

***Golden Gate Bridge, Highway
and Transportation District***

2003/2004 Annual Report



President's Message

During the past year, the Board of Directors and employees of the Golden Gate Bridge, Highway and Transportation District (District) joined together to develop and implement an expanded partnership leading to



Stanley M. Smith

significant organizational transformation. This partnership included extensive negotiations with labor unions geared towards reducing costs and sharing the burden of cost increases. We successfully reached closure on all 25 labor contracts with a significant partnership from our employees, resulting in several million dollars of savings over the next several years.

Additionally, we implemented a significant reduction and restructuring of our bus transit services. The Golden Gate Transit (GGT) bus system was downsized to reduce annual operating costs by about \$13 million, which translated to a 22 percent

reduction in service hours. Joining us in this effort was the Marin County Transit District (MCTD), the local agency responsible for determining the level of bus services within Marin County. MCTD contracts with the District to provide these local services using GGT buses.

All regional and local bus routes underwent intensive scrutiny. Working closely with the public, priority services were identified for retention, and underutilized or redundant services were identified for elimination or restructuring. Because the primary source of operating subsidy for GGT is Golden Gate Bridge toll revenues, the highest priority was placed on retaining inter-county transit services that reduce traffic congestion across the Bridge.

The extensive public input allowed for a newly restructured system that minimized customer impact to every extent possible, resulting in the loss of service alternatives for approximately two percent of all customers. A final plan for bus service reductions was approved in July 2003 and implemented in November 2003. While ridership dropped about 15 percent over the next few months as

projected, ridership by the end of the fiscal year was rising again, particularly on local bus routes.

I want to emphasize that this action did not come easily and that the future of the District as a vital transportation provider remains at the heart of our mission. This Board is steadfastly committed to setting policies that will allow the District's infrastructure to sustain for future generations. We are resolved to provide safe and reliable operation, maintenance and enhancement of the Golden Gate Bridge and provide transportation services, as resources allow, for customers within the U.S. Highway 101 Golden Gate Corridor.

On another note, the Board experienced several changes this year. In October 2003, James R. Hooper joined the Board as the representative from Del Norte County following John E. Fraser's retirement in August 2003 after 16 years of service. Sadly, Hooper passed away unexpectedly in December 2003, and Jerry Cochran joined the Board in February 2004. In January 2004, Sabarina Hernández joined the Board to represent the City and County of San Francisco, following the death of director Robert McDonnell who passed away in August 2003 after 20 years of service. In April 2004, San Francisco Supervisor Michela Alioto-Pier joined the Board filling the position vacated by San Francisco Board of Supervisors Sophie Maxwell who resigned in February 2004.

As we look to next year, we must continue to focus our efforts on eliminating the remaining five-year shortfall that is now projected in the \$100 million range. We have come a long way since 2001, when the five-year projected shortfall was nearly \$500 million. I am confident that we will reach financial stability while continuing to serve our valued customers and recognizing our dedicated employees for their role in the provision of our services.

STANLEY M. SMITH
PRESIDENT, BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read 'Stanley M. Smith', written over a series of horizontal lines.

General Manager's Message

For the past several years, the District has been focused on addressing a sizeable financial shortfall. Over this past year, collaborations with a number of valued partners yielded achievements that assist the District in



Celia Kupersmith

attaining the sought-for financial stability. The substantial bus service downsizing and belt tightening undertaken across the organization could not have been achieved without calling upon these partners that include employees, customers, local governments, regional agencies, bicycle coalitions, citizen advisory committees, contractors and vendors.

Collaboration among the San Francisco Bay Area's transportation providers has been instrumental in allowing the District to identify cost savings through several programs now in varying stages of development. For example, we began the merg-

er of our FasTrak™ customer service center with that of the California Department of Transportation to create one centralized center serving the entire Bay Area. In future years, this will both save substantially on the cost associated with running such a service center and provide a streamlined processing center that enhances customer convenience.

Through a partnership with the Marin County Transit District, the combined local and regional bus service network was restructured and downsized. In spite of the need to reduce costs, services in the high ridership area of the Canal in San Rafael were moderately increased in cost neutral ways. For example, buying several articulated buses from the San Mateo County Transit District for \$1 each allowed us to expand capacity for very little investment. Working with Canal businesses and neighborhood groups, we improved our Spanish language outreach program to better educate customers during and after the bus system restructuring.

This year the District began the process of transferring

ownership of railroad right-of-way to a newly created agency responsible for planning and developing a rail system through Marin and Sonoma counties, the Sonoma-Marín Area Rail Transit District (SMART). This year all of the right-of-way between Healdsburg and Novato Creek was transferred to SMART. The portion south of Novato Creek to Corte Madera will be transferred in the next year. The District benefits financially as the costs associated with managing the right-of-way are also transferred to SMART.

Another special partnership yielded significant savings. Working in collaboration with our employees and labor unions, cost saving approaches were added to our medical benefits programs. In one case, salary reductions were implemented through a negotiated process that yielded savings and protected jobs for the future. The District is filled with dedicated and hard working employees, the best in the Bay Area, and this partnership approach truly reflects that excellence.

