# Economic Growth Through Improved Regional Mobility

NJ TRANSIT ANNUAL REPORT 2006

NJ TRANSIT The Way To Go.

# Contents

# Message from the Governor

A linchpin of New Jersey's economic vitality is a robust public transit network. Our location in the heart of one of the world's largest and most vibrant marketplaces presents us with opportunities that can result in more jobs, tourism and community revitalization.

To invigorate the investment in our transportation infrastructure, we will promote those initiatives that offer more passenger capacity and economic growth. The most critical and exciting new transportation project for the region is the Trans-Hudson Express (THE) Tunnel. This new commuter rail tunnel under the Hudson River will double the number of people who can take the train into Midtown Manhattan by 2016, a major step in reducing traffic congestion. The project is also expected to grow the region's economy by enabling it to be more competitive in the world market, leading to new jobs for New Jersey residents.

Our overall objective is clear: to make New Jersey the best place to live, work and raise our families by ensuring that our residents have a safe, affordable and reliable public transit system.

Sincerely,

Jon S. Corzine
Governor, State of New Jersey

## Message from the Chairman

This past year we made strategic public transit decisions to shape New Jersey's future and ensure economic growth—we improved mobility, connectivity and system capacity.

Thanks to Governor Corzine's leadership in replenishing the state's Transportation Trust Fund, we are able to keep public transit safe, reliable and affordable by providing a viable transportation alternative that reduces roadway congestion and vehicle emissions. Of the funds allocated to NJ TRANSIT, 40 percent are for initiatives that upgrade the infrastructure to encourage economic growth and improve the quality of life for our residents.

The Trans-Hudson Express (THE) Tunnel is the most important transportation project we've seen in a generation. The project ensures continued economic growth for the entire region, bringing us closer to a more direct and convenient commute with access to more jobs. To realize the full potential of THE Tunnel, we are increasing reliability and rail capacity on the Portal Bridge that carries the Northeast Corridor over the Hackensack River and we are purchasing equipment that will increase and improve seating.

On behalf of NJ TRANSIT and the Board of Directors, I thank Governor Corzine for his continued support of public transit investments that are critical to the prosperity and quality of life of New Jersey residents and the economic competitiveness of the state.

Sincerely,

Kris Kolluri
Transportation Commissioner & NJ TRANSIT Board Chairman

# NJ TRANSIT Board of Directors

Left to right: *Robert Smartt, Treasurer's Representative; Kenneth E. Pringle, Esq.; Myron P. Shevell, Vice Chairman; Kris Kolluri, Chairman; Patrick W. Parkinson; A. Matthew Boxer, Esq., Governor's Representative; Flora M. Castillo*

**KRIS KOLLURI, ESQ.**

***Board Chairman***

Kris Kolluri was sworn into office as Commissioner of the New Jersey Department of Transportation (NJDOT) on March 13, 2006. Prior to that time, Mr. Kolluri specialized in redevelopment and transportation law as an attorney at Parker McCay of Marlton.

Mr. Kolluri was Chief of Staff to New Jersey

NJ TRANSIT Board of Directors *(continued from previous page)*

Transportation Commissioner Jack Lettiere. In this capacity, he served as counselor to the Commissioner and managed the development and implementation of the department's legislative and regulatory policies and communications strategies. Before taking this post, Mr. Kolluri was Assistant Commissioner of Intergovernmental Relations for the New Jersey Department of Transportation, in charge of legislative relations, customer advocacy and public outreach and the divisions of Policy, Legislation and Regulatory Actions and Federal and International Transportation.

Prior to working in state government, Mr. Kolluri held a variety of top positions in Congressional offices. He served as Senior Policy Advisor to House Democratic Leader Richard A. Gephardt, heading the Member Support Program, which was established to help freshman Members of Congress design and implement long-term strategic initiatives. In early 1998, Mr. Kolluri was tapped to be special advisor to Congressman Gephardt on India and Indian-American affairs. Before he worked for Congressman Gephardt, Mr. Kolluri served as Congressman Robert E. Andrews' Legislative Director and his principal staffer on the International Relations Subcommittee on Asia and the Pacific.

Mr. Kolluri received a Bachelor of Science degree in Management and Marketing from Rutgers University, a Master's degree in International Business from Johns Hopkins University and a law degree from Georgetown University. He resides in West Windsor.

### MYRON P. SHEVELL
***Vice Chairman***

Myron P. Shevell was appointed to the Board by Governor Christine Todd Whitman in May 1995. He is Chairman of the Board of New England Motor Freight and Chairman of the Shevell Group—real estate, trucking and logistic companies. He also is Board Chairman of the New Jersey Motor Truck Association and Regional Director of the Bank of New York.

A resident of Long Branch, Mr. Shevell has worked in the trucking industry for more than 55 years.

### BRADLEY I. ABELOW
***State Treasurer***

Bradley I. Abelow was designated acting Treasurer by Governor Jon Corzine on January 23, 2006, and served in that capacity until being sworn in as State Treasurer on March 13, 2006.

Mr. Abelow previously worked for the executive office of Goldman Sachs & Co. of New York, N.Y. He retired in January 2006 following a 15-year career with the company. Mr. Abelow was head of the Operations Division for Goldman Sachs, overseeing the Global Operations, Corporate Real Estate and Corporate Services departments. Prior to that, he was responsible for the Operations, Technology and Finance Division in Asia, based in Hong Kong. Before his career at Goldman Sachs, Mr. Abelow was Program Officer for the Urban Coalition of Minneapolis, Minnesota.

Mr. Abelow earned a Master's degree in Public and Private Management from Yale University's School of Management in 1989 and a Bachelor of Arts degree from Northwestern University in 1983. He resides in Montclair.

### A. MATTHEW BOXER, ESQ.
***Governor's Representative***

Matthew Boxer was named Director of the Authorities Unit in the Governor's Office in January 2006. The Authorities Unit is charged with oversight of the more than 50 state authorities.

Mr. Boxer previously served as an Assistant U.S. Attorney in the Special Prosecutions Division of the U.S. Attorney's Office. During that time, he oversaw the investigation of public corruption in Monmouth County and handled the resulting prosecutions. Mr. Boxer also has served in both the Criminal Division and the Terrorism Unit of the U.S. Attorney's Office, and has worked for the law firm of Lowenstein Sandler P.C. in Roseland. He also serves on the Board of the NJ Schools Construction Corporation as well as the North Jersey Transportation Planning Authority.

Mr. Boxer earned a J.D. from Columbia Law School and a B.A. from Princeton University. He resides in Bridgewater.

### FLORA M. CASTILLO

Flora Castillo was appointed to the Board in April 1999. She is Vice President of Marketing at AmeriHealth Mercy headquartered in Philadelphia. Ms. Castillo leads Marketing Services, providing marketing consulting services to each line of business within the AmeriHealth Mercy family of companies to support the organization's enrollment growth goals.

She serves on the boards of the American Public Transportation Association (APTA), American Public Transportation Foundation, and The Alan M. Voorhees Transportation Center (VTC) Advisory Board at Rutgers University. She is a founding member of the NJ COMTO Chapter and serves as board member. Ms. Castillo is a member of the board for the Philadelphia American Marketing Association and a member of the Delaware Region Consortium for Latino Health, North Philadelphia Health System's Latino Advisory Board, and the Medicaid Health Plans of America's Marketing Committee. She also is a board member for the Hispanic Alliance of Atlantic County (HAAC) and First Tee of Greater Atlantic City Golf Program, and a member of Women's Transportation Seminar (WTS). Ms. Castillo is a resident of Ventnor.

### KENNETH E. PRINGLE, ESQ.

Kenneth E. Pringle is the managing partner of Pringle Quinn Anzano, P.C., a 25-attorney law firm with offices in Belmar, Morristown and Trenton. His practice is focused primarily on complex insurance and financial fraud litigation and land use matters. Mr. Pringle has served as the Mayor of Belmar, a Transit Village, since 1990, and is the Borough Attorney for the Borough of Red Bank. He is a member of the Board of Directors of Downtown New Jersey, and of the Belmar Planning Board. He has previously served as Chairman of the Belmar Charter Study Commission, Chairman of the Belmar Housing Authority, a member of the Board of Trustees of Mount St. Mary's College in Emmitsburg, Maryland, counsel to the Red Bank Planning Board, and a member of the Board of Trustees of the Monmouth Ocean Development Council.

### PATRICK W. PARKINSON

Appointed to the Board of Directors in September 1994, Patrick W. Parkinson chairs the Board Audit Committee and serves on the Board Administration Committee. Mr. Parkinson is a resident of Middletown Township and serves as Executive Director of the Township of Middletown Sewerage Authority. From 1988 until 2005, he served as a Middletown Township Committeeman and also was mayor in 1990 and 2002. He is on the board of the New Jersey Association of Environmental Authorities and is Chairman of the New Jersey Utility Authorities Joint Insurance Fund and Co-Chairman of the Middletown Township World Trade Center Memorial Committee.

