u>111,641</u>	<u>114,556</u>
NET ASSETS:		
Invested in capital assets, net of related debt	383,145	360,443
Restricted for debt requirements	14,961	13,730
Unrestricted	70,440	56,565
TOTAL NET ASSETS	<u>\$ 468,546</u>	<u>\$ 430,738</u>

See accompanying notes to the financial statements.

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2005 AND 2004 (In thousands)

	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>
OPERATING REVENUES:			NONOPERATING REVENUES (EXPENSES):		
Bridge tolls	\$ 84,213	\$ 84,420	Pass-through federal capital assistance:		
Transit fares	22,084	20,652	Translink and paratransit assistance	5,700	1,362
Bridge concessions	3,017	2,768	Translink and paratransit assistance pass-through	(5,700)	(1,362)
Other operating income	<u>2,839</u>	<u>4,315</u>	Operating assistance:		
Total operating revenues	<u>112,153</u>	<u>112,155</u>	State operating assistance	17,956	15,854
OPERATING EXPENSES:			Federal operating assistance	4,200	3,066
Operations	61,402	62,841	Local operating assistance	<u>3,781</u>	<u>217</u>
Maintenance	23,972	25,916	Total operating assistance	<u>25,937</u>	<u>19,137</u>
General and administrative	32,332	28,134	Investment income	2,635	818
Depreciation	<u>18,285</u>	<u>14,319</u>	Interest expense	<u>(1,058)</u>	<u>(572)</u>
Total operating expenses	<u>135,991</u>	<u>131,210</u>	Total nonoperating revenues	<u>27,514</u>	<u>19,383</u>
OPERATING LOSS	<u>(23,838)</u>	<u>(19,055)</u>	INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>3,676</u>	<u>328</u>
			CAPITAL CONTRIBUTIONS	<u>34,132</u>	<u>75,140</u>
			INCREASE IN NET ASSETS	<u>37,808</u>	<u>75,468</u>
			NET ASSETS, Beginning of year	<u>430,738</u>	<u>355,270</u>
			NET ASSETS, End of year	<u>\$468,546</u>	<u>\$430,738</u>

See accompanying notes to the financial statements.

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2005 AND 2004 (In thousands)

	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			RECONCILIATION OF OPERATING LOSS TO		
Cash receipts from customers	\$ 109,930	\$ 113,463	NET CASH USED IN OPERATING ACTIVITIES:		
Cash payments to suppliers for goods and services	(58,215)	(60,244)	Operating loss	\$ (23,838)	\$ (19,055)
Cash payments to employees for services	(58,357)	(62,348)	Adjustments to reconcile operating loss		
Net cash used in operating activities	<u>(6,642)</u>	<u>(9,129)</u>	to net cash used in operating activities:		
CASH FLOWS FROM NONCAPITAL			Depreciation	18,285	14,319
FINANCING ACTIVITIES:			Gain from disposal of property and equipment	(132)	(195)
Operating grants received	<u>24,439</u>	<u>17,639</u>	Effect of changes in:		
CASH FLOWS FROM CAPITAL AND RELATED			Accounts receivable	1,419	(1,024)
FINANCING ACTIVITIES:			Prepaid expenses	(414)	(73)
Capital contributions received	44,965	73,336	Inventory and supplies	258	554
Capital grants disbursed to other agencies	(5,700)	(1,362)	Other assets	(103)	(292)
Interest paid	(1,058)	(572)	Trade accounts payable	1,976	(4,038)
Proceeds from sale of capital assets	132	225	Accrued liabilities	(396)	(2,129)
Release retention payable related to capital assets	(1,444)	-	Deferred revenue	(3,768)	1,973
Purchase of capital assets	<u>(40,341)</u>	<u>(73,560)</u>	Accrued compensated absences	216	(285)
Net cash used in capital and related			Self-insurance liabilities	(145)	1,116
financing activities	<u>(3,446)</u>	<u>(1,933)</u>	Net cash used in operating activities	<u>\$ (6,642)</u>	<u>\$ (9,129)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			Supplemental disclosures of cash flow information:		
Net proceeds (purchases) of investment securities	(24,078)	(13,157)	Noncash capital and related financing and		
Investment income received	2,258	590	investing activities:		
Net cash used in investing activities	<u>(21,820)</u>	<u>(12,567)</u>	Acquisition of capital assets in accounts payable		
NET DECREASE IN CASH AND EQUIVALENTS	(7,469)	(5,990)	and contract retention	\$ 644	\$ 6,126
CASH AND EQUIVALENTS, Beginning of year	61,177	67,167	Increase (decrease) in fair value of investments	<u>\$ 771</u>	<u>\$ (79)</u>
CASH AND EQUIVALENTS, End of year	<u>\$ 53,708</u>	<u>\$ 61,177</u>			