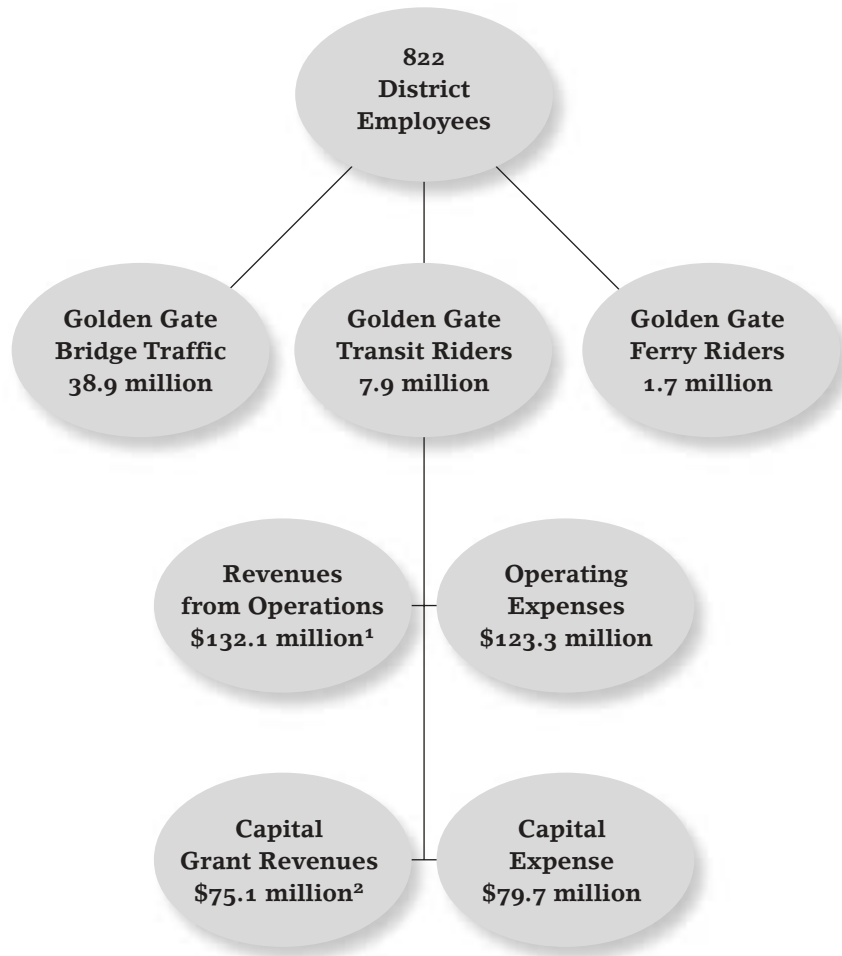
This past year has been a year of partnership, and we are very proud of this newly re-energized approach to assisting the District in taking the steps required to reduce current and future budgets. We look forward to many more years of continued public service working side by side with our valued partners.

A handwritten signature in cursive script that reads "Celia Kupersmith".

CELIA G. KUPERSMITH,
GENERAL MANAGER AND
CHIEF EXECUTIVE OFFICER

District Overview

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



¹ The Board of Directors designated \$9 million in operating revenues to fund future capital projects.

² The capital funding shortfall is funded by revenues designated for the capital projects by the Board of Directors in past years.

Board of Directors and Executive Management Team

Board of Directors

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

City and County of San Francisco Michela Alioto-Pier Tom Ammiano Tony Hall Sabrina Hernández Jake McGoldrick Janet Reilly Leah C. Shahum	Sonoma County Mike Kerns Michael F. Martini Marin County Harold C. Brown Albert J. Boro Cynthia L. Murray J. Dietrich Stroeh	Napa County Barbara L. Pahre Mendocino County James C. Eddie Del Norte County Jerry Cochran
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Officers of the Board

General Manager/CEO

Celia G. Kupersmith

Auditor/CFO

Joseph M. Wire

Attorney

David J. Miller

District Engineer

Denis J. Mulligan

Secretary of the District

Janet S. Tarantino

Deputy General Managers

Administration & Development

Teri W. Mantony

Bridge Division

Kary H. Witt

Bus Division

Susan C. Chiaroni

Ferry Division

Jim P. Swindler



Kellee Hopper

MARKETING AND COMMUNICATIONS SUPERVISOR

“Even during the District’s recent challenging times, the demonstration of teamwork, personal dedication and commitment to providing the best service possible remained a constant. I have a great deal of personal satisfaction in knowing that not only do I work at one of the most beautiful icons in the world, but I am also privileged to work daily with and around dedicated and committed people.”

Kellee was Employee of the Month in August 2003 and was Employee of the Year 2003.

BRIDGE OFFICER

“Every day brings new and unique experiences to enjoy. The employees and customers are like my second family!”

Dennis was Employee of the Month in January 2004.



Dennis Silva



Darryn Silveria

BUS MECHANIC

“Working for Golden Gate Transit, I take pride in knowing that each time I repair or maintain a bus farebox I am helping to keep both our drivers and passengers moving and getting where they need to go. That’s why we are here after all!”

Darryn was Employee of the Month in May 2004.



Wade Ayers

BUS SERVICER

“There are many different opportunities for employees here at the District and I feel privileged to be to be a part of the District. My personal goals are set and I am in pursuit.”

Wade was Employee of the Month in February 2004.



Cathy Simmons

BUS DISPATCHER

“Each day is fun because it is filled with variety. The best part is getting to know all of our bus drivers and being a part of the team that puts the service on the road to keep our customers moving.”

Cathy was Employee of the Month in July 2003.



Cora Acuna

OFFICE SPECIALIST

“On my first day of work in the purchasing department, I didn’t feel lost or alone as everybody helped me get off to a good start. In my mind I was thinking that I made a very good choice of working for the District. And I was right! It’s really a great place to work, with all the wonderful employees and the valued benefits.”

Cora was Employee of the Month in October 2003.

Key Accomplishments

SECOND PHASE SEISMIC RETROFIT CONSTRUCTION NEARS COMPLETION

Completing the seismic retrofit of the Golden Gate Bridge (Bridge) remains the District's top priority. Once completed, the retrofit will allow the Bridge to withstand a nearby earthquake measuring up to 8.3 Richter magnitude.