## Executive Committee

**GEORGE D. WARRINGTON**
Executive Director

**D.C. AGRAWAL**
Assistant Executive Director, Corporate Strategy, Policy and Contracts

**JOSEPH C. BOBER**
Chief, NJ TRANSIT Police

**LYNN M. BOWERSOX**
Assistant Executive Director, Corporate Communications and External Affairs

**WILLIAM B. DUGGAN**
Vice President and General Manager, Rail Operations

**JAMES J. GIGANTINO**
Acting Vice President and General Manager,
Bus Operations

**ROBERT J. GUARNIERI**
Auditor General

**JAMES P. REDEKER**
Assistant Executive Director, Policy, Technology and Customer Service

**RICHARD R. SARLES**
Assistant Executive Director, Capital Planning and Programs

**ALMA R. SCOTT-BUCZAK**
Assistant Executive Director, Human Resources

**VINCENT J. SOLEO**
Assistant Executive Director, Procurement and Support Services

**JAN L. WALDEN**
Assistant Executive Director, Diversity

**GWEN A. WATSON**
Board Secretary

**H. CHARLES WEDEL**
Chief Financial Officer and Treasurer

## Advisory Committees

To assure citizen representation, two transit advisory committees—one serving North Jersey and another South Jersey—regularly advise the Board of Directors on passengers' opinions. Committee members are appointed by the Governor with the approval of the State Senate.

### North Jersey Transit Advisory Committee

Suzanne T. Mack, *Chair*
Ronald Monaco, *Vice Chairman*
Nino Coviello
Michael DeCicco
John Del Colle
Robert Dinardo
Kathy Edmond
Margaret Harden
Peter Koelsch (deceased)
Steven Monetti
Timothy O'Reilly
Ralph White
William R. Wright

### South Jersey Transit Advisory Committee

Anna Marie Gonnella-Rosato, *Chair*
Ruth Byard, *Vice Chair*
Jeffrey Marinoff, *2nd Vice Chair*
Robert Dazlich, *Secretary*
Richard D. Gaughan
Calvin O. Iszard, Jr.
Daniel Kelly
Val Orsinmarsi
Dominick Paglione
Fred Winkler

The Americans with Disabilities Act (ADA) Task Force includes individuals with disabilities who assist NJ TRANSIT in the implementation of its ADA improvements plan.

### The Americans with Disabilities Act Task Force

Jim Byrne
Frank Coye
John Del Colle
Doug Gilbert
Judy Goldman
Francis Grant
Dan Molloie
Lee Nash
Bill Smith
Maryanne Valls
Ina White

The Private Carrier Advisory Committee was created in 1986 to monitor the concerns of New Jersey's private carriers.

### Private Carrier Advisory Committee

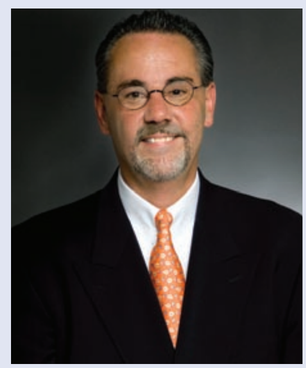
Francis A. Tedesco, *Chairperson*
Robert DeCamp
Marta M. Mazzarisi
Dale Moser

The Local Programs Citizens Advisory Committee advises NJ TRANSIT on public transit decisions regarding accessibility issues.

### Local Programs Citizens Advisory Committee

Ellen Brockmann, *Chairperson*
Ernest Anemone, *1st Vice Chairperson*
Sigmund Kay, *2nd Vice Chairperson*
David Peter Alan
Richard Bartello
Kathleen Belles
Donald Boeri
Ann Burns
Margaret Cook-Levy
Frank Herbert
Larry Karas (deceased)
David Loux
Henry Nicholson
Rue Zalia Ray
Michael Vieira
William Wright

## Letter from the Executive Director



For NJ TRANSIT, FY2006 was a year of substantial progress. We experienced our third consecutive year of ridership growth, setting a 27-year-high record—up 5 percent to more than 249 million passenger trips—driven by a strong economy, new services and spiraling fuel prices. Thanks to Governor Corzine's extraordinary leadership in replenishing and growing the Transportation Trust Fund, this year we were able to program five years of capital investments that will continue to support New Jersey's economic growth. Going forward, we will continue to improve our regional mobility through an integrated, connective, multimodal transit system—a system that is critical to ensuring New Jersey's and the region's continued economic competitiveness.

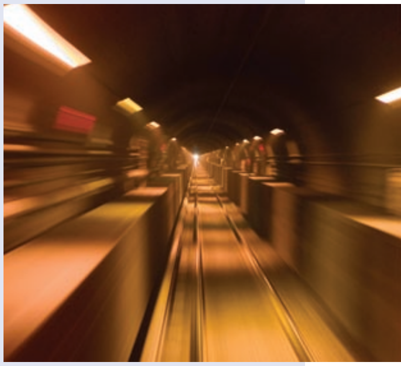
## Surmounting Our Challenges

Despite rising operating costs, including escalations in fuel, electric power and insurance premiums, we offered more service in FY2006, providing three million more miles of bus, rail and light rail service without raising fares. We dedicated resources to advance state-of-good-repair initiatives, capacity expansion projects and equipment purchases to provide more frequent and reliable service, strengthen our infrastructure and improve regional mobility. We made strategic business decisions that generated increased advertising revenue and lease income, and advanced transit-oriented development projects in several communities that will continue to make public transit an attractive alternative to driving.

And in the wake of attacks against transit systems in London, Madrid and Mumbai, NJ TRANSIT police remained in a heightened state of alert and introduced new security measures, including expanded, closed-circuit surveillance video monitoring equipment to better protect our customers and infrastructure from attacks using radiological, chemical, biological or explosive devices.

## Expanding Regional Projects and Partnerships

We made significant progress on the most substantial passenger rail improvement project in our region in almost 100 years—the Trans-Hudson Express (THE) Tunnel. The project, implemented in cooperation with The Port Authority of New York & New Jersey, will enable NJ TRANSIT to double its commuter rail capacity into New York City, provide a highly desired one-seat ride for many more customers, and boost economic development in New Jersey and New York. In FY2006, THE Tunnel gained widespread support from elected officials and business, environmental, labor, transportation and planning organizations on both sides of the Hudson River. We reached key milestones:



*THE Tunnel will double rail capacity under the Hudson River.*

- Submitted the Draft Environmental Impact Statement to the Federal Transit Administration for review and approval.
- Awarded the first engineering contract for design of platform extensions and related early-action expansion and access work at Penn Station New York and the new Moynihan Station on 8th Avenue.
- Awarded a major contract for preliminary engineering, covering the entire alignment—through the Meadowlands, under the Palisades and Hudson River, and into a new station under 34th Street, with connections to Penn Station New York.


*THE Tunnel project has received support from both sides of the Hudson River, including from (left to right) The Port Authority of NY & NJ Chairman Anthony Coscia, U.S. Sen. Frank Lautenberg, Transportation Commissioner Kris Kolluri, NJ TRANSIT Executive Director George Warrington, New Jersey Alliance for Action President Philip Beachem and U.S. Sen. Charles Schumer.*

NJ TRANSIT moved ahead with other important new service initiatives to extend our reach to more customers.

- **→** ***Northern Branch:*** Public outreach activities continued and we prepared the Draft Environmental Impact Statement for this segment, which will provide rail service from North Bergen to Tenafly, connecting with Hudson-Bergen Light Rail at a transfer station in North Bergen.
- **→** ***Meadowlands Rail Link:*** We initiated construction on new railroad embankments and relocated utilities on this 2½-mile-long, two-track spur off the Pascack Valley Line, which will serve the Meadowlands Sports Complex. The project, primarily funded by The Port Authority of New York & New Jersey, is a cooperative effort with the New Jersey Sports & Exposition Authority (NJSEA) and will include a station with direct pedestrian access to the concourse level of the proposed new football stadium.

*Northern Branch public outreach.*

- **→** ***Passaic-Bergen Service:*** We prepared to submit a Draft Environmental Impact Statement and a permit application for land use for construction of this commuter rail link for residents of Passaic and Bergen counties who reside along the New York, Susquehanna & Western Railroad alignment.
- **→** ***Lackawanna Cutoff:*** In cooperation with the Pennsylvania Department of Transportation, we worked with the Federal Transit Administration to complete an environmental assessment for the restoration of rail service from Scranton, Pennsylvania to Hoboken Terminal. The proposed service would provide a transit alternative to traffic-congested I-80 and link northeast Pennsylvania to New Jersey's job centers.
- **→** ***Monmouth-Ocean-Middlesex Rail Line:*** We are working with Monmouth, Ocean and Middlesex counties on a Draft Environmental Impact Statement for three rail alternatives. With the advancement of THE Tunnel project, which will enable more trains to operate to Midtown Manhattan, we have redefined the project to include updated environmental analysis and ridership forecasts based on one-seat ride service to New York, rather than ending in Newark.

*Hudson-Bergen Light Rail is a vital link to waterfront destinations.*

- **→** ***Atlantic City Express Service:*** The Board of Directors approved a three-year demonstration rail service between Penn Station New York and Atlantic City, for which NJ TRANSIT will serve as contract operator for a partnership of the Casino Reinvestment Development Authority and Atlantic City interests. NJ TRANSIT will operate 18 express trains on weekends, providing a one-seat ride between Penn Station New York and the Atlantic City Rail Terminal.

## Establishing Service Agreements

To provide more efficient and reliable service for our Northeast Corridor customers, we took over the operation of the "clocker" trains from Amtrak. Equally important, we finalized an agreement with New York Metropolitan Transportation Authority's Metro-North Railroad to continue operating train service on the Port Jervis and Pascack Valley lines. This agreement will extend our partnership with the railroad through 2012.

