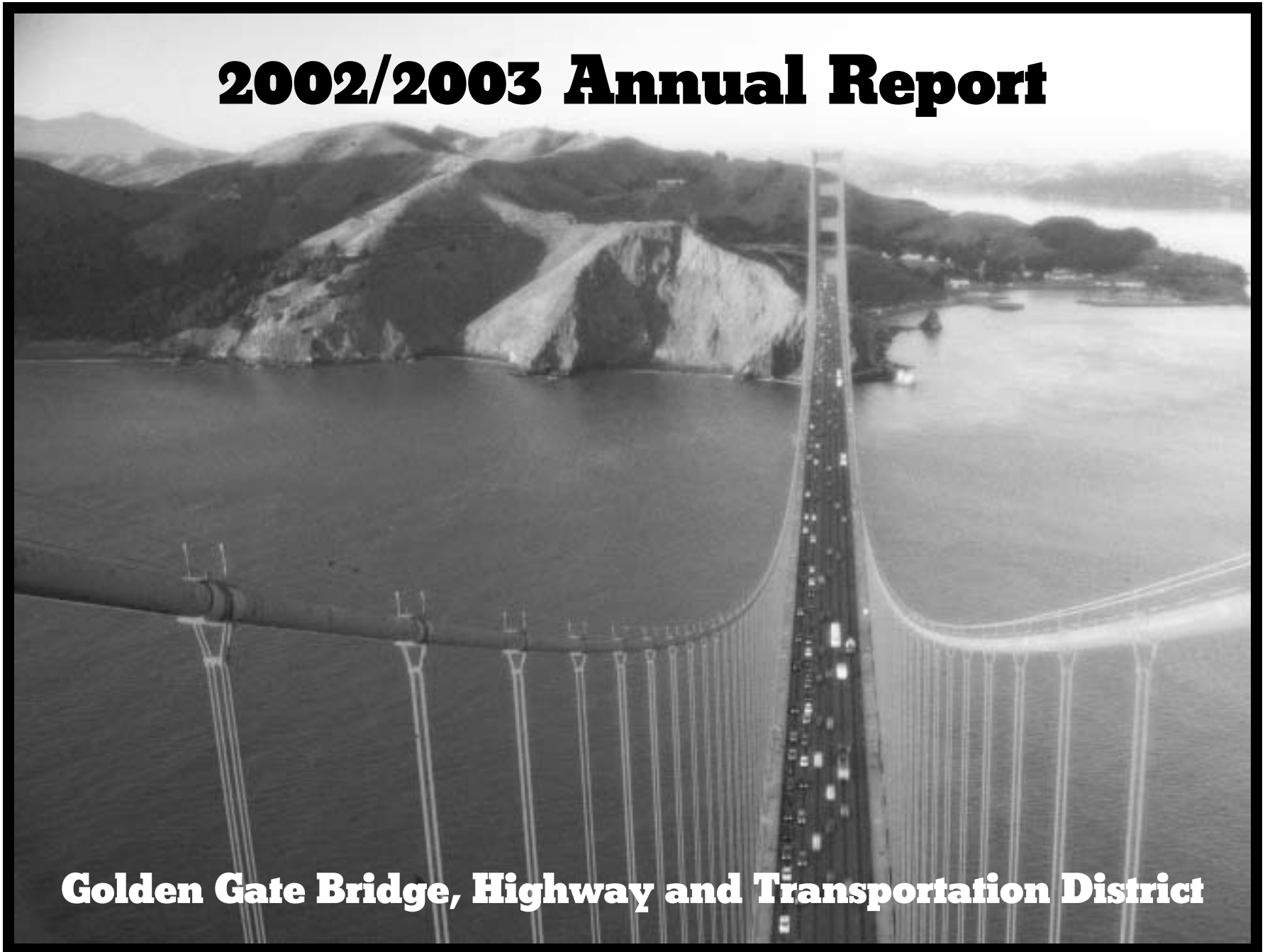


2002/2003 Annual Report

Golden Gate Bridge, Highway and Transportation District



President's Message

This was a year of intense challenge and change for everyone working at or using the services of the Golden Gate Bridge, Highway and Transportation District (District). Our efforts consistently focused on making the difficult decisions required to better the long-term financial health of the District.

The District was formed in 1928 as a special district of the State of California to build and operate the internationally beloved Golden Gate Bridge.

In 1969, the District expanded its transportation role to include operation of public bus and ferry transit systems—Golden Gate Transit and Golden Gate Ferry—as an innovative traffic management tool providing relief to the then escalating traffic across the Golden Gate Bridge.

Since emerging as a fledgling system, our public transit services have flourished into major transportation links carrying upwards of eleven million passengers annually. Subsidized by excess Golden Gate Bridge toll revenue, the role of our buses and ferries evolved to be not only a premier regional operator providing congestion relief across the Golden Gate Bridge by connecting San Francisco with the counties of Marin and Sonoma to the north but also a mode for general mobility for travelers in the U.S. Highway 101 Golden Gate Corridor.

Today, the ability to maintain current transit funding levels has diminished. The Golden Gate Bridge is now more than 66 years old, and as such, more toll dollars must be reserved to undertake several large-scale, multi-million dollar maintenance projects. Further, toll and transit fare revenues have dropped significantly as a result of the recent economic recession. In spite of several cost saving and revenue enhancing initiatives, this year it became necessary to initiate a significant downsizing of our regional transit system to better balance revenues with expenditures.

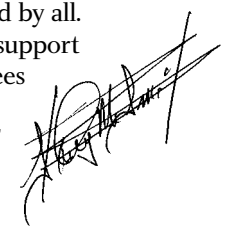
This decision was not made lightly and only after several significant belt-tightening endeavors were achieved. Throughout this time, we remain committed to providing the highest quality public transportation system possible, one that understands

the needs of its customers and does its best, given available resources. On behalf of the District's Board of Directors, I extend my thanks to all who have worked with us to make it through this period of significant change. Your support, understanding, and patience have been greatly appreciated.

This year the District's 19-member policy Board of Directors also experienced several crucial changes. Four new members were appointed by their respective Boards of Supervisors in early 2003, including Marin County Supervisor Cynthia Murray and three new San Francisco representatives: San Francisco Supervisors Jake McGoldrick and Sophie Maxwell, along with San Francisco public representative Janet Reilly. By the end of FY 2003, ten of the total nineteen Board members have served five years or less on this Board. This new vitality and energy has been invaluable during these difficult times.

The story of this fiscal year would not be complete without a tribute to a true District treasure—veteran Board member Robert McDonnell who passed away in early August 2003. Throughout his 21 years as a Board member, his enthusiasm for serving as a policy maker dedicated to making the District a great public agency for both employees and customers alike never wavered. McDonnell was a genuine leader and a true friend to every employee. He was President of the Board of Directors from January 1995 through December 1996 and had been Chair of the Building and Operating Committee since 1997. During his tenure, he was active in several other standing and advisory committees of the Board. McDonnell was also one of three Board members serving on the Golden Gate Transit Amalgamated Transit Union Retirement Pension Board. He was active in San Francisco labor issues through his employment as Business Agent, Laborer's International Union of North America, AFL-CIO, Local 261, in addition to his membership on the San Francisco Executive Labor Council and San Francisco Building Trades Council. He will be missed by all.

Especially in these tough times, the support and commitment of the District's employees is greatly appreciated. My sincere thanks to the hardworking men and women of the District for all they do to meet the challenges of this organization.



Stanley M. Smith
President,
Board of Directors

General Manager's Message

In reflecting back over the last year, it is clear that two dynamics were prevalent throughout the District—the excitement associated with the advancement of numerous critical projects and the challenges associated with making several very difficult decisions affecting our services. With both, it was the hard work of staff and Board members that made it possible to move forward on major initiatives impacting the District and its customers for years to come.

This year brought the first toll increase at the Golden Gate Bridge in 11 years, when tolls were raised from \$3 to \$5 cash, with a \$4 toll for our customers using FasTrak,™ on September 1, 2002. With the discount, even more morning commuters were drawn to FasTrak as the market share rose from 60 to 69 percent. The resulting FasTrak popularity has effectively eliminated congestion on the span. Also, in a move to reduce FasTrak administrative costs, the District is joining forces with the Bay Area Toll Authority to develop a joint regional customer service center.

Just as FasTrak has been an enormous success for Bridge users, a new “smart card” technology for all Bay Area transit users, dubbed TransLink,® was tested and proved to be exceedingly popular among our transit customers. Golden Gate Ferry customers will be the first Bay Area transit users to have full access to TransLink in early 2004. A full roll-out on Golden Gate Transit buses will follow.

The largest engineering and construction project to take place on the Bridge since its original construction—the Seismic Retrofit Project—continues to progress successfully. Remaining on time and on budget, this project is a model of coordination among responsible agencies including the District, California Department of Transportation, Federal Highway Administration, National Park Service, and the prime contractor Shimmick-Obayashi, a joint venture, and their subcontractors.

