



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

### Independent Auditor's Report

We have audited the accompanying basic financial statements of the Golden Gate Bridge, Highway and Transportation District (District) as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2006 and 2005, and the changes in its financial position and

its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the schedule of funding progress 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.

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 & O'Connell LLP*

Certified Public Accountants  
Walnut Creek, California

October 27, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEARS ENDED JUNE 30, 2006 AND 2005

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, 2006 and 2005.

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 2006, the District saw stabilization and even growth in some areas of its service levels for the third year in a row. Patronage on the Bridge remained essentially flat, Ferry patronage continued its growth trend and Bus patronage continued to fall. It is expected that all of these trends will continue in the next year.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Total Southbound Vehicle Crossings</b>	19,476,189	19,398,353	19,440,842
% increase (decrease)	0.4%	-0.2%	
<b>Bus Patronage</b>	7,433,687	7,545,015	7,940,527
% decrease	-1.5%	-5.0%	
<b>Ferry Patronage</b>	1,869,699	1,751,945	1,660,990
% increase	6.7%	5.5%	
<b>Club Bus Riders</b>	62,555	74,861	95,828
% decrease	-16.4%	-21.9%	

The District is based in San Francisco and consists of four operating divisions: Bridge, Bus, Ferry, and Rail (which was closed out this year), and an administrative District Division. Overseeing more than 800 employees who work together in the public interest, the General Manager coordinates the operations of all divisions according to the policy and direction of the District Board of Directors. The District Board of Directors consists of 19 members representing the six member counties: San Francisco, Marin, Sonoma, Del Norte, and parts of Mendocino and Napa Counties. In FY 2006 approximately 19.4 million southbound vehicles crossed the Golden Gate Bridge and 9.3 million customers rode Golden Gate Transit.

The District is unique among Bay Area transit operations because it provides transit services without support from direct sales tax measures or dedicated general funds. As the District does not have the authority to levy taxes, the use of surplus Bridge toll revenue is the only available local means the District has to support the District's regional and transbay transit services. Presently, Golden Gate Transit Bus and Ferry operations are funded approximately 35% by surplus Golden Gate Bridge tolls and 27% 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 \$483.1 million at June 30, 2006, a \$14.6 million increase from June 30, 2005.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current and other assets	\$161,374	\$136,042	\$123,851
Capital assets	432,701	444,145	421,443
Total Assets	<u>594,075</u>	<u>580,187</u>	<u>545,294</u>
<b>Liabilities:</b>			
Current Liabilities	31,634	31,639	34,369
Debt outstanding	61,000	61,000	61,000
Other non-current liabilities	18,305	19,002	19,187
Total Liabilities	<u>110,939</u>	<u>111,641</u>	<u>114,556</u>
<b>Net Assets</b>			
Invested in capital assets, net of debt	371,701	383,145	360,443
Restricted for:			
Debt service requirements	14,082	13,990	13,715
Seismic project	715	971	15
Transit projects	1,707	905	851
Unrestricted	94,931	69,535	55,714
Total Net Assets	<u>\$483,136</u>	<u>\$468,546</u>	<u>\$430,738</u>

The largest portion of the District's net assets (76.9% at June 30, 2006) 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 are unlikely to be used to liquidate liabilities.

An additional portion of the District's net assets (3.4% at June 30, 2006) represents resources that are subject to external restrictions imposed by creditors (debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by laws through constitutional provisions or enabling legislation, that restrict the use of net assets. The remaining unrestricted net assets (19.6% at June 30, 2006) may be used to meet the District's capital and ongoing obligations.

### **FISCAL YEAR 2006 FINANCIAL OPERATIONS HIGHLIGHTS**

- Operating revenues remained stable at \$114.9 million. Slight gains in toll and fare revenue were offset by the continuing loss of Bus patronage in 2006.
- Operating expenses before depreciation increased by 2.5% from \$117.7 million to \$120.6 million. Increases, primarily in pension and fuel costs, were offset by full year savings from continuous efforts to control operations expenses, medical costs and administrative costs.
- The operating loss before depreciation increased by 2.7% or \$0.2 million from 2005. Depreciation increased from \$18.3 million in 2005 to \$20.2 million in 2006 as the previous year reflected a one-time reduction of accumulated costs due to changes in the useful life of a number of existing capital assets. Operating loss before non-operating revenues and expenses increased from a loss of \$23.8 million in 2005 to a loss of \$25.9 million in 2006.
- Nonoperating net revenue increased from \$27.5 million in 2005 to net revenue of \$28.3 million in 2006 due to the full year impact of the contract to provide local service in Marin County and the increased interest rates on the District's investment portfolio.
- Capital contributions received in the form of grants from the Federal and State governments decreased from \$34.1 million in 2005 to \$23.6 million in 2006 as a result of the continued reduction in spending on the Phase II construction and Phase III design of the seismic retrofit of the Bridge. This decrease is also the result of the completion in FY 2005 of several major projects which included the installation of particulate matter traps on buses, Larkspur Ferry Terminal berth dredging and Ferry security system improvement.
- In March 2006, the District transferred its Rail Division assets to Sonoma-Marín Area Rail Transit (SMART); as a result, it recognized a special one-time decrease in net assets of \$11.4 million.