## Investing in Leading-Edge Equipment

To meet ridership growth and enhance mobility, we invested in new technology—next-generation equipment custom designed for our operating environment,

*PL42-AC diesel-electric locomotive.*


*Multilevel vehicles will improve customer comfort and provide more seating capacity.*

with extensive input from customers and employees. Investments include:

- 234 multilevel vehicles, featuring improved lighting and wider seats with more legroom in a two-two seating configuration to improve comfort.
- 33 PL42-AC diesel-electric locomotives, which are more powerful, safer and more environmentally friendly than the locomotives they replace.
- 221 suburban-style and 68 transit-style buses, featuring enhanced accessibility and reduced emissions.

We also continued a three-year trial involving three transit and four cruiser hybrid buses; both have demonstrated significant fuel savings, and the transit buses are being retrofitted with improved energy storage systems.

### The Journey Ahead

Thanks to Governor Corzine's leadership, the FY2007 capital program will make historic investments in system reliability and capacity. Additionally, our $1.5 billion operating budget for FY2007 includes $30 million in business efficiencies and revenue enhancements, as well as an increase in state support of $22 million, which enables us to avoid a fare increase in FY2007. The budget also provides additional funding for rail and bus maintenance, as well as increases for bus, Access Link and Hudson-Bergen Light Rail contract service costs.

*New Millennium bus at Port Imperial Station.*

We will continue to advance THE Tunnel project through the preliminary engineering phase, which will enable us to begin construction next year. We are partnering with Amtrak, the Federal Railroad Administration and the Federal Transit Administration to prepare the federal Draft Environmental Impact Statement for reconstruction of the century-old Portal Bridge, a critical but aging asset over the Hackensack River that is vital for present and future commuters. We are introducing technologically advanced rail and bus equipment into our system, increasing capacity to accommodate ridership growth while improving service reliability and customer comfort.

NJ TRANSIT is positioned to achieve its goals thanks to the leadership and support of Governor Corzine, Commissioner Kolluri and the Board of Directors. I also want to thank our employees for their ongoing dedication to provide safe, reliable service for our customers and their commitment to improving regional mobility for generations to come.

**George D. Warrington**, Executive Director

## FY2006 Highlights

A critical linchpin in the state's economy, NJ TRANSIT serves virtually every market, offering convenient connections to regional, national and international destinations. In FY2006, we continued to expand and improve our services, providing more accessibility and reliability to a record number of riders.


*Transportation Commissioner Kris Kolluri, Rep. Donald Payne, Sen. Frank Lautenberg, Gov. Jon Corzine, Newark Mayor Cory Booker, Sen. Robert Menendez and NJ TRANSIT Executive Director George Warrington cut the ceremonial ribbon at Newark Light Rail's grand opening.*

## Hudson-Bergen Light Rail Expansions

Fulfilling its expectations as a vital link among waterfront destinations and a catalyst for economic growth, Hudson-Bergen Light Rail ridership continued to increase during FY2006 resulting from the opening of three new stations in Hudson County. In addition, work to extend the line one mile south in Bayonne is in progress. New stations include:

- ➔ ***Tonnelle Avenue Station*** in North Bergen, a 730-space park & ride facility on the busy Route 1 & 9 corridor, now the northern terminus of the system.
- ➔ ***Bergenline Avenue Station*** in Union City, an extremely popular station located 160 feet below ground with three high-speed elevators.
- ➔ ***Port Imperial Station*** in Weehawken, where a pedestrian walkway is under construction to connect customers to the new Port Imperial Ferry Terminal, an intermodal, 31,000-square-foot "gateway to the river"—developed through a public/private partnership—that enhances transportation access for thousands of travelers and provides a much-needed alternative in case of system disruptions.

*Hudson-Bergen Light Rail connects customers with ferry service at the Port Imperial Ferry Terminal.*

- ➔ ***8th Street Station*** in Bayonne, a park & ride facility currently in design and intended as the new southern terminus for the system.

## Newark Light Rail Debuts

In July 2006, NJ TRANSIT celebrated the opening of Newark Light Rail, a six-station system connecting Newark Penn Station and Newark Broad Street Station that will help revitalize Newark's downtown businesses and recreational destinations. The project included coordination with our rehabilitation efforts at the historic Newark Broad Street Station to expand capacity, facilitate transfers between services, and improve mobility for customers with disabilities.

## River LINE Enhancements

River LINE ridership rose substantially during FY2006 and continued to be an important economic engine for communities it serves, with development projects planned or underway in almost every town along the route.


*River LINE continues to be an important economic catalyst in southern New Jersey.*

NJ TRANSIT introduced a guaranteed late-night bus connection from 36th Street Station in Camden to the Route 73 Park & Ride in Pennsauken to provide additional parking options for customers returning from activities along the Camden waterfront. We also adjusted light rail schedules in the evening to better meet customer needs.

## State-of-Good-Repair Initiatives

NJ TRANSIT set in motion or completed a number of projects throughout the system to rehabilitate and/or update passenger and maintenance facilities.

### *System Upgrades*

- ➔ ***Bridge repairs:*** Completed steel repairs on 10 bridges, installed Mitre rails on two bridges and tie decks on six bridges, and finished a project to replace a bridge spanning the Manasquan River.

- ***Electrical improvements:*** Installed a new electronic/high pressure, in-ground bus lift at Fairview Garage, replaced two lifts at the Central Maintenance Facility and cyclone system at the Meadowlands Garage, and made electrical upgrades at Bloomfield Avenue Station along the Newark City Subway.
- ***Rail passing tracks:*** Built new sidings and switches to allow for bidirectional, midday and weekend service on the Pascack Valley Line by the end of 2007, as well as west of White House Station on the Raritan Valley Line to allow trains to pass on the existing single track west of Raritan by mid-2007.
- ***Rail yards:*** Built new switches and began construction of 10 electrified tracks at Morrisville Yard to store up to 120 more rail cars to accommodate future service expansion on the Northeast Corridor. Installed a 900-foot pedestal track at Bay Head Yard to inspect and replace disc brakes on new equipment. Added nine layover tracks to inspect, store and dispatch trains and built a pit/pedestal track and state-of-the-art bidirectional train washer at the Meadows Maintenance Complex.
- ***Right-of-way improvements:*** Installed 2.5 miles of continuous welded rail and more than 41,000 railroad ties, surfaced 50 miles of track, and installed several hundred switch timbers and railroad ties at the Meadows Maintenance Complex. Replaced platform tracks with concrete ties at certain stations along the Morristown Line. Completed three culvert headwall extensions and installed safety fencing at two stations.
- ***Signal systems:*** Installed or relocated more than 25 miles of cable, numerous signals and relay cases, and duct banks through 51 grade crossings to prepare for the installation of an Automatic Train Control braking system and new signal system along the Pascack Valley Line. Work also is ongoing at West End Interlocking near the Bergen Tunnel to extend the Automatic Train Control system into Hoboken.
- ***Viaduct repairs:*** Completed rehabilitation work, which included structural repairs and waterproofing on the viaducts at South Orange, Brick Church and East Orange stations.

Workers install signal cable along the Pascack Valley Line.

### Station Improvements

- ***Hackensack Bus Terminal:*** Began renovation activities to improve the 30-year-old terminal, including reconfiguration of the waiting area, ADA-compliant restrooms, concession area, new lighting, security upgrades, and a modern heating and air-conditioning system.

*Improvements will enhance the customer experience at Hackensack Bus Terminal.*

- ***Hoboken Terminal:*** Started painting, roof work and installation of new lighting and fencing in the bus lanes at Hoboken Terminal to guide customers safely around buses. Ongoing work to rebuild the permanent ferry terminal using the historic ferry slips is in progress, including rehabilitation of the slips, passenger concourse, finger piers and related infrastructure. Also underway or planned: restoration of the exterior copper façade, installation of new lighting on the river side of the terminal, and reconstruction of the clock tower.

*Hoboken Terminal ferry slips.*

- ***Madison Station:*** Completed upgrades that will extend the useful life of the historic Morristown Line station, enhance passenger communications and improve access for customers with disabilities.

- ***Manasquan Station:*** Completed construction on this new North Jersey Coast Line station, which features architectural design elements reminiscent of the original 19th-century Victorian station.
- ***Mount Arlington Station:*** Began construction of a new rail station along the Montclair-Boonton Line, adjacent to the existing bus park & ride lot on Route 80. The station will provide regional commuters with more travel options through combined bus and rail connections.
- ***Newark Broad Street Station:*** Continued renovation work to improve operating capacity and accessibility at this Morristown Line station. The project includes an upgraded station building, waiting room and pedestrian tunnel; construction of two new, high-level platforms, including a center-island platform; improved lighting and restrooms; and new elevators, staircases and Customer Service Office.

*Newark Broad Street Station and Newark Light Rail serve as anchors for economic development and urban renewal.*

*Our employees are committed to customer care and comfort.*

- ***Newark Penn Station:*** Initiated activities to increase lighting and air conditioning, improve waiting areas and elevator use, and provide additional directional signs and information displays for customers.
- ***Red Bank Station:*** Completed construction on high-level, 650-foot-long platforms at this North Jersey Coast Line station capable of accommodating up to eight rail cars.
- ***Route 23 Wayne Park & Ride:*** Finalized design work on this multimodal facility, which includes a new rail station along the Montclair-Boonton Line, a bus-boarding platform and a 1,000-space parking lot.
- ***Trenton Station:*** Continued reconstruction efforts to more than double the size of the Northeast Corridor station, greatly expand amenities for customers, and improve access to connections with River LINE service and Capital Connection buses. The project includes construction of new waiting rooms, restrooms, retail shops and restaurants, as well as new heating and air-conditioning systems, elevators, escalators, staircases and a Customer Service Office.
- ***Woodbridge Station:*** Neared completion on reconstruction of the platform and the addition of extensive enhancements to the North Jersey Coast Line station.