In spring 2002, the first of three retrofit construction phases was completed using \$71 million in toll revenues to retrofit the north approach viaduct. In June 2001, the second construction phase began—the \$157 million retrofit of the south approach viaduct and Fort Point arch structures. A combination of federal and state funds was authorized to implement this phase. The \$160 million third and final phase remains unfunded as the District continues to work diligently at state and federal levels to assure funding to retrofit the suspension bridge and towers.

Phase 2 construction is nearing completion as the retrofit of the south approach structures—south approach viaduct, south anchorage housing, Fort Point arch, and two south pylons—is well under way. Retrofit measures were developed that reflect each structure's individual behavior under seismic ground motions and their interaction at points of interface while accommodating their already-in-place historic configuration. Without closing the Bridge to traffic, the retrofit of the south approach structures continued this fiscal year with the following notable highlights:

- Two of the three steel support towers of the south approach viaduct were entirely replaced using 1,050,000 pounds of steel. Seismic isolation bearings were installed at the top of the new towers below the roadway truss.
- The replacement of bottom lateral bracing of the south approach viaduct was completed this year. Approximately 333,055 pounds of steel along with 106 steel connectors were installed to strengthen connections of the roadway deck to the steel truss below.
- All foundation strengthening work has been completed, including foundations of the viaduct support tower and

bents, and concrete frame of the south anchorage housing and south pylons. To enlarge and strengthen pylon foundations, 7,320 cubic yards of concrete and 417,600 pounds of reinforcing steel were used to tie pylon foundations to the bedrock, and 56 two-million-pound capacity steel anchors were installed.

- In the south anchorage housing, the addition of reinforced concrete shear walls was completed by placing 1,490 cubic yards of concrete and 548,000 pounds of reinforcing steel. Foundations of the shear walls were tied to the bedrock with tiedown anchors of capacity ranging from 308,000 to 835,000 pounds. Strengthening of the east wall of the housing was also completed; replacement of the west wall reached 69 percent completion.

- Ultimately, five million pounds of external and internal steel plating will be added to south pylon walls. This fiscal year 2,263,270, pounds of plating were installed.

- The Fort Point arch steel members and connections are undergoing extensive strengthening. Through the end of this fiscal year, approximately 1,416,300 pounds of new steel and approximately 100,000 new high strength bolts were installed, thus reaching 65 percent completion.

PUBLIC SAFETY RAILING INSTALLATION COMPLETED

This year a new four-foot, six-inch-high Public Safety Railing, designed so it will not obstruct the spectacular Bridge views, was installed between the Bridge roadway and each of the two sidewalks to enhance safety for pedestrians, bicyclists and motorists alike. Christie Constructors, Inc., Richmond, CA, fabricated the components off-site and installed the railing in 2003.

DID YOU KNOW?

Ironworkers keep the Bridge's steel in good repair. They remove pieces of corroded steel from the Bridge and take them to the shop where they are either replicated or new pieces fabricated from scratch. Then, these pieces get re-installed. Working under the leadership of the Ironworker Superintendent, a team of 19 ironworkers and five operating engineers do this work. This fiscal year about \$32,000 was spent on steel and \$5,000 on bolts.

SAFETY AWARENESS PROGRAM LAUNCHED

On December 11, 2003, in honor of the completed Public Safety Railing, the District teamed with the San Francisco Bicycle Coalition and the Marin County Bicycle Coalition to launch a public safety awareness program dubbed *Ride Safe on the Golden Gate*. The program provides outreach to Bridge bicyclists using Bridge sidewalks by underscoring the message that the sidewalks are for everyone and bicyclists are urged to take a leading role in making them safe and friendly places to ride and walk. Flyers and website information were created to support and expand the outreach.

GUARDING THE GATE

Security at the Bridge is provided through a coordinated coalition of law enforcement agencies, each bringing its own unique resources and expertise to the mission. The partners include the District's own Bridge Patrol, the California Highway Patrol, U.S. Coast Guard, U.S. Park Police, and National Park Service Rangers. Also included in the security effort are the Federal Bureau of Investigation, San Francisco Police Department, Marin County Sheriff's Department and Sausalito Police Department.

From November 2001 through April 2004, troops from the California National Guard (Guard) were an integral part of this security team, serving side-by-side with representatives from the other security agencies. The Guard's dedicated troops assisted in the security effort in many ways, chiefly through the provision of armed support and

their role as additional "eyes and ears." Their service was deeply appreciated. Upon the Guard's departure, the overall security plan was revamped and the remaining security partners have been redeployed to fill the gap.

To assist in the ongoing security effort, the California State Office of Homeland Security authorized \$2.1 million in Federal Homeland Security funds to be used to improve various elements of physical security infrastructure at the Bridge in FY 2005. These funds will come to the District in FY 2005 through the Urban Areas Security Initiative Grant Program.

DID YOU KNOW?

Golden Gate Bridge traffic has not yet recovered to pre-2001 levels, but the decline in traffic has slowed.

TOLL PLAZA GETS NEW ROOF AND CLOCK

In August 2003, the Bridge toll plaza roof was replaced for the first time since its original construction. As preparation for the roof replacement, the large, round, eight-foot-diameter clock installed in 1949 was removed, and a new replica of the clock was installed. Exposure to salt air over the years had resulted in advancing rust and was impeding the original clock's ability to continue to function properly. The clock is considered a familiar landmark that greets motorists who have come to rely on it to get them to work or home on time.

YOUNG DEER CROSSES BRIDGE SAFELY

On the morning of May 18, 2004, a young deer was spotted on the northwest side of the Bridge next to the roadway. Bridge Patrols in the area mobilized to initiate efforts to keep the deer off the roadway, but were not able to reach the deer before it proceeded into the south-bound lanes. Bridge traffic was immediately halted in both directions for the safety of both deer and morning commuters. The deer was then escorted across the span by a Bridge lane diversion truck and a patrol car, but as it approached the south side, it darted across the toll plaza and passed through a FasTrak-only toll lane and safely exited the roadway into Presidio property just south of the Bridge. The toll violation was waived in this case.

