



Agenda Item No. 6

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 26, 2009

From: OPEB Retirement Investment Trust Board

Subject: **RECEIVE THE GOLDEN GATE BRIDGE, HIGHWAY, AND
TRANSPORTATION DISTRICT'S OTHER POSTEMPLOYMENT
BENEFIT TRUST'S AUDITED FINANCIAL STATEMENTS FOR THE
YEAR ENDING JUNE 30, 2008**

Recommendation

Staff recommends that the Board adopt a motion to receive the OPEB Trust's Financial Statements for the Year Ending June 30, 2008, as submitted by the District's Independent Auditor, Vavrinek, Trine, Day & Co, LLP, and received by the OPEB Retirement Investment Trust Board (ORITB) at the ORITB Meeting on February 19, 2009.

Summary

The Independent Auditor's Reports are attached and include the following:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements

The Auditor's opinion given is an unqualified opinion on the District's OPEB Trust's financial statements.

Fiscal Impact

There is no fiscal impact related to this report.

Attachment

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Independent Auditor's Report,
Management's Discussion and Analysis, and
Basic Financial Statements

Year Ended June 30, 2008

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Year Ended June 30, 2008

Table of Contents

	<i>Page(s)</i>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Trust Net Assets Available for Benefits	7
Statement of Changes in Trust Net Assets	8
Notes to the Basic Financial Statements.....	9 – 13
Required Supplementary Information (Unaudited):	
Schedule of Funding Progress as of July 1, 2007	14



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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Golden Gate Bridge Highway & Transportation District,
Other Post Employment Benefits Trust,
San Francisco, California

We have audited the accompanying basic financial statements of the Golden Gate Bridge Highway & Transportation District, Other Post Employment Benefits Trust (the Trust) as of and for the fiscal year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements referred to above present only the Trust and do not purport to, and do not present the financial position of the Golden Gate Bridge Highway & Transportation District, as of June 30, 2008, and the changes in its financial position for the year then ended, in conformity with principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Trust as of June 30, 2008, and the changes in net assets for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
February 13, 2009

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Management's Discussion and Analysis
Year Ended June 30, 2008

The following Management Discussion and Analysis (MD&A) of the Golden Gate Bridge, Highway and Transportation District (District) Other Post Employment Benefits Trust (Trust) financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2008.

The Trust is a single employer defined benefit plan that was created in 2007, following issuance of Governmental Accounting Standard Board (GASB) Statement No. 45 (*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*). GASB No. 45 established reporting standards for state and local government employers that provide postemployment benefits other than pensions (OPEB) for its employees. The Trust is irrevocable and is exempt from federal and state income taxes under Internal Revenue Code Section 115. Its sole purpose is to provide funds to pay postemployment benefits to eligible retirees and their surviving spouse/domestic partners. Benefit allowance provisions are established through employment agreements and memoranda of understanding (MOU) between the District and its employees. As a part of implementation, the District's Board of Directors also established the OPEB Retirement Investment Trust Board to serve as the oversight board for the Trust.

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

Overview of the Financial Statements

In addition to the MD&A, the financial reports for the Trust are comprised of the following components:

- Statement of Trust Net Assets Available for Benefits
- Statement of Changes in Trust Net Assets
- Notes to the Basic Financial Statements.

This report also contains other required supplementary information in addition to the basic financial statements.

The Statement of Trust Net Assets Available for Benefits is a point in time or a snapshot of account balances as of the fiscal year end. It indicates the assets available for future payments to eligible retirees and any current liabilities that are owed at this time.

The Statement of Changes in Trust Net Assets provides a view of current year additions to and deductions from the Trust. Both statements are in compliance with current GASB pronouncements. These pronouncements require certain disclosures and require state and local governments to report using the full accrual method of accounting. The Trust complies with all material requirements of these pronouncements.

The Statement of Trust Net Assets Available for Benefits and the Statement of Changes in Trust Net Assets report information about the Trust's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date. In addition, both realized and unrealized gains and losses are shown on investments.

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Management's Discussion and Analysis
Year Ended June 30, 2008

These two statements report the Trust's net assets held in trust for OPEB benefits, which is the difference between assets and liabilities. This is generally considered to be a good way to measure the Trust's financial position. Over time, increases and decreases in Trust's net assets are indicators of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring the Trust's overall health.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. See Notes to Financial Statements beginning on page 9 of this report.