See accompanying notes to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

## 1) ORGANIZATION

The Golden Gate Bridge, Highway and Transportation District (the "District") is a political subdivision of the State of California created by the legislature in 1923 and subject to regulation under the Bridge and Highway District Act, as amended. The District operates the Golden Gate Bridge, operates bus service primarily in Marin, San Francisco and Sonoma counties and operates ferry service between Marin and San Francisco counties. The disbursement of funds received by the District is controlled by statute and by provisions of various grant contracts entered into with the federal government, the State of California and certain counties within the District. The District is based in San Francisco and consists of four operating divisions, Bridge, Bus, Ferry, and Rail, and an administrative District Division. The District Division has no revenues and all of its expenses are allocated to general and administrative expenses of the other Divisions (see Note 12).

## 2) SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** - The District's reporting entity includes all activities of the District.

**Basis of Accounting** - The District is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The District 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.

**Cash Equivalents** - The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents (see Note 3).

**Investments** - are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (see Note 3). Statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities; certificates of deposit; commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record; bankers' acceptances; repurchase agreements; reverse repurchase agreements; and the State Treasurer's investment pool.

**Restricted Assets** - consist of monies and other resources which are restricted legally as described below:

**Special Operating Fund** - These assets are restricted for the Bridge Division operating expenses and principal of and interest on the 2000 commercial paper notes which must be at least equal to the lesser of \$12,000,000 or 12% of the principal amount of all notes then outstanding.

**Debt Reserve Fund** - These assets represent the 2000 commercial paper notes proceeds held in Debt Reserve Account which must be at least equal to the lesser of 125% of average annual debt service on all notes then outstanding or 10% of the principal amount of all notes then outstanding.

**Capital assets** - The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 in construction in progress until such assets are completed and placed in service, at which time the District commences recording depreciation expense.

**Depreciation** - is calculated on the straight-line method over the estimated useful lives of the assets, as follows:

Bridge structural components	100 years
Bridge buildings, toll plaza structure, deck and approach roadways and sidewalks	50 years
Buses	12 - 16 years
Ferry boats	25 - 30 years
Other transit properties	5 - 50 years

Effective July 1, 2004, the District changed its estimates of the ferry boats' useful lives from a maximum life of 40 years to 25 years for high-speed ferry boats and 30 years for all other ferry boats. The District made this change to better reflect the estimated periods during which the ferry boats will remain in service. This change had the effect of increasing depreciation expense and operating loss by \$5,522,000 in fiscal year 2005.

**Capitalization of interest** - Interest costs incurred that relate to the acquisition or construction of property and equipment acquired with tax-exempt debt is capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. No interest was capitalized for the years ended June 30, 2005 and 2004.

**Operating assistance grants** are recorded as revenue when earned.

**Capital contributions** - The District has grant contracts with the U.S. Department of Transportation through the Federal Transit Administration for certain capital improvements. Federal Transit Administration funds are used to replace and improve the District's buses, ferries

and transit facilities. The District also has contracts with CalTrans for State Transit Assistance funds, which are used either to match Federal Transit Administration grants or to fund transit improvement projects. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants for property and equipment acquisition and facility development and rehabilitation are reported in the statement of revenues, expenses and changes in net assets, after nonoperating revenues and expenses as capital contributions.

The District's capital contributions for the years ended June 30, 2005 and 2004 are as follows (in thousands):

	<u>Bridge Division</u>	<u>Bus Division</u>	<u>Ferry Division</u>	<u>Rail Division</u>	<u>Total</u>
Capital contributions in fiscal 2004:					
U.S. Department					
of Transportation	\$51,409	\$22,533	\$1,020	\$ -	\$74,962
State Transit Assistance	-	173	5	-	178
Total capital contributions	<u>\$51,409</u>	<u>\$22,706</u>	<u>\$1,025</u>	<u>\$ -</u>	<u>\$75,140</u>
Capital contributions in fiscal 2005:					
U.S. Department					
of Transportation	\$27,522	\$ 5,122	\$ 898	\$ -	\$33,542
U.S. Department					
of Homeland Security	55	-	492	-	547
Local Assistance	-	43	-	-	43
Total capital contributions	<u>\$27,577</u>	<u>\$5,165</u>	<u>\$1,390</u>	<u>\$ -</u>	<u>\$34,132</u>

**Compensated Absences** – Accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue to employees.

**Operating Revenues and Expenses** - consists of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of bridge tolls, transit fares and gift center sales. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

**Net Assets** - comprise the various net earnings from operating income, nonoperating revenues, expenses and capital contributions. Net assets are classified in the following three components:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any

bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

*Restricted* - This component of net assets consists of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets.

