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

### 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, 2007 and 2006. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2007 and 2006, 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, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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  
November 6, 2007

# Management's Discussion and Analysis (Unaudited)

YEARS ENDED JUNE 30, 2007 AND 2006

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, 2007 and 2006.

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 2007, the District continued to experience similar growth trends in service levels for the fourth year in a row. Bridge traffic remained essentially flat, Ferry patronage continued its growth trend and Bus patronage continued to fall. It is expected that these trends will continue in the next year.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Southbound Vehicle Crossings	19,758,003	19,476,189	19,398,353
% increase (decrease)	1.4%	0.4%	
Bus Patronage - Regional Service	3,999,623	4,936,429	5,339,842
% increase (decrease)	(19.0%)	(7.6%)	
Bus Patronage - Local Service Under Agreement with Marin Transit	3,213,783	2,497,258	2,205,173
% increase (decrease)	28.7%	13.2%	
Total Bus Patronage - Regional and Local Service	7,213,406	7,433,687	7,545,015
% increase (decrease)	(3.0%)	(1.5%)	
Ferry Patronage	2,024,935	1,870,169	1,751,945
% increase (decrease)	8.3%	6.7%	
Club Bus Riders	57,920	62,555	74,861
% increase (decrease)	(7.4%)	(16.4%)	

The District is based in San Francisco and consists of three operating divisions: Bridge (including Visitor Services), Bus and Ferry, and an administrative District Division. Previously, the District oversaw a Rail Division that was closed in FY 2006. 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 2007 approximately 19.8 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 33% by surplus Golden Gate Bridge tolls and 25% 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 \$532.1 million at June 30, 2007, a \$48.9 million increase from June 30, 2006.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current and other assets	\$180,068	\$161,374	\$136,042
Capital assets	<u>459,372</u>	<u>432,701</u>	<u>444,145</u>
Total Assets	639,440	594,075	580,187
Liabilities:			
Current liabilities	29,046	31,634	31,639
Debt outstanding	61,000	61,000	61,000
Other non-current liabilities	<u>17,336</u>	<u>18,305</u>	<u>19,002</u>
Total Liabilities	107,382	110,939	111,641
Net Assets:			
Invested in capital assets, net of debt	398,372	371,701	383,145
Restricted by enabling legislation:			
Debt service requirements	12,975	14,082	13,990
Seismic project	2,262	715	971
Transit projects	66	1,707	905
Unrestricted	<u>118,383</u>	<u>94,931</u>	<u>69,535</u>
Total Net Assets	<u>\$532,058</u>	<u>\$483,136</u>	<u>\$468,546</u>

The largest portion of the District's net assets (74.9% at June 30, 2007) represents its investment in capital assets (i.e., 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 should be 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 (2.9% at June 30, 2007) 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 (22.2% at June 30, 2007) may be used to meet the District's capital and ongoing obligations.

## FISCAL YEAR 2007 FINANCIAL OPERATIONS HIGHLIGHTS

- ▶ As a result of the renegotiated contract with Marin Transit to provide local bus service within Marin County, the District reclassified the financial statements to segregate the operating and non-operating revenue components related to that contract for both current and prior years. The Marin Transit renegotiated contract that went into effect in April 2006 provides greater revenues from increased cost recoveries.
- ▶ Operating revenues increased from \$121.9 million to \$127.0 million, due primarily to the full year impact of the aforementioned contract with Marin Transit. Other gains were experienced by the continuing trend of increased ridership in the Ferry Division.
- ▶ Operating expenses before depreciation increased slightly from \$120.6 million to \$121.0 million. Inflationary increases in labor and benefits were offset by insurance savings associated with the Bridge self-insurance status, along with increased capitalization of labor and related benefits.
- ▶ As a result of the above, operating income before depreciation increased from \$1.3 million in 2006 to \$6.0 million in 2007. Depreciation decreased from \$20.2 million in 2006 to \$16.2 million in 2007 as the previous year reflected a one-time adjustment 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 decreased from a loss of \$18.9 million in 2006 to a loss of \$10.3 million in 2007.

- ▶ Nonoperating net revenue increased to \$25.0 million in 2007 from \$21.3 million in 2006 due to increased interest rates on the District's investment portfolio.
- ▶ Capital contributions received in the form of grants from the Federal, State and Local governments increased from \$23.6 million in 2006 to \$34.1 million in 2007 as a result of the implementation of several major projects. These projects include: (1) the purchase of ten Articulated Buses for use in Marin County local service routes; (2) the rehabilitation of the MS Marin ferry vessel; and (3) the Larkspur Ferry Terminal Channel Dredging.

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

- ▶ As mentioned above, the District reclassified its 2006 financial statements to reflect the revenue components related to the contract with Marin Transit for comparison purposes.
- ▶ Operating revenues increased slightly from \$117.7 in 2005 to \$121.9 million in 2006 due primarily to revenues from increased cost recoveries relating to Marin Transit along with one-time insurance recoveries. 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.
- ▶ Operating income before depreciation was relatively flat, at \$1.3 million. 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 was \$18.9 million in 2006, compared to a loss of \$18.3 million in 2005.
- ▶ Nonoperating net revenue experienced little change (\$22.0 million in 2005 to \$21.3 million in 2006).
- ▶ 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 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.