Other Information

In addition to the financial statements and accompanying notes, other information is presented as required supplementary information concerning the Trust's progress in funding its obligations to provide OPEB benefits to eligible retirees.

Financial Analysis-Fiscal Year Ended June 30, 2008

- Net assets may serve over time as a useful indication of the Trust's financial position. The assets exceeded its liabilities at the close of the fiscal year 2008 by \$5,348,700. All of the net assets are available to meet the Trust's ongoing obligations to eligible retirees.
- The District's funding policy is to fully fund the Trust based on the most recent actuarial valuation. As of July 1, 2007, the actuarial valuation projected an annual required contribution (ARC) of \$13,502,500. Once the Trust was established, the District fully funded the ARC.
- Net investment loss for fiscal year ended June 30, 2008, amounted to \$348,600. The contributing factor was primarily downgrades in market equity during this unstable economic time.
- Payments from the Trust for fiscal year ended June 30, 2008, amounted to \$4,488,100. Currently, there are 669 participants receiving postemployment benefits.

Condensed Financial Information

The following table indicates the net assets available for benefits as of June 30:

<u>Net Assets</u>	<u>2008</u>
Current assets	\$345,500
Investments at fair value	<u>5,898,300</u>
Total Assets	\$6,243,800
Liabilities	<u>(895,100)</u>
Net Assets	<u>\$5,348,700</u>

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Management's Discussion and Analysis
Year Ended June 30, 2008

Investments comprise 94% of Trust total assets; the remainder consists of short-term cash and cash equivalents that remain liquid in order to meet short-term obligations, and a receivable for investment dividends.

The following table indicates the changes in net assets available for benefits as of June 30:

2008	
Additions	
Contributions	\$10,205,800
Net appreciation/(depreciation) on investments	(455,300)
Investment earnings	106,700
Total additions	9,857,200
Deductions	
Benefits paid to eligible retirees	4,488,100
Administrative expenses	20,400
Total deductions	4,508,500
Increase in Trust Net Assets	5,348,700
Trust Net Assets, beginning of year	-
Trust Net Assets, end of year	\$5,348,700

In additions to the contributions above, the District also paid OPEB benefits directly to providers in the amount of \$3,304,700 during the fiscal year.

Investment Performance- Fiscal Year Ended June 30, 2008

The increase in trust net assets is attributed entirely to contributions made during the fiscal year. The investment objective is to invest funds for a 15-year horizon so that interim fluctuations can be viewed with appropriate perspective, and that long-term appreciation of assets will out-weigh any investment losses. The Trust also maintains up to six months of protected liquidity needs for benefits payments and expenses. Aside from liquid assets, the asset allocation is as follows:

Asset Class	Fiscal Year Ended June 30, 2008		
	Asset Range	Asset Target	Actual Allocation
Domestic Equity	37% - 47%	42%	39.2%
International Equity	14% - 24%	19%	20.6%
Real Estate Investment Trusts (REITS)	1% - 11%	6%	5.7%
Fixed Income	25% - 35%	30%	34.6%
Cash Equivalents	0% - 10%	3%	0.0%

In accordance with the plan documents, the Trust Investment Advisor recommends that assets be rebalanced based upon economic conditions. PFM Asset Management Inc., LLC was hired as the Trust's Investment Advisor and Trust Administrator. For the fiscal year ended June 30, 2008, targeted asset allocations were achieved and in compliance with the current fiscal year investment strategy.

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Management's Discussion and Analysis
Year Ended June 30, 2008

As of fiscal year ended June 30, 2008, the U.S. equity market had declined for the third consecutive quarter. The volatile market has resulted in a negative return on investment of Trust investments in the amount of -4.48%, as compared to the S&P 500 benchmark of -7.69%. Aside from liquid assets, the targeted asset allocation for fiscal year ended June 30, 2009 is as follows:

Asset Class	Fiscal Year Ended June 30, 2009	
	Asset Range	Asset Target
Domestic Equity	31% - 41%	36%
International Equity	18% - 28%	23%
Real Estate Investment Trusts (REITS)	1% - 11%	6%
Fixed Income	30% - 40%	35%

Request for Information

This financial report is designed to provide interested parties with an overview of the Trust'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.

