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

INDEPENDENT AUDITOR'S REPORT

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We have audited the accompanying financial statements of the Golden Gate Bridge, Highway and Transportation District (District) as of and for the years ended June 30, 2004 and 2003, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, 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
October 11, 2004

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 provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2004 and 2003.

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

DISTRICT ACTIVITIES HIGHLIGHTS

In FY 2004, the District saw stabilization and even growth in some areas of its service levels for the first time since the local and national economy went into recession in FY 2001. It is expected that those trends of stabilization and/or growth will continue in the next year.

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|--------------------------|-------------|-------------|-------------|
| Total Southbound | | | |
| Vehicle Crossings | 19,440,842 | 19,428,278 | 20,347,396 |
| % increase / decrease | 0.06% | -4.52% | |
| Bus Patronage | 7,941,235 | 8,472,938 | 8,937,802 |
| % decrease | -6.28% | -5.20% | |
| Ferry Patronage | 1,660,990 | 1,575,072 | 1,652,013 |
| % increase / decrease | 5.45% | -4.66% | |
| Club Bus Riders | 95,828 | 108,511 | 123,545 |
| % decrease | -11.69% | -12.17% | |

The District is based in San Francisco and consists of four operating divisions, Bridge, Bus, Ferry, and Rail, and an administrative District Division. Overseeing more than 800 employees who work together in the public interest, the General Manager coordinates the operations of all divisions according to the policy and direction of the District Board of Directors. The District Board of Directors consists of 19 members representing the six member counties: San Francisco, Marin, Sonoma, Del Norte, and parts of Mendocino and Napa Counties. In FY2004 approximately 19.4 million southbound vehicles crossed the Golden Gate Bridge and 9.6 million customers rode Golden Gate Transit.

The District is unique among Bay Area transit operations because it provides transit services without support from direct sales tax measures or dedicated general funds. As the District does not have the authority to levy taxes, the use of surplus Bridge toll revenue is the only available local means the District has to support the District's regional and transbay transit services. Presently, Golden Gate Transit Bus and Ferry operations are funded approximately 46 percent by surplus Golden Gate Bridge tolls and 25 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 \$430.7 million at June 30, 2004, a \$75 million increase from June 30, 2003.

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

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-----------------------------------------|------------------|------------------|------------------|
| Assets: | | | |
| Current and other assets | \$123,851 | \$110,957 | \$113,371 |
| Capital assets | 421,443 | 356,106 | 312,824 |
| Total Assets | <u>545,294</u> | <u>467,063</u> | <u>426,195</u> |
| Liabilities: | | | |
| Current liabilities | 34,369 | 32,639 | 26,906 |
| Debt outstanding | 61,000 | 61,000 | 61,000 |
| Other non current liabilities | 19,187 | 18,154 | 18,242 |
| Total Liabilities | <u>114,556</u> | <u>111,793</u> | <u>106,148</u> |
| Net Assets: | | | |
| Invested in capital assets, net of debt | 360,443 | 295,106 | 251,824 |
| Restricted for debt requirements | 13,730 | 13,624 | 13,508 |
| Unrestricted | 56,565 | 46,540 | 54,715 |
| Total Net Assets | <u>\$430,738</u> | <u>\$355,270</u> | <u>\$320,047</u> |

The largest portion of the District's net assets (83.7% at June 30, 2004) represents its investment in capital assets (e.g., Bridge, buses, ferries, buildings, improvements, and equipment), less the related debt outstanding used to acquire those capital assets. The District uses these capital assets to provide services to its patrons and passengers, and visitors to the Golden Gate Bridge. Although the District's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the District's net assets (3.2% at June 30, 2004) 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, 2004) may be used to meet the District's capital and ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS FOR FISCAL YEAR 2004

- Operating revenues increased by 7.0% from \$104.8 million to \$112.2 million, principally due to increased transit fares and the full year impact of a toll increase which took effect on September 1, 2002.
- Operating expenses before depreciation decreased by 3.7% from \$121.3 million to \$116.9 million primarily as a result of decreases in transit services, offset by higher nation-wide employee health benefit costs, labor costs and higher pension contributions due to the drop in the nation's equity markets.
- As a result of the above, the operating loss before depreciation decreased by 71.4% or \$11.8 million from 2003. Depreciation decreased from \$15.2 million in 2003 to \$14.3 million in 2004. Operating loss before non-operating revenues and expenses decreased from a loss of \$31.8 million in 2003 to a loss of \$19.1 million in 2004.
- Nonoperating revenue (expenses) increased from a net revenue of \$16.9 million in 2003 to a net revenue of \$19.4 million in 2004 due principally to increased Federal operating assistance.
- Capital contributions received in the form of grants from the Federal and State governments increased from \$50.1 million in 2003 to \$75.1 million in 2004 due to Phase II of the seismic retrofit construction of the Bridge and the procurement of 80 buses for the District's Bus division.

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 nonoperating revenue and expenses decreased from a loss of \$39.3 million in 2002 to a loss of \$31.8 million in 2003.
- Nonoperating revenue (expenses) decreased from a net revenue of \$23.5 million in 2002 to a net revenue of \$16.9 million 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.