## **SUMMARY OF CHANGES IN NET ASSETS**

(In thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$127,008	\$121,908	\$117,713
Operating expenses	<u>(121,037)</u>	<u>(120,610)</u>	<u>(117,706)</u>
Income before depreciation and other nonoperating revenue and expenses	5,971	1,298	7
Depreciation	<u>(16,223)</u>	<u>(20,200)</u>	<u>(18,285)</u>
Operating Loss	(10,252)	(18,902)	(18,278)
Other nonoperating revenue and expenses, net	<u>25,033</u>	<u>21,305</u>	<u>21,954</u>
Income before capital contributions and special item	14,781	2,403	3,676
Capital contributions	34,141	23,590	34,132
Special Item-Transfer of assets to SMART	<u>-</u>	<u>(11,403)</u>	<u>-</u>
Increase in net assets	<u>\$48,922</u>	<u>\$14,590</u>	<u>\$37,808</u>

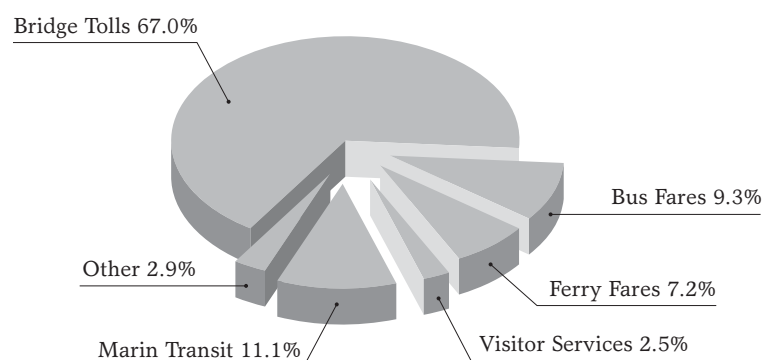
## DISTRICT TOLLS AND FARES

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 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>2007</u>	<u>2006</u>	<u>2005</u>
Average Bridge Toll	\$4.30	\$4.35	\$4.34
Average Bus Fare - Regional Service	\$2.95	\$2.44	\$2.34
Average Bus Fare - Local Service Under Agreement with Marin Transit	\$0.94	\$0.97	\$0.92
Average Bus Fare - Regional and Local Service	\$2.05	\$1.95	\$1.92
Average Ferry Fare	\$4.53	\$4.46	\$4.32

## REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2007 (tolls, transit fares, visitor services and other):



A summary of revenues for the years ended June 30, 2007 and 2006 and the amount and percentage of change in relation to prior year amounts is as follows (in thousands):

	<u>2007</u>	<u>Percent</u>	<u>Increase/</u>	<u>Percent</u>	<u>2006</u>	<u>Percent</u>	<u>Increase/</u>	<u>Percent</u>
	Amount	of Total	(Decrease)	Increase/	Amount	of Total	(Decrease)	Increase/
			From 2006	(Decrease)			From 2005	(Decrease)
Operating:								
Bridge Tolls	\$ 85,043	45.2%	\$ 296	0.3%	\$ 84,747	49.7%	\$ 534	0.6%
Bus Fares	11,781	6.3%	(268)	(2.2%)	12,049	7.1%	(444)	(3.6%)
Ferry Fares	9,165	4.9%	823	9.9%	8,342	4.9%	772	10.2%
Marin Transit	14,127	7.5%	4,140	41.5%	9,987	5.9%	1,845	22.7%
Visitor Services Concessions	3,154	1.7%	95	3.1%	3,059	1.8%	42	1.4%
Other	3,738	2.0%	14	0.4%	3,724	2.2%	1,446	63.5%
Total Operating	<u>127,008</u>	<u>67.5%</u>	<u>5,100</u>	<u>4.2%</u>	<u>121,908</u>	<u>71.5%</u>	<u>4,195</u>	<u>3.6%</u>
Nonoperating:								
Operating Assistance	19,146	10.2%	(1,656)	(8.0%)	20,802	12.2%	425	2.1%
Investment Income	7,900	4.2%	3,664	86.5%	4,236	2.5%	1,601	60.8%
Total Nonoperating	<u>27,046</u>	<u>14.4%</u>	<u>2,008</u>	<u>8.0%</u>	<u>25,038</u>	<u>14.7%</u>	<u>2,026</u>	<u>8.8%</u>
Capital Contributions	34,141	18.1%	10,551	44.7%	23,590	13.8%	(10,542)	(30.9%)
Total Revenues	<u>\$188,195</u>	<u>100.0%</u>	<u>\$17,659</u>	<u>10.4%</u>	<u>\$170,536</u>	<u>100.0%</u>	<u>\$ (4,321)</u>	<u>(2.5%)</u>

The operating assistance decrease of 8.0% is mainly attributable to a reclass of operating assistance funding to Marin Transit, in accordance with the contract, along with the termination of certain Federal Operating Assistance programs. Also, investment income increased by 86.5% primarily due to rising interest rates. Capital contributions have increased by 44.7% due to major Bus and Ferry projects.

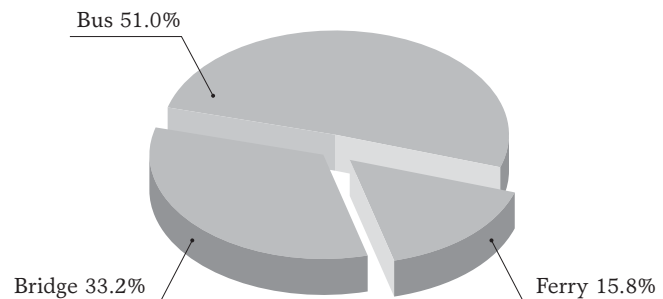
The District funds its operations with Bridge tolls, transit fares, government grants and other revenues from operations or investments. The operations of the Bridge Division produce a surplus of Bridge toll revenue that is used to subsidize transit operations. In addition, in years where there is not 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 2007. The table includes a \$9.0 million transfer to reserves to be used to fund capital projects.