While these and other key programs forged ahead, the year was balanced with the tougher charge of taking significant actions relative to our financial condition. This year's actions directly impacted our bus services to a great degree. The combined impacts of the downward economy resulting in decreases in transit ridership and Bridge traffic, and increased costs for significant expenditures

ranging from insurance and security, to medical benefits were devastating. These were coupled with increased demand for multi-million dollar maintenance projects on the aging 66-year old Bridge. Together a perfect storm of circumstances that resulted in a staggering projected budget deficit for the District overall.

While we were able, via the *Strategic Plan for Achieving Long-Term Financial Stability*, to make significant progress on our initially projected five-year shortfall of more than \$400 million, a significant reduction in bus service throughout our North Bay region was a necessary part of our plan.

Our efforts focused on identifying bus services that were badly underutilized and therefore very costly. This process resulted in the elimination of 13 of 59 bus routes in March 2003. We then struggled to bring our remaining transit services in line with our limited financial resources. We conducted an extensive public outreach program to aid in educating and informing customers about the seriousness of the budget deficit and the plan to balance future budgets. The result was productive public dialogue that centered on the extent and nature of proposed bus service cuts. Public workshops, hearings, and targeted community assemblies were held to continually retool the service reduction plan. In cooperation with the Marin County Transit District, a final plan emerged in June 2003 that would reduce service hours by 25 percent when implemented on November 2, 2003, but is projected to retain 85 percent or more of the pre-cut riders.

In closing, I want to extend a special message of appreciation and encouragement to the many staff of the District. Without your support and commitment, we would never have made it through this year of both progress and retraction. I also want to say a special thanks to our Employee of the Year and our Employees of the Month. Our 2002 employee of the year was Senior Buyer Yvonne Pierce and our employees of the month included: Customer Relations Supervisor Helen Haas; Bus Operator Teresa Dentkos; Human Resources Office Specialist Maria Rodriguez; Transit Scheduler Meredyth Knott; Planning Secretary Katherine Godwin; Associate Civil Engineer Bill Jeng; Bus Operator David Smith; Chief Bus Mechanic Keith Nunn; District Services Assistant Michael Soo; Bus Servicer Chris Lovmark; Building Maintenance Mechanic Douglas Woods; and Ferry Terminal Assistant Edwin Low.



Celia G. Kupersmith,
General Manager/CEO



Board of Directors, Officers and Managers

The mission of the Golden Gate Bridge, Highway and Transportation District is to provide safe and reliable operation, maintenance and enhancement of the Golden Gate Bridge and to provide transportation services, as resources allow, for customers within the U.S. Highway 101 Golden Gate Corridor.

Board of Directors

Stanley M. Smith, President, City and County of San Francisco
Maureen Middlebrook, 1st Vice President, Sonoma County
Maryanne P. Harrison, 2nd Vice President, San Francisco County

City and County of San Francisco

Tom Ammiano
Tony Hall
Sophie Maxwell
Robert McDonnell
Jake McGoldrick
Janet Reilly
Leah C. Shahum

Sonoma County

Mike Kerns
Michael F. Martini

Marin County

Harold C. Brown
Albert J. Boro
Cynthia L. Murray
J. Dietrich Stroeh

Napa County

Barbara L. Pahre

Mendocino County

James C. Eddie

Del Norte County

John E. Fraser

Officers of the Board

General Manager/CEO

Celia G. Kupersmith

Auditor-Controller

Joseph M. Wire

Attorney

David J. Miller

District Engineer

Denis J. Mulligan

District Secretary

Janet S. Tarantino

Deputy General Managers

Administration & Development

Teri W. Mantony

Bridge Division

Kary H. Witt

Bus Division

Susan C. Chiaroni

Ferry Division

David B. Clark
Rebecca Wessling (Acting)



The Navy's Blue Angels stream past the Golden Gate Bridge during a practice session for San Francisco's annual Fleet Week. Photo copyright by Forrest "Woody" Becker, Bridge Division Ironworker.

Key Accomplishments

NEW REVENUE GENERATORS

As part of the District's *Strategic Plan for Achieving Long-Term Financial Stability*, several new and innovative revenue generating concepts became a reality this year.

With millions of tourists visiting the Golden Gate Bridge each year, there has been growing call for additional multi-hour and/or all-day parking on the south side of the span, particularly on busy week-ends. Existing parking consists of 80 metered parking spaces. These spaces are available for 25 cents per 15 minutes, with a 2-hour limit.

In April 2003, a parking expansion scheme became a reality when 50 fee-based parking spaces were made available to visitors in a nearby employee parking lot. Customers simply deposit the \$5 per day flat fee into an automated ticket vending machine. Initial start-up costs were approximately \$10,000 for equipment, labor to re-stripe the spaces, and necessary related signage.

Another new and innovative revenue generator was launched when the first ever limited edition official Golden Gate Bridge annual holiday ornament debuted at the Marin County Fair during the 2003 July 4th weekend. The solid brass ornament, three by two and one-half inches, is finished in 24 kt. gold and delicately designed with a three-dimensional replica of the Golden Gate Bridge framed with a blue sky backdrop. The back side is engraved with "First Annual Limited Edition Golden Gate Bridge Collectible." Handmade and manufactured by American artisans, the collectible ornament is packaged in a custom gift box, and includes a display stand. Retailing for \$24.99 plus tax, the 2003 ornament is available on-line at www.goldengate-bridge.org and at the Golden Gate Bridge roundhouse Gift Center. Designs are now underway for the 2004 ornament.

The Golden Gate Bridge Annual Collectible Ornament Program was modeled after the White House Historical Association Annual Ornament program. The White House program began modestly in 1981 with sales less than 2,000 ornaments. Today, it is the largest single holiday ornament program in the U.S.

UNIQUE PROGRAMS FEATURE BRIDGE

Each year a number of television productions are filmed featuring different aspects of the Golden Gate Bridge. This year several very special programs were produced and aired.

As part of a national retrospective reflecting on the impacts of September 11, 2001 on people across the U.S., MSNBC produced a special series, *On Location with Ashleigh Banfield*. The show was aired live from various locations across the country, beginning in Seattle on September 1, 2002, and ending in New York City on September 11, 2002. The Golden Gate Bridge and its unique security program was the feature of the second show, broadcast live from the Vista Point parking lot while fog and wind whipped across the improvised outdoor set. The story included interviews with District staff, as well as with our partners at the U.S. Coast Guard and California Highway Patrol.

In February 2003, San Francisco's KRON-TV4 television series *Bay Area Backroads* aired its first ever program filmed in high definition format. This special episode, *A Day in the Life of the Golden Gate Bridge*, featured Golden Gate Bridge employees in one of two 30-minute segments. A host of Bridge workers from toll collectors to ironworkers were filmed, in their work settings, talking about both the challenges and the joys experienced in performing their jobs. The program was so well received that it was also included as a feature presentation at the Marin County Fair.

In April 2003, PBS aired a four-part series entitled *Avoiding Armageddon*. Hosted by renowned journalist Walter Cronkite, this series, from Ted Turner Documentaries, explored the volatile connection between terrorism and weapons of mass destruction. The Golden Gate Bridge was featured as part of the fourth episode, *Confronting Terrorism: Turning the Tide*, focusing on what can be done to reduce the threat of terrorism. Viewers were brought to San Francisco to see the "new normal" resulting from the heightened focus on homeland security across the U.S. Around-the-clock efforts to protect the Bridge were featured.

MARIN COUNTY FAIR HONORS BRIDGE

This year the Marin County Fair paid tribute to the magnificence of the 66-year old Golden Gate Bridge with the theme, "*The Bridge for All Generations*."

To honor the extraordinary legacy of the Bridge, a large por-



First ever limited edition Golden Gate Bridge holiday ornament.



tion of the Fair's Exhibit Hall was dedicated to sharing Bridge related facts from the history of original construction through today's large-scale construction and ongoing maintenance programs.

Fairgoers were immediately greeted by a 48-foot model of the Golden Gate Bridge. A short stroll across the model brought them to an interactive 360-degree video produced to let them take their very own virtual trip to the top of one of the 746-foot tall towers. Standing nearby was the original stainless steel scaled replica of one of the towers used by original engineers to gauge tower strength during design. The history and magnitude of original Bridge construction was depicted in an exhibit filled with vintage photos and details of key construction milestones. Also presented was one of the very first automobiles to cross the Bridge in 1937, a restored 1937 Packard. The importance of the largest construction project undertaken since the Bridge opened—the Seismic Retrofit Project—was emphasized with a display depicting the challenges of the job. Tying it all together were plentiful displays of historic photographs and graphics that filled and warmed the hearts of all attending and created a nostalgic mood for many.

Employees from across the entire organization volunteered their time as interpreters of the Bridge's long history. Months of preparation paid off with one of the largest Fair attendance records in recent years. Attendance during the five-day Fair hit



112,000, about 4,000 more than the previous year and a bit short of the highest attendance when, in 1988, 130,000 turned out for the theme, "The Magic of Lucasfilm."