BUSES REFURBISHED

Last fiscal year, federal grant funds through the Federal Transit Administration were secured to assist in refurbishing 34 buses purchased in 1991 with new, low-emission, clean diesel engines compliant with the California Air Resources Board regulations. The engines and drivetrains are being replaced, the interiors refurbished, the exterior bus designation signs converted to LED to improve readability, and improvements to wheelchair securement areas are being made. *Continued on page 10*

DID YOU KNOW?

The Golden Gate Bridge is painted continuously. The Paint Superintendent and the crew of 28 Bridge Painters set goals each year giving the areas that corrode most top priority. This fiscal year approximately \$100,000 was spent to purchase the Bridge's well known International Orange paint and the sand used to blast clean the steel in the areas in need of paint.

SENIOR NETWORK ADMINISTRATOR

“My grandfather was an Ironworker in San Francisco and I was an apprentice Ironworker in San Francisco, so it’s ironic that I’m working at the Bridge as a computer specialist.”

Tom was Employee of the Month in June 2004.



Tom Sullivan

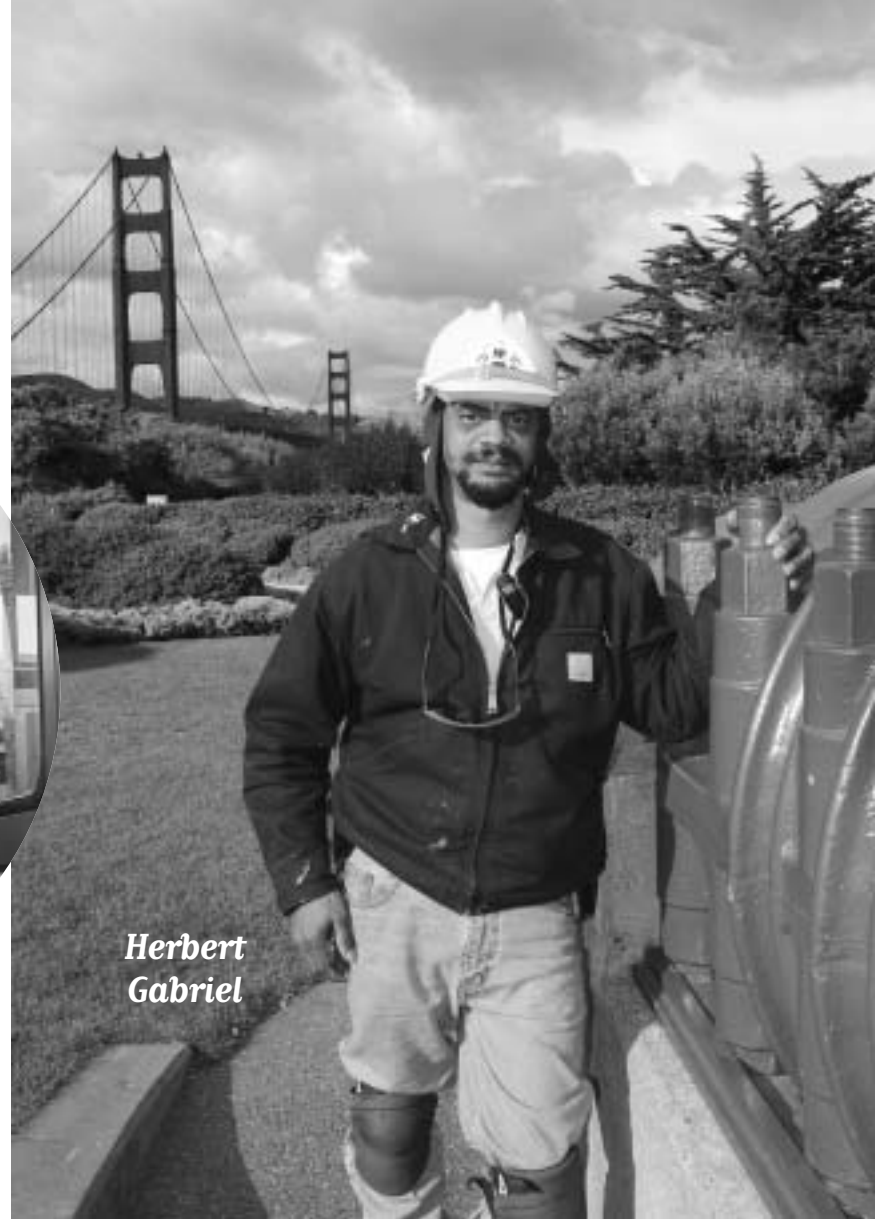


David De La Paz

TRAFFIC CHECKER

“I take great pride in working for Golden Gate Transit and give credit to my father for being a big influence in my life. He taught me to always do my best, never say ‘can’t,’ and to stay focused on achieving my goals.”

David was Employee of the Month in September 2003.



Herbert Gabriel

CHIEF BRIDGE PAINTER

“The best part of my day is going home safe to my family. I can look back at the end of each the day and see a good coat of paint and know that I will be back tomorrow to start all over again. I also enjoying talking to the visitors. Many of them think we paint from one end of the Golden Gate Bridge to the other, but we don’t. We prioritize and paint the worst-case scenario spots.”

Herbert was Employee of the Month in April 2004.



David Turner

ASSOCIATE CIVIL ENGINEER

“For an engineer it doesn’t get much better than working on the Golden Gate Bridge! I am a longtime Bay Area resident and crossed the span for several decades before landing my dream job. I always wanted to see the elements of the Bridge up close, and experience its grandeur first-hand. Now, when I come to work each day, I’m proud to be one of many of its caretakers.”