*Unrestricted* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Pension Plans** - The District participates in several pension plans covering all employees. Certain union members are covered under single employer or multi-employer plans while other union and nonunion employees participate in the State of California's Public Employees' Retirement System. Pension contributions are based on rates established by negotiated labor contracts or by the actual plans. The District's policy is to fund pension costs as accrued (see Note 8).

**Postemployment Health Care Benefits** - The District provides postemployment health care benefits to certain employees and their dependents. The District recognizes the expenses for such costs on a pay-as-you-go basis (see Note 9).

**Effects of New Pronouncements** -The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the District's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the District's fiscal year ending June 30, 2007.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the District's fiscal year ending June 30, 2008.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government - such as citizens, public interest groups, or the judiciary - can compel a government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. Application of this statement is effective for the District's fiscal year ending June 30, 2006.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting standards for termination benefits. More specifically, this statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable form information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. Application of this statement is effective for the District in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement will be implemented simultaneously with the requirements of Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than*

*Pensions*. For all other termination benefits, application of this statement is effective for the District's fiscal year ending June 30, 2006.

**Use of Estimates** – The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reclassifications** - Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

### 3) CASH AND INVESTMENTS

The District maintains cash and investments that are available for general use subject to prior Board designations and debt covenant restrictions. At June 30, cash and investments are comprised of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Reported as:		
Unrestricted:		
Cash and cash equivalents	\$ 38,747	\$ 47,447
Investments	<u>69,600</u>	<u>45,522</u>
Total unrestricted cash and investments	108,347	92,969
Restricted:		
Cash and cash equivalents	<u>14,961</u>	<u>13,730</u>
Total cash and investments	<u>\$123,308</u>	<u>\$106,699</u>

**Deposits - Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The California Government Code requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral is considered to be held in the District's name. As of June 30, 2005 (and 2004), of the District's bank balance of \$7,191,000 (2004, \$9,151,000), approximately \$5,926,000 (2004, \$7,553,000) held in contract retention escrow accounts are uninsured and uncollateralized.

### Investments

At June 30, 2005 and 2004 cash and investments were comprised of the following (in thousands):

Investments	June 30, 2005			June 30, 2004		
	Fair Value	Investment (Maturities in Years)		Fair Value	Investment (Maturities in Years)	
		Less than 1	1 - 5		Less than 1	1 - 5
Federal Agency Bonds	\$ -	\$ -	\$ -	\$ 3,673	\$ -	\$ 3,673
Federal Agency Notes	33,680	9,240	24,440	26,608	-	26,608
Federal Agency Notes (Callable)	15,198	-	15,198	5,627	-	5,627
Medium-term Corporate Notes	20,721	7,054	13,667	9,415	2,073	7,342
Commercial Paper	13,773	13,773	-	13,572	13,572	-
Investment in State Treasurer's Investment Pool	33,923	33,923	-	38,937	38,937	-
Federal Obligation Mutual Funds	218	218	-	143	143	-
Total investments	117,513	\$64,208	\$53,305	97,975	\$54,725	\$43,250
<b>Cash and deposits</b>						
Demand deposits	5,766			8,497		
Nonnegotiable certificates of deposit	-			199		
Cash on hand	29			28		
	\$123,308			\$106,699		

**Interest Rate Risk** – Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. State law limits investment maturities to five years as a means of managing entities' exposure to fair value losses arising from increasing interest rates. In addition, the District limits eligible commercial paper to have a maximum maturity of 270 days or less. The District invests in callable Federal Agency notes as noted above. These issues are sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

**Credit Risk** – The District's investment policy limits corporate commercial paper and medium-term corporate notes investments as follows:

Corporate commercial paper rated in the highest short-term category, as rated A-1 by Standard and Poor's Corporation or P-1 by Moody's; provided that the issuing corporation is organized and operating within the United States, has total assets of \$500 million and has a "A" or higher rating for its long-term debt.

Medium-term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any State and operating within the United States may be purchased. These notes are to be rated at a level of "A" its equivalent or better by a nationally recognized rating service.