**GOLDEN GATE BRIDGE HIGHWAY AND TRANSPORTATION DISTRICT
 OTHER POST EMPLOYMENT BENEFITS TRUST
 STATEMENT OF TRUST NET ASSETS AVAILABLE FOR BENEFITS
 JUNE 30, 2008**

	<u>2008</u>
ASSETS	
Investments	
Cash and cash equivalents	\$ 336,400
Mutual funds	<u>5,898,300</u>
Total investments	6,234,700
Interest receivable	<u>9,100</u>
TOTAL ASSETS	6,243,800
 LIABILITIES	
Accounts payable	<u>895,100</u>
TOTAL LIABILITIES	895,100
 NET ASSETS	
TOTAL NET ASSETS	<u><u>\$ 5,348,700</u></u>

(A schedule of funding progress is presented on page 14)

The notes to the basic financial statements are an integral part of this statement.

**GOLDEN GATE BRIDGE HIGHWAY AND TRANSPORTATION DISTRICT
 OTHER POST EMPLOYMENT BENEFITS TRUST
 STATEMENT OF CHANGES IN TRUST NET ASSETS
 YEAR ENDED JUNE 30, 2008**

	<u>2008</u>
ADDITIONS:	
GGBHTD Contributions	\$ 10,205,800
Net investment income:	
Net appreciation/(depreciation) on investments	(455,300)
Investment earnings	<u>106,700</u>
Total net investment income	<u>(348,600)</u>
TOTAL ADDITIONS	9,857,200
 DEDUCTIONS	
Other benefits paid to participants	4,488,100
Administrative expenses	<u>20,400</u>
TOTAL DEDUCTIONS	<u>4,508,500</u>
 INCREASE IN PLAN ASSETS	 5,348,700
 NET ASSETS	
Beginning of year	-
End of year	<u><u>\$ 5,348,700</u></u>

The notes to the basic financial statements are an integral part of this statement.

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2008

NOTE 1 – PLAN DESCRIPTION

The following description of the Golden Gate Bridge, Highway and Transportation District (District) Other Post Employment Benefits Trust (Trust) provides only general information. Interested parties should refer to the Trust document for a more complete description of the Trust's provisions.

General

The Trust was created to provide for the funding of retiree health benefits and other postemployment benefits for the District's eligible retirees. The District's Board of Directors also established the OPEB Retirement Investment Trust Board to serve as the retirement board of the Trust. The Trust is irrevocable and is exempt from federal and state income taxes under Internal Revenue Code Section 115. The sole purpose of the Trust is to provide funds to postemployment benefits to qualified retirees and their surviving spouse/domestic partner. Benefit allowance provisions are established through employment agreements and memoranda of understanding (MOU) between the District and its employees. As a separate entity from the District, the Trust's assets are not available to any District creditors.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying basic financial statements are presented on the accrual basis of accounting. Contributions are recognized when due; benefits are recognized when due and payable under the provisions of the Trust.

Investments

Investments are stated at fair market value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. Purchase and sales of securities are reflected on the trade date. Investment income is recognized as earned.

Net Appreciation on Investments

Net appreciation/(depreciation) on investments is comprised of unrealized and realized gains and losses. Unrealized appreciation adjusts investment carrying amounts to reflect current market values, based on quoted prices in an active market.

Administrative Expenses

Certain internal costs of administering the Trust are paid by the District. Administrative expenses for the year ended June 30, 2008 was \$20,400.

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. Actual results could differ from those estimates.

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2008

Effects of New Pronouncements

In April 2004 and June 2004, respectively, GASB issued Statement No. 43 (*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*) and Statement No. 45 (*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*). As a result, the District took the necessary action steps to establish a trust and create a charter to establish an administrative board.

In November 2007, GASB issued Statement No. 52 (*Land and Other Real Estate Held as Investments by Endowments*), requiring endowments to report their land and other real estate investments at fair value. This Statement is effective for the Trust's fiscal year ending June 30, 2009. This Statement is not expected to have an impact on the financial statements.

In June 2008, GASB issued Statement No. 53 (*Accounting and Financial Reporting for Derivative Instruments*), requiring state and local governments to improve reporting information about derivative instruments in their financial statements. This Statement is effective for the Trust's fiscal year ending June 30, 2010. This Statement is not expected to have an impact on the financial statements.