## Parking Expansions

→ ***Hamilton Station:*** Nearly completed construction on a new 2,000-space parking deck at Hamilton Station on the Northeast Corridor. In addition to providing more parking spaces, the project paves the way for a new transit-oriented development adjacent to the station.

*Hamilton Station Parking Deck will provide more than 2,000 parking spaces.*

→ ***Systemwide:*** Built nearly 5,000 new parking spaces systemwide, in addition to the 9,000 spaces built over the last several years and the 4,000 new spaces already in the construction pipeline.

## Customer Interaction Advancements

Driven by customer feedback, we added several user-friendly features to NJ TRANSIT's website to make it easier for customers to obtain detailed information about services. Initiatives also were put in place to improve internal efficiencies and interaction with customers and ticket vending machine use and performance.

→ ***Customer feedback:*** Automated and expanded feedback mechanisms, quadrupling the level of customer information tracked by NJ TRANSIT and putting customer feedback at the center of our business decisions.

→ ***Customer Service offices:*** Opened new offices, on a limited basis, at the Walter Rand Transportation Center in Camden and the Atlantic City Bus Terminal.

→ ***Ticket vending machines:*** Began to upgrade all ticket vending machines, including new 15-inch touch color screens, banknote acceptors, more Fast Fare options, and the ability to transmit real-time messages on top of the machines for customers.

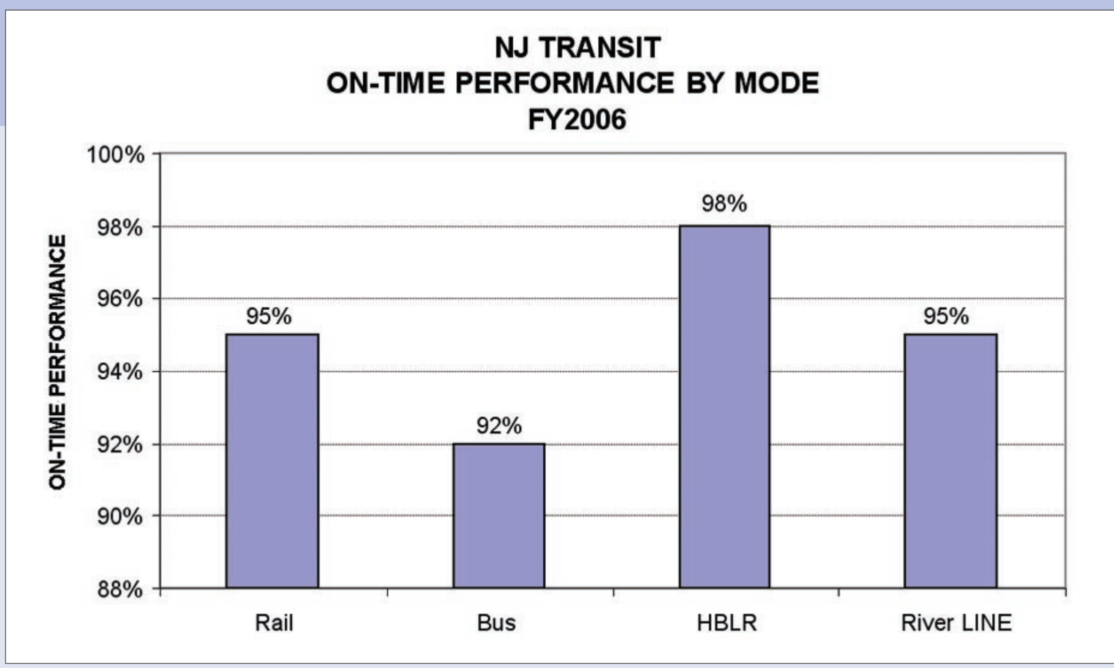
→ ***Training:*** Completed Customer Service training of over 1,200 frontline staff to improve interaction with customers. By the end of 2006, approximately 1,600 staff will have been trained.

→ ***Transit Information Center:*** Improved call efficiency, allowing Customer Service representatives to handle 17 percent more calls in FY2006, compared to FY2005, virtually eliminating busy signals experienced by customers.

→ ***Website:*** Made improvements in trip planning, functionality and navigation. Customers can now obtain bus and light rail schedules online, along with information on bus service changes, light rail stations, connecting service, parking lots and driving directions to stations. A Fast Fare section also was added. In FY2007, NJ TRANSIT plans to provide travel information and service advisories for web-enabled devices.

*Service improvements such as ticket vending machine upgrades improve our customers' overall experience.*

## On-Time Performance and Recording Methodology




NJ TRANSIT's monthly on-time performance reports are made public at its regular Board meetings.

*Hudson-Bergen Light Rail on-time performance reached 98 percent during FY2006.*

### Rail Methodology

NJ TRANSIT considers a train to be on time if it arrives at its final destination within 5 minutes and 59 seconds of its scheduled time. This standard is used by all commuter railroads in the Northeast.

To accurately record on-time performance and maintain a database from which reports can be generated, NJ TRANSIT developed a mainframe-based computer system that calculates on-time performance and provides reports and analyses. It also provides input to other NJ TRANSIT systems.

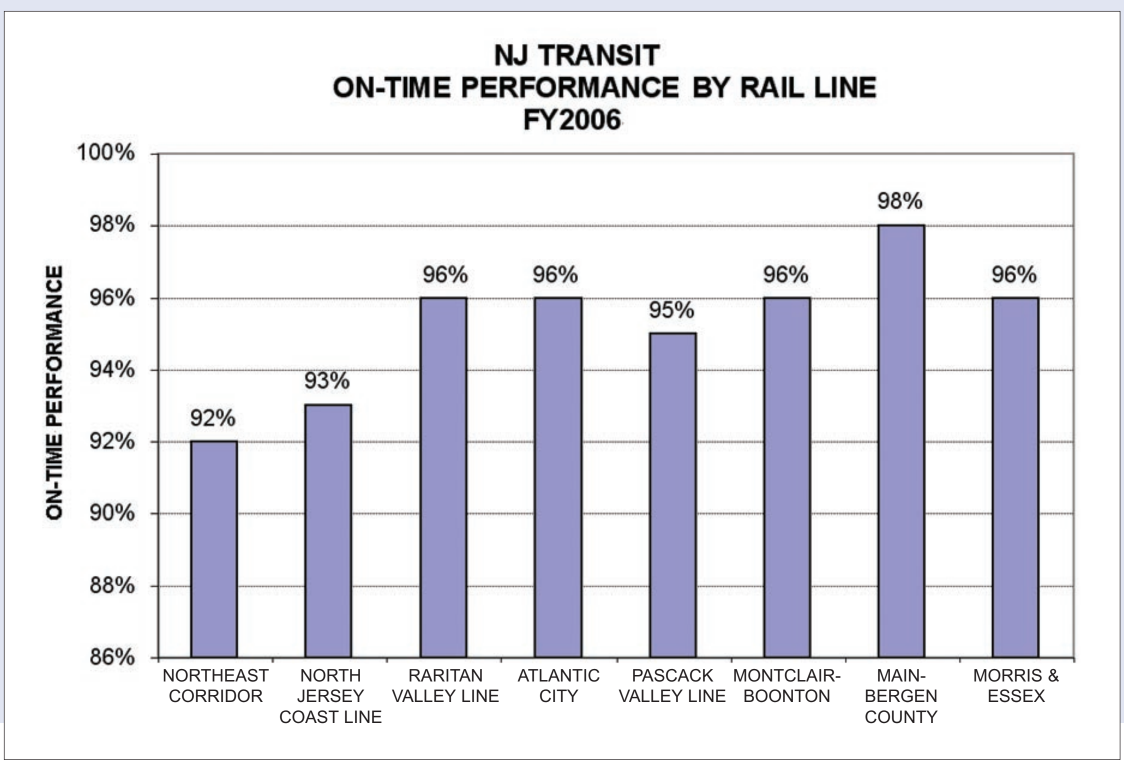
NJ TRANSIT also uses a computer-based train dispatching system called Train Management and Control (TMAC) at its Rail Operations Center, which is synchronized with the atomic clock located at the Naval Observatory in Colorado. TMAC provides NJ TRANSIT with the ability to accurately record a train's arrival at its final destination. Spring Valley is the only location where TMAC is unable to record arrival times, requiring train crews to call in this information. The Pascack Valley Line passing siding and signal system upgrade project will add a timing point for these trains during FY2007.

Arrival times of trains operating on Amtrak's Northeast Corridor are recorded by the Amtrak delay clerk and forwarded to the supervisor at the Rail Operations Center at prescribed times during the day. An NJ TRANSIT supervisor, located at the Amtrak dispatching center in New York, reviews delays to ensure they are accurate before they are transmitted. Amtrak also uses a computerized software system to dispatch trains and record timing locations except in a section of the Northeast Corridor that includes Newark Penn Station. A tower operator, who visually observes when a train passes a specific signal, records the arrival times of Raritan Valley Line trains at Newark Penn Station.

### Light Rail Methodology

***Hudson-Bergen Light Rail and River LINE***

On-time performance is tracked by information management systems in the Control Center. Train departure and arrival times are automatically tracked by computer systems that compare terminal departure and arrival times to the times posted in the public timetable.