FASTRAK™ MARKET SHARE CLIMBS

When the Golden Gate Bridge initiated electronic toll collection in July 2000, customers rapidly embraced its convenience and continue to do so today. On September 1, 2002, cash tolls were increased from \$3 to \$5, with a discounted toll of \$4 for FasTrak customers. The discounted toll rate brought even more customers to the electronic toll collection system.

After three years of operation, 84,000 FasTrak accounts have been opened, of which 16,000 were opened in FY 2003. The average daily FasTrak market share climbed from 37 percent in FY 2002 to 47 percent in FY 2003, and FasTrak use during the peak morning commute surpassed the previous year, rising from 60 percent to 69 percent.

FasTrak, the name for electronic toll collection systems in California, allows customers to prepay an account and pay tolls electronically, without having to stop, using a small electronic transponder mounted on the inside of the vehicle's windshield. FasTrak is currently accepted on the Golden Gate Bridge, on all other California Department of Transportation operated Bay Area bridges and on several toll facilities in southern California.



Photos include some of the many Bridge-related displays at the Marin County Fair.

LEFT: A restored 1937 Packard was one of the first automobiles to cross the Bridge.

CENTER: Fairgoers learned about the original Bridge construction through a series of historic photos.

RIGHT: A close-up look at safety gear worn by today's Bridge workers was a big hit.



Public Safety Railing being installed on Golden Gate Bridge. Railing components were welded and painted on site.



SAFETY RAILING INSTALLATION

Unique to the Golden Gate Bridge are its publicly accessible sidewalks. The east sidewalk serves as the promenade for visitors and bicyclists during daylight hours, and at night, bicyclists are provided access via a secured gate system. The west sidewalk serves as a key staging area during the week for workers and their equipment and as the main artery for many weekend cycling enthusiasts.

With the number of sidewalk users steadily on the rise, a railing between the six-lane roadway and two sidewalks was imperative as the original design provided only an eighteen-inch high steel barrier separating the two. To improve safety conditions, a four foot, six inch high railing was designed to be installed between the sidewalks and the roadway. The design review process ensured that the new railing would not adversely impact the historic architecture of the Bridge, obscure the spectacular views,

impact wind stability, or compromise the safety of motorists, bicyclists, or pedestrians. Railing components were fabricated off-site in 2002, and installation began in January 2003 and was completed in November 2003.

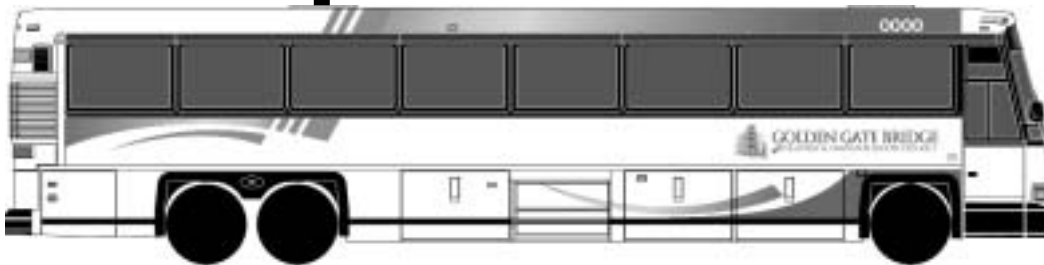
NEW BUSES PURCHASED

In August 2000, the California Air Resource Board (CARB) set new emission standard regulations for public transit operators. Since then, Golden Gate Transit (GGT) has been working incessantly toward full compliance. A key step toward CARB compliance was the purchase of 80 new buses built by Orion Bus Industries, Oriskany, New York. The Orion buses will replace buses built in 1989. The Orion buses are equipped with newer series 50 EGR 2.5 Oxides of Nitrogen (NOx)/.01 Particulate Matter (PM) emission engines. They also include the latest in exhaust after-treatment reduction devices that further reduce emissions. At a cost of \$28.5 million, the buses will be purchased with 81 percent federal and 19 percent District funds. They are scheduled to be placed into service in early 2004.

BUSES REFURBISHED

This year funding was secured to assist GGT in fully refurbishing and replacing the engines in 51 buses purchased in 1991 with new, low emission, clean diesel engines compliant with the new CARB requirements. To complete the project, grant funds totaling

Illustration of Orion bus adorned with the new District logo.



\$5 million came from the Federal Transit Administration, and the District contributed \$1.3 million.

Each of the 51 buses is being repowered with the latest clean diesel technology and exhaust after-treatments to reduce both PM and NOx. In addition, all suspension components will be refurbished as needed. The exterior designation signs will be converted to LED to improve readability and improvements to wheelchair securement areas will be made.

FERRY VESSEL UNDERGOES RECONSTRUCTION

Golden Gate Ferry's (GGF) high-speed catamaran, the *M.V. Mendocino*, was introduced into the Larkspur-San Francisco route on September 10, 2001. In spring 2002, routine inspections by the U.S. Coast Guard and GGF showed that substantial warranty work was needed to ensure the long-term viability of the vessel. Specifically, it was determined that much of the aluminum plating incorporated into the hulls and superstructure was manufactured using a process that did not meet stringent marine engineering requirements.

In December 2002, the *M.V. Mendocino* was returned to Nichols Brothers in Washington, the original builder. Once in Washington, the twin hulls and superstructure underwent extensive reconstruction, all under warranty and at no cost to the District. At the same time, the upper deck was modified with the addition of enhanced weather protection and the addition of 42 seats, bringing the total seating capacity up from 408 to 450. The vessel will return to service in December 2003.



PACIFIC BELL FERRY SERVICE HITS NEW HIGH

Direct GGF service between Larkspur and the San Francisco Giants' home at Pacific Bell Park hit the high mark this year with just over 107,000 riders, up from just under 80,000 passengers in the previous year.

SEISMIC CONSTRUCTION ON TRACK

Funding and completing the \$392 million three-phased seismic retrofit of the Golden Gate Bridge is the District's number one priority. Since the 7.1 Richter magnitude Loma Prieta Earthquake struck the San Francisco Bay Area in 1989, the District has tenaciously pursued an unprecedented program to strengthen the Bridge against a nearby quake of up to Richter magnitude 8.3, while maintaining the historic and architectural integrity of this cherished icon.

The first of three construction phases began in 1997 with the retrofit of the 1,080 foot-long north approach viaduct, the most vulnerable part of the span. This \$71 million undertaking was funded entirely with toll revenue and was completed in April 2002. The five independent spans that comprise the viaduct were linked together to move as one during an earthquake. Below the roadway, out of view of the traveling public, and without interrupting traffic, five new support towers that are ten times stronger than the original ones were constructed on new enlarged foundations. Expansion joints and isolation bearings were installed in key locations on the viaduct to decrease the transfer of forces imposed by an earthquake.

In June 2001, the \$161 million second construction phase commenced which retrofits the second most vulnerable section of the span—the south approach viaduct structures including the south approach viaduct, south anchorage housing, Fort Point arch, and south pylons. This is the most complex of the three phases. Retrofit measures developed for each of these structures reflect their individual behavior under seismic ground motions and their interaction at points of interface, while accommodating their already-in-place historic configuration.

Federal and state funds were aggressively sought and authorized to complete this work.

Significant progress has been made during the last year and



ABOVE: The most complex of the three construction phases is underway and includes the retrofit of the Fort Point arch which is situated directly over Historic Fort Point.

LEFT: Pictured are two elements of the south approach retrofit. One of five steel support towers is currently being replaced and the concrete pylon is being strengthened with steel plating and concrete.



Photos illustrate the complexity of the south pylon strengthening.

ABOVE LEFT: Steel plating is added to the exterior.

ABOVE MIDDLE: Sleeves for the tie-downs are constructed.

ABOVE RIGHT: Reinforcing steel (rebar) is then added.

BELOW RIGHT: The plating and rebar are then covered with concrete and the hole backfilled.



completion is on schedule for 2005. Working among the millions of annual Bridge visitors, steel is being erected and concrete poured to strengthen the Bridge. Without closing the Bridge to traffic, the steel support towers and bottom lateral bracing of the south approach viaduct are being entirely replaced, and seismic isolation bearings and joints will be installed at the roadway level. The west wall of the south anchorage housing is being replaced and massive internal shear walls constructed. Five million pounds of external and internal steel plating are being added to the walls of the south pylons. The historic architectural appearance of the external surfaces of the pylons will remain unchanged with the addition of a new external concrete cover on top of the new plating. The Fort Point arch will be retrofitted with new arch bearings and energy dissipation devices, and isolation joints will be installed. Steel members throughout the entire arch are undergoing extensive strengthening.

The construction site itself adds to the job's complexity as it is located in a very compact area bound on the west by the Pacific Ocean and on the east by very steep slopes. Severe weather including strong wind and high waves are nearly constant. Access consists of two narrow roads that are shared with tourists.