As of June 30, 2005 and 2004, District held investments in corporate commercial paper and medium corporate notes with the following Standard and Poor's Corporation ratings and amounts (in thousands):

<u>Investment</u>	<u>Rating</u>	<u>2005</u>	<u>2004</u>
Corporate commercial paper	A-1+	\$ 7,764	\$ 7,625
Corporate commercial paper	A-1	6,009	5,947
Total corporate commercial paper		<u>\$13,773</u>	<u>\$13,572</u>
Medium-term corporate notes	AA-	\$16,705	\$ 5,237
Medium-term corporate notes	AAA	4,016	4,178
Total medium corporate notes		<u>\$20,721</u>	<u>\$ 9,415</u>

In addition, the District's investments in Federal Agency Bonds, Federal Agency Notes and Federal Obligation mutual funds have a credit rating of AAA from Standard and Poor's Corporation as of June 30, 2005 and 2004.

As of June 30, 2005 and 2004, the District's investment in the State Treasurer's investment pool (LAIF) is \$33,923,000 and \$38,937,000, respectively. The total amount invested by all public agencies in LAIF at those dates is \$18,573,278,000 and \$21,950,645,000, respectively. LAIF is part of the State of California Pooled Money Investment Account (PMIA). Of the total invested in PMIA, 97.59% and 98.40% is invested in non-derivative financial products and 2.41% and 1.60% in structured notes and asset-backed securities as of June 30, 2005 and 2004, respectively. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool. The District's investment in LAIF is unrated.

**Concentration of Credit Risk** – The District limits the purchase of medium-term corporate notes to not exceed 30% of the District's surplus money. At June 30, 2005 and 2004, these investments are 17.6% and 9.6%, respectively, of the District's total investments. At June 30, 2005 and 2004, the District holds more than 5% of the District's investments in the following issuers:

<u>Investment</u>	<u>2005</u>	<u>2004</u>
Morgan Stanley DW Commercial Paper	5.12%	6.08%
YorkTown Capital LLC Commercial Paper	6.62%	7.79%
FHLB	24.09%	22.12%
FHLMC	9.95%	5.36%
FNMA	7.63%	9.22%

#### 4) CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2005 and 2004 was as follows (in thousands):

	Balance July 1, 2004	Additions	Reductions/ Adjustments	Transfers	Balance June 30, 2005
<i>Capital assets, not being depreciated:</i>					
Land	\$ 18,026	\$ -	\$ -	\$ -	\$ 18,026
Construction in progress	137,884	39,681	-	(17,384)	160,181
Total capital assets, not being depreciated	<u>155,910</u>	<u>39,681</u>	<u>-</u>	<u>(17,384)</u>	<u>178,207</u>
<i>Capital assets, being depreciated:</i>					
Bridge, related buildings and equipment	249,255	23	(83)	7,759	256,954
Bus transit property and equipment	123,922	1,283	(7,694)	8,704	126,215
Ferry transit property and equipment	77,295	-	(330)	921	77,886
Rail transit property and equipment	438	-	-	-	438
Total capital assets, being depreciated	<u>450,910</u>	<u>1,306</u>	<u>(8,107)</u>	<u>17,384</u>	<u>461,493</u>
<i>Accumulated depreciation</i>					
Bridge, related buildings and equipment	(78,176)	(6,620)	77	(37)	(84,756)
Bus transit property and equipment	(67,451)	(5,490)	7,707	37	(65,196)
Ferry transit property and equipment	(39,391)	(6,146)	323	-	(45,214)
Rail transit property and equipment	(359)	(29)	-	-	(388)
Less accumulated depreciation	<u>(185,377)</u>	<u>(18,285)</u>	<u>8,107</u>	<u>-</u>	<u>(195,555)</u>
Total capital assets, being depreciated, net	<u>265,533</u>	<u>(16,979)</u>	<u>-</u>	<u>17,384</u>	<u>265,938</u>
Total capital assets, net	<u>\$ 421,443</u>	<u>\$ 22,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 444,145</u>

	Balance July 1, 2003	Additions	Reductions/ Adjustments	Transfers	Balance June 30, 2004
<i>Capital assets, not being depreciated:</i>					
Land	\$ 18,026	\$ -	\$ -	\$ -	\$ 18,026
Construction in progress	84,792	79,686		(26,594)	137,884
Total capital assets, not being depreciated	102,818	79,686	-	(26,594)	155,910
<i>Capital assets, being depreciated:</i>					
Bridge, related buildings and equipment	248,211	-	(253)	1,297	249,255
Bus transit property and equipment	109,439	-	(10,029)	24,512	123,922
Ferry transit property and equipment	76,520	-	(10)	785	77,295
Rail transit property and equipment	439	-	(1)	-	438
Total capital assets, being depreciated	434,609	-	(10,293)	26,594	450,910
<i>Accumulated depreciation</i>					
Bridge, related buildings and equipment	(72,639)	(5,843)	297	10	(78,175)
Bus transit property and equipment	(71,457)	(5,948)	9,964	(10)	(67,451)
Ferry transit property and equipment	(36,895)	(2,500)	4	-	(39,391)
Rail transit property and equipment	(330)	(29)	-	-	(359)
Less accumulated depreciation	(181,322)	(14,320)	10,265	-	(185,377)
Total capital assets, being depreciated, net	253,287	(14,320)	(28)	26,594	265,533
Total capital assets, net	\$ 356,105	\$ 65,366	\$ (28)	\$ -	\$ 421,443