SUMMARY OF CHANGES IN NET ASSETS

(In thousands)

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------------------------------------------------------------------------|------------------|------------------|------------------|
| Operating revenues | \$112,155 | \$104,781 | \$ 84,458 |
| Operating expenses | <u>(116,891)</u> | <u>(121,344)</u> | <u>(109,974)</u> |
| Loss before depreciation and other nonoperating revenue and expenses | (4,736) | (16,563) | (25,516) |
| Depreciation | <u>(14,319)</u> | <u>(15,192)</u> | <u>(13,747)</u> |
| Operating loss | (19,055) | (31,755) | (39,263) |
| Other nonoperating revenue and expenses, net | <u>19,383</u> | <u>16,880</u> | <u>23,539</u> |
| Income (loss) before capital contributions | 328 | (14,875) | (15,724) |
| Capital contributions | <u>75,140</u> | <u>50,098</u> | <u>29,861</u> |
| Increase in net assets | <u>\$ 75,468</u> | <u>\$ 35,223</u> | <u>\$ 14,137</u> |

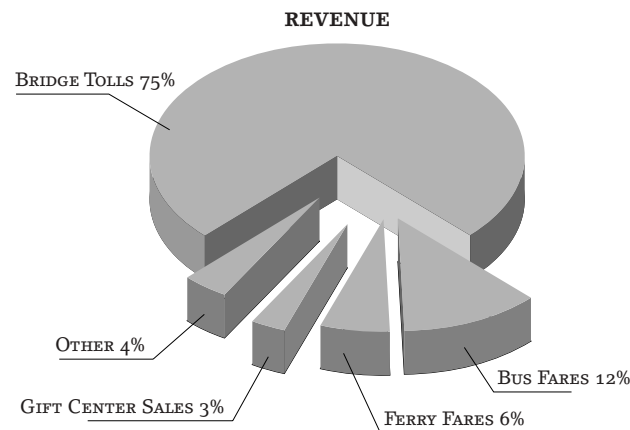
DISTRICT TOLLS AND FARES

Golden Gate Bridge tolls are set by Board Policy and change when determined necessary by the Board. In June of 2002, the District Board approved a 66% increase in the auto cash Bridge toll to \$5.00 and a 33% increase in the FasTrak toll to \$4.00, effective September 1, 2002. The District Board established a policy in 1999 that increased transit fares by the local Consumer Price Index for five years. In 2004, the Board postponed developing a second five year fare increase plan due to the service reduction plan and instead passed a 5% bus transit fare increase. In addition, the average ferry fare increased due to an increase in the frequent user discount tickets of over 30%. The tolls and fares were as follows:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---------------------|-------------|-------------|-------------|
| Average Bridge toll | \$4.34 | \$4.09 | \$2.91 |
| Average Bus fare | \$1.73 | \$1.73 | \$1.65 |
| Average Ferry fare | \$4.16 | \$3.39 | \$3.17 |

REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2004 (tolls, transit fares, gift center and other):



A summary of revenues for the years ended June 30, 2004 and 2003 and the amount and percentage of change in relation to prior year amounts is as follows (in thousands):

| | <u>2004</u> <u>Amount</u> | <u>Percent</u> <u>of Total</u> | <u>Increase/</u> <u>(Decrease)</u> <u>From 2003</u> | <u>Percent</u> <u>Increase/</u> <u>(Decrease)</u> | <u>2003</u> <u>Amount</u> | <u>Percent</u> <u>of Total</u> | <u>Increase/</u> <u>(Decrease)</u> <u>From 2002</u> | <u>Percent</u> <u>Increase/</u> <u>(Decrease)</u> |
|----------------------------|------------------------------|-----------------------------------|-----------------------------------------------------------|---------------------------------------------------------|------------------------------|-----------------------------------|-----------------------------------------------------------|---------------------------------------------------------|
| Operating: | | | | | | | | |
| Bridge tolls | \$ 84,420 | 40.7% | \$ 4,993 | 6.3% | \$ 79,427 | 46.0% | \$20,138 | 34.0% |
| Bus fares | 13,750 | 6.6% | (866) | -5.9% | 14,616 | 8.5% | (135) | -0.9% |
| Ferry fares | 6,902 | 3.3% | 1,559 | 29.2% | 5,343 | 3.1% | 108 | 2.1% |
| Gift Center sales | 2,768 | 1.3% | 111 | 4.2% | 2,657 | 1.5% | 170 | 6.8% |
| Other | 4,315 | 2.1% | 1,577 | 57.6% | 2,738 | 1.7% | 42 | 1.6% |
| Total Operating | 112,155 | 54.1% | 7,374 | 7.0% | 104,781 | 60.8% | 20,323 | 24.1% |
| Nonoperating: | | | | | | | | |
| Operating assistance | 19,137 | 9.2% | 4,091 | 27.2% | 15,046 | 8.7% | (4,105) | -21.4% |
| Investment income | 818 | 0.4% | (1,773) | -68.4% | 2,591 | 1.5% | (1,797) | -41.0% |
| Total Non-Operating | 19,955 | 9.6% | 2,318 | 13.1% | 17,637 | 10.2% | (5,902) | -25.1% |
| Capital contributions | 75,140 | 36.3% | 25,042 | 50.0% | 50,098 | 29.0% | 20,237 | 67.8% |
| Total Revenues | \$207,250 | 100.0% | \$34,734 | 20.1% | \$172,516 | 100.0% | \$34,658 | 25.1% |

The operating assistance increase of 27% is mainly attributable to the first year of a three-year region wide increase in preventative maintenance funding. The investment income decrease of 68% is mainly attributable to the decrease in the fair value of bonds held by the District, which is reflected as an investment loss in the year. Capital contributions have increased by 50% due to the increase in activity of Phase II seismic retrofit construction of the Bridge and the procurement of 80 new buses.