Time is of the essence to complete this massive project as the U.S. Geological Survey indicates there is a 62 percent chance of a major earthquake striking the Bay Area in the next 30 years. The

District continues to work diligently at the state and federal levels to assure grant funding for the \$160 million third and final phase of construction which will retrofit the main span and towers. Funding has not yet been finalized. Once funding is secured, it will take approximately four years to complete the final phase.





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

INDEPENDENT AUDITOR’S REPORT

We 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, 2003 and 2002, as listed in the table of contents. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2003 and 2002, 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 discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3.*

The Management’s Discussion and Analysis, as listed in the table of contents, 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 do not express an 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
Certified Public Accountants
Walnut Creek, California
September 26, 2003

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of the Golden Gate Bridge, Highway and Transportation District's (District) activities and financial performance provide an introduction to the financial statements of the District for the fiscal years ended June 30, 2003 and 2002.

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

The booming economy in FY 2000 drove demand for District services to their highest levels ever. The District has seen the contraction of those service levels that began in FY 2001 continue through FY 2002 and FY 2003 due to the sluggish economy.

	<u>2003</u>	<u>2002</u>
Total Vehicle Crossings	19,428,278	20,347,396
% increase/(decrease)	-4.5%	
Bus Patronage	8,472,938	8,937,802
% increase/(decrease)	-5.2%	
Ferry Patronage	1,575,072	1,652,013
% increase/(decrease)	-4.7%	
Club Bus Riders	108,511	123,545
% increase/(decrease)	-12.2%	

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 900 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. Approximately 39 million vehicles cross the Golden Gate Bridge and 10 million customers ride Golden Gate Transit each year.

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 56 percent by surplus Golden Gate Bridge tolls and 24 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 \$355.3 million at June 30, 2003, a \$35.2 million increase from June 30, 2002.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Assets:			
Current and other assets	\$110,957	\$113,371	\$113,062
Capital assets	<u>356,106</u>	<u>312,824</u>	<u>289,163</u>
Total Assets	<u>467,063</u>	<u>426,195</u>	<u>402,225</u>
Liabilities:			
Current liabilities	32,639	26,906	18,205
Debt outstanding	61,000	61,000	61,000
Other non current liabilities	<u>18,154</u>	<u>18,242</u>	<u>17,110</u>
Total Liabilities	<u>111,793</u>	<u>106,148</u>	<u>96,315</u>
Net Assets:			
Invested in capital assets, net of debt	295,106	251,824	228,163
Restricted for debt requirements	13,624	13,508	19,943
Unrestricted	<u>46,540</u>	<u>54,715</u>	<u>57,804</u>
Total Net Assets	<u>\$355,270</u>	<u>\$320,047</u>	<u>\$305,910</u>

The largest portion of the District's net assets each year (83.1% at June 30, 2003) 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 (3.8% at June 30, 2003) represents resources that are subject to external restrictions on how they can be used under Bond resolutions. The remaining *unrestricted net assets* (13.1% at June 30, 2003) may be used to meet the District capital and ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS FOR FISCAL YEAR 2003

- Operating Revenues increased by 24.1% from \$84.5 million to \$104.8 million, principally due to a toll increase which took effect on September 1, 2002.
- Operating Expenses before depreciation increased by 10.3% from \$110.0 million to \$121.3 million as a result of higher nation-wide employee health benefit costs, labor costs and the resumption of 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 35.1% or \$9.0 million from 2002. Depreciation increased from \$13.7 million in 2002 to \$15.2 million in 2003 as a result of completion of the Phase I portion of the seismic retrofit of the Bridge. Operating loss before non-operating income and expenses decreased from a loss of \$39.3 million in 2002 to a loss of \$31.8 million in 2003.
- Non-Operating Income (Expenses) decreased from a net revenue of \$23.5 million in 2002 to a net revenue of \$16.9 in 2003 due principally to decreased state operating assistance.
- Capital contributions received in the form of grants from the Federal and State governments increased from \$29.9 million in 2002 to \$50.1 million in 2003 due to Phase II of the seismic retrofit construction of the Bridge.

FINANCIAL OPERATIONS HIGHLIGHTS FOR FISCAL YEAR 2002

- Operating Revenues decreased by 2.1% from \$86.3 million to \$84.5 million, principally due to decreased ridership from the economic recession.
- Operating Expenses before depreciation increased by 5.9% from \$103.8 million to \$110.0 million as a result of the increased expenses associated with large increases in insurance costs due to the hardening of the national insurance market, salary increases, and higher nation-wide employee health benefit costs.
- As a result of the above, the operating loss before depreciation increased by 45.7% or \$8.0 million from 2001. Depreciation increased from \$12.9 million in 2001 to \$13.7 million in 2002 as a result of new equipment and vehicles being placed in service, which included fourteen replacement buses and the M.V. Mendocino ferry.
- Non-Operating Income (Expenses) increased from a net revenue of \$22.9 million in 2001 to a net revenue of \$23.5 million in 2002 due principally to an increase in state operating assistance.
- Capital Contributions received in the form of grants from the Federal and State governments increased from \$14.1 million in 2001 to \$29.9 million in 2002.

SUMMARY OF CHANGES IN NET ASSETS (in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating revenues	\$ 104,781	\$ 84,458	\$ 86,336
Operating expenses	<u>(121,344)</u>	<u>(109,974)</u>	<u>(103,833)</u>
Loss before depreciation and other non-operating income and expenses	(16,563)	(25,516)	(17,497)
Depreciation	<u>(15,192)</u>	<u>(13,747)</u>	<u>(12,884)</u>
Operating loss	(31,755)	(39,263)	(30,381)
Other non-operating income and expenses, net	<u>16,880</u>	<u>23,539</u>	<u>22,863</u>
Loss before capital contributions	(14,875)	(15,724)	(7,518)
Capital contributions	<u>50,098</u>	<u>29,861</u>	<u>14,119</u>
Increase in net assets	<u>\$ 35,223</u>	<u>\$ 14,137</u>	<u>\$ 6,601</u>

DISTRICT TOLLS AND FARES

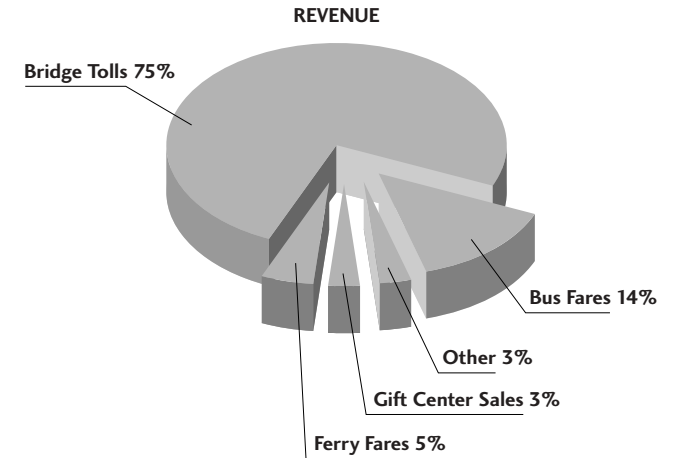
Golden Gate Bridge tolls are set by Board Policy and change when determined necessary by the Board. In June of 2002, the District Board approved a 66% increase in the cash Bridge toll to \$5.00 and a 33% increase in the FasTrak toll to \$4.00, effective September 1, 2002. The District Board established a policy in 1999 that increased transit fares by the local Consumer Price Index for five years. In 2003, the fifth year of that policy, fares were increased by 5.5%. The tolls and fares were as follows:

	<u>2003</u>	<u>2002</u>
Average Bridge toll	\$4.09	\$2.91
Average Bus fare	\$1.73	\$1.65
Average Ferry fare	\$3.39	\$3.17

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REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2003 (tolls, transit fares, gift center and other):



A summary of revenues for the years ended June 30, 2003 and 2002 and the amount and percentage of change in relation to prior year amounts is as follows (in thousands):

	<u>2003 Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2002</u>	<u>Percent Increase/ (Decrease)</u>	<u>2002 Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2001</u>	<u>Percent Increase/ (Decrease)</u>
Operating:								
Bridge tolls	\$ 79,427	46.0%	\$ 20,138	34.0%	\$ 59,289	43.0%	\$ 109	0.2%
Bus fares	14,616	8.5%	(135)	(0.9%)	14,751	10.7%	(1,321)	(8.2%)
Ferry fares	5,343	3.1%	108	2.1%	5,235	3.8%	(385)	(6.9%)
Gift Center sales	2,657	1.5%	170	6.8%	2,487	1.8%	(564)	(18.5%)
Other	2,738	1.7%	42	1.6%	2,696	2.0%	283	11.7%
Total Operating	104,781	60.7%	20,323	24.1%	84,458	61.3%	(1,878)	(2.2%)
Non-Operating:								
Operating assistance	15,046	8.7%	(4,105)	(21.4%)	19,151	13.9%	2,765	16.9%
Investment income	2,591	1.5%	(1,797)	(41.0%)	4,388	3.1%	(2,089)	(32.3%)
Total Non-Operating	17,637	10.2%	(5,902)	(25.1%)	23,539	17.1%	676	3.0%
Capital contributions	<u>50,098</u>	<u>29.0%</u>	<u>20,237</u>	<u>67.8%</u>	<u>29,861</u>	<u>21.7%</u>	<u>15,742</u>	<u>111.5%</u>
Total Revenues	<u>\$172,516</u>	<u>100.0%</u>	<u>\$34,658</u>	<u>25.1%</u>	<u>\$ 137,858</u>	<u>100.0%</u>	<u>\$14,540</u>	<u>11.8%</u>

The operating assistance decrease of 21.4% is mainly attributable to the \$3.6 million decrease in Transportation Development Act assistance and \$1.2 million decrease in State Transit assistance. The investment income decrease of 41.0% is mainly attributable to the negative impact of the sluggish economy on interest rates on investments held by the District. Capital contributions have increased by 67.8% due to the federal funding of Phase II seismic retrofit construction of the Bridge.