**Construction in progress** consists of the following projects at June 30, 2005 and 2004 (in thousands):

	2005	2004
Bridge seismic retrofit - Phase II	\$148,483	\$120,217
Bridge seismic retrofit - Phase III	2,890	110
Bridge security system	99	46
Bridge safety railing	-	5,134
Bridge main cable restoration	802	756
District MIS-financial	724	1,646
Ferry LFT berth dredging	571	92
Ferry security system improvement	1,250	130
Ferry drydocking	-	898
Bus replacement	2,237	5,239
Other	3,125	3,616
Total construction in progress	\$160,181	\$137,884

At June 30, 2005 and 2004, the District had commitments of approximately \$12,113,000 and \$37,237,000, respectively, for bridge-related projects and approximately \$411,000 and \$144,000 for other projects.

## 5) COMMERCIAL PAPER NOTES PAYABLE

On July 12, 2000, the District issued commercial paper notes Series A and Series B in an amount of \$30,500,000 for each series to provide funds for the Golden Gate Bridge (Bridge) seismic retrofit project and the renovation of main cables of the Bridge. The commercial paper notes are secured by a pledge of the District's revenues and additionally secured by a line of credit. Under this program, the District is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. At June 30, 2005, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 1.04% to 2.88%.

## 6) CAPITAL GRANTS PASSED-THROUGH TO MTC

The District passed-through its federal capital assistance allocation of \$5,700,000 and \$1,362,000 for the years ended June 30, 2005 and 2004, respectively, of which \$5,222,000 and \$1,362,000 was passed through to the Metropolitan Transportation Commission (MTC) for the Translink Project and \$478,000 and \$0 was passed through to the County of Marin for the "South Marin Parklands Comprehensive Transportation Management Plan". This amount was recognized as nonoperating revenue and expense in the financial statements.

## 7) OPERATING ASSISTANCE

The District receives operating assistance from various federal, state and local sources. Transportation Development Act funds are received from the state through Marin and Sonoma Counties to meet, in part, the District's operating requirements based on annual claims filed by the District and approved by the MTC. Federal funds are distributed to the District by the Federal Transit Administration after approval by MTC. The District also receives Marin County Transit local funds and other amounts of assistance from other state agencies.

Operating assistance is summarized as follows for the years ended June 30, 2005 and 2004 (in thousands):

	2005	2004
Transportation Development Act	\$13,582	\$13,395
Federal Transit Administration	4,200	3,066
State Transit Assistance	2,094	2,214
Marin County Transit local funds	3,622	217
Regional Measure 2	2,100	-
CalTrans	179	180
Other	160	65
Total	<u>\$25,937</u>	<u>\$19,137</u>

## 8) PENSION PLANS

### CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT FUND

**Plan Description** - All permanent District employees (except bus and ferry operators and deckhands) are eligible to participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CALPERS"). The Fund is an agent multi-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on employees' age, years of service, and average of three highest years' compensation. Employees vest after five years of service and may receive retirement benefits commencing at age 50. These benefit provisions and all other requirements are established by state statute. A stand-alone report for the District's plan is not available; however, copies of the Fund's annual financial report may be obtained from CALPERS' executive office: 400 P Street, Sacramento, CA 95814.

**Funding Policy** - Active plan members in the CALPERS are required to contribute 7.0% of their annual covered salary. In addition, the District is required to contribute at an actuarially determined rate. Based on the actuarial valuation as of June 30, 2002, the contribution rate was 8.48% for fiscal year 2005 while the contribution rate was 4.04% for fiscal year 2004 and no contributions were required for fiscal year 2003. The contribution requirements of plan members and the District are established by State statute and the employer contribution rate is established and may be amended by CALPERS.

**Annual Pension Cost** - For fiscal years ended June 30, 2005, 2004, and 2003, the District's annual pension costs for CALPERS was \$4,963,000, \$3,834,000, and \$0, respectively. The required contribution for the year ended June 30, 2005 was determined as part of the June 30, 2002 actuarial valuations, using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of CALPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 3-year period. CALPERS overfunded actuarial accrued liability is being amortized as a percentage of projected payroll on a closed basis. The remaining amortization period as of June 30, 2004 is 30 years.