### **FISCAL YEAR 2005 FINANCIAL OPERATIONS HIGHLIGHTS**

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

**SUMMARY OF CHANGES IN NET ASSETS**

(In thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$114,907	\$112,153	\$112,155
Operating expenses	<u>(120,610)</u>	<u>(117,706)</u>	<u>(116,891)</u>
Loss before depreciation and other nonoperating revenue and expenses	(5,703)	(5,553)	(4,736)
Depreciation	<u>(20,200)</u>	<u>(18,285)</u>	<u>(14,319)</u>
Operating Loss	(25,903)	(23,838)	(19,055)
Other nonoperating revenue and expenses, net	<u>28,306</u>	<u>27,514</u>	<u>19,383</u>
Income (loss) before capital contributions and special item	2,403	3,676	328
Capital contributions	23,590	34,132	75,140
Special Item-Transfer of assets to SMART	<u>(11,403)</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>\$ 14,590</u>	<u>\$ 37,808</u>	<u>\$ 75,468</u>

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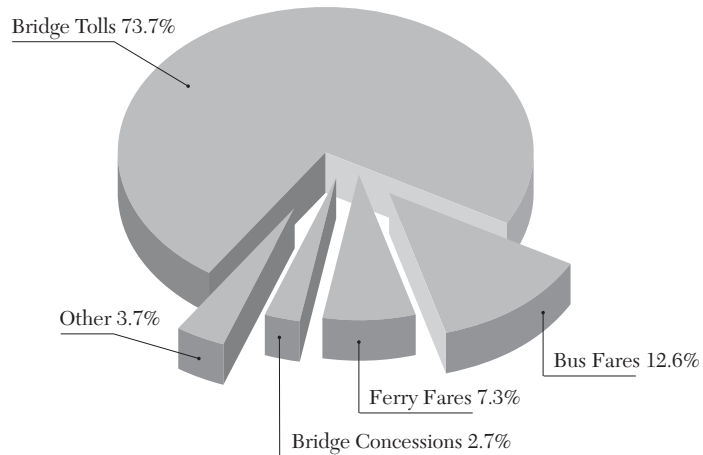
**DISTRICT TOLLS AND FARES**

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 2006, the Board developed a second five year fare increase plan to increase transit fares by 5% per year. The tolls and fares were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Average Bridge Toll	\$4.35	\$4.34	\$4.34
Average Bus Fare	\$1.95	\$1.92	\$1.73
Average Ferry Fare	\$4.46	\$4.32	\$4.16

## REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2006 (tolls, transit fares, bridge concessions and other):



A summary of revenues for the years ended June 30, 2006 and 2005 and the amount and percentage of change in relation to prior year amounts is as follows (in thousands):

	2006 Amount	Percent of Total	Increase/ (Decrease) From 2005	Percent Increase/ (Decrease)	2005 Amount	Percent of Total	Increase/ (Decrease) From 2004	Percent Increase/ (Decrease)
Operating:								
Bridge Tolls	\$ 84,747	49.7%	\$ 534	0.6%	\$ 84,213	48.2%	\$ (207)	-0.2%
Bus Fares	14,474	8.5%	(40)	-0.3%	14,514	8.3%	764	5.6%
Ferry Fares	8,342	4.9%	772	10.2%	7,570	4.3%	668	9.7%
Bridge Concessions	3,059	1.8%	42	1.4%	3,017	1.7%	249	9.0%
Other	4,285	2.5%	1,446	50.9%	2,839	1.6%	(1,476)	-34.2%
Total Operating	114,907	67.4%	2,754	2.5%	112,153	64.1%	(2)	0.0%
Nonoperating:								
Operating Assistance	27,803	16.3%	1,866	7.2%	25,937	14.8%	6,800	35.5%
Investment Income	4,236	2.5%	1,601	60.8%	2,635	1.5%	1,817	222.1%
Total Nonoperating	32,039	18.8%	3,467	12.1%	28,572	16.3%	8,617	43.2%
Capital Contributions	23,590	13.8%	(10,542)	-30.9%	34,132	19.5%	(41,008)	-54.6%
Total Revenues	\$170,536	100.0%	\$ (4,321)	-2.5%	\$174,857	100.0%	\$(32,393)	-15.6%

Other revenues have increased by \$1.4 million due to one-time insurance recoveries in the Ferry Division. The operating assistance increase of 7.2% is mainly attributable to increased distributions of Transportation Development Act (TDA) funds to the District. Also, investment income increased 2.5%, primarily due to rising interest rates. Capital contributions have decreased by 30.9% due to the continued reduction in spending of Bridge seismic retrofit and the completion of other major Bus and Ferry projects in FY 2005.

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 transit operations. In addition, in years where there is not sufficient Bridge toll revenue to fully subsidize 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 2006. The table includes a \$9 million transfer to reserves to be used to fund capital projects.

How Golden Gate District was funded in FY 2006 (in thousands):

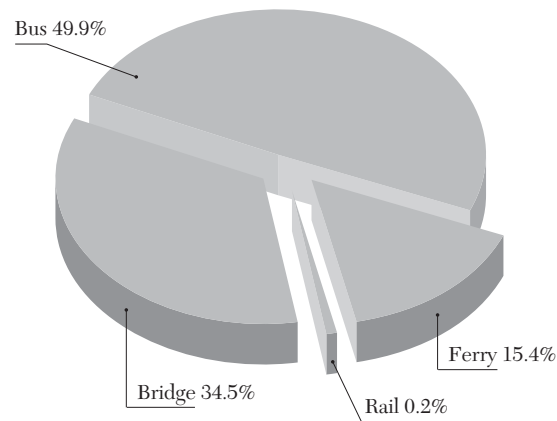
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	<u>Bridge Division</u>	<u>Bus Division*</u>	<u>Ferry Division</u>	<u>District Total</u>
GGB Tolls	\$49,200	\$21,400	\$ 8,000	\$ 78,600
Patron Fares	-	14,500	8,300	22,800
Other Revenue	7,700	2,200	1,700	11,600
Government Grants	300	24,400	3,100	27,800
District Toll Reserves	-	-	-	-
Total	<u>\$57,200</u>	<u>\$62,500</u>	<u>\$21,100</u>	<u>\$140,800</u>

\*Inclusive of Rail Division.