The District funds its operations with bridge tolls, transit fares, government grants and other revenue 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 tied to the unaudited supplemental schedule, records how the divisions were funded in FY 2003.

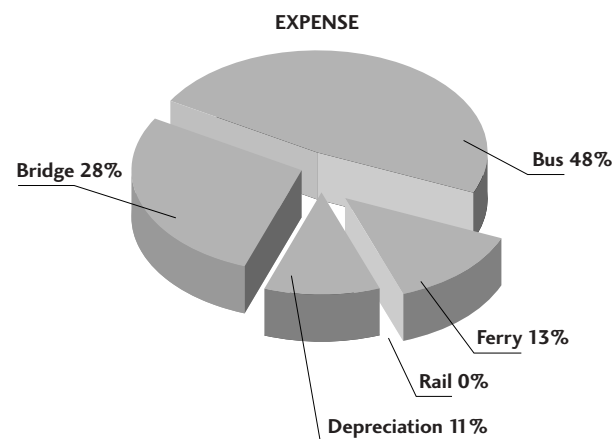
How Golden Gate District was funded in FY 2003

	<u>Bridge Division</u>	<u>Bus Division</u>	<u>Ferry Division</u>	<u>District Total</u>
Bridge Tolls	\$36,770	\$33,167	\$9,490	\$79,427
Patron Fares	-	14,616	5,343	19,959
Other Revenue	5,574	2,148	264	7,986
Government Grants	176	12,408	2,462	15,046
District Toll Reserves	-	4,231	1,192	5,423
Total	\$42,520	\$66,570	\$18,751	\$127,841

For the fiscal year ended June 30, 2002, the operating assistance increase of 16.9% is mainly attributable to the \$1.4 million increase in Transportation Development Act assistance and a \$1 million increase in State Transit Assistance. The investment income decrease of 32.3% is mainly attributable to the negative impact of the sluggish economy on interest rates on investments held by the District. Capital contributions have increased by 111.5% due to the funding of seismic retrofit construction.

EXPENSES

The following chart shows the major cost centers and the percentage of operating expenses for the year ended June 30, 2003:



A summary of expenses for the years ended June 30, 2003 and 2002 and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>Percent 2003 Amount</u>	<u>Increase/ of Total</u>	<u>Percent (Decrease) From 2002</u>	<u>Increase/ (Decrease)</u>	<u>Percent 2002 Amount</u>	<u>Increase/ of Total</u>	<u>Percent (Decrease) From 2001</u>	<u>Increase/ (Decrease)</u>
Operating:								
Bridge	\$ 37,444	27.27%	\$ 4,056	12.15%	\$ 33,388	26.99%	\$ 1,692	5.30%
Bus	65,873	47.98%	6,526	11.00%	59,347	47.97%	4,198	7.60%
Ferry	17,862	13.01%	777	4.55%	17,085	13.81%	178	1.10%
Rail	165	0.12%	11	7.14%	154	0.12%	73	90.10%
Total Operating	<u>121,344</u>	<u>88.38%</u>	<u>12,127</u>	<u>11.03%</u>	<u>109,974</u>	<u>88.89%</u>	<u>6,141</u>	<u>5.90%</u>
Interest expense	757	0.55%	757	0.00%	0	0.00%	0	0.00%
Depreciation	<u>15,192</u>	<u>11.07%</u>	<u>1,445</u>	<u>10.51%</u>	<u>13,747</u>	<u>11.11%</u>	<u>863</u>	<u>6.70%</u>
Total Expenses	<u>\$137,293</u>	<u>100.00%</u>	<u>\$13,572</u>	<u>10.97%</u>	<u>\$123,721</u>	<u>100.00%</u>	<u>\$7,004</u>	<u>6.00%</u>

The 12.15% increase in bridge operating expenses is mainly attributable to the increased medical benefit costs plus higher insurance premiums. The 11.00% increase in bus operating expenses is attributable to increased labor, medical benefit costs, workers compensation costs and the return of pension contributions.

For the fiscal year ended June 30, 2002, the increase in bridge operating expenses was mainly attributable to the increased labor and benefit costs plus higher insurance premiums. The 7.6% increase in bus operating expenses was also attributable to increased labor and benefit costs plus workers compensation costs.

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 2003, the District expended \$60.0 million, which is an increase of \$22.3 million or 59.1% over amount expended in 2002, on capital activities. This included major construction projects, principally the seismic retrofit project (\$45.7 million), public safety railing (\$2.8 million), FasTrak transponders (\$1.0 million), bus rehabilitation (\$2.5 million), six regional express buses (\$2.5 million) and ferry Spaulding engine replacement (\$1.3 million).

During 2003, completed projects totaling \$93.0 million, which is an increase of \$75.7 million or 437.6% over the amount completed in 2002, were closed from construction-in-progress to their respective capital accounts. The major completed projects included the seismic retrofit design (\$18.2 million), seismic retrofit of North Approach Viaduct (\$66.3 million), six regional express buses

(\$2.5 million), four 30-foot replacement buses (\$1.1 million), FasTrak transponders (\$1.0 million), ferry Spaulding engine replacement (\$2.4 million) and radio microwave equipment (\$1.0 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. Additional information on the District's capital assets and commitments can be found in the notes to the financial statements.

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, 2003, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 1.00% to 1.77% (1.2% and 2.7% in 2002). 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

In 2000 Standard & Poor's and Fitch gave the District the highest credit rating (AA- and AA-) in the nation for a single toll facility. In issuing their rating, Fitch wrote the following about the District:

Golden Gate Bridge, Highway and Transportation District Commercial Paper Notes, Series A and Series B are rated "F1+" by Fitch...The long-term "AA-" unsecured debt rating reflects the District's strong economic and financial position.

...The implied "AA-" long-term rating reflects the District's position as a unique regional and

national transportation asset. The Golden Gate Bridge is a critical transportation link with a stable and mature base of traffic. While the single source nature of the primary stream of revenues is a key rating constraint, the monopolistic characteristics of the bridge and the District's public transit operations from the northern counties of Marin and Sonoma to San Francisco solidify its control over that vital corridor and strengthen its overall credit profile. The District's significant ratemaking flexibility and demonstrated willingness to raise tolls are also valuable credit strengths. Other important rating considerations are the levels of insurance and reserves, and the limited amount of debt planned in support of scheduled capital improvements.

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.

Standard and Poor's has maintained the AA- rating for the life of the project. On October 9, 2002, Fitch cited the weakening in the local and national economy, the resulting weakening in District revenues and increase in expenses, and its reliance on a single asset as reason to change the District's long-term rating to A+. The short-term rate was changed to F1 due to these economic and financial changes and the change in J. P. Morgan's rating, the provider of the liquidity facility. The resulting A+ rating is still the highest for an organization of the District's size and structure.

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, 2003 AND 2002 (In thousands)

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents	\$ 53,543	\$ 40,559
Investments	32,365	40,248
Capital and operating grants receivable	2,845	10,055
Accounts receivable	3,044	3,641
Maintenance inventories and supplies - at average cost	3,315	3,060
Prepaid expenses	1,806	1,879
Total unrestricted assets	<u>96,918</u>	<u>99,442</u>
Restricted assets:		
Cash and cash equivalents	13,624	13,508
Total current assets	<u>110,542</u>	<u>112,950</u>
NONCURRENT ASSETS:		
Capital assets		
Nondepreciable capital assets:		
Land	18,026	18,026
Construction in progress	84,792	122,075
Total nondepreciable capital assets	<u>102,818</u>	<u>140,101</u>
Depreciable capital assets:		
Property and equipment:		
Bridge, related buildings and equipment	248,211	163,476
Bus transit property and equipment	109,439	108,682
Ferry transit property and equipment	76,520	78,911
Rail transit property and equipment	439	441
Accumulated depreciation	<u>(181,321)</u>	<u>(178,787)</u>
Total depreciable capital assets	<u>253,288</u>	<u>172,723</u>
Total capital assets	356,106	312,824
Other assets	415	421
Total noncurrent assets	<u>356,521</u>	<u>313,245</u>
TOTAL ASSETS	<u>\$467,063</u>	<u>\$426,195</u>

See accompanying notes to the financial statements.