How Golden Gate District was funded in FY 2007 (in thousands)

	<u>Bridge Division</u>	<u>Bus Division</u>	<u>Ferry Division</u>	<u>District Total</u>
Bridge Tolls	\$42,500	\$19,500	\$8,500	\$70,500
Patron Fares	-	11,800	9,200	21,000
Marin Transit	-	13,500	-	13,500
Other Revenue	12,000	2,000	900	14,900
Government Grants	300	16,900	2,700	19,900
Total	<u>\$54,800</u>	<u>\$63,700</u>	<u>\$21,300</u>	<u>\$139,800</u>

## EXPENSES

The following chart shows the major cost centers and the percentage of operating expenses (excluding depreciation) for the year ended June 30, 2007:



A summary of expenses for the years ended June 30, 2007 and 2006 and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2007 Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2006</u>	<u>Percent Increase/ (Decrease)</u>	<u>2006 Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2005</u>	<u>Percent Increase/ (Decrease)</u>
Operating:								
Bridge	\$ 40,228	28.9%	\$ (1,402)	(3.4%)	\$ 41,630	26.7%	\$ 1,665	4.2%
Bus	61,744	44.3%	1,511	2.5%	60,233	38.6%	1,708	2.9%
Ferry	19,065	13.7%	524	2.8%	18,541	11.9%	(435)	(2.3%)
Rail	-	0.0%	(206)	(100.0%)	206	0.1%	(34)	(14.2%)
Total Operating	121,037	86.9%	427	0.4%	120,610	77.3%	2,904	2.5%
Interest Expense	2,162	1.6%	381	21.4%	1,781	1.1%	723	68.3%
Depreciation	16,223	11.6%	(3,977)	(19.7%)	20,200	13.0%	1,915	10.5%
(Gain)/Loss on disposal of assets	(149)	(0.1%)	(2,101)	0.0%	1,952	1.3%	1,952	0.0%
Special item-transfer of assets to SMART	-	0.0%	(11,403)	0.0%	11,403	7.3%	11,403	0.0%
Total Expenses	<u>\$139,273</u>	<u>100.0%</u>	<u>\$16,673</u>	<u>(10.7%)</u>	<u>\$155,946</u>	<u>100.0%</u>	<u>\$18,897</u>	<u>13.8%</u>

The 0.4% increase in operating expenses is mainly attributable to normal inflationary cost increases associated with steady operation levels, offset by savings from conversion of the Bridge to a self-insured status, and increased capitalization of labor and benefits. Higher interest rates have continued to impact interest expenses associated with the commercial paper program. The District also experienced decreased expenses due to one-time prior year charges in the Bus Division of \$2.0 million relating to the transfer of thirty-five buses to other transit agencies, and a prior year charge 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 2007, the District expended \$42.9 million, which is an increase of \$20.2 million or 89.0% over the amount expended in 2006, on capital activities. This included major construction projects, principally the seismic retrofit projects (\$14.6 million), north approach viaduct suspended maintenance scaffolding system (\$1.4 million), security system build-out at the Bridge (\$2.1 million), Merchant Road improvements (\$1.6 million), suicide deterrent investigation (\$2.5 million), the purchase of ten articulated buses (\$5.6 million), Spaulding vessel refurbishment (\$6.9 million), Larkspur Ferry Terminal Channel Dredging (\$4.0 million) and Ferry's fuel piping system replacement (\$0.5 million).

During 2007, completed projects totaling \$11.3 million, which is an increase of \$7.1 million or 172.4% over the amount completed in 2006, were closed from construction-in-progress to their respective capital accounts. The major completed projects included the purchase and installation of security equipment necessary to support Bridge security initiatives (\$2.9 million), Larkspur Ferry Terminal Channel Dredging (\$4.3 million), toll plaza transfer point improvement (\$1.1 million) and the installation of bike racks on 52 MCI coaches (\$0.3 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, 2007, the District has commitments of approximately \$10.2 million for bridge-related projects and approximately \$3.4 million for other projects.

During 2006, the District expended \$22.7 million, which is a decrease of \$17.0 million or 42.7% 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 (\$0.9 million), security system build-out at the Bridge (\$0.8 million), installation of bike racks on the MCI buses (\$0.3 million), Spaulding vessel refurbishment (\$0.4 million) and Larkspur Ferry Terminal Channel Dredging (\$0.3 million).

During 2006, completed projects totaling \$4.1 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 improvement at the Ferry Division (\$1.2 million).

At June 30, 2006, the District had commitments of approximately \$16.6 million for Bridge-related projects and approximately \$3.2 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 \$30.5 million 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, 2007, \$61.0 million in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 3.48% to 3.68% (2.44% to 3.46% in 2006). 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 \$61.0 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 information on the District's commercial paper notes payable can be found in the notes to the financial statements.