NOTE 3 – INVESTMENTS

The Trust Administrator for the Trust is PFM Asset Management LLC. U.S. Bank National Association is the Trustee and Custodian. As of fiscal year ended June 30, 2008, cash and investments are comprised of the following:

<u>Investment Description</u>	<u>June 30, 2008</u>
Cash and cash equivalents	\$ 336,400
Mutual Funds	5,898,300
Total cash and investments	\$ 6,234,700

The following table shows the time distribution for the maturity of the Trust's assets as of fiscal year ended June 30, 2008:

<u>Investment Description</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>
Mutual Funds	Unrated	\$5,898,300	\$5,898,300
Investments		\$5,898,300	\$5,898,300
Cash and investments		336,400	
Total cash and investments		\$6,234,700	

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. State law limits investment maturities to five years as a means of managing entities' exposure to fair value losses arising from increasing interest rates.

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2008

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The Trust's investment policy attempts to mitigate credit risk through diversification of investments; prudent asset allocation; rebalancing asset allocation to appropriate targets and ranges; minimizing principal fluctuations over the established investment time horizon; setting performance expectation returns for investments.

Concentration Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Trust. The Trust's investment policy mitigates the concentration of credit risk by identifying percentage ranges for different types of investments and specific targets within the percentage ranges. Disclosure of concentration of credit risk is defined as any investments with one issuer that are greater than 5% of the total Trust investments. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from this requirement, as they are normally diversified themselves. As all of the District's investments were invested in mutual funds as of June 30, 2008, the District is not currently subject to concentration risk, as defined.

NOTE 4 – OTHER POST EMPLOYMENT BENEFITS

Eligibility and Participation

For employees hired on or after August, 1991, the benefits are provided to retiree and dependent coverage based on age plus years of service as follows: (1) the District does not contribute toward the cost of post-employment health benefits for retirees whose combination of age and number of years of service amounts to less than 70 points; (2) the retiree contributes the normal contribution paid by all retirees plus 30% of the COBRA rates for the coverage they select if their combination of age and number of years of service falls within 70-74 points; (3) the retiree contributes the normal contribution paid by all retirees plus 20% of the COBRA rates for the coverage they select if their combination of age and number of years of service falls within 75-79 points; and (4) the retiree contributes the normal contribution paid by all retirees if their combination of age and number of year of service is equal to or over 80 points.

The benefits are also provided to all employees hired between July 1, 1983 and August 8, 1991, who retire from the District on or after attaining age 55 with at least 10 years of service. For those employees age 55 with at least 15 years of service, survivor and dependent care benefits are also received. If the employee began employment at the District prior to January 1, 1983, the benefits are provided on or after attaining age 50 with at least 5 years of service. Currently 669 retirees meet the eligibility requirements.

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2008

Contributions

The District's contribution to the Trust for fiscal year ended June 30, 2008, was based on the actuarial valuation as of July 1, 2007. This valuation provides an estimate of the District's unfunded liability and the annual required contribution (ARC) to be used by the District to fully fund the Trust. It is the District's intent to fully fund each year's ARC. During fiscal 2008, prior to the formation of the Trust, the District made pre-trust benefit payments. These payments amounted to \$3,304,700 and are considered contributions toward the ARC. As a result, total contributions made to the Trust by the District were \$13,502,500.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

Annual required contribution	\$ 13,502,500
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	13,502,500
Contributions made	(13,502,500)
Increase in net OPEB obligation	-
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ -

Termination

In the event of termination, the net assets of the Trust would be allocated as prescribed in the Trust documents, generally to provide the following benefits in the order indicated:

- Retirement benefits payable to retired members (as defined) and disabled members (as defined)
- Actuarial reserves for the retirement benefits of other vested members (as defined)

A summary of actuarial methods and assumptions follows:

Description	Methods/Assumptions
Actuarial valuation date	July 1, 2007
Actuarial valuation method	Entry age method
Amortization method	Level percentage of projected payroll
Amortization period	30 years
Actuarial assumptions	Investment rate of return 7.75%
	Projected salary increases 3%
	Healthcare inflation rate-medical 9.0% to 5.0% ultimate
	Healthcare inflation rate-dental 5.0% for all years
	Healthcare inflation rate-vision 3.0% for all years

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2008

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

A schedule of funding progress (unaudited) as of July 1, 2007, follows:

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage Of Covered Payroll
7/1/2007	-	\$152,767,300	\$152,767,300	0%	\$55,813,800	273.7%

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT
OTHER POST EMPLOYMENT BENEFITS TRUST**

Schedule of Funding Progress (unaudited) as of July 1, 2007

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage Of Covered Payroll
7/1/2007	-	\$152,767,300	\$152,767,300	0%	\$55,813,800	273.7%