JUNE 30, 2003 AND 2002 (In thousands)

	<u>2003</u>	<u>2002</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Trade accounts payable	\$12,460	\$11,925
Accrued liabilities	2,833	2,511
Deferred revenue	3,492	3,451
Accrued compensated absences	738	736
Contract retentions	5,945	2,840
Self-insurance liabilities	7,171	5,443
Commercial notes payable	61,000	61,000
Total current liabilities	<u>93,639</u>	<u>87,906</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	6,164	6,626
Self-insurance liabilities	11,990	11,616
Total noncurrent liabilities	<u>18,154</u>	<u>18,242</u>
TOTAL LIABILITIES	<u>111,793</u>	<u>106,148</u>
NET ASSETS:		
Invested in capital assets, net of related debt	295,106	251,824
Restricted for debt requirements	13,624	13,508
Unrestricted	46,540	54,715
TOTAL NET ASSETS	<u>\$355,270</u>	<u>\$320,047</u>

See accompanying notes to the financial statements.

Statements of Revenues, Expenses and Changes in Net Assets

YEARS ENDED JUNE 30, 2003 AND 2002 (In thousands)

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES:		
Bridge tolls	\$ 79,427	\$ 59,289
Transit fares	19,959	19,986
Gift center sales	2,657	2,487
Other operating income	2,738	2,696
Total operating revenues	<u>104,781</u>	<u>84,458</u>
OPERATING EXPENSES:		
Operations	69,234	63,085
Maintenance	26,637	24,906
General and administrative	25,473	21,983
Depreciation	15,192	13,747
Total operating expenses	<u>136,536</u>	<u>123,721</u>
OPERATING LOSS	<u>(31,755)</u>	<u>(39,263)</u>
NONOPERATING REVENUES (EXPENSES):		
Pass-through federal capital assistance:		
Translink and paratransit assistance	4,096	6,151
Translink and paratransit assistance pass-through	(4,096)	(6,151)
Operating assistance:		
State operating assistance	14,113	18,947
Federal operating assistance	665	282
Local operating assistance	268	(78)
Total operating assistance	<u>15,046</u>	<u>19,151</u>
Investment income	2,591	4,388
Interest expense	(757)	-
Total nonoperating revenues	<u>16,880</u>	<u>23,539</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(14,875)</u>	<u>(15,724)</u>
CAPITAL CONTRIBUTIONS	<u>50,098</u>	<u>29,861</u>
INCREASE IN NET ASSETS	35,223	14,137
NET ASSETS, Beginning of year	<u>320,047</u>	<u>305,910</u>
NET ASSETS, End of year	<u>\$355,270</u>	<u>\$320,047</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

YEARS ENDED JUNE 30, 2003 AND 2002 (In thousands)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 103,963	\$ 84,922
Cash payments to suppliers for goods and services	(40,773)	(26,221)
Cash payments to employees for services	(79,651)	(78,657)
Net cash used in operating activities	<u>(16,461)</u>	<u>(19,956)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	<u>16,458</u>	<u>16,476</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions received	61,043	32,405
Capital grants disbursed to other agencies	(4,096)	(6,151)
Interest paid	(757)	(1,037)
Proceeds from sale of capital assets	(14)	493
Purchase of capital assets	<u>(53,958)</u>	<u>(35,080)</u>
Net cash provided by (used in) capital and related financing activities	<u>2,218</u>	<u>(9,370)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds (purchases) of investment securities	9,270	(5,105)
Investment income received	<u>1,615</u>	<u>2,759</u>
Net cash provided by (used in) investing activities	<u>10,885</u>	<u>(2,346)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	13,100	(15,196)
CASH AND EQUIVALENTS, Beginning of year	<u>54,067</u>	<u>69,263</u>
CASH AND EQUIVALENTS, End of year	<u>\$ 67,167</u>	<u>\$ 54,067</u>

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(31,755)	\$(39,263)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	15,192	13,747
Loss from disposal of property and equipment	(152)	-
Effect of changes in:		
Accounts receivable	186	(256)
Inventory and supplies	(255)	163
Other assets	79	(753)
Trade accounts payable	(710)	3,319
Self-insurance liabilities	2,102	1,349
Other liabilities	(688)	1,204
Accrued compensated absences	<u>(460)</u>	<u>534</u>
Net cash used in operating activities	<u>\$(16,461)</u>	<u>\$(19,956)</u>
Supplemental disclosures of cash flow information:		
Noncash investing activities:		
Increase in fair value of investments	<u>\$60</u>	<u>\$230</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

Years Ended June 30, 2003 and 2002

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 composed of five divisions including the District Division, the Bridge Division, the Bus Division, the Ferry Division and the Rail Division. The District Division has no revenues and all its expenses are allocated to general and administrative expenses of the other Divisions (see Note 13).

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 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.

Governmental Accounting Standards Board Statement No. 40 - The District adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. The Statement modifies the custodial credit risk disclosures required by Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The disclosure changes related to implementing this pronouncement are reflected in Note 3.

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 - During fiscal year 2003, the District increased its capitalization threshold from \$1,000 to \$5,000, which resulted in an increase in operating expenses in the amount of \$6,025,000. 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 years
Ferry boats	40 years
Other transit property	5 – 40 years

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.

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, 2003 and 2002 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 2002:					
U.S. Department of Transportation	\$ 23,038	\$ 1,624	\$ 934	\$ --	\$ 25,596
State Transit Assistance	3,844	(19)	440	--	4,265
Total capital contributions	<u>\$ 26,882</u>	<u>\$ 1,605</u>	<u>\$ 1,374</u>	<u>\$ --</u>	<u>\$ 29,861</u>
Capital contributions in fiscal 2003:					
U.S. Department of Transportation	\$ 41,155	\$ 3,207	\$ 439	\$ --	\$ 44,801
State Transit Assistance	1,051	2,680	1,566	--	5,297
Total capital contributions	<u>\$ 42,206</u>	<u>\$ 5,887</u>	<u>\$ 2,005</u>	<u>\$ --</u>	<u>\$ 50,098</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, non-operating 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 restricts the use of net assets.

Unrestricted - This component of net assets consist 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 partici-

pate 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).

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

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.

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>2003</u>	<u>2002</u>
Reported as:		
Unrestricted:		
Cash and cash equivalents	\$ 53,543	\$ 40,559
Investments	<u>32,365</u>	<u>40,248</u>
Total unrestricted cash and investments	<u>85,908</u>	<u>80,807</u>
Restricted:		
Special operating fund	7,598	7,571
Debt service reserve fund	<u>6,026</u>	<u>5,937</u>
Total restricted cash and investments	<u>13,624</u>	<u>13,508</u>
Total cash and investments	<u>\$ 99,532</u>	<u>\$ 94,315</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 District does not have a deposit policy for custodial credit risk.

As of June 30, 2003 (and 2002), \$5,521,000 (2002, \$1,358,000) of the District's bank balance of \$7,248,000 (2002, \$6,154,000) was uninsured and uncollateralized.

Investments

At June 30, 2003 and 2002 cash and investments were comprised of the following (in thousands):

Investments	June 30, 2003			June 30, 2002		
	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	\$ 3,877	\$ --	\$ 3,877	\$ 8,643	\$ --	\$ 8,643
Federal Agency Note	--	--	--	5,039	5,039	--
Federal Agency Discount Note	10,907	10,907	--	--	--	--
Municipal Bonds	--	--	--	5,663	5,663	--
Medium-term Corporate Notes	16,881	11,336	5,545	20,005	3,145	16,860
Commercial Paper	22,349	22,349	--	14,043	14,043	--
Investment in State Treasurer's						
Investment Pool	40,114	40,114	--	37,604	37,604	--
Federal Obligation Mutual Funds	120	120	--	65	65	-
Total investments	94,248	<u>\$ 84,826</u>	<u>\$ 9,422</u>	91,062	<u>\$ 65,559</u>	<u>\$ 25,503</u>
Cash and deposits						
Nonnegotiable certificates of deposit	698			898		
Demand deposits	4,237			1,893		
Cash on hand	349			462		
	<u>\$ 99,532</u>			<u>\$ 94,315</u>		

Interest Rate Risk – State law limits investment maturities to five years as a means of managing entities’ exposure to fair value losses arising from increasing interest rates.

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 provided by Moody’s or S&P’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.