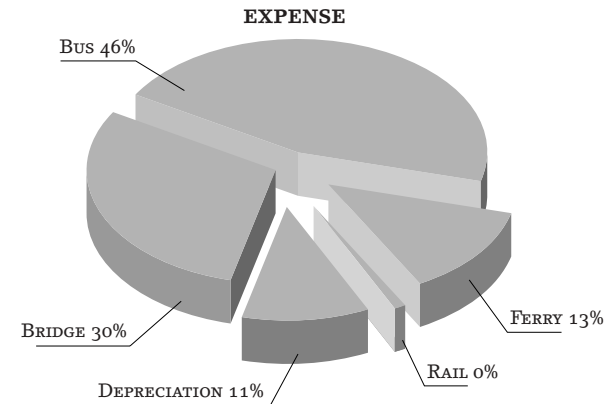
The District funds its operations with Bridge tolls, transit fares, government grants and other revenues from operations or investments. The operations of the Bridge Division produce a surplus of Bridge toll revenue that is used to subsidize the transit operations. In addition, in years where there is not sufficient Bridge toll revenue to fully subsidize the transit operations, funds are taken from District reserves to cover the shortfall. The reserves were funded with surplus Bridge toll revenues from past years. The following table, which is derived from the unaudited supplemental schedule, records how the divisions were funded in FY 2004. The table includes a \$9 million transfer to reserves to be used to fund capital projects.

How Golden Gate District was funded in FY 2004 (in thousands)

| | <u>Bridge Division</u> | <u>Bus Division</u> | <u>Ferry Division</u> | <u>District Total</u> |
|------------------------|----------------------------|-------------------------|---------------------------|---------------------------|
| GGB Tolls | \$46,800 | \$30,800 | \$ 6,800 | \$ 84,400 |
| Patron Fares | - | 13,800 | 6,900 | 20,700 |
| Other Revenue | 3,700 | 1,700 | 1,600 | 7,000 |
| Government Grants | 200 | 15,840 | 3,100 | 19,140 |
| District Toll Reserves | - | 800 | 200 | 1,000 |
| Total | <u>\$50,700</u> | <u>\$62,940</u> | <u>\$18,600</u> | <u>\$132,240</u> |

EXPENSES

The following chart shows the major cost centers and the percentage of operating expenses for the year ended June 30, 2004:



A summary of expenses for the years ended June 30, 2004 and 2003 and the amount and percentage of change in relation to prior year amounts is as follows:

| | 2004 Amount | Percent of Total | Increase/ (Decrease) From 2003 | Percent Increase/ (Decrease) | 2003 Amount | Percent of Total | Increase/ (Decrease) From 2002 | Percent Increase/ (Decrease) |
|-------------------------|------------------|---------------------|--------------------------------------|------------------------------------|------------------|---------------------|--------------------------------------|------------------------------------|
| Operating: | | | | | | | | |
| Bridge | \$ 39,651 | 30.1% | \$ 2,207 | 5.9% | \$ 37,444 | 27.3% | \$ 4,056 | 12.1% |
| Bus | 60,213 | 45.7% | (5,660) | -8.6% | 65,873 | 48.0% | 6,526 | 11.0% |
| Ferry | 16,980 | 12.9% | (882) | -4.9% | 17,862 | 13.0% | 777 | 4.5% |
| Rail | 47 | 0.0% | (118) | -71.5% | 165 | 0.1% | 11 | 7.1% |
| Total Operating | 116,891 | 88.7% | (4,453) | -3.7% | 121,344 | 88.4% | 11,370 | 10.3% |
| Interest expense | 572 | 0.4% | (185) | -24.4% | 757 | 0.6% | 757 | 0.0% |
| Depreciation | 14,319 | 10.9% | (873) | -5.7% | 15,192 | 11.1% | 1,445 | 10.5% |
| Total Expenses | \$131,782 | 100.0% | \$(5,511) | -4.0% | \$137,293 | 100.0% | \$13,572 | 11.0% |

The 4% decrease in operating expenses is mainly attributable to the significant reduction in Bus transit services. That reduction is partially offset by increased health benefit costs. The full year effect of the Bus service reduction will not be reflected until FY 2005.

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

During 2004, completed projects totaling \$26.6 million, which is a decrease of \$69.7 million or 72.4% below the amount completed in 2003, were closed from construction-in-progress to their respective capital accounts. The major completed projects included the 80 bus replacements (\$24.4 million) and ferry vessel major components rehabilitation (\$0.7 million).

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

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 \$96.2 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).

At June 30, 2003, the District had commitments of approximately \$77.1 million for bridge-related projects and approximately \$0.3 million for other projects. 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, 2004, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 0.79% to 1.06% (1.00% and 1.77% in 2003). Once the project is complete, the District plans to pay off the commercial paper over 22 years, beginning in 2008.

CREDIT RATINGS AND BOND ISSUANCE

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

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

ADDITIONAL FINANCIAL INFORMATION

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

STATEMENTS OF NET ASSETS

JUNE 30, 2004 AND 2003 (In thousands)

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------------------------------|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents | \$ 47,447 | \$ 53,543 |
| Investments | 45,522 | 32,365 |
| Capital and operating grants receivable | 7,509 | 2,845 |
| Accounts receivable | 4,296 | 3,044 |
| Maintenance inventories and supplies - at average cost | 2,761 | 3,315 |
| Prepaid expenses | 1,879 | 1,806 |
| Total unrestricted assets | <u>109,414</u> | <u>96,918</u> |
| Restricted assets: | | |
| Cash and cash equivalents | 13,730 | 13,624 |
| Total current assets | <u>123,144</u> | <u>110,542</u> |
| NONCURRENT ASSETS: | | |
| Capital assets | | |
| Nondepreciable capital assets: | | |
| Land | 18,026 | 18,026 |
| Construction in progress | 137,884 | 84,792 |
| Total nondepreciable capital assets | <u>155,910</u> | <u>102,818</u> |
| Depreciable capital assets: | | |
| Property and equipment: | | |
| Bridge, related buildings and equipment | 249,255 | 248,211 |
| Bus transit property and equipment | 123,922 | 109,439 |
| Ferry transit property and equipment | 77,295 | 76,520 |
| Rail transit property and equipment | 438 | 439 |
| Accumulated depreciation | (185,377) | (181,321) |
| Total depreciable capital assets | <u>265,533</u> | <u>253,288</u> |
| Total capital assets | 421,443 | 356,106 |
| Other assets | 707 | 415 |
| Total noncurrent assets | <u>422,150</u> | <u>356,521</u> |
| TOTAL ASSETS | <u>\$545,294</u> | <u>\$467,063</u> |

See accompanying notes to the financial statements.