Jorge was Employee of the Month in November 2003.



Jorge Lee

CUSTOMER SERVICE REPRESENTATIVE

“I am part of two Golden Gate families—the larger District family of my fellow employees, and my own—my wife, Beth, joined the District as a bus operator in 1998 and I followed in 2000. Last year, I was assigned to manage the ticket book order desk in addition to my telephone information duties. I enjoy working with our “regulars”—the daily riders. I take pride in what I do and in being part of a team working together at peak efficiency.”

Michael was Employee of the Month in March 2004.

BUS MECHANIC

“Working for GGT has become a family tradition—I am so proud that I followed my father’s footsteps and, as he did, work as a bus mechanic for GGT. My father and I had the opportunity to work together at the San Rafael maintenance shop from 1979 to 1982. My father, Delmer Turner, retired from the Novato shop where I am working now. And—one of the things that I love each day is telling the bus dispatchers that the bus is fixed and ready to roll!”

David was Employee of the Month in December 2003.



Michael Peck

M.V. MENDOCINO RETURNS TO SERVICE

The high-speed catamaran, *Motor Vessel (M.V.) Mendocino*, began service on the Larkspur-San Francisco route in September 2001. The vessel was then taken out of service in December 2002 for warranty repairs and, after a one-year hiatus, returned to service in December 2003. The *M.V. Mendocino* was returned to the original builder, Nichols Brothers, Freeland, WA, so that the twin hulls and superstructure could be rebuilt after routine inspections found that some of the aluminum plating was manufactured using a process that did not meet stringent marine engineering requirements. Given these findings, the warranty work, undertaken at no cost to the District, was required to ensure the boat's long-term viability. While the *M.V. Mendocino* was

DID YOU KNOW?

Golden Gate Transit buses run on the cleanest diesel fuel available in California, ultra-low sulfur diesel. Last fiscal year, it cost a little over \$2 million to buy 1.7 million gallons of fuel, which is purchased locally through Golden Gate Petroleum, Concord, CA.

undergoing repairs, District funds were allocated to enhance the weather protection on its upper deck and to add 42 upper deck seats, bringing passenger capacity up from 408 to 450. While the vessel was undergoing reconstruction, all 42 daily trips were maintained by using one of the original three Spaulding-class vessels.

M.V. GOLDEN GATE FERRY VESSEL RETIRES

March 26, 2004, was the last day of service for Golden Gate Ferry's (GGF) very first vessel—*M.V. Golden Gate*, a 590-passenger, three-deck, steel mono-hull ferry. The *M.V. Golden Gate*, which began service between Sausalito and San Francisco in August 1970, was purchased for \$771,300 and sold for \$75,000. The vessel was a sentimental favorite among regular commuters, carrying 21 million passengers and traveling 1.3 million nautical miles during 432,108 roundtrips. The vessel had its highest ridership during the 1987 Golden Gate Bridge 50th Anniversary Celebration, when 4,637 customers plied the Bay in just one day.

DID YOU KNOW?

Our home page at www.goldengate.org averaged 4.4 million "hits" per month at the close of the fiscal year.

SECOND ANNUAL HOLIDAY ORNAMENT DEBUTS

The Golden Gate Bridge Annual Collectible Ornament Program was launched in July 2003 as just one of several new revenue generators. In fiscal year 2004, the fledgling program, featuring the 2003 first-ever limited edition collectible, generated 1,691 sales, amounting to gross revenues of just over \$40,000. The 2003 edition featured the Golden Gate Bridge framed with a blue sky backdrop. In May 2004, the second annual ornament debuted at both the online Gift Store at www.goldengate.org and the Bridge Gift Store, where it was launched with a special event that featured Bridge workers selling the ornaments and signing autographs for visitors. The 2004 ornament features a three-dimensional design of the Bridge's massive south tower.



WEBSITE USE SPIKES

In May 1996, the District launched www.goldengate.org, www.goldengate-bridge.org, www.goldengateferry.org, and www.goldengatetransit.org. Since then, interest in all sites has grown dramatically. By July 1, 2002, www.goldengate.org was averaging 1.1 million "hits" per month, and in just two years, monthly "hits" grew to 4.4 million. Interest ranges from accessing transit information to Bridge historical data, to current news, to contract and meeting information.

ONLINE STORE LAUNCHED

The Bridge Gift Store is now accessible to shoppers across the U.S. through the establishment of an online store in July 2003 at www.goldengate.org. The online store offers select Bridge specific merchandise including the collectible ornaments, original rivets, and replicas of the expired construction bonds. The store also sells transit ticket books. Sales through June 30, 2004, totaled nearly \$100,000.

ONLINE TRANSIT SCHEDULE INFORMATION

In early 2004, each of the home pages were redesigned to more prominently feature breaking news and pertinent customer information, allowing customers to access needed information more easily. GGT bus schedules were made available in "HTML format" using information that is electronically uploaded directly from GGT's computerized bus scheduling program. The electronic uploading process allows the most up-to-date bus schedules to be posted quickly, including any adjustments made between publications of the *Transit Guide*. In addition to the schedules being in HTML format, they are also available as PDF files for convenient printing purposes. To save consultant programming costs, Marketing and Communication Department staff manages the uploading of this information.

TECHNOLOGY ENHANCEMENTS

In September 2003, contracts were awarded to SunGard Bi-Tech, Inc., Chico, CA, and Spear Technologies, Oakland, CA, to replace 20- and 30-year-old computer operating systems with a fully integrated management information system consisting of modules for accounting, budgeting, human resources tracking, payroll, purchasing, and maintenance. Implementation of the core financial modules, including all accounting and some budgeting and purchasing modules, began in December 2003 and was completed in June 2004. The remaining modules will be implemented during the next fiscal year. In addition to its information management capabilities for work units across the District, the new system provides efficient links to finance and operating information to support effective decision-making and oversight. The project was budgeted at \$4 million, including hardware, software, consultant configuration services and internal staff resources.