Of the District’s investment in corporate commercial paper at June 30, 2003 (and 2002), \$16,443,000 (2002, \$6,472,000) was rated A+ by Standard & Poor’s. The remaining corporate commercial paper, \$5,906,000 (2002, \$7,571,000), was rated A-1. Of the District’s investment in medium corporate notes at June 30, 2003 (and 2002), \$8,127,000 (2002, \$20,005,000) was rated AA- by Standard & Poor’s. The remaining medium corporate notes \$8,754,000 was rated A+.

As of June 30, 2002, the District’s investment in municipal bonds of \$5,663,000 was rated AAA by Standard & Poor’s. The District did not hold investments in municipal bonds as of June 30, 2003.

As of June 30, 2003 and 2002, the District’s investment in the state treasurer’s investment pool (LAIF) is \$40,113,851 and \$37,604,000. The total amount invested by all public agencies in LAIF at those dates are \$55,422,506,000 and \$47,719,553, respectively. Of that amount, 97.67% and 96.91% is invested in non-derivative financial products and 2.33% and 3.09% in structured notes and asset-backed securities as of June 30, 2003. 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’s limits the purchase of medium-term corporate notes to not exceed 30% of the District’s surplus money. At June 30, 2003 and 2002, these investments are 17.9% and 22.0%, respectively, of the District’s total investments. At June 30, 2003 and 2002, the District holds more than 5% of the District’s investments in the following issues:

<u>Investment</u>	<u>2003</u>	<u>2002</u>
Edison Asset Securitization L Commercial Paper	8.32%	--
Sheffield Rec. Corporation Commercial Paper	8.06%	--
Bear Stearns Co. Inc. Commercial Paper	6.27%	8.31%
General Electric Capital Corp. Commercial Paper	--	6.45%

4 CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2003 and 2002 was as follows (in thousands):

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>Transfers</u>	<u>Balance June 30, 2003</u>
<i>Capital assets, not being depreciated:</i>					
Land	\$ 18,026	\$ --	\$ --	\$ --	\$ 18,026
Construction in progress	122,075	60,043	(1,085)	(96,241)	84,792
Total capital assets, not being depreciated	<u>140,101</u>	<u>60,043</u>	<u>(1,085)</u>	<u>(96,241)</u>	<u>102,818</u>
<i>Capital assets, being depreciated:</i>					
Bridge, related buildings and equipment	163,476	--	(2,005)	86,740	248,211
Bus transit property and equipment	108,682	--	(5,047)	5,804	109,439
Ferry transit property and equipment	78,911	--	(6,088)	3,697	76,520
Rail transit property and equipment	441	--	(2)	--	439
Total capital assets, being depreciated	<u>351,510</u>	<u>--</u>	<u>(13,142)</u>	<u>96,241</u>	<u>434,609</u>
<i>Accumulated depreciation</i>					
Bridge, related buildings and equipment	(68,668)	(5,680)	1,709	--	(72,639)
Bus transit property and equipment	(70,101)	(6,241)	4,885	--	(71,457)
Ferry transit property and equipment	(39,715)	(3,242)	6,062	--	(36,895)
Rail transit property and equipment	(303)	(29)	2	--	(330)
Less accumulated depreciation	<u>(178,787)</u>	<u>(15,192)</u>	<u>12,658</u>	<u>--</u>	<u>(181,321)</u>
Total capital assets, being depreciated, net	<u>172,723</u>	<u>(15,192)</u>	<u>(484)</u>	<u>96,241</u>	<u>253,288</u>
Total capital assets, net	<u>\$ 312,824</u>	<u>\$ 44,851</u>	<u>\$ (1,569)</u>	<u>\$ --</u>	<u>\$ 356,106</u>

4 CAPITAL ASSETS (CONTINUED)

	Balance July 1, 2001	Additions	Reductions/ Adjustments	Transfers	Balance June 30, 2002
<i>Capital assets, not being depreciated:</i>					
Land	\$ 18,026	\$ --	\$ --	\$ --	\$ 18,026
Construction in progress	101,347	37,528	16	(16,816)	122,075
Total capital assets, not being depreciated	<u>119,373</u>	<u>37,528</u>	<u>16</u>	<u>(16,816)</u>	<u>140,101</u>
<i>Capital assets, being depreciated:</i>					
Bridge, related buildings and equipment	162,311	--	(145)	1,310	163,476
Bus transit property and equipment	108,326	--	(4,512)	4,868	108,682
Ferry transit property and equipment	68,289	--	(16)	10,638	78,911
Rail transit property and equipment	441	--	--	--	441
Total capital assets, being depreciated	<u>339,367</u>	<u>--</u>	<u>(4,673)</u>	<u>16,816</u>	<u>351,510</u>
<i>Accumulated depreciation</i>					
Bridge, related buildings and equipment	(64,851)	(3,943)	126	--	(68,668)
Bus transit property and equipment	(67,013)	(7,475)	4,387	--	(70,101)
Ferry transit property and equipment	(37,443)	(2,296)	24	--	(39,715)
Rail transit property and equipment	(270)	(33)	--	--	(303)
Less accumulated depreciation	<u>(169,577)</u>	<u>(13,747)</u>	<u>4,537</u>	<u>--</u>	<u>(178,787)</u>
Total capital assets, being depreciated, net	<u>169,790</u>	<u>(13,747)</u>	<u>(136)</u>	<u>16,816</u>	<u>172,723</u>
Total capital assets, net	<u>\$ 289,163</u>	<u>\$ 23,781</u>	<u>\$ (120)</u>	<u>\$ -</u>	<u>\$ 312,824</u>

For fiscal years ended June 30, 2003 and 2002 respectively, interest costs of \$0 and \$1,037,000 were offset by interest income of \$0 and \$592,000, resulting in \$0 and \$445,000 of net interest costs, which was capitalized as construction in progress for the Bridge Seismic Retrofit Project.

Construction in progress consists of the following projects at June 30, 2003 and 2002 (in thousands):

	<u>2003</u>	<u>2002</u>
Bridge seismic retrofit	\$ 73,678	\$ 113,225
Bridge toll collection system	--	62
Bridge safety railing	4,329	1,534
District microwave system equipment	--	967
Ferry fuel system replacement	--	24
Ferry replacement	62	528
Ferry Spaulding repower	--	1,068
Bus replacement	2,961	1,206
Other	3,762	3,461
Total construction in progress	<u>\$ 84,792</u>	<u>\$ 122,075</u>

At June 30, 2003 and 2002, the District had commitments of approximately \$77,123,000 and \$117,009,000, respectively, for bridge-related projects and approximately \$348,000 and \$112,000, respectively, for transit equipment and 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, 2003, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 1.00% to 1.77%.

6 CAPITAL GRANTS PASSED-THROUGH TO MTC

The District passed-through its federal capital assistance allocation of \$4,096,000 and \$6,151,000 for the years ended June 30, 2003 and 2002, respectively, to the Metropolitan Transportation Commission (MTC) for the

Translink Project. 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 Metropolitan Transportation Commission (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, 2003 and 2002 (in thousands):

	<u>2003</u>	<u>2002</u>
Transportation Development Act	\$ 11,971	\$ 15,621
Federal Transit Administration	665	282
State Transit Assistance	1,966	3,144
Marin County Transit local funds	268	(78)
CalTrans	176	182
Total	<u>\$ 15,046</u>	<u>\$ 19,151</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. 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, 2000, 1999, and 1998, there are no contributions required for fiscal years 2003, 2002, and 2001, respectively. 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 ending June 30, 2003, 2002, and 2001, the District's annual pension costs for CALPERS is zero. The required contribution was determined as part of the June 30, 2000, 1999, and 1998 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 smoothes 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, 2000 is 28 years.

Funding progress information for the District for 2003 is unavailable as of the date of this report.

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 Plan 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, 2003, 2002, and 2001, 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.

SCHEDULE OF FUNDING PROGRESS (in thousands)

Valuation Date	Actuarial Value of Assets	Entry Age Normal Accrued Liability	Excess Assets	Funded Ratio	Annual Covered Payroll	Excess Assets as a % of Payroll
6/30/00	\$178,005	\$140,777	\$37,228	126.4%	\$29,910	124.5%
6/30/01	182,590	155,100	27,490	117.7%	31,486	87.3%
6/30/02	169,966	168,486	1,480	100.9%	32,833	4.5%

The District's funding progress information as of January 1, 2003 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
1/1/01	\$119,091	\$91,667	\$27,424	130%	\$20,085	137%
1/1/02	118,198	101,643	16,555	116%	21,689	76%
1/1/03	111,546	113,349	(1,803)	98%	23,660	(8%)

Actuarially Determined Contributions Required and Contributions Made - The District's contributions to GGT-ARP for the years ended June 30, 2003, 2002 and 2001 are the result of collective bargaining. The total pension expense and funded contribution were \$0, \$0, and \$0 for the years ended June 30, 2003, 2002 and 2001, respectively (0%, 0%, and 0% of current covered payroll of \$22,922,000, \$22,093,000, and \$20,285,000 for 2003, 2002 and 2001, 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. Pension expense for the Inlandboatmen's plan was \$229,000, \$217,000, and \$195,000 for the years ended June 30, 2003, 2002, and 2001, respectively. The District contributed to Inlandboatmen's 8.5%, 8.5%, and 8.1% of payroll for covered employees for the years ended June 30, 2003, 2002, and 2001, respectively. The District's covered payroll for employees participating in this plan was \$2,700,000, \$2,570,000, and \$2,404,000 for the years ended June 30, 2003, 2002, and 2001, respectively. Pension expense for the MEBA plan was \$106,000, \$110,000, and \$113,000 for the years ended June 30, 2003,

2002, and 2001, respectively. The District contributed to MEBA 9.7%, 9.1%, and 8.4% of payroll for covered employees for the years ended June 30, 2003, 2002, and 2001, respectively. The District's covered payroll for employees participating in this plan was \$1,086,000, \$1,204,000, and \$1,347,000 for the years ended June 30, 2003, 2002, and 2001, respectively.