Funding progress information for the District for 2005 is unavailable as of the date of this report.

### SCHEDULE OF FUNDING PROGRESS (in thousands)

Valuation Date	Actuarial Value of Assets	Entry Age Normal Accrued Liability	Overfunded Assets	Funded Ratio	Annual Covered Payroll	Overfunded Assets as a % of Payroll
6/30/02	\$169,966	\$168,486	\$1,480	100.9%	\$32,833	4.5%
6/30/03	169,923	195,259	(25,336)	87.0%	34,343	(73.8%)
6/30/04	177,512	204,776	(27,264)	86.7%	32,986	(82.7%)

*GOLDEN GATE TRANSIT - AMALGAMATED RETIREMENT PLAN*

**Plan Description** - The District's bus operators participate in the Golden Gate Transit - Amalgamated Retirement Plan ("GGT-ARP"), a single employer defined benefit pension plan funded by the District and administered by a Board of Trustees consisting of District and union representatives. This plan provides retirement, disability and death benefits based on employees' age, years of service, and average compensation. Employees may receive normal retirement benefits based on a predetermined formula. Copies of the GGT-ARP's annual financial report may be obtained from the District.

**Funding Policy** - The District's contribution to the GGT-ARP is a result of collective bargaining. As of January 1, 2003, the District was required to make contributions to GGT-ARP. Prior to this time, the previous contribution was made through July 22, 1999. The contribution rate was 15.165% of eligible earnings. There is no provision for employee contributions.

**Annual Pension Cost** - For the fiscal years ended June 30, 2005, 2004, and 2003, the District's annual pension cost for the GGT-ARP was equal to the negotiated contribution amount and actuarially required contribution. The actuarial cost method for determining the annual pension cost was the entry age normal cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of investment expenses), (b) projected 5.5% of annual salary increases that includes a 12.0% increase for seniority wage increases.

The actuarial value of assets was determined using a method that smoothes the effects of short-term volatility in the market value of investments by recognizing one-third of the difference between the expected actuarial value of assets and the market value of assets.

The District's funding progress information as of January 1, 2005 is illustrated as follows:

**SCHEDULE OF FUNDING PROGRESS (in thousands)**

Valuation Date	Actuarial Value of Assets	Entry Age Normal Accrued Liability	Excess Assets/ (Unfunded Accrued Liability)	Funded Ratio	Annual Covered Payroll	Excess Assets/ (Unfunded Accrued Liability) as a % of Payroll
1/1/03	\$111,546	\$113,349	\$(1,803)	98.4%	\$23,660	(7.6%)
1/1/04	112,137	118,371	(6,234)	94.7%	22,952	(27.2%)
1/1/05	115,857	120,251	(4,394)	96.3%	20,249	(21.7%)

**Actuarially Determined Contributions Required and Contributions Made** - The District's contributions to GGT-ARP for the years ended June 30, 2005, 2004 and 2003, are the result of collective bargaining. The total annual pension cost and funded contributions were \$2,730,000, \$3,150,000 and \$1,698,000 for the years ended June 30, 2005, 2004 and 2003, respectively (15.2%, 15.2%, and 7.4% of current covered payroll of \$18,007,000, \$20,774,000, and \$22,922,000 for 2005, 2004 and 2003, respectively).

*OTHER RETIREMENT PLANS*

The District's ferry operators and deckhands participate in the Inlandboatmen's Union of the Pacific National Pension Plan ("Inlandboatmen's") or the MEBA Towboat Operators Pension Trust ("MEBA"). Inlandboatmen's and MEBA are union-administered cost-sharing multiple-employer defined benefit pension plans in which the District is a participant. Annual pension cost for the Inlandboatmen's plan was \$181,000, \$203,000, and \$229,000 for the years ended June 30, 2005, 2004, and 2003, respectively. The District contributed to Inlandboatmen's 8.4%, 8.8%, and 8.5% of payroll for covered employees for the years ended June 30, 2005, 2004, and 2003, respectively. The District's covered payroll for employees participating in this plan was \$2,160,000, \$2,308,000, and \$2,700,000 for the years ended June 30, 2005, 2004, and 2003, respectively. Annual pension cost for the MEBA plan was \$96,000, \$105,000, and \$106,000 for the years ended June 30, 2005, 2004, and 2003, respectively. The District contributed to MEBA 9.8%, 9.8%, and 9.7% of payroll for covered employees for the years ended June 30, 2005, 2004, and 2003, respectively. The District's covered payroll for employees participating in this plan was \$991,000, \$1,067,000, and \$1,086,000 for the years ended June 30, 2005, 2004, and 2003, respectively.