## EXPENSES

The following chart shows the major cost centers and the percentage of operating expenses (excluding depreciation) for the year ended June 30, 2006:



A summary of expenses for the years ended June 30, 2006 and 2005 and the amount and percentage of change in relation to prior year amounts is as follows:

	2006 Amount	Percent of Total	Increase/ (Decrease) From 2005	Percent Increase/ (Decrease)	2005 Amount	Percent of Total	Increase/ (Decrease) From 2004	Percent Increase/ (Decrease)
Operating:								
Bridge	\$ 41,630	26.7%	\$ 1,665	4.2%	\$ 39,965	29.2%	\$ 314	0.8%
Bus	60,233	38.6%	1,708	2.9%	58,525	42.7%	-1,688	-2.8%
Ferry	18,541	11.9%	-435	-2.3%	18,976	13.8%	1,996	11.8%
Rail	206	0.1%	-34	-14.2%	240	0.2%	193	410.6%
Total Operating	120,610	77.3%	2,904	2.5%	117,706	85.9%	815	0.7%
Interest Expense	1,781	1.1%	723	68.3%	1,058	0.8%	486	85.0%
Depreciation	20,200	13.0%	1,915	10.5%	18,285	13.3%	3,966	27.7%
Loss on disposal of assets	1,952	1.3%	1,952	-	-	-	-	-
Special item-transfer of								
assets to SMART	11,403	7.3%	11,403	-	-	-	-	-
Total Expenses	<u>\$155,946</u>	<u>100.0%</u>	<u>\$18,897</u>	<u>13.8%</u>	<u>\$137,049</u>	<u>100.0%</u>	<u>\$5,267</u>	<u>4.0%</u>

The 2.5% increase in operating expenses is mainly attributable to normal inflationary cost increases associated with steady operation levels. In addition, higher interest rates have impacted interest expenses associated with the commercial paper program. The Bus Division reflected a \$2.0 million loss due to the transfer of thirty-five buses to other transit agencies. Lastly, the District recognized a one-time cost of \$11.4 million as a result of the transfer of assets to SMART.

## 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 2006, the District expended \$22.7 million, which is a decrease of \$17.0 million or 42.8% below the amount expended in 2005, on capital activities. This included major construction projects, principally the seismic retrofit projects (\$19.0 million), toll plaza transfer point improvement (\$0.87 million), security system build-out at the Bridge (\$0.76 million), installation of bike racks on the MCI buses (\$0.25 million), Spaulding vessel refurbishment (\$0.38 million) and Larkspur Ferry Terminal channel dredging (\$0.28 million).

During 2006, completed projects totaling \$4.8 million, which is a decrease of \$12.6 million or 72.6% below the amount completed in 2005, were closed from construction-in-progress to their respective capital accounts. The major completed projects included the installation of particulate matter (PM) traps on buses (\$1.0 million) and security system improvements in the Ferry Division (\$1.2 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, 2006, the District has commitments of approximately \$16.4 million for Bridge-related projects and approximately \$3.4 million for other projects.

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

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

At June 30, 2005, the District had commitments of approximately \$12.1 million for Bridge-related projects and approximately \$0.4 million for other projects. Additional information on the District's capital assets and commitments can be found in the notes to the financial statements.

## 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, 2006, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 2.44% to 3.46% (1.04% to 2.88% in 2005). Once the project is complete, the District plans to pay off the commercial paper over 22 years.

## 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.

## 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, 2006 AND 2005 (In thousands)

	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>
<b>ASSETS</b>			<b>LIABILITIES:</b>		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Unrestricted assets:			Trade accounts payable	\$ 8,023	\$ 11,022
Cash and cash equivalents	\$ 64,787	\$ 38,747	Accrued liabilities	4,812	4,429
Investments	66,507	69,600	Deferred revenue	3,245	1,697
Capital and operating grants receivable	6,577	3,874	Deposits payable		
Accounts receivable	3,088	3,254	Accrued compensated absences	573	647
Maintenance inventories and supplies - at average cost	3,440	2,503	Contract retentions	7,272	6,528
Prepaid expenses	1,420	2,293	Self-insurance liabilities	7,709	7,316
Total unrestricted assets	<u>145,819</u>	<u>120,271</u>	Commercial notes payable	61,000	61,000
Restricted assets:			Total current liabilities	<u>92,634</u>	<u>92,639</u>
Cash and cash equivalents	14,797	14,961	NONCURRENT LIABILITIES:		
Total current assets	<u>160,616</u>	<u>135,232</u>	Accrued compensated absences	6,876	6,186
NONCURRENT ASSETS:			Self-insurance liabilities	11,429	12,816
Capital assets			Total noncurrent liabilities	<u>18,305</u>	<u>19,002</u>
Nondepreciable capital assets:			TOTAL LIABILITIES	<u>110,939</u>	<u>111,641</u>
Land	6,650	18,026	<b>NET ASSETS:</b>		
Construction in progress	178,086	160,181	Invested in capital assets, net of related debt	371,701	383,145
Total nondepreciable capital assets	<u>184,736</u>	<u>178,207</u>	Restricted for:		
Depreciable capital assets:			Debt service requirements	14,082	13,990
Property and equipment:			Seismic project	715	971
Bridge, related buildings and equipment	253,770	256,954	Transit operations	1,707	905
Bus transit property and equipment	114,587	126,215	Unrestricted	94,931	69,535
Ferry transit property and equipment	79,723	77,886	TOTAL NET ASSETS	<u>\$483,136</u>	<u>\$468,546</u>
Rail transit property and equipment	-	438			
Accumulated depreciation	(200,115)	(195,555)	See accompanying notes to the financial statements.		
Total depreciable capital assets	<u>247,965</u>	<u>265,938</u>			
Total capital assets	432,701	444,145			
Other assets	758	810			
Total noncurrent assets	<u>433,459</u>	<u>444,955</u>			
TOTAL ASSETS	<u>\$594,075</u>	<u>\$580,187</u>			