STATEMENTS OF NET ASSETS (CONTINUED)

JUNE 30, 2004 AND 2003 (In thousands)

| | <u>2004</u> | <u>2003</u> |
|-------------------------------------------------|-------------------------|-------------------------|
| LIABILITIES: | | |
| CURRENT LIABILITIES: | | |
| Trade accounts payable | \$ 8,400 | \$ 8,339 |
| Accrued liabilities | 4,825 | 6,954 |
| Deferred revenue | 5,465 | 3,492 |
| Accrued compensated absences | 591 | 738 |
| Contract retentions | 7,972 | 5,945 |
| Self-insurance liabilities | 7,116 | 7,171 |
| Commercial notes payable | 61,000 | 61,000 |
| Total current liabilities | <u>95,369</u> | <u>93,639</u> |
| NONCURRENT LIABILITIES: | | |
| Accrued compensated absences | 6,026 | 6,164 |
| Self-insurance liabilities | 13,161 | 11,990 |
| Total noncurrent liabilities | <u>19,187</u> | <u>18,154</u> |
| TOTAL LIABILITIES | <u>114,556</u> | <u>111,793</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 360,443 | 295,106 |
| Restricted for debt requirements | 13,730 | 13,624 |
| Unrestricted | 56,565 | 46,540 |
| TOTAL NET ASSETS | <u>\$430,738</u> | <u>\$355,270</u> |

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

YEARS ENDED JUNE 30, 2004 AND 2003 (In thousands)

| | <u>2004</u> | <u>2003</u> |
|---------------------------------------------------|--------------------------------|--------------------------------|
| OPERATING REVENUES: | | |
| Bridge tolls | \$ 84,420 | \$ 79,427 |
| Transit fares | 20,652 | 19,959 |
| Gift center sales | 2,768 | 2,657 |
| Other operating income | 4,315 | 2,738 |
| Total operating revenues | <u>112,155</u> | <u>104,781</u> |
| OPERATING EXPENSES: | | |
| Operations | 62,841 | 69,234 |
| Maintenance | 25,916 | 26,637 |
| General and administrative | 28,134 | 25,473 |
| Depreciation | 14,319 | 15,192 |
| Total operating expenses | <u>131,210</u> | <u>136,536</u> |
| OPERATING LOSS | <u>(19,055)</u> | <u>(31,755)</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| Pass-through federal capital assistance: | | |
| Translink and paratransit assistance | 1,362 | 4,096 |
| Translink and paratransit assistance pass-through | (1,362) | (4,096) |
| Operating assistance: | | |
| State operating assistance | 15,854 | 14,113 |
| Federal operating assistance | 3,066 | 665 |
| Local operating assistance | 217 | 268 |
| Total operating assistance | <u>19,137</u> | <u>15,046</u> |
| Investment income | 818 | 2,591 |
| Interest expense | (572) | (757) |
| Total nonoperating revenues | <u>19,383</u> | <u>16,880</u> |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | 328 | (14,875) |
| CAPITAL CONTRIBUTIONS | <u>75,140</u> | <u>50,098</u> |
| INCREASE IN NET ASSETS | <u>75,468</u> | <u>35,223</u> |
| NET ASSETS, Beginning of year | <u>355,270</u> | <u>320,047</u> |
| NET ASSETS, End of year | <u><u>\$430,738</u></u> | <u><u>\$355,270</u></u> |

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2004 AND 2003 (In thousands)

| | <u>2004</u> | <u>2003</u> | | <u>2004</u> | <u>2003</u> |
|---------------------------------------------------|------------------|------------------|-----------------------------------------------------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | RECONCILIATION OF OPERATING LOSS TO | | |
| Cash receipts from customers | \$113,463 | \$103,963 | NET CASH USED IN OPERATING ACTIVITIES: | | |
| Cash payments to suppliers for goods and services | (60,244) | (40,773) | Operating loss | \$(19,055) | \$(31,755) |
| Cash payments to employees for services | (62,348) | (79,651) | Adjustments to reconcile operating loss | | |
| Net cash used in operating activities | <u>(9,129)</u> | <u>(16,461)</u> | to net cash used in operating activities: | | |
| CASH FLOWS FROM NONCAPITAL | | | Depreciation | 14,319 | 15,192 |
| FINANCING ACTIVITIES: | | | Gain from disposal of property and equipment | (195) | (152) |
| Operating grants received | <u>17,639</u> | <u>16,458</u> | Effect of changes in: | | |
| CASH FLOWS FROM CAPITAL AND | | | Accounts receivable | (1,024) | 186 |
| RELATED FINANCING ACTIVITIES: | | | Prepaid expenses | (73) | 73 |
| Capital contributions received | 73,336 | 61,043 | Inventory and supplies | 554 | (255) |
| Capital grants disbursed to other agencies | (1,362) | (4,096) | Other assets | (292) | 6 |
| Interest paid | (572) | (757) | Trade accounts payable | (4,038) | (710) |
| Proceeds from sale of capital assets | 225 | - | Accrued liabilities | (2,129) | 322 |
| Purchase of capital assets | <u>(73,560)</u> | <u>(53,972)</u> | Deferred revenue | 1,973 | (1,010) |
| Net cash provided by (used in) capital | | | Accrued compensated absences | (285) | (460) |
| and related financing activities | <u>(1,933)</u> | <u>2,218</u> | Self-insurance liabilities | <u>1,116</u> | <u>2,102</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | Net cash used in operating activities | <u>\$ (9,129)</u> | <u>\$(16,461)</u> |
| Net proceeds (purchases) of investment securities | (13,157) | 9,270 | Supplemental disclosures of cash flow information: | | |
| Investment income received | <u>590</u> | <u>1,615</u> | Noncash capital and related financing and investing activities: | | |
| Net cash provided by | | | Acquisition of capital assets in accounts | | |
| (used in) investing activities | <u>(12,567)</u> | <u>10,885</u> | payable and contract retention | <u>\$ 6,126</u> | <u>\$ 4,350</u> |
| NET INCREASE (DECREASE) | | | Increase (decrease) in fair value of investments | <u>\$ (79)</u> | <u>\$ 60</u> |
| IN CASH AND EQUIVALENTS | (5,990) | 13,100 | | | |
| CASH AND EQUIVALENTS, Beginning of year | <u>67,167</u> | <u>54,067</u> | | | |
| CASH AND EQUIVALENTS, End of year | <u>\$ 61,177</u> | <u>\$ 67,167</u> | | | |