A train is counted as a late train if it leaves its origin terminal ahead of schedule or arrives at its final destination terminal more than five minutes late. NJ TRANSIT conducts audits of the information management and reporting systems to ensure the accuracy of the data.

### Newark Light Rail

To track on-time performance statistics for Newark Light Rail, NJ TRANSIT is implementing Control Center data collection and on-time performance reporting systems to be similar to those used on the Hudson-Bergen Light Rail and River LINE light rail lines. This new reporting system is currently in development.

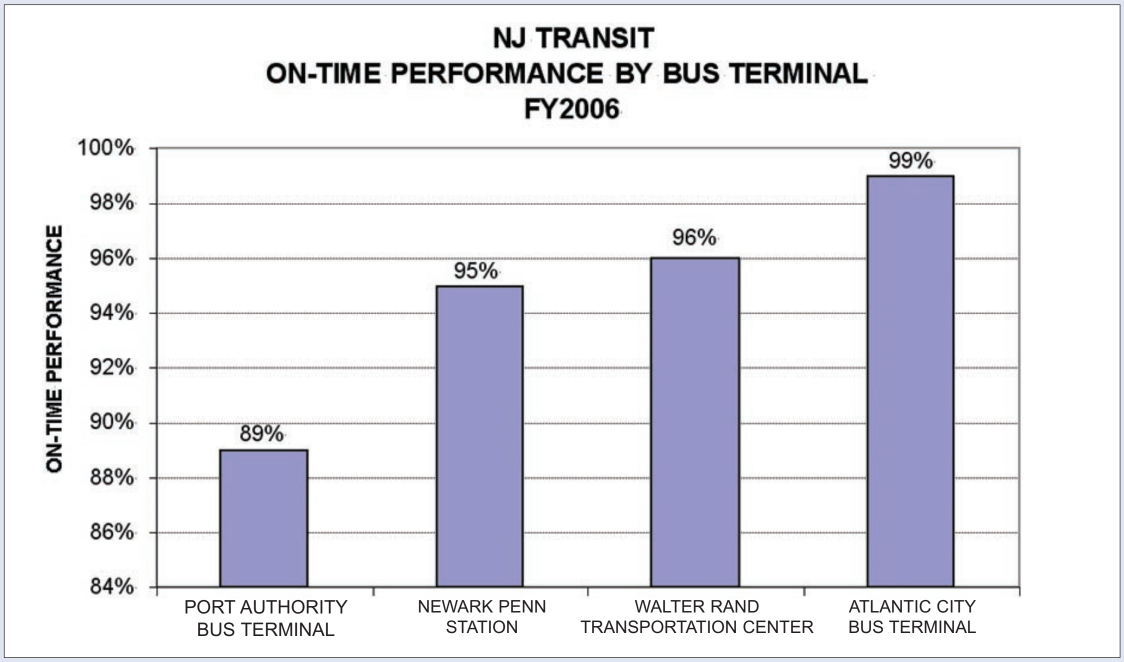
*On-time performance reached 99 percent for buses departing from the Atlantic City Bus Terminal.*

### Bus Methodology

NJ TRANSIT records on-time performance at the following bus terminals:

- Atlantic City Bus Terminal—7 days a week, 24 hours a day
- Walter Rand Transportation Center—weekdays from 6 a.m. to 10 a.m. and 2 p.m. to 6 p.m.
- Newark Penn Station—weekdays from 2:30 p.m. to 6:30 p.m.
- Port Authority Bus Terminal—weekdays from 3:30 p.m. to 7 p.m.

At the Atlantic City Bus Terminal and Walter Rand Transportation Center, any bus that departs the terminal within five minutes of its scheduled departure is considered on time. At Newark Penn Station and the Port Authority Bus Terminal, any bus that departs within six minutes of its scheduled departure is considered on time. Station Starters at these locations are responsible for logging passenger counts, delays and their causes.



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NJ TRANSIT is an equal opportunity employer.

# NJ TRANSIT CONSOLIDATED FINANCIAL STATEMENTS

FISCAL YEAR 2006

NJ TRANSIT
The Way To Go.

# Contents

# Management's Discussion and Analysis

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial position and results of operations of the Corporation as of and for the fiscal year ended June 30, 2006. This discussion and analysis covers the last three fiscal years and is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial position and performance. NJ TRANSIT encourages readers to consider the information presented in conjunction with the financial statements as a whole.

**Financial Highlights – Fiscal Year 2006**

- Total operating revenues for NJ TRANSIT were $698.0 million in fiscal year 2006, an increase of $88.1 million, or 14.5 percent, over the prior fiscal year. Passenger revenue increased $83.4 million, or 14.9 percent, reflecting a fare increase averaging approximately 10 percent implemented July 2005 and a 5.0 percent increase in ridership. Other operating revenues increased $4.7 million, or 9.5 percent.
- Total operating expenses before depreciation were $1,510.0 million in fiscal year 2006, an increase of $87.0 million, or 6.1 percent, over the prior fiscal year. This increase is principally related to increases in employment costs, fuel and propulsion and trackage, tolls and fees.
- The beginning balance of total fund net assets has been adjusted by $329.2 million related to NJ TRANSIT's adoption of the accounting provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.* This statement establishes guidelines for reporting costs associated with "other post-employment benefits" (OPEB). NJ TRANSIT had previously adopted Financial Accounting Standards Board (FASB) Statement No. 106, *Employers Accounting for Post-Retirement Benefits Other Than Pensions.* In accordance with GASB Statement No. 45, NJ TRANSIT has reduced the "Other Post-Employment Benefits" by $329.2 million, the amount previously established under FASB Statement No. 106 and recorded a current OPEB liability of $38.3 million.
- Total net assets at June 30, 2006 were $5,186.0 million, an increase of $47.7 million, or 0.9 percent, over total net assets at June 30, 2005, as adjusted for the cumulative effect of accounting change related to the implementation of GASB Statement No. 45.
- Total capital assets (net of depreciation) were $7,158.6 million at June 30, 2006, a net increase of $14.8 million, or 0.2 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles, improvements to the right-of-way, construction of the Newark Light Rail project and the extension of the Hudson-Bergen Light Rail system.

**Financial Highlights – Fiscal Year 2005**

- Total operating revenues for NJ TRANSIT were $609.9 million in fiscal year 2005, an increase of $26.6 million, or 4.6 percent, over fiscal year 2004. This increase is composed of a $20.9 million, or 3.9 percent, increase in passenger revenue, reflecting a 5.2 percent increase in ridership, and a $5.7 million, or 13.0 percent, increase in other operating revenues.
- Total operating expenses before depreciation were $1,423.0 million in fiscal year 2005, an increase of $86.4 million, or 6.5 percent, over fiscal year 2004. This increase is principally related to increases in employment costs, parts, materials and supplies, services expenses, fuel and propulsion and purchased transportation.
- Total net assets at June 30, 2005 were $4,809.1 million, an increase of $72.1 million, or 1.5 percent, over total net assets at June 30, 2004.
- Total capital assets (net of depreciation) were $7,143.8 million at June 30, 2005, a net increase of $181.0 million, or 2.6 percent, over fiscal year 2004. The net increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles, construction of and improvements to facilities, buildings, structures and the right-of-way, and increases in capital project activity associated with extending the Hudson-Bergen Light Rail and the Newark City Subway.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to NJ TRANSIT's consolidated financial statements and the notes thereto. Since the Corporation comprises a single enterprise fund, no fund-level financial statements are presented.

NJ TRANSIT's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to government units.

In accordance with GAAP, NJ TRANSIT's revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of NJ TRANSIT are included in the Consolidated Statements of Fund Net Assets, and depreciation of capital assets is recognized in the Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets.

The consolidated financial statements provide both long-term and short-term information about NJ TRANSIT's overall financial status. The consolidated financial statements also include footnotes that provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The Consolidated Statements of Fund Net Assets report NJ TRANSIT's net assets and the changes thereto. Net assets, the difference between NJ TRANSIT's assets and liabilities, over time, may serve as a useful indicator of NJ TRANSIT's financial position.

NJ TRANSIT's total net assets at June 30, 2005, were $4,809.1 million, an increase of $72.1 million, or 1.5 percent, over June 30, 2004 (Table A-1). Total assets decreased $222.1 million (2.3 percent) and total liabilities decreased $294.2 million (5.8 percent).

The 7.1 percent increase in restricted assets in fiscal year 2006 reflects the issuance of $253.5 million of Certificates of Participation. The proceeds from the sale of these certificates are being used to acquire 131 multilevel rail cars. Of the $7,158.6 million in capital assets, $1,246.1 million represents construction in progress; $5,553.0 million represents NJ TRANSIT's investment in locomotives, rail cars, buses, buildings, structures and track, net of depreciation; and $359.5 million represents other capital assets.