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

YEARS ENDED JUNE 30, 2006 AND 2005 (In thousands)

	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>
OPERATING REVENUES:			NONOPERATING REVENUES (EXPENSES):		
Bridge tolls	\$ 84,747	\$ 84,213	Pass-through federal capital assistance:		
Transit fares	22,816	22,084	Translink and paratransit assistance	862	5,700
Gift center sales	3,059	3,017	Translink and paratransit assistance pass-through	(862)	(5,700)
Other operating income	4,285	2,839	Operating assistance:		
Total operating revenues	<u>114,907</u>	<u>112,153</u>	State operating assistance	17,557	17,956
OPERATING EXPENSES:			Federal operating assistance	3,811	4,200
Operations	63,148	61,839	Local operating assistance	6,435	3,781
Maintenance	26,579	26,716	Total operating assistance	<u>27,803</u>	<u>25,937</u>
General and administrative	30,883	29,151	Investment income	4,236	2,635
Depreciation	20,200	18,285	Interest expense	(1,781)	(1,058)
Total operating expenses	<u>140,810</u>	<u>135,991</u>	Loss on disposal of capital assets	(1,952)	-
OPERATING LOSS	<u>(25,903)</u>	<u>(23,838)</u>	Total nonoperating revenues	<u>28,306</u>	<u>27,514</u>
			INCOME BEFORE CAPITAL CONTRIBUTIONS	2,403	3,676
			CAPITAL CONTRIBUTIONS	23,590	34,132
			INCREASE IN NET ASSETS BEFORE SPECIAL ITEM	25,993	37,808
			SPECIAL ITEM - Transfer of capital assets to SMART	(11,403)	-
			INCREASE IN NET ASSETS	14,590	37,808
			NET ASSETS, Beginning of year	468,546	430,738
			NET ASSETS, End of year	<u>\$483,136</u>	<u>\$468,546</u>

See accompanying notes to the financial statements.

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005 (In thousands)

	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			<b>RECONCILIATION OF OPERATING LOSS TO</b>		
Cash receipts from customers	\$115,639	\$109,930	<b>NET CASH USED IN OPERATING ACTIVITIES:</b>		
Cash payments to suppliers for goods and services	(63,556)	(58,215)	Operating loss	\$(25,903)	\$(23,838)
Cash payments to employees for services	(59,678)	(58,357)	Adjustments to reconcile operating loss to net cash		
Net cash used in operating activities	<u>(7,595)</u>	<u>(6,642)</u>	used in operating activities:		
<b>CASH FLOWS FROM NONCAPITAL</b>			Depreciation	20,200	18,285
<b>FINANCING ACTIVITIES:</b>			Gain from disposal of property and equipment	-	(132)
Operating grants received	<u>26,816</u>	<u>24,439</u>	Effect of changes in:		
<b>CASH FLOWS FROM CAPITAL AND</b>			Accounts receivable	121	1,419
<b>RELATED FINANCING ACTIVITIES:</b>			Prepaid expenses	873	(414)
Capital contributions received	22,736	44,965	Inventory and supplies	(937)	258
Capital grants disbursed to other agencies	(862)	(5,700)	Other assets	52	(103)
Interest paid	(1,781)	(1,058)	Trade accounts payable	(3,554)	1,976
Proceeds from sale of capital assets	-	132	Accrued liabilities	383	(396)
Receipt (release) of retention related to capital assets	744	(1,444)	Deferred revenue	1,548	(3,768)
Purchase of capital assets	(21,556)	(40,341)	Accrued compensated absences	616	216
Net cash used in capital and related financing activities	<u>(719)</u>	<u>(3,446)</u>	Self-insurance liabilities	(994)	(145)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			Net cash used in operating activities	<u>\$ (7,595)</u>	<u>\$ (6,642)</u>
Net proceeds (purchases) of investment securities	3,093	(24,078)	Supplemental disclosures of cash flow information:		
Investment income received	4,281	2,258	Noncash capital and related financing and investing activities:		
Net cash provided by (used in) investing activities	<u>7,374</u>	<u>(21,820)</u>	Acquisition of capital assets in accounts payable		
<b>NET INCREASE (DECREASE)</b>			and contract retention	<u>\$ 1,201</u>	<u>\$ 646</u>
<b>IN CASH AND EQUIVALENTS</b>	25,876	(7,469)	Transfer of capital assets to SMART	<u>\$ 11,403</u>	<u>\$ -</u>
CASH AND EQUIVALENTS, Beginning of year	<u>53,708</u>	<u>61,177</u>	Noncash investing activities:		
CASH AND EQUIVALENTS, End of year	<u>\$ 79,584</u>	<u>\$ 53,708</u>	Change in fair value of investments	<u>\$ 782</u>	<u>\$ 771</u>

See accompanying notes to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

### 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. In March 2006, the District discontinued its Rail operations and transferred its Rail Division assets to Sonoma-Marin Area Rail Transit District (SMART) (see Note 2). The District Division has no revenues and all its expenses are allocated to general and administrative expenses of the other Divisions (see Note 12).