**9) POSTEMPLOYMENT HEALTH CARE BENEFITS**

In addition to the pension benefits described in Note 8, the District provides postemployment health care benefits. For all employees hired on or after August 9, 1991, the benefits are provided to retiree and dependent coverage based on a point system comprised of age plus years of service as follows: 1) The District does not contribute toward the cost of postemployment health benefits for retirees whose combination of age and number of years of service amounts to less than 70 points. 2) The retiree contributes the normal contribution paid by all retirees plus 30% of the COBRA rates for the coverage they select if their contribution of age and number of years of service falls within 70-74 points. 3) The retiree contributes the normal contribution paid by all retirees plus 20% of the COBRA rates for the coverage they select if their combination of age and number of years of service falls within 75-79 points. 4) The retiree contributes the normal contribution paid by all retirees for the coverage they select if their combination of age and number of years of service is greater than 80 points.

The benefits are also provided to all employees, hired between July 1, 1983 through August 8, 1991, who retire from the District on or after attaining age 55 with at least 10 years of service. For those employees age 55 with at least 15 years of service, survivor and dependent care benefits are also received. If the employee began employment at the District prior to January 1, 1983, the benefits are provided on or after attaining age 50 with at least 5 years of service. Currently 605 retirees meet the eligibility requirements. Retirees under the age of 60 who choose a Preferred Provider rather than a Health Maintenance Organization are required to pay \$145.00 per month for family coverage. For single coverage, the premium is \$72.50 per month. Between the age of 60 and 65, the retiree is responsible for only the cost of the Medicare contribution, or \$78.20 per month for 2005. Retirees under the age of 60 enrolled in an HMO will pay only the Medicare contribution rate. Expenses for postretirement health

care benefits are recognized on a pay-as-you-go basis. Postretirement health care benefits expense was \$4,630,000 and \$4,956,000 for the years ended June 30, 2005 and 2004, respectively.

## 10) SELF-INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and patrons; natural disasters; employee, retiree and dependent health benefits. The District is self-insured for its general liability, workers' compensation, auto liability and public transportation liabilities. The District has set aside assets for claim settlements associated with the above risks of loss up to certain limits.

Self-insurance and limits are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance</u>	<u>Excess Coverage</u>
General /Vehicle Liability	\$5,000,000 per occurrence	\$75,000,000
Workers Compensation	\$1,000,000 per claim	\$10,000,000 (statutory limits)
Health Benefits	\$100,000 per individual	\$150,000 stop loss/ w carve outs
Railroad Liability	\$10,000 per accident	\$1,000,000 accident/\$2mil aggregate
Boiler and Machinery	\$1,000 per accident	\$1,000,000 per occurrence
Bus Fleet	\$5,000,000 per occurrence	\$30,000,000 per occurrence
Property (earthquake/flood)	\$250,000 (5% per structure)	\$45,000,000 per occurrence/aggregate
Bridge Physical Use and Occupancy	30 days \$15,000,000 per occurrence	Property: \$25,000,000 per occurrence/aggregate Time Element: \$25,000,000
Ferry Hull, Machinery	\$350,000 annual aggregate	\$1,000,000 per occurrence
Marine	\$100,000 annual aggregate	\$75,000,000 per occurrence
Crime and Dishonesty	\$25,000 per occurrence (faithful performance)	\$1,000,000 Faithful
	\$1,000 per occurrence forgery	\$500,000 Forgery/Alteration
	\$5,000 all other	\$500,000 Theft Inside/Toll
		\$15,000 All other locations
		\$1,000,000 Computer Fraud
Public Officials Liability	\$100,000 Each Wrongful Act	\$5,000,000 per Occurrence/ aggregate
	\$100,000 Each Employment Practices	

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

The District's estimated self-insurance liability is based on requirements of GASB Statements No. 10 and 30. These statements require a liability for claims to be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The actuarially determined liability includes allocated expenses and a provision for incurred but not reported claims.

Changes in the balances of claims liabilities for the years ended June 30, 2005 and 2004 are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Self-insurance liabilities, beginning of fiscal year	\$20,277	\$19,161
Incurring claims and changes in estimates	3,974	7,063
Claim payments and related costs	<u>(4,119)</u>	<u>(5,947)</u>
Total self-insured claims liabilities	20,132	20,277
Less current portion	<u>(7,316)</u>	<u>(7,116)</u>
Non-current portion	<u>\$12,816</u>	<u>\$13,161</u>

VCA identifies two other Potential Responsible Parties, the National Park Service and the U.S. Army, who may be required to share in any costs associated with the Phase II remediation. Because the RI has not been completed in these areas, it is not possible at this time to determine any potential cleanup costs for Phase II, and what the District's share of those costs might be.