**Table A-1**
**NJ TRANSIT Fund Net Assets**
*(in millions)*

| | | June 30, | | %Inc/(Dec) | |
|---|---|---|---|---|---|
| | **2006** | **2005** | **2004** | **2006/2005** | **2005/2004** |
| Current assets, net | $493.4 | $468.2 | $500.7 | 5.4 | (6.5) |
| Restricted assets | 2,059.3 | 1,922.7 | 2,293.4 | 7.1 | (16.2) |
| Capital assets, net | 7,158.7 | 7,143.8 | 6,962.8 | 0.2 | 2.6 |
| Other assets | 38.8 | 40.6 | 40.5 | (4.4) | 0.3 |
| **Total Fund Assets** | **9,750.2** | **9,575.3** | **9,797.4** | **1.8** | **(2.3)** |
| Current liabilities | 686.7 | 652.6 | 735.5 | 5.2 | (11.3) |
| Notes payable | 2,154.8 | 2,112.7 | 2,300.3 | 2.0 | (8.2) |
| Post-employment benefits | 38.3 | 329.2 | 305.7 | (88.4) | 7.7 |
| Long-term debt | 1,563.5 | 1,549.9 | 1,616.7 | 0.9 | (4.1) |
| Other liabilities | 120.9 | 121.8 | 102.2 | (0.7) | 19.2 |
| **Total Liabilities** | **4,564.2** | **4,766.2** | **5,060.4** | **(4.2)** | **(5.8)** |
| **Net Fund Assets** | | | | | |
| Invested in capital assets, net of related debt | 5,279.4 | 5,111.4 | 4,944.8 | 3.3 | 3.4 |
| Restricted net assets | 9.1 | 8.3 | 9.5 | 9.6 | (12.6) |
| Deficit in unrestricted net assets | (102.5) | (310.6) | (217.3) | (67.0) | 42.9 |
| **Total Fund Net Assets** | **$5,186.0** | **$4,809.1** | **$4,737.0** | **7.8** | **1.5** |

## Financial Analysis

### Net Assets

NJ TRANSIT's total net assets at June 30, 2006, were $5,186.0 million, an increase of $47.7 million, or 0.9 percent, over June 30, 2005, as adjusted for the cumulative effect of the accounting change related to the implementation of GASB Statement No. 45. (Table A-1). Total assets increased $174.9 million (1.8 percent) and total liabilities decreased $202.0 million (4.2 percent). The liability decrease included the effect of adopting GASB Statement No. 45.

The 88.4 percent decrease in other post-employment benefits was the result of adopting GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, which had the effect of reducing prior years' post-employment benefits liability by $329.2 million, which had been established under FASB Statement No. 106, *Employer's Accounting for Post-Retirement Benefits Other Than Pensions,* and established an OPEB liability under GASB Statement No. 45 of $38.3 million.

The 16.2 percent decrease in restricted assets in fiscal year 2005 reflects payments for the acquisition of rolling stock and service improvements and expansion. Of the $7,143.8 million in capital assets, $1,313.9 million represents construction in progress; $5,498.4 million represents NJ TRANSIT's investment in locomotives, rail cars, buses, buildings, structures and track, net of depreciation; and $331.5 million represents other capital assets.

By far, the largest portion of NJ TRANSIT's total net assets reflects its investment in capital assets net of related debt used to acquire the assets. NJ TRANSIT utilizes these capital assets to provide services, and, consequently, these assets are not available to liquidate liabilities or for any other expenditures.

Restricted net assets include proceeds from the sale of capital assets. This amount will eventually be released from restriction to fund capital projects.

### Changes in Net Assets

The increase in net assets in fiscal year 2006 was $47.7 million, or 0.9 percent, compared to the net assets, as adjusted for the accounting change, in fiscal year 2005 (Table A-2). NJ TRANSIT's total operating revenues increased $88.1 million, or 14.5 percent, and total operating expenses, before depreciation, increased $87.0 million, or 6.1 percent. The depreciation increase of $107.1 million, or 26.8 percent, reflects the capitalization of assets, which had previously been recorded as "in process" and consequently had not yet been depreciated. Net capital contributions increased $82.5 million or 15.7 percent.

In fiscal year 2006, NJ TRANSIT adopted the accounting provisions of GASB Statement No. 45. NJ TRANSIT had previously adopted FASB Statement No. 106. In accordance with GASB Statement No. 45, NJ TRANSIT has reduced non-current liabilities by $329.2 million, previously recorded under FASB Statement No. 106, resulting in a corresponding increase in fund net assets. This is presented as an accounting change and a restatement of the beginning balance of fund net assets.

The increase in net assets in fiscal year 2005 was $72.1 million, or 1.5 percent, compared to net assets in fiscal year 2004 (Table A-2), and resulted from an increase in investment in capital assets from federal, state and local grants and appropriations. NJ TRANSIT's total operating revenues increased $26.6 million, or 4.6 percent, and total operating expenses, before depreciation, increased $86.4 million, or 6.5 percent.

**Table A-2**
**Changes in NJ TRANSIT Fund Net Assets**
*(in millions)*

| | Years Ended June 30, | | | %Inc/(Dec) | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006/2005 | 2005/2004 |
| **Operating Revenues** | | | | | |
| Passenger fares | $643.7 | $560.3 | $539.4 | 14.9 | 3.9 |
| Other | 54.3 | 49.6 | 43.9 | 9.5 | 13.0 |
| **Total Operating Revenues** | **698.0** | **609.9** | **583.3** | **14.5** | **4.6** |
| **Operating Expenses** | | | | | |
| Total operating expenses before depreciation | 1,510.0 | 1,423.0 | 1,336.6 | 6.1 | 6.5 |
| Depreciation | 506.5 | 399.4 | 396.4 | 26.8 | 0.8 |
| **Total Operating Expenses including Depreciation** | **2,016.5** | **1,822.4** | **1,733.0** | **10.7** | **5.2** |
| **Operating loss** | **(1,318.5)** | **(1,212.5)** | **(1,149.7)** | **8.7** | **5.5** |
| Non-operating revenues, net | 757.9 | 758.8 | 745.4 | (0.1) | 1.8 |
| Capital contributions, net | 608.3 | 525.8 | 661.2 | 15.7 | (20.5) |
| **Change in Fund Net Assets** | **47.7** | **72.1** | **256.9** | **(33.8)** | **(71.9)** |
| **Total Fund Net assets, Beginning, as previously reported** | **4,809.1** | **4,737.0** | **4,480.1** | **1.5** | **5.7** |
| **Cumulative Effect of Accounting Change** | **329.2** | -- | -- | | |
| **Total Fund Net Assets, Beginning, Adjusted for Accounting Change** | **5,138.3** | **4,737.0** | **4,480.1** | **8.5** | **5.7** |
| **Total Fund Net Assets, Ending** | **$5,186.0** | **$4,809.1** | **$4,737.0** | **7.8** | **1.5** |

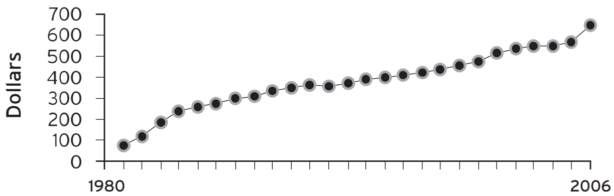
### Operating Revenues

Operating revenues are composed of passenger fares and other operating revenues.

### Passenger Fare Revenue

Passenger fare revenue consists of fares earned during the year from the sale of tickets and monthly passes and bus farebox receipts. Passenger fare revenue for fiscal year 2006 reflects the impact of an average 10 percent fare increase implemented July 2005.

**Passenger Revenue** *(in millions)*




*(June 1980 - July 1981 First Year of Financial Reports)*

Rail passenger revenue for fiscal year 2006 increased $53.8 million, or 18.1 percent, with ridership increasing by 4.7 million passenger trips. Bus passenger revenue increased $27.4 million, or 11.1 percent, with ridership increasing by 4.0 million passenger trips. Light rail passenger revenues, consisting of Newark City Subway, Hudson-Bergen Light Rail and River LINE, increased $2.2 million, or 19.0 percent, with ridership increasing by 3.4 million passenger trips.

Rail passenger revenue for fiscal year 2005 increased $9.9 million, or 3.4 percent, with ridership increasing by 3.8 million passenger trips. Bus passenger revenue increased $8.3 million, or 3.4 percent, with ridership increasing by 5.5 million passenger trips. Light rail passenger revenues, consisting of Newark City Subway, Hudson-Bergen Light Rail and River LINE, increased by $2.7 million, or 29.7 percent, with ridership increasing by 2.4 million passenger trips.

**Table A-3**
**Ridership** *(in millions)*

| | FY06 | FY05* | FY04* | % Inc (Dec) 2006/2005 | % Inc (Dec) 2005/2004 |
|---|---|---|---|---|---|
| **Rail Lines** | | | | | |
| Newark Division | 47.4 | 44.9 | 42.6 | 5.6 | 5.4 |
| Hoboken Division | 25.3 | 23.2 | 21.8 | 9.1 | 6.4 |
| Atlantic City | 1.3 | 1.2 | 1.1 | 8.3 | 9.1 |
| **Total** | **74.0** | **69.3** | **65.5** | **6.8** | **5.8** |
| **Bus Lines** | | | | | |
| Northern Division | 63.4 | 61.1 | 57.0 | 3.8 | 7.2 |
| Central Division | 70.8 | 69.6 | 68.2 | 1.7 | 2.1 |
| Southern Division | 25.5 | 25.0 | 25.0 | 2.0 | 0 |
| **Total** | **159.7** | **155.7** | **150.2** | **2.6** | **3.7** |
| **Light Rail Lines** | | | | | |
| Newark City Subway | 5.5 | 5.6 | 5.4 | (1.8) | 3.7 |
| Hudson-Bergen Light Rail | 7.9 | 5.3 | 4.2 | 49.1 | 26.2 |
| River LINE | 2.4 | 1.5 | 0.4 | 60.0 | 275.0 |
| **Total** | **15.8** | **12.4** | **10.0** | **27.4** | **24.0** |
| **Total Ridership** | **249.5** | **237.4** | **225.7** | **5.1** | **5.2** |

**Adjusted*

### Other Operating Revenues

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The increase in other operating revenues of $4.7 million, or 9.5 percent, was principally due to an increase in parking lot income, advertising revenue and revenue from contract operations.