### 2) SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

**Capital assets** - The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major additions and replacements are capitalized. Maintenance, repairs and additions of a minor nature are expensed as incurred. The costs of acquisition and construction of equipment and facilities are recorded in construction in progress until such assets are completed and placed in service, at which time the District commences recording depreciation expense.

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

Bridge structural components	100 years
Bridge buildings, toll plaza structure, deck and approach roadways and sidewalks	20 - 50 years
Buses	12 - 16 years
Ferry boats	25 - 30 years
Other transit properties	5 - 50 years

Effective July 1, 2005, the District changed its estimates of FasTrak transponder useful lives from a maximum of 8 years to 5 years. The District made this change to better reflect the estimated period during which the District maintained its FasTrak customer service center. This change had the effect of increasing depreciation expense and operating loss by \$1,760,000 in fiscal year 2006. Effective July 1, 2004, the District changed its estimates of the ferry boats' useful lives from a maximum life of 40 years to 25 years for high-speed ferry boats and 30 years for all other ferry boats. The District made this change to better reflect the estimated periods during which the ferry boats will remain in service. This change had the effect of increasing depreciation expense and operating loss by \$5,522,000 in fiscal year 2005.

**Capitalization of interest** - Interest costs incurred that relate to the acquisition or construction of property and equipment acquired with tax-exempt debt is capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. No interest was capitalized for the years ended June 30, 2006 and 2005.

**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, 2006 and 2005 are as follows (in thousands):

	Bridge Division	Bus Division	Ferry Division	Total
Capital contributions in fiscal 2005:				
U.S. Department of Transportation	\$27,522	\$5,122	\$ 898	\$33,542
U.S. Department of Homeland Security	55	-	492	547
Local Assistance	-	43	-	43
Total capital contributions	\$27,577	\$5,165	\$1,390	\$34,132
Capital contributions in fiscal 2006:				
U.S. Department of Transportation	\$21,796	\$361	\$ 656	\$22,813
U.S. Department of Homeland Security	602	-	-	602
Local Assistance	10	156	9	175
Total capital contributions	\$22,408	\$ 517	\$ 665	\$23,590

**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.

**Special Items** are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. In March 2006, the Dis-

trict transferred its Rail Division assets to SMART and recognized a loss of \$11,403,000.

**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 Not Yet Adopted** - The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

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.

**Reclassifications** - Certain 2005 amounts have been reclassified to conform to the 2006 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>2006</u>	<u>2005</u>
Reported as:		
Unrestricted:		
Cash and cash equivalents	\$ 64,787	\$ 38,747
Investments	<u>66,507</u>	<u>69,600</u>
Total unrestricted cash and investments	131,294	108,347
Restricted:		
Cash and cash equivalents	<u>14,797</u>	<u>14,961</u>
Total cash and investments	<u>\$146,091</u>	<u>\$123,308</u>

**Deposits - Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy on custodial credit risk is the same as the California Government Code. 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, 2006 (and 2005), of the District's bank balance of \$6,712,000 (2005, \$7,191,000), approximately \$6,536,000 (2005, \$5,926,000) held in contract retention escrow accounts are uninsured and uncollateralized.

**Investments**

At June 30, 2006 and 2005 cash and investments were comprised of the following (in thousands):

<i>Investments</i>	June 30, 2006			June 30, 2005		
	Fair Value	Investment (Maturities in Years)		Fair Value	Investment (Maturities in Years)	
		Less than 1	1 - 5		Less than 1	1 - 5
Federal Agency Notes	\$ 28,609	\$ 6,525	\$22,084	\$ 33,680	\$ 9,240	\$24,440
Federal Agency Notes (Callable)	23,655	-	23,655	15,198	-	15,198
Negotiable Certificate of Deposits	25,973	25,973	-	-	-	-
Medium-term Corporate Notes	17,916	-	17,916	20,721	7,054	13,667
Commercial Paper	31,822	31,822	-	13,773	13,773	-
Investment in State Treasurer's Investment Pool	9,583	9,583	-	33,923	33,923	-
Federal Obligation Mutual Funds	826	826	-	218	218	-
Total investments	138,384	\$74,729	\$63,655	117,513	\$64,208	\$53,305
<i>Cash and deposits</i>						
Demand deposits	7,678			5,766		
Cash on hand	29			29		
Total cash and investments	\$146,091			\$123,308		

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

**Credit Risk** – The District's investment policy limits corporate commercial paper, medium-term corporate notes, and negotiable certificates of deposits 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 Commercial Paper Record; 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.

Negotiable certificates of deposits or deposit notes issued by a nationally or state chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's.