REGIONAL PROGRAMS ADVANCE

Three regional technology-based programs achieved advancements this year—FasTrak™ electronic toll collection, TransLink® transit fare payment, and 511® transportation information.

Since the inception of FasTrak in 2000, the Bridge has

operated its own FasTrak customer service center. This year a cooperative agreement was crafted with the Bay Area Toll Authority, the agency that manages the other seven toll bridges in the Bay Area, that will merge FasTrak customer service centers into one regional center by mid-2005. ACS State and Local Solutions was selected to operate the regional center. Several steps toward the full merger occurred, including the creation of a regional website and development of combined business rules for the new center's operation.

TransLink is a seamless, "smart card" transit fare payment system that means passengers no longer have to carry exact change or operator-specific tickets or passes. It will be used by the six primary transit agencies in the Bay Area. Since February 2002, GGF customers have been participating in the initial testing of the system. This year, an Interagency Participation Agreement formed the foundation for the establishment of a multi-operator consortium that will administer the full-scale TransLink program. Full implementation is slated to begin on GGT and GGF next year and then expand over the next two years as TransLink equipment is installed throughout the other agencies' station networks and vehicle fleets.

Bay Area transportation-related information was consolidated into a one-stop resource with the implementation of 511, a toll-free phone and web service (www.511.org); hearing- and speech-impaired callers dial 711. These services provide up-to-the-minute information on traffic conditions and incidents, details on public transportation routes and fares, instant carpool and vanpool referrals, bicycling information and more. This year, GGT was added to the web-based trip planning feature, and GGT customers are now directed to 511 for their transit information needs.

DID YOU KNOW?

The bus and ferry transit telephone call center is open daily. With a staff total of 11, approximately 180,000 calls for transit information and customer comments were processed this year.



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

INDEPENDENT AUDITOR'S REPORT

12

We have audited the accompanying financial statements of the Golden Gate Bridge, Highway and Transportation District (District) as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

The accompanying supplemental schedule of revenues and expenses by division is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

Macias, Gini & Company LLP

Certified Public Accountants
Walnut Creek, California
October 11, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the Golden Gate Bridge, Highway and Transportation District's (District) activities and financial performance provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2004 and 2003.

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

DISTRICT ACTIVITIES HIGHLIGHTS

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

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

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

The District is unique among Bay Area transit operations because it provides transit services without support from direct sales tax measures or dedicated general funds. As the District does not have the authority to levy taxes, the use of surplus Bridge toll revenue is the only available local means the District has to support the District's regional and transbay transit services. Presently, Golden Gate Transit Bus and Ferry operations are funded approximately 46 percent by surplus Golden Gate Bridge tolls and 25 percent by transit fares. The remainder is primarily met by State and local funds received from Marin and Sonoma counties for the provision of transit services.

FINANCIAL POSITION SUMMARY

Total net assets serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$430.7 million at June 30, 2004, a \$75 million increase from June 30, 2003.

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

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

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

An additional portion of the District's net assets (3.2% at June 30, 2004) represents resources that are subject to external restrictions on how they can be used under Bond resolutions. The remaining unrestricted net assets (13.1% at June 30, 2004) may be used to meet the District's capital and ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS FOR FISCAL YEAR 2004

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

FINANCIAL OPERATIONS HIGHLIGHTS FOR FISCAL YEAR 2003

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

SUMMARY OF CHANGES IN NET ASSETS

(In thousands)

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

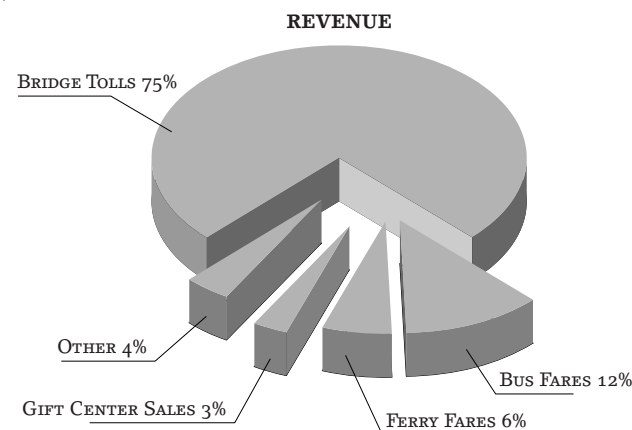
DISTRICT TOLLS AND FARES

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

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

REVENUES

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



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

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

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

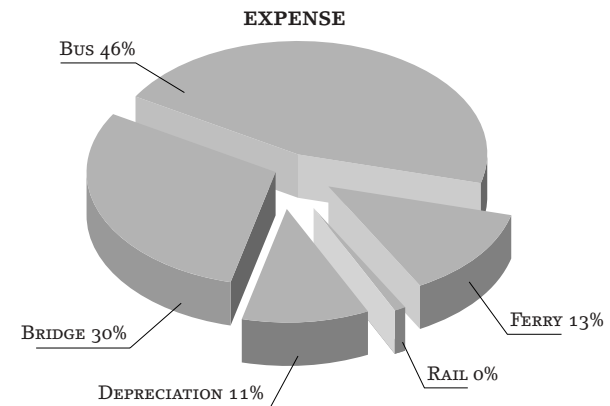
The District funds its operations with Bridge tolls, transit fares, government grants and other revenues from operations or investments. The operations of the Bridge Division produce a surplus of Bridge toll revenue that is used to subsidize the transit operations. In addition, in years where there is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

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

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

EXPENSES

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



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

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

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

FINANCIAL STATEMENTS

The District's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The District is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land and construction-in-progress) are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable, for construction purposes. See the notes to the financial statements for a summary of the District's significant accounting policies.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

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

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

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

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

During 2003, completed projects totaling \$96.2 million, which is an increase of \$75.7 million, or 437.6% over the amount completed in 2002, were closed from construction-in-progress to their respective capital accounts. The major completed projects included the seismic retrofit design (\$18.2 million), seismic retrofit of North Approach Viaduct (\$66.3 million), six regional express buses (\$2.5 million), four 30-foot replacement buses (\$1.1 million), FasTrak transponders (\$1.0 million), ferry Spaulding engine replacement (\$2.4 million) and radio microwave equipment (\$1.0 million).