### Operating Expenses

Operating expenses consist of employment costs and other operating costs.

### Employment Costs

Employment costs consist of full-time and part-time agreement employees' regular wages and related overtime costs, non-agreement salaries, employment taxes, health and welfare expenses, retirement costs and other fringe benefits.

Employment costs increased by $46.5 million, or 5.5 percent. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and overtime cost increases associated with service expansion and disruptions. NJ TRANSIT's health-care expenses also increased, further impacting overall employment costs. This increase includes the impact of implementing GASB Statement No. 45, which requires the recording of non-pension, "other post-employment benefits" (OPEB). These costs are based on the actuarially determined "annual required contribution" (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a period not to exceed 30 years.

### Other Operating Costs

Other operating costs include parts, materials and supplies, services, claims and insurance, fuel and propulsion, trackage, tolls and fees, purchased transportation and other expenses.

Fuel and propulsion power expenses increased $28.5 million, or 34.7 percent. Fuel expense increased $23.7 million, or 44.9 percent, as a result of an average $0.60 per gallon increase in the cost of diesel fuel and increased consumption of approximately 1.4 million gallons of diesel fuel due to service expansion. Propulsion power expenses increased $4.8 million, or 16.3 percent, due to an increase in charges from the National Railroad Passenger Corporation (Amtrak) for propulsion power on the Northeast Corridor rail line and NJ TRANSIT's assumption of propulsion power costs for the Hudson-Bergen Light Rail system, which had previously been the responsibility of the contracted operator.

Trackage, tolls and fees expenses increased $7.8 million, or 24.6 percent, reflecting an increase in access fees for Amtrak's Northeast Corridor rail line as a result of NJ TRANSIT's assumption of Amtrak's clocker service in October 2005.

Other expenses reflected a net increase of $4.1 million, or 19.3 percent, due to an increase in the costs for credit card fees, bad debt expenses and leases and rentals.

### Non-Operating Revenues

Federal, state and local appropriations and reimbursements, which represent funding from various federal grants for specific activities, the New Jersey Transportation Trust Fund and New Jersey Casino Revenue Fund, decreased $21.7 million, or 2.6 percent.

### Capital Contributions, Net

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. The federal, state and local interest in assets acquired and constructed is provided in Note 15, Net Assets. Funding of capital grant expenditures totaling $662.6 million was $31.3 million, or 5.0 percent, above fiscal year 2005.

Major capital projects during the year included extensions of the Hudson-Bergen Light Rail and Newark City Subway, the acquisition and rehabilitation of revenue vehicles, and construction of and improvements to passenger and support facilities and rail infrastructure.

### Capital Assets

As of June 30, 2006, NJ TRANSIT had invested $10,822.4 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2006, totaled $7,158.6 million (Table A-4). This amount represents a net increase of $14.8 million, or 0.2 percent, over June 30, 2005.

As of June 30, 2005, NJ TRANSIT had invested $10,324.9 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2005, totaled $7,143.8 million (Table A-4). This amount represents a net increase of $181.0 million, or 2.6 percent, over June 30, 2004.

**Table A-4**
**NJ TRANSIT Capital Assets** *(net of depreciation)*
*(in millions)*

| | June 30 | | | % Inc/(Dec) | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006/2005 | 2005/2004 |
| Capital projects in process | $1,246.1 | $1,313.9 | $2,126.7 | (5.2) | (38.2) |
| Revenue vehicles | 1,537.4 | 1,452.4 | 1,574.5 | 5.9 | (7.8) |
| Buildings and structures | 2,702.7 | 2,788.6 | 2,408.6 | (3.1) | 15.8 |
| Track | 1,312.9 | 1,257.4 | 589.2 | 4.4 | 113.4 |
| Land | 281.5 | 242.2 | 174.5 | 16.3 | 38.8 |
| Equipment | 78.0 | 89.3 | 89.3 | (12.7) | -- |
| **Total Net Capital Assets** | **$7,158.6** | **$7,143.8** | **$6,962.8** | **0.2** | **2.6** |

A 5.2 percent decrease in capital projects in process in fiscal year 2006 reflects the transfer of Hudson-Bergen Light Rail, Secaucus Transfer and Port Imperial Ferry Terminal capital project costs to track, land and revenue vehicles as evidenced by the 4.4 percent, 16.3 percent and 5.9 percent increases in these categories, respectively.

A 38.2 percent decrease in capital projects in process in fiscal year 2005 reflects the transfer of Hudson-Bergen Light Rail and River LINE capital project costs to buildings and structures and track, which resulted in 15.8 percent and 113.4 percent increases in these categories, respectively.

The Board of Directors approved a fiscal year 2007 capital program that authorizes NJ TRANSIT to request funds totaling $1,310.3 million to provide for the continuation of the major projects currently underway, as well as new initiatives. Funds have been requested for rail, bus and light rail infrastructure improvements; the overhaul and maintenance of rolling stock; debt service related to the acquisition of buses, rail cars, locomotives and the construction of light rail projects; and new system expansion. Provisions also have been made to comply with all federally mandated accessibility and environmental regulations. Additional information about NJ TRANSIT's assets is presented in Note 8 to the financial statements.

### Debt Obligations

Debt obligations outstanding at June 30, 2006, totaled $4,026.7 million compared with $3,946.8 million at June 30, 2005, an increase of 2.0 percent. Debt obligations outstanding at June 30, 2005, totaled $3,946.8 million compared to $4,277.6 million at June 30, 2004, a decrease of 7.7 percent. The following table summarizes the changes in debt between fiscal years 2006, 2005 and 2004 *(in millions)*:

| | | June 30 | | % Inc/(Dec) | |
|---|---|---|---|---|---|
| | **2006** | **2005** | **2004** | **06/05** | **05/04** |
| Notes payable | $2,349.2 | $2,280.2 | $2,487.6 | 3.0 | (8.3) |
| Obligations under capital leases* | 1,677.5 | 1,666.6 | 1,790.0 | 0.7 | (6.9) |
| **Total** | **$4,026.7** | **$3,946.8** | **$4,277.6** | **2.0** | **(7.7)** |

*Includes $1,549.4 million, $1,525.8 million and $1,637.0 million of leveraged lease transactions as of fiscal years 2006, 2005 and 2004, respectively.

Additional information about NJ TRANSIT's debt is presented in Notes 12 and 13 to the financial statements.

### Other Matters

NJ TRANSIT's contractor for the construction of the River LINE has filed suit against NJ TRANSIT alleging changes in this project. The contractor is seeking additional compensation in excess of $100 million. Although the ultimate effect of this matter is not presently determinable, management believes that the resolution of this suit will not have a material effect on the results of operations or consolidated financial position of NJ TRANSIT.

NJ TRANSIT is party to various other legal actions and disputes that are considered customary for an entity such as NJ TRANSIT. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results of operations or consolidated financial position of NJ TRANSIT.

There are several locations within the state in which, by virtue of ownership or use of the railroad or bus facilities, NJ TRANSIT is addressing environmental issues. Management has analyzed all of these matters and has provided for amounts that it currently believes are adequate. In management's opinion, the ultimate liability, if any, will have no material effect on the results of operations or consolidated financial position of NJ TRANSIT.

### Contacting NJ TRANSIT Financial Management

This financial report is designed to provide our customers and other interested parties with a general overview of NJ TRANSIT finances and to demonstrate NJ TRANSIT's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact New Jersey Transit Corporation, Chief Financial Officer and Treasurer, One Penn Plaza East, Newark, New Jersey 07105-2246.

**New Jersey Transit Corporation and Subsidiaries**

***Consolidated Statements of Fund Net Assets***

| *(in thousands)* | As of June 30, 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $171,823 | $119,795 |
| Due from federal government | 78,620 | 160,457 |
| Due from state of New Jersey | 119,997 | 74,623 |
| Inventories, net | 81,893 | 71,549 |
| Other | 41,080 | 41,831 |
| **Total Current Assets** | **493,413** | **468,255** |
| **Non-Current Assets** | | |
| Restricted cash and cash equivalents | 9,101 | 8,260 |
| Restricted investments | 500,734 | 388,719 |
| Restricted leveraged lease deposits | 1,549,423 | 1,525,757 |
| Other | 38,869 | 40,592 |
| Capital assets not being depreciated | 1,527,616 | 1,556,016 |
| Capital assets, net of accumulated depreciation | 5,631,088 | 5,587,730 |
| **Total Non-Current Assets** | **9,256,831** | **9,107,074** |
| **Total Assets** | **9,750,244** | **9,575,329** |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable | 185,080 | 176,693 |
| Accrued payroll and benefits | 132,397 | 120,297 |
| Current installments under capital leases | 113,965 | 116,714 |
| Short-term notes payable | 194,365 | 167,485 |
| Other current liabilities | 60,862 | 71,413 |
| **Total Current Liabilities** | **686,669** | **652,602** |
| **Non-Current Liabilities** | | |
| Notes payable | 2,154,820 | 2,112,687 |
| Accrued injury and damage claims | 63,340 | 61,735 |
| Obligations under capital leases | 1,563,541 | 1,549,894 |
| Other post-employment benefits | 38,271 | 329,207 |
| Deferred revenue and other non-current liabilities | 57,620 | 60,095 |
| **Total Non-Current Liabilities** | **3,877,592** | **4,113,618** |
| **Total Liabilities** | **4,564,261** | **4,766,220** |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 5,279,430 | 5,111,443 |
| Restricted net assets | 9,101 | 8,260 |
| Deficit in unrestricted net assets | (102,548) | (310,594) |
| **Total Net Assets** | **$5,185,983** | **$4,809,109** |