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

1) ORGANIZATION

The Golden Gate Bridge, Highway and Transportation District (the "District") is a political subdivision of the State of California created by the legislature in 1923 and subject to regulation under the Bridge and Highway District Act, as amended. The District operates the Golden Gate Bridge, operates bus service primarily in Marin, San Francisco and Sonoma counties and operates ferry service between Marin and San Francisco counties. The disbursement of funds received by the District is controlled by statute and by provisions of various grant contracts entered into with the federal government, the State of California and certain counties within the District. The District is based in San Francisco and consists of four operating divisions, Bridge, Bus, Ferry, and Rail, and an administrative District Division. The District Division has no revenues and all 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 Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

Investments - are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for*

External Investment Pools (see Note 3). Statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities; certificates of deposit; commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record; bankers' acceptances; repurchase agreements; reverse repurchase agreements; and the State Treasurer's investment pool.

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

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

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

Capital assets - 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 properties | 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. No interest was capitalized for the years ended June 30, 2004 and 2003.

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, 2004 and 2003 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 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> |
| Capital contributions in fiscal 2004: | | | | | |
| U.S. Department | | | | | |
| of Transportation | \$51,409 | \$22,533 | \$1,020 | \$ - | \$74,962 |
| State Transit Assistance | - | 173 | 5 | - | 178 |
| Total capital contributions | <u>\$51,409</u> | <u>\$22,706</u> | <u>\$1,025</u> | <u>\$ -</u> | <u>\$75,140</u> |

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

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

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

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

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

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

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

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

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

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

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

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide

sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the District's fiscal year ending June 30, 2008.

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.

Reclassification - Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

3) CASH AND INVESTMENTS

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

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------------|------------------|-----------------|
| Reported as: | | |
| Unrestricted: | | |
| Cash and cash equivalents | \$ 47,447 | \$53,543 |
| Investments | 45,522 | 32,365 |
| Total unrestricted cash and investments | <u>92,969</u> | <u>85,908</u> |
| Restricted: | | |
| Cash and cash equivalents | <u>13,730</u> | <u>13,624</u> |
| Total cash and investments | <u>\$106,699</u> | <u>\$99,532</u> |

Deposits - Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The California Government Code requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows

financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral is considered to be held in the District's name. As of June 30, 2004 (and 2003), of the District's bank balance of \$9,151,000 (2003, \$7,248,000) approximately \$7,553,000 (2003, \$5,521,000) held in contract retention escrow accounts are uninsured and uncollateralized.

Investments - At June 30, 2004 and 2003 cash and investments were comprised of the following (in thousands):

| | June 30, 2004 | | | June 30, 2003 | | |
|-------------------------------------------------|---------------|----------------------------------|----------|---------------|----------------------------------|---------|
| | Fair Value | Investment (Maturities in Years) | | Fair Value | Investment (Maturities in Years) | |
| | | Less than 1 | 1 - 5 | | Less than 1 | 1 - 5 |
| Investments | | | | | | |
| Federal Agency Bonds | \$ 3,673 | \$ - | \$ 3,673 | \$ 3,877 | \$ - | \$3,877 |
| Federal Agency Notes | 26,608 | - | 26,608 | - | - | - |
| Federal Agency Notes (Callable) | 5,627 | - | 5,627 | - | - | - |
| Federal Agency Discount Note | - | - | - | 10,907 | 10,907 | - |
| Municipal Bonds | - | - | - | - | - | - |
| Medium-term Corporate Notes | 9,415 | 2,073 | 7,342 | 16,881 | 11,336 | 5,545 |
| Commercial Paper | 13,572 | 13,572 | - | 22,349 | 22,349 | - |
| Investment in State Treasurer's Investment Pool | 38,937 | 38,937 | - | 40,114 | 40,114 | - |
| Federal Obligation Mutual Funds | - | - | - | 120 | 120 | - |
| Total investments | 97,832 | \$54,582 | \$43,250 | 94,248 | \$84,826 | \$9,422 |
| Cash and deposits | | | | | | |
| Demand deposits | 8,640 | | | 4,237 | | |
| Nonnegotiable certificates of deposit | 199 | | | 698 | | |
| Cash on hand | 28 | | | 349 | | |
| | \$106,699 | | | \$99,532 | | |

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 rated A-1 by Standard and Poor’s Corporation or P-1 by Moody’s; provided that the issuing corporation is organized and operating within the United States, has total assets of \$500 million and has a “A” or higher rating for its long-term debt.