## 11) DESIGNATION OF DISTRICT FUNDS

The Board of Directors has designated available funds for seismic retrofit of the Bridge, other Bridge maintenance and transit capital projects. In addition, the Board has restricted funds due to the legal requirements of the commercial paper program, possible operational emergencies, and self insured losses.

## 12) ALLOCATION OF DISTRICT DIVISION EXPENSE

For the years ended June 30, 2005 and 2004, District Division expense has been allocated to the operating divisions (included in general and administrative expenses) by resolution of the Board of Directors as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Bridge	\$ 9,506	\$ 8,430
Bus	7,890	6,012
Ferry	3,615	1,847
Rail	210	-
Total	<u>\$21,221</u>	<u>\$16,289</u>

## 13) ENVIRONMENTAL REMEDIATION

During 1992, the District discovered lead contamination in the soil beneath the north and south approaches to the Bridge. The District entered into a Voluntary Cleanup Agreement (VCA) with the State of California Department of Toxic Substances Control to effect a Remedial Action Plan for the first phase of a two-phased cleanup program and a Remedial Investigation (RI) for the second phase. The District has completed the Phase I cleanup under the VCA and has expensed approximately \$6.5 million for that work. The VCA requires that the District complete an RI of the Phase II areas, but does not require the District to actually complete the remediation. It is likely that remediation will be required under Phase II; however, the

## SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES BY DIVISION (NON-GAAP BASIS)

YEARS ENDED JUNE 30, 2005 AND 2004 (In thousands)

	Total		Bridge Division		Bus Division		Ferry Division		Rail Division	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
OPERATING REVENUES:										
Bridge tolls	\$84,213	\$84,420	\$84,213	\$84,420	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transit fares	22,084	20,652	-	-	14,514	13,750	7,570	6,902	-	-
Bridge concessions	3,017	2,768	3,017	2,768	-	-	-	-	-	-
Other operating income	2,839	4,315	574	642	1,613	1,826	348	1,566	304	281
Total operating revenues	112,153	112,155	87,804	87,830	16,127	15,576	7,918	8,468	304	281
OPERATING EXPENSES:										
Operations	61,402	62,841	13,959	12,724	36,839	40,055	10,606	10,062	(2)	-
Maintenance	23,972	25,916	13,853	13,003	7,915	9,860	2,192	3,006	12	47
General and administrative	32,332	28,134	12,154	13,924	13,771	10,298	6,179	3,912	228	-
Depreciation	18,285	14,319	6,413	5,843	5,633	5,947	6,209	2,500	30	29
Total operating expenses	135,991	131,210	46,379	45,494	64,158	66,160	25,186	19,480	268	76
OPERATING INCOME (LOSS)	(23,838)	(19,055)	41,425	42,336	(48,031)	(50,584)	(17,268)	(11,012)	36	205
NONOPERATING REVENUES (EXPENSES):										
Operating assistance:										
State operating assistance	17,956	15,854	179	180	15,444	13,115	2,333	2,559	-	-
Federal operating assistance	4,200	3,066	-	-	3,445	2,549	755	517	-	-
Local operating assistance	3,781	217	127	-	3,654	280	-	-	-	(63)
Total operating assistance	25,937	19,137	306	180	22,543	15,944	3,088	3,076	-	(63)
Investment income	2,635	818	2,635	818	-	-	-	-	-	-
Interest expense	(1,058)	(572)	(1,058)	(572)	-	-	-	-	-	-
Contribution to capital	(9,000)	(9,000)	(6,109)	(5,954)	(2,125)	(2,191)	(766)	(855)	-	-
Total nonoperating revenues (expenses)	18,514	10,383	(4,226)	(5,528)	20,418	13,753	2,322	2,221	-	(63)
NET INCOME (LOSS)	(5,324)	(8,672)	37,199	36,808	(27,613)	(36,831)	(14,946)	(8,791)	36	142
DEPRECIATION ON CAPITAL ASSETS ACQUIRED										
WITH CAPITAL GRANTS	9,366	8,500	1,430	1,383	5,863	5,368	2,070	1,735	3	14
EXCESS REVENUES (LOSS)	\$ 4,042	\$ (172)	\$38,629	\$38,191	\$(21,750)	\$(31,463)	\$(12,876)	\$(7,056)	\$ 39	\$156