At June 30, 2003, the District had commitments of approximately \$77.1 million for bridge-related projects and approximately \$0.3 million for other projects. Additional information on the District's capital assets and commitments can be found in the notes to the financial statements.

DEBT ADMINISTRATION

On July 12, 2000, the District issued commercial paper notes in Series A and Series B in an amount of \$30,500,000 for each series to provide funds for the Golden Gate Bridge (Bridge) seismic retrofit project and the renovation of main cables of the Bridge. The commercial paper notes are secured by a pledge of the District's revenues and two dedicated reserves, and additionally secured by a line of credit. Under this program, the District is able to issue commercial paper notes at prevailing interest rates for period of maturity not to exceed 270 days. At June 30, 2004, \$61,000,000 in commercial paper notes was outstanding and maturing within 30 to 270 days, with interest ranging from 0.79% to 1.06% (1.00% and 1.77% in 2003). Once the project is complete, the District plans to pay off the commercial paper over 22 years, beginning in 2008.

CREDIT RATINGS AND BOND ISSUANCE

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

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

ADDITIONAL FINANCIAL INFORMATION

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

STATEMENTS OF NET ASSETS

JUNE 30, 2004 AND 2003 (In thousands)

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

See accompanying notes to the financial statements.

STATEMENTS OF NET ASSETS (CONTINUED)

JUNE 30, 2004 AND 2003 (In thousands)

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

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

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

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

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

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

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

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

1) ORGANIZATION

The Golden Gate Bridge, Highway and Transportation District (the "District") is a political subdivision of the State of California created by the legislature in 1923 and subject to regulation under the Bridge and Highway District Act, as amended. The District operates the Golden Gate Bridge, operates bus service primarily in Marin, San Francisco and Sonoma counties and operates ferry service between Marin and San Francisco counties. The disbursement of funds received by the District is controlled by statute and by provisions of various grant contracts entered into with the federal government, the State of California and certain counties within the District. The District is based in San Francisco and consists of four operating divisions, Bridge, Bus, Ferry, and Rail, and an administrative District Division. The District Division has no revenues and all its expenses are allocated to general and administrative expenses of the other Divisions (see Note 13).

2) SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

Capital assets - During fiscal year 2003, the District increased its capitalization threshold from \$1,000 to \$5,000, which resulted in an increase in operating expenses in the amount of \$6,025,000. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major additions and replacements are capitalized. Maintenance, repairs and additions of a minor nature are expensed as incurred. The costs of acquisition and construction of equipment and facilities are recorded in construction in progress until such assets are completed and placed in service, at which time the District commences recording depreciation expense.

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

Bridge structural components	100 years
Bridge buildings, toll plaza structure, deck and approach roadways and sidewalks	50 years
Buses	12 years
Ferry boats	40 years
Other transit properties	5 - 40 years

Capitalization of interest – Interest costs incurred that relate to the acquisition or construction of property and equipment acquired with tax-exempt debt is capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. No interest was capitalized for the years ended June 30, 2004 and 2003.

Operating assistance grants are recorded as revenue when earned.

Capital contributions - The District has grant contracts with the U.S. Department of Transportation through the Federal Transit Administration for certain capital improvements. Federal Transit Administration funds are used to replace and improve the District's buses, ferries and transit facilities. The District also has contracts with CalTrans for State Transit Assistance funds, which are used either to match Federal Transit Administration grants or to fund transit improvement projects. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants for property and equipment acquisition and facility development and rehabilitation are reported in the statement of revenues, expenses and changes in net assets, after nonoperating revenues and expenses as capital contributions.

The District's capital contributions for the years ended June 30, 2004 and 2003 are as follows (in thousands):

	<u>Bridge Division</u>	<u>Bus Division</u>	<u>Ferry Division</u>	<u>Rail Division</u>	<u>Total</u>
Capital contributions in fiscal 2003:					
U.S. Department					
of Transportation	\$41,155	\$ 3,207	\$ 439	\$ -	\$44,801
State Transit Assistance	1,051	2,680	1,566	-	5,297
Total capital contributions	<u>\$42,206</u>	<u>\$ 5,887</u>	<u>\$2,005</u>	<u>\$ -</u>	<u>\$50,098</u>
Capital contributions in fiscal 2004:					
U.S. Department					
of Transportation	\$51,409	\$22,533	\$1,020	\$ -	\$74,962
State Transit Assistance	-	173	5	-	178
Total capital contributions	<u>\$51,409</u>	<u>\$22,706</u>	<u>\$1,025</u>	<u>\$ -</u>	<u>\$75,140</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

Use of Estimates - The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

3) CASH AND INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4) CAPITAL ASSETS

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

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

CAPITAL ASSETS (Continued)

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

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

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

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

5) COMMERCIAL PAPER NOTES PAYABLE

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

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

6) CAPITAL GRANTS PASSED-THROUGH TO MTC

The District passed-through its federal capital assistance allocation of \$1,362,000 and \$4,096,000 for the years ended June 30, 2004 and 2003, respectively, to the Metropolitan Transportation Commission (MTC) for the Translink Project. This amount was recognized as nonoperating revenue and expense in the financial statements.