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

As of June 30, 2004 and 2003, District held investments in corporate commercial paper and medium corporate notes with the following Standard and Poor’s Corporation ratings and amounts (in thousands):

| <u>Investment</u> | <u>Rating</u> | <u>2004</u> | <u>2003</u> |
|----------------------------------|---------------|-----------------|-----------------|
| Corporate commercial paper | A+ | \$ - | \$16,443 |
| Corporate commercial paper | A-1+ | 7,625 | - |
| Corporate commercial paper | A-1 | 5,947 | 5,906 |
| Total corporate commercial paper | | <u>\$13,572</u> | <u>\$22,349</u> |
| Medium-term corporate notes | AA- | \$ 5,237 | \$ 8,127 |
| Medium-term corporate notes | A+ | - | 8,754 |
| Medium-term corporate notes | AAA | 4,178 | - |
| Total medium corporate notes | | <u>\$ 9,415</u> | <u>\$16,881</u> |

As of June 30, 2004 and 2003, the District’s investment in the State Treasurer’s investment pool (LAIF) is \$38,937,000 and \$40,114,000, respectively. The total amount invested by all public agencies in LAIF at those dates is \$57,600,699,000 and \$55,422,506,000, respectively. Of that amount, 98.40% and 97.67% is invested in non-derivative financial products and 1.60% and 2.33% in structured notes and asset-backed securities as of June 30, 2004 and 2003, respectively. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District’s position in the pool. The District’s investment in LAIF is unrated.

Concentration of Credit Risk – The District limits the purchase of medium-term corporate notes to not exceed 30% of the District’s surplus money. At June 30, 2004 and 2003, these investments are 9.6% and 17.9%, respectively, of the District’s total investments. At June 30, 2004 and 2003, the District holds more than 5% of the District’s investments in the following issues:

| <u>Investment</u> | <u>2004</u> | <u>2003</u> |
|------------------------------------------------|-------------|-------------|
| Edison Asset Securitization L Commercial Paper | 0.00% | 8.32% |
| Sheffield Rec. Corporation Commercial Paper | 0.00% | 8.06% |
| Bear Stearns Co. Inc. Commercial Paper | 0.00% | 6.27% |
| Morgan Stanley DW Commercial Paper | 6.08% | 0.00% |
| YorkTown Capital LLC Commercial Paper | 7.79% | 0.00% |

4) CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2004 and 2003 was as follows (in thousands):

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

CAPITAL ASSETS (Continued)

| | Balance July 1, 2002 | Additions | Reductions/ Adjustments | Transfers | Balance June 30, 2003 |
|----------------------------------------------|----------------------------|-----------------|----------------------------|-----------------|-----------------------------|
| Capital assets, not being depreciated: | | | | | |
| 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> |
| Capital assets, being depreciated: | | | | | |
| 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> |
| Accumulated depreciation | | | | | |
| 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> |

Construction in progress consists of the following projects at June 30, 2004 and 2003 (in thousands):

| | 2004 | 2003 |
|------------------------------------|------------------|-----------------|
| Bridge seismic retrofit - Phase II | \$120,961 | \$73,678 |
| Bridge safety railing | 5,134 | 4,329 |
| District MIS-Financial | 1,703 | 129 |
| Ferry Drydocking | 898 | - |
| Ferry replacement | - | 62 |
| Bus replacement | 5,630 | 2,961 |
| Other | 3,558 | 3,633 |
| Total construction in progress | <u>\$137,884</u> | <u>\$84,792</u> |

At June 30, 2004 and 2003, the District had commitments of approximately \$37,237,000 and \$77,123,000, respectively, for bridge-related projects and approximately \$144,000 and \$348,000 for other projects.

5) COMMERCIAL PAPER NOTES PAYABLE

On July 12, 2000, the District issued commercial paper notes Series A and Series B in an amount of \$30,500,000 for each series to provide funds for the Golden Gate Bridge (Bridge) seismic retrofit project and the renovation of main cables of the Bridge. The commercial paper notes are secured by a pledge of the District's revenues and additionally secured by a line of credit. Under this program, the District is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. At June 30, 2004, \$61,000,000 in commercial paper notes was outstanding

and maturing within 30 to 270 days, with interest ranging from 0.79% to 1.06%.

6) CAPITAL GRANTS PASSED-THROUGH TO MTC

The District passed-through its federal capital assistance allocation of \$1,362,000 and \$4,096,000 for the years ended June 30, 2004 and 2003, 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 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, 2004 and 2003 (in thousands):

| | 2004 | 2003 |
|----------------------------------|-----------------|-----------------|
| Transportation Development Act | \$13,395 | \$11,971 |
| Federal Transit Administration | 3,066 | 665 |
| State Transit Assistance | 2,214 | 1,966 |
| Marin County Transit local funds | 217 | 268 |
| CalTrans | 180 | 176 |
| Other | 65 | - |
| Total | \$19,137 | \$15,046 |

8) PENSION PLANS

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT FUND

Plan Description - All permanent District employees (except bus and ferry operators and deckhands) are eligible to participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CALPERS"). The Fund is an agent multi-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and

death benefits based on employees' age, years of service, and average of three highest years' compensation. Employees vest after five years of service and may receive retirement benefits commencing at age 50. These benefit provisions and all other requirements are established by state statute. A stand-alone report for the District's plan is not available; however, copies of the Fund's annual financial report may be obtained from CALPERS' executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy - Active plan members in the CALPERS are required to contribute 7.0% of their annual covered salary. In addition, the District is required to contribute at an actuarially determined rate. Based on the actuarial valuation as of June 30, 2001, 2000, and 1999, the contribution rate was 4.04% for fiscal year 2004 while no contributions were required for fiscal years 2003, and 2002. The contribution requirements of plan members and the District are established by State statute and the employer contribution rate is established and may be amended by CALPERS.