As of June 30, 2006 and 2005, the District held investments in corporate commercial paper, medium corporate notes, and negotiable certificates of deposits with the following Standard and Poor's Corporation ratings and amounts (in thousands):

<u>Investment</u>	<u>Rating</u>	<u>2006</u>	<u>2005</u>
Corporate commercial paper	A-1+	\$16,792	\$ 7,764
Corporate commercial paper	A-1	15,030	6,009
Total corporate commercial paper		<u>\$31,822</u>	<u>\$13,773</u>
Medium-term corporate notes	AA-	\$13,164	\$16,705
Medium-term corporate notes	AAA	4,752	4,016
Total medium corporate notes		<u>\$17,916</u>	<u>\$20,721</u>
Negotiable certificate of deposit	A-1+	\$21,053	\$ -
Negotiable certificate of deposit	A-1	4,920	-
Total negotiable certificate of deposit		<u>\$25,973</u>	<u>\$ -</u>

In addition, the District's investments in Federal Agency Notes and Federal obligation mutual funds have a credit rating of AAA from Standard and Poor's Corporation as of June 30, 2006 and 2005.

As of June 30, 2006 and 2005, the District's investment in the State Treasurer's investment pool (LAIF) is \$9,583,000 and \$33,923,000, respectively. The total amount invested by all public agencies in LAIF at those dates is \$16,392,047,000 and \$18,573,278,000, respectively. LAIF is part of the State of California Pooled Money Investment Account (PMIA). Of the total invested in PMIA, 97.43% and 97.59% is invested in non-derivative financial products and 2.57% and 2.41% in structured notes and asset-backed securities as of June 30, 2006 and 2005, 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, 2006 and 2005, these investments are 13.0% and 17.6%, respectively, of the District's total investments. At June 30, 2006 and 2005, the District holds more than 5% of the District's investments in the following issuers:

<u>Investment</u>	<u>2006</u>	<u>2005</u>
Morgan Stanley DW Commercial Paper	5.13%	5.12%
YorkTown Capital LLC Commercial Paper	0.00%	6.62%
Bear Stearns Co. Inc. Commercial Paper	5.80%	0.00%
USB Finance Delaware LLC Commercial Paper	8.09%	0.00%
Citizens Bank Certificate of Deposit	7.27%	0.00%
FHLB	21.34%	24.09%
FHLMC	4.82%	9.95%
FNMA	8.38%	7.63%

#### 4) CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2006 and 2005 was as follows (in thousands):

	Balance July 1, 2005	Additions	Reductions/ Adjustments	Transfers	Balance June 30, 2006
<i>Capital assets, not being depreciated:</i>					
Land	\$ 18,026	\$ -	\$(11,376)	\$ -	\$ 6,650
Construction in progress	160,181	22,111	(67)	(4,139)	178,086
Total capital assets, not being depreciated	<u>178,207</u>	<u>22,111</u>	<u>(11,443)</u>	<u>(4,139)</u>	<u>184,736</u>
<i>Capital assets, being depreciated:</i>					
Bridge, related buildings and equipment	256,954	-	(3,949)	765	253,770
Bus transit property and equipment	126,215	-	(13,145)	1,517	114,587
Ferry transit property and equipment	77,886	-	(20)	1,857	79,723
Rail transit property and equipment	438	-	(438)	-	-
Total capital assets, being depreciated	<u>461,493</u>	<u>-</u>	<u>(17,552)</u>	<u>4,139</u>	<u>448,080</u>
<i>Accumulated depreciation</i>					
Bridge, related buildings and equipment	(84,756)	(7,883)	4,565	-	(88,074)
Bus transit property and equipment	(65,196)	(7,656)	10,643	-	(62,209)
Ferry transit property and equipment	(45,214)	(4,637)	20	-	(49,831)
Rail transit property and equipment	(388)	(24)	412	-	-
Less accumulated depreciation	<u>(195,555)</u>	<u>(20,200)</u>	<u>15,640</u>	<u>-</u>	<u>(200,115)</u>
Total capital assets, being depreciated, net	<u>265,938</u>	<u>(20,200)</u>	<u>(1,912)</u>	<u>4,139</u>	<u>247,965</u>
Total capital assets, net	<u>\$444,145</u>	<u>\$ 1,911</u>	<u>\$(13,355)</u>	<u>\$ -</u>	<u>\$432,701</u>

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

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

	2006	2005		2006	2005
Bridge seismic retrofit - Phase II	\$166,769	\$148,483	District MIS-financial	905	724
Bridge seismic retrofit - Phase III	3,690	2,890	Ferry LFT berth dredging	-	571
Bridge security system	266	99	Ferry security system improvement	-	1,250
Bridge safety railing	871	-	Ferry Spaulding refurbishment	634	-
Bridge main cable restoration	802	802	Ferry LFT channel dredging	281	-
Bridge toll plaza	921	-	Bus replacement	-	2,237
			Other	2,947	3,125
			Total construction in progress	\$178,086	\$160,181

At June 30, 2006 and 2005, the District had commitments of approximately \$16,624,000 and \$12,113,000, respectively, for bridge-related projects and approximately \$3,216,000 and \$411,000 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, 2006, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 2.44% to 3.46%.