## **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, 2007 AND 2006 (In thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents	\$ 39,356	\$ 64,787
Investments	106,218	66,507
Capital and operating grants receivable	5,583	6,577
Accounts receivable	6,865	3,088
Maintenance inventories and supplies - average cost	3,996	3,440
Prepaid expenses	<u>2,039</u>	<u>1,420</u>
Total unrestricted assets	<u>164,057</u>	<u>145,819</u>
Restricted assets:		
Cash and cash equivalents	<u>15,237</u>	<u>14,797</u>
Total current assets	<u>179,294</u>	<u>160,616</u>
NONCURRENT ASSETS:		
Capital assets		
Nondepreciable capital assets:		
Land	6,650	6,650
Construction in progress	<u>209,710</u>	<u>178,086</u>
Total nondepreciable capital assets	<u>216,360</u>	<u>184,736</u>
Depreciable capital assets:		
Property and equipment:		
Bridge, related buildings and equipment	257,838	252,730
Bus transit property and equipment	110,159	114,587
Ferry transit property and equipment	83,639	79,723
Visitor services property and equipment	1,217	1,040
Accumulated depreciation	<u>(209,841)</u>	<u>(200,115)</u>
Total depreciable capital assets	<u>243,012</u>	<u>247,965</u>
Total capital assets	<u>459,372</u>	<u>432,701</u>
Other assets	<u>774</u>	<u>758</u>
Total noncurrent assets	<u>460,146</u>	<u>433,459</u>
TOTAL ASSETS	<u>\$639,440</u>	<u>\$594,075</u>

*See accompanying notes to the financial statements.*

**STATEMENT OF NET ASSETS (continued)**

JUNE 30, 2007 AND 2006 (In thousands)

	<u>2007</u>	<u>2006</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 6,977	\$ 8,023
Accrued liabilities	4,815	4,812
Deferred revenue	2,292	3,245
Accrued compensated absences	397	573
Contract retentions	7,606	7,272
Self-insurance liabilities	6,959	7,709
Commercial paper notes payable	61,000	61,000
Total current liabilities	<u>90,046</u>	<u>92,634</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	7,548	6,876
Self-insurance liabilities	9,788	11,429
Total noncurrent liabilities	<u>17,336</u>	<u>18,305</u>
TOTAL LIABILITIES	<u>107,382</u>	<u>110,939</u>
NET ASSETS:		
Invested in capital assets, net of related debt	398,372	371,701
Restricted		
Debt service requirements	12,975	14,082
Seismic project	2,262	715
Transit operation	66	1,707
Unrestricted	118,383	94,931
TOTAL NET ASSETS	<u>\$532,058</u>	<u>\$483,136</u>

*See accompanying notes to the financial statements.*

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

YEARS ENDED JUNE 30, 2007 AND 2006 (In thousands)

	2007	2006
OPERATING REVENUES:		
Bridge tolls	\$ 85,043	\$ 84,747
Transit fares	20,946	20,391
Marin Transit	14,127	9,987
Visitor services concessions	3,154	3,059
Other operating	3,738	3,724
Total operating revenues	127,008	121,908
OPERATING EXPENSES:		
Operations	65,324	63,148
Maintenance	27,132	26,579
General and administrative	28,581	30,883
Depreciation	16,223	20,200
Total operating expenses	137,260	140,810
OPERATING LOSS	(10,252)	(18,902)
NONOPERATING REVENUES (EXPENSES):		
Pass-through federal capital assistance:		
Translink and paratransit assistance	-	862
Translink and paratransit assistance pass-through	-	(862)
Operating assistance:		
State operating assistance	15,646	14,398
Federal operating assistance	707	3,811
Local operating assistance	2,793	2,593
Total operating assistance	19,146	20,802
Investment income	7,900	4,236
Interest expense	(2,162)	(1,781)
Gain (loss) on disposal of capital assets	149	(1,952)
Total nonoperating revenues	25,033	21,305
INCOME BEFORE CAPITAL CONTRIBUTIONS	14,781	2,403
CAPITAL CONTRIBUTIONS	34,141	23,590
INCREASE IN NET ASSETS BEFORE SPECIAL ITEM	48,922	25,993
SPECIAL ITEM - Transfer of assets to SMART	-	(11,403)
NET INCREASE IN NET ASSETS	48,922	14,590
NET ASSETS, Beginning of year	483,136	468,546
NET ASSETS, End of year	\$532,058	\$483,136

*See accompanying notes to the financial statements.*

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006 (In thousands)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 122,421	\$ 122,640
Cash payments to suppliers for goods and services	(65,295)	(63,556)
Cash payments to employees for services	<u>(62,331)</u>	<u>(59,678)</u>
Net cash used in operating activities	<u>(5,205)</u>	<u>(594)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	<u>21,700</u>	<u>19,815</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions received	32,581	22,736
Capital grants disbursed to other agencies	-	(862)
Interest paid	(2,162)	(1,781)
Proceeds from sale of capital assets	149	-
Increase in retention related to capital assets	334	744
Purchase of capital assets	<u>(39,878)</u>	<u>(21,556)</u>
Net cash used in capital and related financing activities	<u>(8,976)</u>	<u>(719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds (purchases) of investment securities	(37,991)	3,093
Investment income received	<u>5,481</u>	<u>4,281</u>
Net cash (used in) provided by investing activities	<u>(32,510)</u>	<u>7,374</u>
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(24,991)	25,876
CASH AND EQUIVALENTS, Beginning of year	79,584	53,708
CASH AND EQUIVALENTS, End of year	<u>\$ 54,593</u>	<u>\$ 79,584</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (10,252)	\$ (18,902)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	16,223	20,200
Effect of changes in:		
Accounts receivable	(3,077)	121
Prepaid expenses	(619)	873
Inventory and supplies	(556)	(937)
Other assets	(16)	52
Trade accounts payable	(4,063)	(3,554)
Accrued liabilities	3	383
Deferred revenue	(953)	1,548
Accrued compensated absences	496	616
Self-insurance liabilities	<u>(2,391)</u>	<u>(994)</u>
Net cash used in operating activities	<u>\$ (5,205)</u>	<u>\$ (594)</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing and investing activities:		
Acquisition of capital assets in accounts payable and contract retention	<u>\$ 3,016</u>	<u>\$ 1,201</u>
Transfer of capital assets to SMART	<u>\$ -</u>	<u>\$ 11,403</u>
Noncash investing activities:		
Change in fair value of investments	<u>\$ (1,720)</u>	<u>\$ 782</u>

See accompanying notes to the financial statements.