7) OPERATING ASSISTANCE

The District receives operating assistance from various federal, state and local sources. Transportation Development Act funds are received from the state through Marin and Sonoma Counties to meet, in part, the District's operating requirements based on annual claims filed by the District and approved by the MTC. Federal funds are distributed to the District by the Federal Transit Administration after approval by MTC. The District also receives Marin County Transit local funds and other amounts of assistance from other state agencies.

Operating assistance is summarized as follows for the years ended June 30, 2004 and 2003 (in thousands):

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

8) PENSION PLANS

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT FUND

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

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

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

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

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

SCHEDULE OF FUNDING PROGRESS (in thousands)

Valuation Date	Actuarial Value of Assets	Entry Age Normal Accrued Liability	Overfunded Assets	Funded Ratio	Annual Covered Payroll	Overfunded
						Assets as a % of Payroll
6/30/99	\$164,077	\$132,944	\$31,133	123.4%	\$28,349	109.8%
6/30/00	178,005	140,777	37,228	126.4%	29,910	124.5%
6/30/01	182,590	155,100	27,490	117.7%	31,486	87.3%

GOLDEN GATE TRANSIT - AMALGAMATED RETIREMENT PLAN

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

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

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

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

The District's funding progress information as of January 1, 2004 is illustrated as follows:

SCHEDULE OF FUNDING PROGRESS (in thousands)

Valuation Date	Actuarial Value of Assets	Entry Age Normal Accrued Liability	Excess Assets/ (Unfunded Accrued Liability)	Funded Ratio	Annual Covered Payroll	Excess Assets/ (Unfunded Accrued Liability) as a % of Payroll
1/1/02	\$118,198	\$101,643	\$16,555	116.3%	\$21,689	76.3%
1/1/03	111,546	113,349	(1,803)	98.4%	23,660	-7.6%
1/1/04	112,137	118,371	(6,234)	94.7%	22,952	-27.2%

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

OTHER RETIREMENT PLANS

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

9) POSTEMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides postemployment health care benefits. The benefits are provided to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. For those employees age 55 with at least 15 years of service, survivor and dependent care benefits are also received. If the employee began employment at the District prior to January 1, 1983, the benefits are provided on or after attaining age 50 with at least 5 years of service. Currently 621 retirees meet the eligibility requirements. Retirees under the age of 60 who choose a Preferred Provider rather than a Health Maintenance Organization are required to pay \$145.00 per month for family coverage. For single coverage, the premium is \$72.50 per month. Between the age of 60 and 65, the retiree is responsible for only the cost of the Medicare contribution, or \$50.00 per month. Retirees under the age of

60 enrolled in an HMO will pay only the Medicare contribution rate. Expenses for postretirement health care benefits are recognized on a pay-as-you-go basis. Postretirement health care benefits expense was \$4,956,000 and \$3,447,000 for the years ended June 30, 2004 and 2003, respectively.

10) SELF-INSURANCE

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

Self-insurance and limits are as follows:

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<u>Type of Coverage</u>	<u>Self-Insurance</u>	<u>Excess Coverage</u>
General vehicle liability	\$5,000,000 per occurrence	\$30,000,000/\$30,000,000 annual aggregate
Workers’ compensation	\$1,000,000 per claim	Statutory limits excess of self insurance
Health benefits	\$100,000 per individual	Stop loss above \$150,000
Northwestern Pacific Railroad	\$50,000 per occurrence	\$1,000,000 per occurrence/annual aggregate
Right of Way property		
Boiler and machinery	\$1,000 per accident	\$1,000,000 per occurrence
Bus Fleet	\$5,000,000 per occurrence	\$30,000,000 per occurrence/annual aggregate
Property (earthquake/flood)	\$1,000,000 per occurrence, 5% per structure	\$45,000,000 per occurrence/annual aggregate
Property (bridge structure)	\$20,000,000 per occurrence	\$45,000,000 per occurrence
Bridge use and occupancy	30 days	\$25,000,000 per occurrence
Ferry Hull, Machinery	\$350,000 annual	\$1,000,000 per occurrence
Marine	\$100,000 annual aggregate	\$75,000,000 per occurrence
Crime and dishonesty	\$25,000 per occurrence	\$1,000,000 Computer Fraud, Faithful Performance \$500,000 Money & Securities – Toll Plaza, Depositor’s Forgery \$15,000 Money & Securities, Other all per occurrence/annual aggregate
Public officials liability	\$100,000 per occurrence	\$5,000,000 per occurrence/annual aggregate

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

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

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

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

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

11) RELATED PARTY TRANSACTIONS

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

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

12) DESIGNATION OF DISTRICT FUNDS

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

13) ALLOCATION OF DISTRICT DIVISION EXPENSE

For the years ended June 30, 2004 and 2003, District Division expense has been allocated to the operating divisions (included in general and administrative expenses) by resolution of the Board of Directors as follows (in thousands):

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

14) ENVIRONMENTAL REMEDIATION

During 1992, the District discovered lead contamination in the soil beneath the north and south approaches to the Bridge. The District entered into a Voluntary Cleanup Agreement (VCA) with the State of California Department of Toxic Substances Control to effect a Remedial Action Plan for the first phase of a two-phased cleanup program and a Remedial Investigation (RI) for the second phase. The District has completed the Phase I cleanup under the VCA and has expensed approximately \$6.5 million for that work. The VCA requires that the District complete an RI of the Phase II areas, but does not require the District to actually complete the remediation. It is likely that remediation will be required under Phase II; however, the VCA identifies two other Potential Responsible Parties, the National Park Service and the U.S. Army, who may be required to share in any costs associated with the Phase II remediation. Because the RI has not been completed in these areas, it is not possible at this time to determine any potential cleanup costs for Phase II, and what the District's share of those costs might be.

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

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

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



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