Annual Pension Cost - For fiscal years ended June 30, 2004, 2003, and 2002, the District's annual pension costs for CALPERS is \$3,834,000, \$0, and \$0, respectively. The required contribution was determined as part of the June 30, 2001, 2000, and 1999 actuarial valuations, using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of CALPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 3-year period. CALPERS overfunded actuarial accrued liability is being amortized as a percentage of projected payroll on a closed basis. The remaining amortization period as of June 30, 2004 is 30 years.

Funding progress information for the District for 2004 is unavailable as of the date of this report.

SCHEDULE OF FUNDING PROGRESS (in thousands)

| Valuation Date | Actuarial Value of Assets | Entry Age | | Funded Ratio | Annual Covered Payroll | Overfunded Assets as a % of Payroll |
|----------------|---------------------------|--------------------------|-------------------|--------------|------------------------|-------------------------------------|
| | | Normal Accrued Liability | Overfunded Assets | | | |
| 6/30/99 | \$164,077 | \$132,944 | \$31,133 | 123.4% | \$28,349 | 109.8% |
| 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% |

GOLDEN GATE TRANSIT - AMALGAMATED RETIREMENT PLAN

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

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

Annual Pension Cost - For the fiscal years ended June 30, 2004, 2003, and 2002, the District's annual pension cost for the GGT-ARP was equal to the negotiated contribution amount and actuarially required contribution. The actuarial cost method for determining the annual pension cost was the entry age normal cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of investment expenses), (b) projected 5.5% of annual salary increases that includes a 12.0% increase for seniority wage increases.

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

The District's funding progress information as of January 1, 2004 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 |
|----------------|---------------------------|------------------------------------|---------------------------------------------|--------------|------------------------|---------------------------------------------------------------|
| 1/1/02 | \$118,198 | \$101,643 | \$16,555 | 116.3% | \$21,689 | 76.3% |
| 1/1/03 | 111,546 | 113,349 | (1,803) | 98.4% | 23,660 | -7.6% |
| 1/1/04 | 112,137 | 118,371 | (6,234) | 94.7% | 22,952 | -27.2% |

Actuarially Determined Contributions Required and Contributions Made - The District's contributions to GGT-ARP for the years ended June 30, 2004, 2003 and 2002, are the result of collective bargaining. The total annual pension cost and funded contributions were \$3,150,000, \$1,698,000 and \$0 for the years ended June 30, 2004, 2003 and 2002, respectively (15.2%, 7.4%, and 0% of current covered payroll of \$20,774,000, \$22,922,000, and \$22,093,000 for 2004, 2003 and 2002, respectively).

OTHER RETIREMENT PLANS

The District's ferry operators and deckhands participate in the Inlandboatmen's Union of the Pacific National Pension Plan ("Inlandboatmen's") or the MEBA Towboat Operators Pension Trust ("MEBA"). Inlandboatmen's and MEBA are union-administered cost-sharing multiple-employer defined benefit pension plans in which the District is a participant. Annual pension cost for the Inlandboatmen's plan was \$203,000, \$229,000, and \$217,000 for the years ended June 30, 2004, 2003, and 2002, respectively. The District contributed to Inlandboatmen's 8.8%, 8.5%, and 8.5% of payroll for covered employees for the years ended June 30, 2004, 2003, and 2002, respectively. The District's covered payroll for employees participating in this plan was \$2,308,000, \$2,700,000, and \$2,570,000 for the years ended June 30, 2004, 2003, and 2002, respectively. Annual pension cost for the MEBA plan was \$105,000, \$106,000, and \$110,000 for the years ended June 30, 2004, 2003, and 2002, respectively. The District contributed to MEBA 9.8%, 9.7%, and 9.1% of payroll for covered employees for the years ended June 30, 2004, 2003, and 2002, respectively. The District's covered payroll for employees participating in this plan was \$1,067,000, \$1,086,000, and \$1,204,000 for the years ended June 30, 2004, 2003, and 2002, respectively.

9) POSTEMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides postemployment 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 621 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 \$4,956,000 and \$3,447,000 for the years ended June 30, 2004 and 2003, respectively.

10) SELF-INSURANCE

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

Self-insurance and limits are as follows:

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| <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 | \$100,000 per individual | Stop loss above \$150,000 |
| Northwestern Pacific Railroad | \$50,000 per occurrence | \$1,000,000 per occurrence/annual aggregate |
| Right of Way property | | |
| Boiler and machinery | \$1,000 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) | \$20,000,000 per occurrence | \$45,000,000 per occurrence |
| Bridge use and occupancy | 30 days | \$25,000,000 per occurrence |
| Ferry Hull, Machinery | \$350,000 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, no settlement amounts have exceeded commercial insurance coverage for the last three years.

The District’s estimated self-insurance liability is based on requirements of GASB Statements No. 10 and 30. These statements require a liability for

claims to be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The actuarially determined liability includes allocated expenses and a provision for incurred but not reported claims.

Changes in the balances of claims liabilities for the years ended June 30, 2004 and 2003 are as follows (in thousands):

| | <u>2004</u> | <u>2003</u> |
|------------------------------------------------------|-----------------|-----------------|
| Self-insurance liabilities, beginning of fiscal year | \$19,161 | \$17,059 |
| Incurred claims and changes in estimates | 7,063 | 11,465 |
| Claim payments and related costs | <u>(5,947)</u> | <u>(9,363)</u> |
| Total self-insured claims liabilities | 20,277 | 19,161 |
| Less current portion | <u>(7,116)</u> | <u>(7,171)</u> |
| Non-current portion | <u>\$13,161</u> | <u>\$11,990</u> |

11) RELATED PARTY TRANSACTIONS

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

On March 2, 2004, the NWPRA was legally dissolved pursuant to a Dissolution Agreement dated February 27, 2004, entered among the Member Agencies. The dissolution of NWPRA resulted from the creation of the Sonoma-Marín Area Rail Transit District (SMART) by the California Legislature pursuant to Charter 341 of the Laws of 2002. This legislation expressly provided for a transfer of NWPRA of its railroad right-of-way and other assets to SMART. In accordance with the explicit terms of the legislation creating SMART, upon the dissolution of the NWPRA, SMART shall succeed to any and all of the powers, duties, rights, obligations, liabilities, indebtedness, bonded or otherwise, immunities, and exemptions of the NWPRA and its governing Board. Pursuant to the Dissolution Agreement, the District agreed to forgive its advances for NWPRA capital purchases in the amount of \$155,000.