# Notes to the Financial Statements

YEARS ENDED JUNE 30, 2007 AND 2006

## (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 three operating divisions, Bridge (bridge and visitor center operations), Bus, Ferry and an administrative District Division. Previously the District oversaw a Rail division that was closed out in the year ended June 30, 2006. In March 2006, the District transferred its Rail Division assets to Sonoma-Marín Area Rail Transit District and recognized a loss of \$11,403,000 during the year ended June 30, 2006. 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
Visitor services and 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 periods during which the District maintained its own FasTrak customer service center. This change had the effect of increasing depreciation expense and operating loss by \$1,760,000 in fiscal year 2006.

**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, 2007 and 2006.

**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, 2007 and 2006 are as follows (in thousands):

	<u>Bridge Division</u>	<u>Bus Division</u>	<u>Ferry Division</u>	<u>Total</u>
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	<u>\$22,408</u>	<u>\$ 517</u>	<u>\$ 665</u>	<u>\$23,590</u>
Capital contributions in fiscal 2007:				
U.S. Department of Transportation	\$ 16,589	\$5,352	\$8,634	\$30,575
U.S. Department of Homeland Security	1,534	-	8	1,542
Local Assistance	851	1,112	61	2,024
Total capital contributions	<u>\$18,974</u>	<u>\$6,464</u>	<u>\$8,703</u>	<u>\$34,141</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. Effective with the renegotiated contract entered into in April 2006 with Marin County, the transit fare revenue for the Marin local service lines (\$2,986,000 in 2006) is shown separately and the related revenues from Marin County's state and local funding sources (\$7,001,000 in 2006) are reclassified from nonoperating revenues to operating revenues. 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** – Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. In March 2006, the District 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 is 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 Adopted** - The District anticipates adopting GASB 45 in fiscal year ending June 30, 2008 when it become effective. 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.

In December 2006, GASB issued Statement No. 49, *Accounting for Remediation Obligations*. This statement requires state and local governments to provide the public with better information about the financial impact of environment cleanups. This statement is effective for the District's fiscal year ending June 30, 2009.

In May 2007, GASB issued Statement No. 50, *Disclosure Requirements for Governmental Pensions and Retiree Healthcare*. The statement requires agencies to more closely align current pension disclosure requirements with retiree health insurance and other post-employment benefits (OPEB). The District will implement GASB Statement No. 45 (*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*) in fiscal year ending June 30, 2008 and will implement Statement No. 50 at the same time.

In July 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, providing additional guidance on the accounting of intangible assets. Although the statement is effective for fiscal years beginning after June 15, 2009, the District expects to be in compliance by 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 2006 amounts have been reclassified to conform to the 2007 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>2007</u>	<u>2006</u>
Reported as:		
Unrestricted:		
Cash and cash equivalents	\$ 39,356	\$ 64,787
Investments	<u>106,218</u>	<u>66,507</u>
Total unrestricted cash and investments	145,574	131,294
Restricted:		
Cash and cash equivalents	<u>15,237</u>	<u>14,797</u>
Total cash and investments	<u>\$160,811</u>	<u>\$146,091</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, 2007 (and 2006), of the District’s bank balance of \$7,079,000 (2006, \$6,712,000), approximately \$6,879,000 (2006, \$6,536,000) held in contract retention escrow accounts is uninsured and uncollateralized.

**Investments**

At June 30, 2007 and 2006 cash and investments were comprised of the following (in thousands):

<i>Investments</i>	June 30, 2007			June 30, 2006		
	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	\$ 37,470	\$ 22,595	\$ 14,875	\$ 28,609	\$ 6,525	\$ 22,084
Federal Agency Notes (Callable)	29,540	-	29,540	23,655	-	23,655
Certificate of Deposits	-	-	-	25,973	25,973	-
Municipal Bonds	3,639	-	3,639	-	-	-
Medium-term Corporate Notes	35,568	4,958	30,610	17,916	-	17,916
Commercial Paper	23,761	23,761	-	31,822	31,822	-
Investment in State Treasurer’s Investment Pool	22,490	22,490	-	9,583	9,583	-
Federal Obligation Mutual Funds	873	873	-	826	826	-
	<u>153,341</u>	<u>\$ 74,677</u>	<u>\$ 78,664</u>	<u>138,384</u>	<u>\$ 74,729</u>	<u>\$ 63,655</u>
<b>Cash and deposits</b>						
Demand deposits	7,441			7,678		
Cash on hand	29			29		
	<u>\$ 160,811</u>			<u>\$ 146,091</u>		