## 6) CAPITAL GRANTS PASSED-THROUGH TO MTC

The District passed-through its federal capital assistance allocation of \$862,000 and \$5,700,000 for the years ended June 30, 2006 and 2005, respectively, of which \$388,000 and \$5,222,000 was passed through to the Metropolitan Transportation Commission (MTC) for the Translink Project, \$0 and \$478,000 was passed through to the County of Marin for the "South Marin Parklands Comprehensive Transportation Management Plan" and \$474,000 and \$0 was passed through to Marin County Transit District for the purchase of paratransit vans. These amounts were 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, 2006 and 2005 (in thousands):

	2006	2005
Transportation Development Act	\$14,628	\$13,582
Federal Transit Administration	3,811	4,200
State Transit Assistance	2,749	2,094
Marin County Transit local funds	3,843	3,622
Regional Measure 2	2,341	2,100
CalTrans	180	180
Other	251	159
Total operating assistance	<u>\$27,803</u>	<u>\$25,937</u>

## 8) PENSION PLANS

### CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT FUND

**Plan Description** - All permanent District employees (except bus and ferry operators and deckhands) are eligible to participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CalPERS"). The Fund is an agent multi-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on employees' age, years of service, and the highest year's 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 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 valuations the contribution rate was 15.544%, 8.48%, and 4.042% for fiscal years 2006, 2005, and 2004, respectively. The contribution requirements of plan members and the District are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

**Annual Pension Cost** - For fiscal years ended June 30, 2006, 2005, and 2004, the District's annual pension costs for CalPERS is \$7,711,000, \$4,963,000, and \$3,834,000, respectively. The required contribution for the year ended June 30, 2006 was determined as part of the June 30, 2003 actuarial valuations, using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. 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 underfunded actuarial accrued liability is being amortized as a percentage of projected payroll on a closed basis. The amortization period as of June 30, 2003 is 30 years.

### 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 for the year ended June 30, 2006 was 15.165% of eligible earnings. There is no provision for employee contributions.

**Annual Pension Cost** - For the fiscal years ended June 30, 2006, 2005, and 2004, 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.

**Actuarially Determined Contributions Required and Contributions Made** - The District's contributions to GGT-ARP for the years ended June 30, 2006, 2005, and 2004, are the result of collective bargaining. The total annual pension cost and funded contributions were \$2,720,000, \$2,730,000, and \$3,150,000 for the years ended June 30, 2006, 2005, and 2004, respectively (15.2%, 15.2%, and 15.2% of current covered payroll of \$17,936,000, \$18,007,000, and \$20,774,000 for 2006, 2005, and 2004 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 \$160,000, \$181,000, and \$203,000 for the years ended June 30, 2006, 2005, and 2004, respectively. The District contributed to Inlandboatmen's 8.5%, 8.4%, and 8.8% of payroll for covered employees for the years ended June 30, 2006, 2005, and 2004, respectively. The District's covered payroll for employees participating in this plan was \$1,889,000, \$2,160,000, and \$2,308,000 for the years ended June 30, 2006, 2005, and 2004, respectively. Annual pension cost for the MEBA plan was \$95,000, \$96,000, and \$105,000 for the years ended June 30, 2006, 2005, and 2004, respectively. The District contributed to MEBA 8.3%, 9.8%, and 9.8% of payroll for covered employees for the years ended June 30, 2006, 2005, and 2004, respectively. The District's covered payroll for employees participating in this plan was \$1,140,000, \$991,000, and \$1,067,000 for the years ended June 30, 2006, 2005, and 2004, respectively.

#### **9) POSTEMPLOYMENT HEALTH CARE BENEFITS**

In addition to the pension benefits described in Note 8, the District provides postemployment health care benefits. For all employees hired on or after August 9, 1991, the benefits are provided to retiree and dependent coverage based on age plus years of services as follows: 1) the District does not contribute toward the cost of postemployment health benefits for retirees whose combination of age and number of years of service amounts to less than 70 points; 2) the retiree contributes the normal contribution paid by all retirees plus 30% of the COBRA rates for the coverage they select if their 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 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 years of service is equal to or over 80 points.

The benefits are also provided to all employees, hired between July 1, 1983 through August 8, 1991, who retire from the District on or after attaining age 55 with at least 10 years of service. For those employees age 55 with at least 15 years of service, survivor and dependent care benefits are also received. If the employee began employment at the District prior to January 1, 1983, the benefits are provided on or after attaining age 50 with at least 5 years of service. Currently 611 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 \$88.50 per month for 2006. 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 \$5,980,000 and \$4,630,000 for the years ended June 30, 2006 and 2005, 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, Bridge physical use and occupancy, 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. In April 2006, the District did not renew its Bridge Physical Use and Occupancy policy and became self-insured for a savings of \$1,073,000.

Self-insurance and limits are as follows:

Type of Coverage	Self-Insurance	Excess Coverage
General /Vehicle Liability	\$5,000,000 per occurrence	\$75,000,000
Workers Compensation	\$1,000,000 per claim	\$10,000,000 (statutory limits)
Health Benefits	\$100,000 per individual	\$150,000 stop loss/ w carve outs
Railroad Liability	\$10,000 per accident	\$1,000,000 accident/\$2mil aggregate
Boiler and Machinery	\$1,000 per accident	\$1,000,000 per occurrence
Bus Fleet	\$5,000,000 per occurrence	\$30,000,000 per occurrence
Property (earthquake/flood)	\$250,000 (5% per structure)	\$45,000,000 per occurrence/aggregate
Ferry Hull, Machinery	\$350,000 annual aggregate	\$1,000,000 per occurrence
Marine	\$100,000 annual aggregate	\$75,000,000 per occurrence
Crime and Dishonesty	\$25,000 per occurrence (faithful performance)	\$1,000,000 Faithful
	\$1,000 per occurrence forgery	\$500,000 Forgery/Alteration
	\$5,000 all other	\$500,000 Theft Inside/Toll
		\$15,000 All other locations
		\$1,000,000 Computer Fraud
Public Officials Liability	\$100,000 Each Wrongful Act \$100,000 Each Employment Practices	\$5,000,000 per Occurrence/ 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, 2006 and 2005 are as follows (in thousands):