9 POSTRETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides postretirement health care benefits. The benefits are provided to all employees 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 579 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 \$50.00 per month. 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 \$3,447,000 and \$2,518,000 for the years ended June 30, 2003 and 2002, 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 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	\$30,000,000/\$30,000,000 annual aggregate
Workers' compensation	\$1,000,000 per claim	Statutory limits excess of self insurance
Health benefits	\$150,000 per individual	Stop loss above \$150,000
Northwestern Pacific Railroad		
Right of Way property	\$50,000 per occurrence	\$1,000,000 per occurrence/annual aggregate
Boiler and machinery	\$500 per accident	\$1,000,000 per occurrence
Bus Fleet	\$5,000,000 per occurrence	\$30,000,000 per occurrence/annual aggregate
Property (earthquake/flood)	\$1,000,000 per occurrence, 5% per structure	\$45,000,000 per occurrence/annual aggregate
Property (bridge structure)	\$15,000,000 per occurrence	\$50,000,000 per occurrence
Bridge use and occupancy	30 days	\$15,000,000 per occurrence
Ferry Hull, Machinery	\$250,000 annual	\$1,000,000 per occurrence
Marine	\$100,000 annual aggregate	\$75,000,000 per occurrence
Crime and dishonesty	\$25,000 per occurrence	\$1,000,000 Computer Fraud, Faithful
Performance.		
		\$500,000 Money & Securities – Toll Plaza, Depositor's Forgery
		\$15,000 Money & Securities, Other all per occurrence/annual aggregate.
Public officials liability	\$100,000 per occurrence	\$5,000,000 per occurrence/annual aggregate

All property is insured at full replacement value. To date, there have been no significant reductions in any of the District's insurance coverage, and no settlement amounts have exceeded commercial insurance coverage for the last three years. Effective April 8, 2002, the District reduced its coverage of Property (bridge structure) from \$100,000,000 to \$25,000,000 per occurrence/annual aggregate. In addition, this coverage also excludes acts of terrorism. This reduction in coverage was in response to a reduced number of large-scale structure insurers in the post- September 11 environment and a substantial increase in premium costs.

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 lia-

bility 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, 2003 and 2002 are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Self-insurance liabilities,		
beginning of fiscal year	\$ 17,059	\$ 15,710
Incurred claims and changes in estimates	11,465	7,991
Claim payments and related costs	<u>(9,363)</u>	<u>(6,642)</u>
Total self-insured claims liabilities	19,161	17,059
Less current portion	<u>(7,171)</u>	<u>(5,443)</u>
Non-current portion	<u>\$ 11,990</u>	<u>\$ 11,616</u>

11 RELATED PARTY TRANSACTIONS

Northwestern Pacific Railroad Authority - The District entered into a joint powers agreement creating the Northwestern Pacific Railroad Authority (NWPRRA), to obtain and hold title to land necessary to complete the Northwestern Right of Way project. The members of NWPRRA are the District, the North Coast Railroad Authority (NCRA) and the County of Marin. The Board of the NWPRRA is comprised of seven members; two appointed by the Board of Supervisors of Marin County, two appointed by the Board of NCRA and three appointed by the District. The NWPRRA does not operate the right-of-way railroad, but does own, maintain and permit rail operations by third parties. Any debt of the NWPRRA is not the debt of the members of NWPRRA. The NWPRRA completed the purchase of the right of way on April 29, 1996, which consisted of the Healdsburg and Lombard segments.

The District has been appointed managing agency for the NWPRRA and provides administrative personnel and facilities. The District was reimbursed for such services in fiscal years 2003 and 2002 in the amount of \$115,000 and \$213,963, respectively. The District has total receivables from NWPRRA of \$14,000 and \$21,000 at June 30, 2003 and 2002, respectively, for advances for administrative support.

Summary financial information for NWPRRA is as follows (in thousands):

	<u>2003</u> <u>(Unaudited)</u>	<u>2002</u> <u>(Audited)</u>
As of June 30:		
Total assets	\$ 23,453	\$ 23,420
Total liabilities	<u>282</u>	<u>283</u>
Equity	<u>\$ 23,171</u>	<u>\$ 23,137</u>
For the years ended June 30,		
Operating revenues	\$ 235	\$ 247
Operating expenses	<u>303</u>	<u>465</u>
Operating income (loss)	(68)	(218)
Investment income	<u>102</u>	<u>19</u>
Excess of revenues over (under) expenses	34	(199)
Depreciation on fixed assets acquired with capital grants	<u>99</u>	<u>108</u>
Net income (loss)	<u>\$ 133</u>	<u>\$ (91)</u>

12 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.

13 ALLOCATION OF DISTRICT DIVISION EXPENSE

For the years ended June 30, 2003 and 2002, 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>2003</u>	<u>2002</u>
Bridge	\$ 6,600	\$ 6,034
Bus	5,699	5,208
Ferry	1,750	1,594
Rail	<u>13</u>	<u>12</u>
Total	<u>\$ 14,062</u>	<u>\$ 12,848</u>

14 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 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.

Supplemental Schedule of Revenues and Expenses by Division (Non-GAAP Basis)

YEARS ENDED JUNE 30, 2003 AND 2002 (In thousands)

	Total		Bridge Division		Bus Division		Ferry Division		Rail Division	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
OPERATING REVENUES:										
Bridge tolls	\$79,427	\$59,289	\$79,427	\$59,289	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transit fares	19,959	19,986	-	-	14,616	14,751	5,343	5,235	-	-
Gift center sales	2,657	2,487	2,657	2,487	-	-	-	-	-	-
Other operating income	2,738	2,696	326	252	1,937	1,780	264	550	211	114
Total operating revenues	104,781	84,458	82,410	62,028	16,553	16,531	5,607	5,785	211	114
OPERATING EXPENSES:										
Operations	69,234	63,085	15,479	14,465	42,779	38,316	10,976	10,304	-	-
Maintenance	26,637	24,906	12,088	10,809	11,314	11,026	3,070	2,917	165	154
General and administrative	25,473	21,983	9,877	8,114	11,780	10,005	3,816	3,864	-	-
Depreciation	15,192	13,747	5,681	3,981	6,241	7,438	3,242	2,295	28	33
Total operating expenses	136,536	123,721	43,125	37,369	72,114	66,785	21,104	19,380	193	187
OPERATING INCOME (LOSS)	(31,755)	(39,263)	39,285	24,659	(55,561)	(50,254)	(15,497)	(13,595)	18	(73)
NONOPERATING REVENUES (EXPENSES):										
Operating assistance:										
State operating assistance	14,113	18,947	176	182	11,489	15,475	2,448	3,290	-	-
Federal operating assistance	665	282	-	-	651	238	14	44	-	-
Local operating assistance	268	(78)	-	-	272	(138)	-	60	(4)	-
Total operating assistance	15,046	19,151	176	182	12,412	15,575	2,462	3,394	(4)	-
Investment income	2,591	4,388	2,591	4,388	-	-	-	-	-	-
Interest expense	(757)	-	(757)	-	-	-	-	-	-	-
Total nonoperating revenues	16,880	23,539	2,010	4,570	12,412	15,575	2,462	3,394	(4)	-
NET INCOME (LOSS)	(14,875)	(15,724)	41,295	29,229	(43,149)	(34,679)	(13,035)	(10,201)	14	(73)
DEPRECIATION ON CAPITAL ASSETS										
ACQUIRED WITH CAPITAL GRANTS	9,452	9,470	1,359	1,226	5,726	6,828	2,353	1,402	14	14
EXCESS REVENUES (LOSS)	<u>\$ (5,423)</u>	<u>\$ (6,254)</u>	<u>\$42,654</u>	<u>\$30,455</u>	<u>\$ (37,423)</u>	<u>\$ (27,851)</u>	<u>\$ (10,682)</u>	<u>\$ (8,799)</u>	<u>\$ 28</u>	<u>\$ (59)</u>