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

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

Corporate commercial paper rated in the highest short-term category, as rated A-1 by Standard and Poor’s Corporation or P-1 by Moody’s Commercial Paper Record; provided that the issuing corporation is organized and operating within the United States, has total assets of \$500 million and has an “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, 2007 and 2006, the 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>2007</u>	<u>2006</u>
Corporate commercial paper	A-1 +	\$ 13,974	\$ 16,792
Corporate commercial paper	A-1	9,787	15,030
Total corporate commercial paper		<u>\$ 23,761</u>	<u>\$ 31,822</u>
Medium-term corporate notes	AAA	\$ 9,646	\$ 4,752
Medium-term corporate notes	AA +	8,124	-
Medium-term corporate notes	AA	10,013	-
Medium-term corporate notes	AA-	7,785	13,164
Total medium corporate notes		<u>\$ 35,568</u>	<u>\$ 17,916</u>
Certificate of deposit	A-1 +	\$ -	\$ 21,053
Certificate of deposit	A-1	-	4,920
Total certificate of deposit		<u>\$ -</u>	<u>\$ 25,973</u>

In addition, the District's investments in Municipal Bonds, Federal Agency Notes and Federal Obligation mutual funds have a credit rating of AAA from Standard and Poor's Corporation as of June 30, 2007 and 2006.

As of June 30, 2007 and 2006, the District's investment in the State Treasurer's investment pool (LAIF) is \$22,490,000 and \$9,583,000, respectively. The total amount invested by all public agencies in LAIF at those dates is \$19,736,253,000 and \$16,392,047,000, respectively. LAIF is part of the State of California Pooled Money Investment Account (PMIA). Of the total invested in PMIA, 96.53% and 97.43% is invested in non-derivative financial products and 3.47% and 2.57% in structured notes and asset-backed securities as of June 30, 2007 and 2006, 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, 2007 and 2006, these investments are 23% and 13%, respectively, of the District's total investments. At June 30, 2007 and 2006, the District holds more than 5% of the District's investments in the following issuers:

<u>Investment</u>	<u>2007</u>	<u>2006</u>
Merrill Lynch & Co Note	5.11%	-
Dexia Delaware LLC Commercial Paper	5.25%	-
Wells Fargo Global Notes	5.33%	-
Dresdner Corp Commercial Paper	6.42%	-
Morgan Stanley DW Commercial Paper	-	5.13%
Bear Stearns Co. Inc. Commercial Paper	-	5.80%
USB Finance Delaware LLC	-	8.09%
Citizens Bank	-	7.27%
Federal Home Loan Board	19.84%	21.34%
Federal Home Loan Mortgage Corporation	-	4.82%
Federal National Mortgage Association	17.68%	8.38%

#### (4) CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2007 and 2006 was as follows (in thousands):

	Balance July 1, 2006	Additions	Reductions/ Adjustments	Transfers	Balance June 30, 2007
<i>Capital assets, not being depreciated:</i>					
Land	\$ 6,650	\$ -	\$ -	\$ -	\$ 6,650
Construction in progress	178,086	42,897	-	(11,273)	209,710
Total capital assets, not being depreciated	184,736	42,897	-	(11,273)	216,360
<i>Capital assets, being depreciated:</i>					
Bridge, related buildings and equipment	252,730	-	(295)	5,403	257,838
Bus transit property and equipment	114,587	-	(5,864)	1,436	110,159
Ferry transit property and equipment	79,723	-	(341)	4,257	83,639
Visitor services property and equipment	1,040	-	-	177	1,217
Total capital assets, being depreciated	448,080	-	(6,500)	11,273	452,853
<i>Accumulated depreciation</i>					
Bridge, related buildings and equipment	(87,590)	(5,793)	295	19	(93,069)
Bus transit property and equipment	(62,209)	(7,289)	5,865	(19)	(63,652)
Ferry transit property and equipment	(49,831)	(3,102)	338	-	(52,595)
Visitor services property and equipment	(485)	(40)	-	-	(525)
Less accumulated depreciation	(200,115)	(16,224)	6,498	-	(209,841)
Total capital assets, being depreciated, net	247,965	(16,224)	(2)	11,273	243,012
Total capital assets, net	\$ 432,701	\$ 26,673	\$ (2)	\$ -	\$ 459,372
	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	178,207	22,111	(11,443)	(4,139)	184,736
<i>Capital assets, being depreciated:</i>					
Bridge, related buildings and equipment	255,912	-	(3,947)	765	252,730
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
Visitor services property and equipment	1,040	-	-	-	1,040
Rail transit property and equipment	438	-	(438)	-	-
Total capital assets, being depreciated	461,491	-	(17,550)	4,139	448,080
<i>Accumulated depreciation</i>					
Bridge, related buildings and equipment	(84,307)	(7,848)	4,565	-	(87,590)
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)
Visitor services property and equipment	(450)	(35)	-	-	(485)
Rail transit property and equipment	(388)	(24)	412	-	-
Less accumulated depreciation	(195,555)	(20,200)	15,640	-	(200,115)
Total capital assets, being depreciated, net	265,936	(20,200)	(1,910)	4,139	247,965
Total capital assets, net	\$ 444,143	\$ 1,911	\$ (13,353)	\$ -	\$ 432,701

*Construction in progress* consists of the following projects at June 30, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Bridge Seismic South Viaduct Phase II	\$ 180,265	\$ 166,769
Bridge Seismic Design Review Phase III	4,781	3,690
Bridge Security System Improvement	-	266
Bridge Security System	437	871
Bridge Main Cable Restoration	802	802
Bridge Toll Plaza Transfer Point/Pavement	10	921
Bridge Access Platforms	1,470	54
Bridge Fastrak System Upgrade	2,608	75
Bridge Merchant Road Improvement	1,672	12
Bridge Suicide Deterrent Study	982	27
District MIS-Financial	110	905
Ferry Spaulding Refurbishment	7,514	634
Ferry LFT Channel Dredging	141	281
Ferry Fuel Piping System Replacement	476	-
Bus Replacement	5,568	-
Other	2,874	2,779
Total construction in progress	<u>\$ 209,710</u>	<u>\$ 178,086</u>

At June 30, 2007 and 2006, the District had commitments of approximately \$10,247,000 and \$16,624,000, respectively, for bridge-related projects and approximately \$3,364,000 and \$3,216,000 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, 2007, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 3.48% to 3.68%.