	2006	2005
Self-insurance liabilities, beginning of fiscal year	\$20,132	\$20,277
Incurred claims and changes in estimates	1,197	3,974
Claim payments and related costs	(2,191)	(4,119)
Total self-insured claims liabilities	19,138	20,132
Less current portion	(7,709)	(7,316)
Non-current portion	\$11,429	\$12,816

### 11) DESIGNATION OF DISTRICT FUNDS

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

### 12) ALLOCATION OF DISTRICT DIVISION EXPENSE

For the years ended June 30, 2006 and 2005, 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):

	2006	2005
Bridge	\$ 9,970	\$ 9,506
Bus	8,140	7,890
Ferry	3,984	3,615
Rail	168	210
Total allocated expense	<u>\$22,262</u>	<u>\$21,221</u>

### 13) ENVIRONMENTAL REMEDIATION

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

### REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS YEARS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

#### CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT FUND

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

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

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

#### GOLDEN GATE TRANSIT - AMALGAMATED RETIREMENT PLAN

Funding progress information for the District for January 1, 2006 is unavailable as of the date of this report. The District's funding progress information as of January 1, 2005 is illustrated as follows:

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

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

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

YEARS ENDED JUNE 30, 2006 AND 2005 (In thousands)

	Total		Bridge Division		Bus Division		Ferry Division		Rail Division	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>OPERATING REVENUES:</b>										
Bridge tolls	\$84,747	\$84,213	\$84,747	\$84,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transit fares	22,816	22,084	-	-	14,474	14,514	8,342	7,570	-	-
Gift center sales	3,059	3,017	3,059	3,017	-	-	-	-	-	-
Other operating income	4,285	2,839	388	574	1,993	1,613	1,679	348	225	304
Total operating revenues	<u>114,907</u>	<u>112,153</u>	<u>88,194</u>	<u>87,804</u>	<u>16,467</u>	<u>16,127</u>	<u>10,021</u>	<u>7,918</u>	<u>225</u>	<u>304</u>
<b>OPERATING EXPENSES:</b>										
Operations	63,148	61,839	14,684	14,176	38,131	36,957	10,333	10,704	-	2
Maintenance	26,579	26,716	14,005	13,853	10,053	9,947	2,511	2,904	10	12
General and administrative	30,883	29,151	12,941	11,936	12,049	11,621	5,697	5,368	196	226
Depreciation	20,200	18,285	7,657	6,413	7,807	5,633	4,709	6,209	27	30
Total operating expenses	<u>140,810</u>	<u>135,991</u>	<u>49,287</u>	<u>46,378</u>	<u>68,040</u>	<u>64,158</u>	<u>23,250</u>	<u>25,185</u>	<u>233</u>	<u>270</u>
OPERATING INCOME (LOSS)	<u>(25,903)</u>	<u>(23,838)</u>	<u>38,907</u>	<u>41,426</u>	<u>(51,573)</u>	<u>(48,031)</u>	<u>(13,229)</u>	<u>(17,267)</u>	<u>(8)</u>	<u>34</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>										
Operating assistance:										
State operating assistance	17,557	17,956	180	179	14,990	15,444	2,387	2,333	-	-
Federal operating assistance	3,811	4,200	-	-	3,061	3,445	750	755	-	-
Local operating assistance	6,435	3,781	127	127	6,308	3,654	-	-	-	-
Total operating assistance	<u>27,803</u>	<u>25,937</u>	<u>307</u>	<u>306</u>	<u>24,359</u>	<u>22,543</u>	<u>3,137</u>	<u>3,088</u>	<u>-</u>	<u>-</u>
Investment income	4,236	2,635	4,236	2,635	-	-	-	-	-	-
Interest expense	(1,781)	(1,058)	(1,781)	(1,058)	-	-	-	-	-	-
Gain (loss) on disposal of capital assets	(13,355)	-	-	-	(2,029)	-	77	-	(11,403)	-
Interdivision transfers	-	-	(231)	-	(213)	-	(101)	-	545	-
Contribution to capital	(9,000)	(9,000)	(7,019)	(6,109)	(585)	(2,125)	(1,396)	(766)	-	-
Bridge self insurance	(300)	-	(300)	-	-	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>7,603</u>	<u>18,514</u>	<u>(4,788)</u>	<u>(4,226)</u>	<u>21,532</u>	<u>20,418</u>	<u>1,717</u>	<u>2,322</u>	<u>(10,858)</u>	<u>-</u>
NET INCOME (LOSS)	<u>(18,300)</u>	<u>(5,324)</u>	<u>34,119</u>	<u>37,200</u>	<u>(30,041)</u>	<u>(27,613)</u>	<u>(11,512)</u>	<u>(14,945)</u>	<u>(10,866)</u>	<u>34</u>
<b>DEPRECIATION AND GAIN/LOSS ON CAPITAL</b>										
ASSETS ACQUIRED WITH CAPITAL GRANTS	24,422	9,366	1,410	1,430	8,639	5,863	3,472	2,070	10,901	3
EXCESS REVENUES (EXPENSES)	<u>\$ 6,122</u>	<u>\$ 4,042</u>	<u>\$35,529</u>	<u>\$38,630</u>	<u>\$(21,402)</u>	<u>\$(21,750)</u>	<u>\$(8,040)</u>	<u>\$(12,875)</u>	<u>\$ 35</u>	<u>\$ 37</u>