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, 2004 and 2003, 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>2004</u> | <u>2003</u> |
|--------|-----------------|-----------------|
| Bridge | \$ 8,430 | \$ 6,600 |
| Bus | 6,012 | 5,699 |
| Ferry | 1,847 | 1,750 |
| Rail | <u>-</u> | <u>13</u> |
| Total | <u>\$16,289</u> | <u>\$14,062</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, 2004 AND 2003 (In thousands)

| | <u>Total</u> | | <u>Bridge Division</u> | | <u>Bus Division</u> | | <u>Ferry Division</u> | | <u>Rail Division</u> | |
|------------------------------------------|-----------------|-------------------|------------------------|-----------------|---------------------|--------------------|-----------------------|--------------------|----------------------|--------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| OPERATING REVENUES: | | | | | | | | | | |
| Bridge tolls | \$84,420 | \$79,427 | \$84,420 | \$79,427 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Transit fares | 20,652 | 19,959 | - | - | 13,750 | 14,616 | 6,902 | 5,343 | - | - |
| Gift center sales | 2,768 | 2,657 | 2,768 | 2,657 | - | - | - | - | - | - |
| Other operating income | 4,315 | 2,738 | 642 | 326 | 1,826 | 1,937 | 1,566 | 264 | 281 | 211 |
| Total operating revenues | <u>112,155</u> | <u>104,781</u> | <u>87,830</u> | <u>82,410</u> | <u>15,576</u> | <u>16,553</u> | <u>8,468</u> | <u>5,607</u> | <u>281</u> | <u>211</u> |
| OPERATING EXPENSES: | | | | | | | | | | |
| Operations | 62,841 | 69,234 | 12,724 | 15,479 | 40,055 | 42,779 | 10,062 | 10,976 | - | - |
| Maintenance | 25,916 | 26,637 | 13,003 | 12,088 | 9,860 | 11,314 | 3,006 | 3,070 | 47 | 165 |
| General and administrative | 28,134 | 25,473 | 13,924 | 9,877 | 10,298 | 11,780 | 3,912 | 3,816 | - | - |
| Depreciation | 14,319 | 15,192 | 5,843 | 5,681 | 5,947 | 6,241 | 2,500 | 3,242 | 29 | 28 |
| Total operating expenses | <u>131,210</u> | <u>136,536</u> | <u>45,494</u> | <u>43,125</u> | <u>66,160</u> | <u>72,114</u> | <u>19,480</u> | <u>21,104</u> | <u>76</u> | <u>193</u> |
| OPERATING INCOME (LOSS) | <u>(19,055)</u> | <u>(31,755)</u> | <u>42,336</u> | <u>39,285</u> | <u>(50,584)</u> | <u>(55,561)</u> | <u>(11,012)</u> | <u>(15,497)</u> | <u>205</u> | <u>18</u> |
| NONOPERATING REVENUES (EXPENSES): | | | | | | | | | | |
| Operating assistance: | | | | | | | | | | |
| State operating assistance | 15,854 | 14,113 | 180 | 176 | 13,115 | 11,489 | 2,559 | 2,448 | - | - |
| Federal operating assistance | 3,066 | 665 | - | - | 2,549 | 651 | 517 | 14 | - | - |
| Local operating assistance | 217 | 268 | - | - | 280 | 272 | - | - | (63) | (4) |
| Total operating assistance | <u>19,137</u> | <u>15,046</u> | <u>180</u> | <u>176</u> | <u>15,944</u> | <u>12,412</u> | <u>3,076</u> | <u>2,462</u> | <u>(63)</u> | <u>(4)</u> |
| Investment income | 818 | 2,591 | 818 | 2,591 | - | - | - | - | - | - |
| Interest expense | (572) | (757) | (572) | (757) | - | - | - | - | - | - |
| Contribution to capital | (9,000) | - | (5,954) | - | (2,191) | - | (855) | - | - | - |
| Total nonoperating revenues (expenses) | <u>10,383</u> | <u>16,880</u> | <u>(5,528)</u> | <u>2,010</u> | <u>13,753</u> | <u>12,412</u> | <u>2,221</u> | <u>2,462</u> | <u>(63)</u> | <u>(4)</u> |
| NET INCOME (LOSS) | <u>(8,672)</u> | <u>(14,875)</u> | <u>36,808</u> | <u>41,295</u> | <u>(36,831)</u> | <u>(43,149)</u> | <u>(8,791)</u> | <u>(13,035)</u> | <u>142</u> | <u>14</u> |
| DEPRECIATION ON CAPITAL ASSETS | | | | | | | | | | |
| ACQUIRED WITH CAPITAL GRANTS | <u>8,500</u> | <u>9,452</u> | <u>1,383</u> | <u>1,359</u> | <u>5,368</u> | <u>5,726</u> | <u>1,735</u> | <u>2,353</u> | <u>14</u> | <u>14</u> |
| EXCESS REVENUES (LOSS) | <u>\$ (172)</u> | <u>\$ (5,423)</u> | <u>\$38,191</u> | <u>\$42,654</u> | <u>\$ (31,463)</u> | <u>\$ (37,423)</u> | <u>\$ (7,056)</u> | <u>\$ (10,682)</u> | <u>\$ 156</u> | <u>\$ 28</u> |



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