#### **(6) CAPITAL GRANTS PASSED-THROUGH TO MTC**

The District passed-through its federal capital assistance allocation of \$862,000 for the year ended June 30, 2006, of which \$388,000 was passed through to the Metropolitan Transportation Commission (MTC) for the Translink Project and \$474,000 was passed through to Marin County Transit District for the purchase of paratransit vans. 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, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Transportation Development Act	\$ 15,056	\$ 14,628
less Marin Transit portion	(3,515)	(2,796)
Federal Transit Administration	707	3,811
State Transit Assistance	5,537	2,749
less Marin Transit portion	(1,612)	(362)
Regional Measure 2	2,363	2,341
CalTrans	180	180
Other	430	251
Total	<u>\$ 19,146</u>	<u>\$ 20,802</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 Q Street, Sacramento, CA 95811.

**Funding Policy** - In May 2007, the District amended the plan from 2% at 55 to 2.5% at 55. As a result, active plan members in the CalPERS are now required to contribute 8.0% of their annual covered salary. In addition, the District is required to contribute at an actuarially determined rate. Based on the actuarial valuation, the contribution rate was 14.024%, 15.544%, and 8.48% for fiscal years 2007, 2006, and 2005, respectively. With the onset of the amended contract, the contribution rate increased from 14.024% to 16.813% in May 2007. 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, 2007, 2006, and 2005, the District's annual pension costs for CalPERS is \$7,439,000, \$7,711,000, and \$4,963,000, respectively. The required contribution for the year ended June 30, 2007 was determined as part of the June 30, 2004 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 unfunded actuarial accrued liability is being amortized as a percentage of projected payroll on a closed basis. The amortization period as of June 30, 2004 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 was 15.165% of eligible earnings. There is no provision for employee contributions.

**Annual Pension Cost** - For the fiscal years ended June 30, 2007, 2006, and 2005, 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 5.0% 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, 2007, 2006, and 2005, are the result of collective bargaining. The total annual pension cost and funded contributions were \$2,773,000, \$2,720,000, and \$2,730,000 for the years ended June 30, 2007, 2006, and 2005, respectively (15.2%, 15.2%, and 15.2% of current covered payroll of \$18,285,000, \$17,936,000, and \$18,007,000, for 2007, 2006, and 2005 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 \$199,000, \$160,000, and \$181,000 for the years ended June 30, 2007, 2006, and 2005, respectively. The District contributed to Inlandboatmen's 11.7%, 8.5%, and 8.4% of payroll for covered employees for the years ended June 30, 2007, 2006, and 2005, respectively. The District's covered payroll for employees participating in this plan was \$1,710,000, \$1,889,000, and \$2,160,000 for the years ended June 30, 2007, 2006, and 2005, respectively. Annual pension cost for the MEBA plan was \$96,000, \$95,000, and \$96,000 for the years ended June 30, 2007, 2006, and 2005, respectively. The District contributed to MEBA 7.9%, 8.3%, and 9.8% of payroll for covered employees for the years ended June 30, 2007, 2006, and 2005, respectively. The District's covered payroll for employees participating in this plan was \$1,219,000, \$1,140,000, and \$991,000 for the years ended June 30, 2007, 2006, and 2005, 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 follow: 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 669 retirees meet the eligibility requirements. For single coverage, the premium is \$93.50 per month until Medicare eligible. Coverage for a spouse/domestic partner is an additional \$93.50 per month until Medicare eligible. Expenses for postretirement health care benefits are recognized on a pay-as-you-go basis. Postretirement health care benefits expense was \$6,375,000 and \$5,980,000 for the years ended June 30, 2007 and 2006, 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. The District also adjusted the Property (earthquake/flood) and Marine coverage to better represent its risks. As a result, the District designated net assets for self-insured losses in the amount of \$1,630,000 at June 30, 2007.

Self-insurance and limits are as follows:

Type of Coverage	Self-Insurance	Excess Coverage
General /Vehicle Liability	\$3,000,000 per occurrence	\$100,000,000
Workers Compensation	\$1,000,000 per claim	\$10,000,000 (statutory limits)
Health Benefits	\$100,000 per individual	\$175,000 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	\$3,000,000 per occurrence	\$30,000,000 per occurrence
Property (earthquake/flood)	\$250,000 (5% per structure)	\$20,000,000 per occurrence/aggregate
Ferry Hull, Machinery	\$350,000 annual aggregate	\$1,000,000 per occurrence
Marine	\$100,000 annual aggregate	\$100,000,000 per occurrence
Crime and Dishonesty	\$25,000 per occurrence	\$1,000,000 Faithful
	(faithful performance)	
	\$1,000 per occurrence forgery	\$500,000 Forgery/Alteration
	\$5,000 all other	\$500,000 Theft Inside/Toll
		\$15,000 All other locations
		\$1,000,000 Computer Fraud
Public Officials Liability	\$100,000 Each Wrongful Act	\$5,000,000 per Occurrence/ aggregate
	\$100,000 Each Employment Practices	

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

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

Changes in the balances of claims liabilities for the years ended June 30, 2007 and 2006 are as follows (in thousands):

	2007	2006
Self-insurance liabilities, beginning of fiscal year	\$ 19,138	\$ 20,132
Incurred claims and changes in estimates	(554)	1,197
Claim payments and related costs	(1,837)	(2,191)
Total self-insured claims liabilities	16,747	19,138
Less current portion	(6,959)	(7,709)
Non-current portion	\$ 9,788	\$ 11,429

**(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, 2007 and 2006, 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):

	2007	2006
Bridge	\$ 9,379	\$ 9,970
Bus	7,607	8,140
Ferry	3,663	3,984
Visitors Services	504	-
Rail	-	168
Total	\$ 21,153	\$ 22,262

### **(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 affect 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, 2007 AND 2006  
(UNAUDITED)

#### *CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT FUND*

Funding progress information for the District for 2006 is unavailable as of the date of this report.

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

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL as a % of Covered Payroll</u>
6/30/2003	\$ 169,923	\$ 195,259	\$ (25,336)	87.0%	\$ 34,343	(73.8%)
6/30/2004	177,512	204,776	(27,264)	86.7%	32,986	(82.7%)
6/30/2005	185,728	219,556	(33,828)	84.6%	32,253	(104.9%)

#### GOLDEN GATE TRANSIT - AMALGAMATED RETIREMENT PLAN

Funding progress information for the District for January 1, 2007 is available as of the date of this report. The District's funding progress information as of January 1, 2006 is illustrated as follows:

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

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL as a % of Covered Payroll</u>
1/1/2004	\$ 112,137	\$ 118,371	\$ (6,234)	94.7%	\$ 22,952	(27.2%)
1/1/2005	115,857	120,251	(4,394)	96.3%	20,249	(21.7%)
1/1/2006	117,796	122,198	(4,402)	96.4%	18,175	(24.2%)

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

YEARS ENDED JUNE 30, 2007 AND 2006 (In thousands)

	Total		Bridge Division (Bridge & Visitor Services)		Bus Division		Ferry Division		Rail Division	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>OPERATING REVENUES:</b>										
Bridge tolls	\$85,043	\$84,747	\$85,043	\$84,747	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transit fares	20,946	20,391	-	-	11,781	12,049	9,165	8,342	-	-
Marin Transit	14,127	9,987	-	-	14,127	9,987	-	-	-	-
Visitor services concessions	3,154	3,059	3,154	3,059	-	-	-	-	-	-
Other operating	3,738	3,724	909	388	1,958	1,432	871	1,679	-	225
Total operating revenues	127,008	121,908	89,106	88,194	27,866	23,468	10,036	10,021	-	225
Operations	65,324	63,148	14,142	14,684	40,149	38,131	11,033	10,333	-	-
Maintenance	27,132	26,579	14,632	14,005	9,918	10,053	2,582	2,511	-	10
General and administrative	28,581	30,883	11,454	12,941	11,677	12,049	5,450	5,697	-	196
Depreciation	16,223	20,200	5,536	7,657	7,493	7,807	3,194	4,709	-	27
Total operating expenses	137,260	140,810	45,764	49,287	69,237	68,040	22,259	23,250	-	233
<b>OPERATING INCOME (LOSS)</b>	<b>(10,252)</b>	<b>(18,902)</b>	<b>43,342</b>	<b>38,907</b>	<b>(41,371)</b>	<b>(44,572)</b>	<b>(12,223)</b>	<b>(13,229)</b>	<b>-</b>	<b>(8)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>										
Operating assistance:										
State operating assistance	15,646	14,398	180	180	12,832	11,831	2,634	2,387	-	-
Federal operating assistance	707	3,811	-	-	680	3,061	27	750	-	-
Local operating assistance	2,793	2,593	127	127	2,666	2,466	-	-	-	-
Total operating assistance	19,146	20,802	307	307	16,178	17,358	2,661	3,137	-	-
Investment income	7,900	4,236	7,900	4,236	-	-	-	-	-	-
Interest expense	(2,162)	(1,781)	(2,162)	(1,781)	-	-	-	-	-	-
Gain (Loss) on disposal of assets	149	(13,355)	1	-	123	(2,029)	25	77	-	(11,403)
Interdivision transfers	-	-	-	(231)	-	(213)	-	(101)	-	545
Contribution to capital	(9,000)	(9,000)	(7,029)	(7,019)	(603)	(585)	(1,368)	(1,396)	-	-
Bridge self insurance	(1,335)	(300)	(1,335)	(300)	-	-	-	-	-	-
Total nonoperating revenues (expenses)	14,698	602	(2,318)	(4,788)	15,698	14,531	1,318	1,717	-	(10,858)
<b>NET INCOME (LOSS)</b>	<b>4,446</b>	<b>(18,300)</b>	<b>41,024</b>	<b>34,119</b>	<b>(25,673)</b>	<b>(30,041)</b>	<b>(10,905)</b>	<b>(11,512)</b>	<b>-</b>	<b>(10,866)</b>
<b>DEPRECIATION AND GAIN/LOSS ON CAPITAL</b>										
ASSETS ACQUIRED WITH CAPITAL GRANTS	10,090	24,422	1,510	1,410	6,175	8,639	2,405	3,472	-	10,901
EXCESS REVENUES (LOSS)	\$14,536	\$ 6,122	\$42,534	\$35,529	\$ (19,498)	\$ (21,402)	\$ (8,500)	\$ (8,040)	\$ -	\$ 35