*See Notes to Consolidated Financial Statements.*

**New Jersey Transit Corporation and Subsidiaries**

***Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets***

| *(in thousands)* | Years Ended June 30, 2006 | 2005 |
|---|---|---|
| **Operating Revenues** | | |
| Passenger fares | $643,699 | $560,250 |
| Other | 54,346 | 49,630 |
| **Total Operating Revenues** | **698,045** | **609,880** |
| **Operating Expenses** | | |
| Labor | 526,797 | 505,398 |
| Fringe benefits | 373,350 | 348,249 |
| Parts, materials and supplies | 127,761 | 124,929 |
| Services | 91,247 | 93,738 |
| Claims and insurance | 36,284 | 42,664 |
| Fuel and propulsion | 110,576 | 82,084 |
| Trackage, tolls and fees | 39,424 | 31,632 |
| Utilities | 33,415 | 29,872 |
| Purchased transportation | 145,892 | 143,260 |
| Other | 25,281 | 21,188 |
| **Total Operating Expenses, Before Depreciation** | **1,510,027** | **1,423,014** |
| **Loss Before Depreciation** | **(811,982)** | **(813,134)** |
| Depreciation | (506,562) | (399,383) |
| **Operating Loss** | **(1,318,544)** | **(1,212,517)** |
| **Non-Operating Revenues (Expenses)** | | |
| State appropriation | 278,700 | 278,700 |
| Federal appropriation | 201 | 423 |
| Federal, state and local reimbursements | 549,549 | 570,978 |
| Investment income | 8,548 | 4,449 |
| Income from financing arrangements | 12,660 | 2,044 |
| Other non-operating revenues | 3,300 | 5,118 |
| Interest expense | (95,054) | (102,886) |
| **Total Non-Operating Revenues (Expenses)** | **757,904** | **758,826** |
| **Loss Before Capital Contributions** | **(560,640)** | **(453,691)** |
| Capital contributions, net | 608,307 | 525,772 |
| Change in net assets | 47,667 | 72,081 |
| **Total Net Assets, Beginning, as Previously Reported** | **4,809,109** | **4,737,028** |
| Cumulative Effect of Accounting Change | 329,207 | -- |
| **Total Net Assets, Beginning, As Adjusted for Accounting Change** | **5,138,316** | **4,737,028** |
| **Total Net Assets, Ending** | **$5,185,983** | **$4,809,109** |

*See Notes to Consolidated Financial Statements.*

**New Jersey Transit Corporation and Subsidiaries**

***Consolidated Statements of Cash Flow***

| *(in thousands)* | Years Ended June 30, 2006 | 2005 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash receipts from fares | $641,547 | $562,930 |
| Other cash receipts | 58,759 | 59,552 |
| Payments for claims | (33,039) | (30,209) |
| Payments to employees | (849,775) | (820,534) |
| Payments to suppliers | (591,524) | (550,020) |
| **Net Cash Used by Operating Activities** | **(774,032)** | **(778,281)** |
| **Cash Flows from Non-Capital Financing Activities** | | |
| Cash receipts from federal, state and local grants and appropriations | 831,003 | 869,754 |
| **Net Cash Provided by Non-Capital Financing Activities** | **831,003** | **869,754** |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Proceeds from issuance of notes | 253,470 | -- |
| Payment of obligations under capital leases | (12,767) | (12,124) |
| Interest payments | (95,054) | (102,885) |
| Repayment of note obligations | (184,455) | (207,473) |
| Purchase of capital assets | (575,309) | (685,876) |
| Capital grants | 700,821 | 692,902 |
| **Net Cash Provided/(Used) by Capital and Related Financing Activities** | **86,706** | **(315,456)** |
| **Cash Flows from Investing Activities** | | |
| Purchase of investments | (253,470) | -- |
| Sales and maturities of investments | 141,455 | 258,189 |
| Interest on investments | 8,548 | 4,449 |
| Leveraged lease proceeds | 4,071 | 1,390 |
| Income from other financing activities | 8,588 | 654 |
| **Net Cash (Used)/Provided by Investing Activities** | **(90,808)** | **264,682** |
| **Net Increase in Cash and Cash Equivalents** | **52,869** | **40,699** |
| **Cash and Cash Equivalents** | | |
| **Beginning of Year** | **128,055** | **87,356** |
| **End of Year** | **$180,924** | **$128,055** |
| **Non-Cash Investing Activities** | | |
| Increase in fair value of investments | $118 | $2,059 |

*See Notes to Consolidated Financial Statements.*

**New Jersey Transit Corporation and Subsidiaries**

***Reconciliation of Operating Loss to Net Cash Used by Operating Activities***

| *(in thousands)* | Years Ended June 30, 2006 | 2005 |
|---|---|---|
| **Operating Loss** | **$(1,318,544)** | **$(1,212,517)** |
| **Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities** | | |
| Depreciation and amortization | 506,562 | 399,383 |
| **Changes in Assets and Liabilities** | | |
| Inventories | (10,344) | (8,189) |
| Other current assets | (3,925) | 1,210 |
| Other non-current assets | 2,396 | (7) |
| Accounts payable | 8,387 | (12,015) |
| Accrued payroll and benefits | 12,101 | 9,614 |
| Other current liabilities | (10,526) | (3,963) |
| Accrued injury and damage claims | 1,604 | 13,045 |
| Other post-employment benefits | 38,271 | 23,500 |
| Deferred revenue and other non-current liabilities | (14) | 11,658 |
| **Net Cash Used by Operating Activities** | **$(774,032)** | **$(778,281)** |

*See Notes to Consolidated Financial Statements.*

# Notes to Consolidated Financial Statements

*Years Ended June 30, 2006 and 2005*

**1. Organization and Business Purpose**

**Reporting Entity.** The New Jersey Transit Corporation (NJ TRANSIT) is a component unit of the State of New Jersey created by the New Jersey Public Transportation Act of 1979. NJ TRANSIT is empowered with the authority to acquire, own, operate and contract for the operation of public passenger transportation services. NJ TRANSIT provides these services through the operations of wholly owned bus (NJ TRANSIT Bus Operations, Inc. and NJ TRANSIT Mercer, Inc.), commuter rail (NJ TRANSIT Rail Operations Inc.) and insurance subsidiaries (ARH III Insurance Co., Inc.). NJ TRANSIT also contracts with several third-party providers for certain transportation services. Under these contracts, NJ TRANSIT has the right to set fares and coordinate service levels and schedules. In addition, NJ TRANSIT contracts with the National Railroad Passenger Corporation (Amtrak) for the maintenance of certain NJ TRANSIT rolling stock and the use of Amtrak's Northeast Corridor, including propulsion costs, right-of-way maintenance costs and certain transportation management services.

NJ TRANSIT receives operating assistance and capital funds from the state of New Jersey by legislative appropriation; the federal government by defined formula; and discretionary grants under the federal Urban Mass Transportation Act of 1964 as amended by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, the Transportation Equity Act for the 21st Century (TEA-21) of 1998, the Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2005 (SAFETEA-LU), and local sources. The federal grants are administered by the Federal Transit Administration (FTA). These grants are used to support construction, acquisition and operation of public transportation facilities, equipment and services.

NJ TRANSIT is authorized to issue debt obligations and enter into leveraged lease transactions to finance portions of its system capital projects and operations, respectively.

NJ TRANSIT has a seven-member Board of Directors appointed by the governor with the consent of the state Senate. Two transit advisory committees – one serving North Jersey and another South Jersey – regularly advise the Board of Directors on passenger opinions. Committee members are appointed by the governor with the approval of the state Senate. NJ TRANSIT employs an executive director who manages the day-to-day operations.

**2. Summary of Significant Accounting Policies**

***Basis of Accounting.*** The accounts are maintained and financial statements prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP) as they relate to enterprise funds of state and local governmental units. Also, all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, except those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, have been implemented.

In accordance with GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of NJ TRANSIT are included in the Consolidated Statements of Fund Net Assets and depreciation of capital assets is recognized in the Consolidated Statement of Revenues, Expenses and Changes in Fund Net Assets. The two principal sources of revenue are passenger fares and governmental operating assistance and reimbursements. Operating expenses include the costs of operating the system, administrative expenses and depreciation of capital assets.

***New Accounting Pronouncement.*** In fiscal year 2006, NJ TRANSIT adopted the accounting provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.* This statement establishes guidelines for reporting costs associated with "other post-employment benefits" (OPEB). OPEB costs are actuarially calculated based on benefits (other than pensions), which current and retired employees have accrued as a result of their respective employment contracts. NJ TRANSIT had previously implemented FASB Statement No. 106, *Employer's Accounting for Post-Retirement Benefits Other than Pensions.* In accordance with GASB Statement No. 45, NJ TRANSIT has reduced non-current liabilities by $329.2 million, the balance previously established under FASB Statement No. 106.

***Revenue and Expense Classification.*** NJ TRANSIT distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses primarily result from providing transportation services in connection with NJ TRANSIT's principal ongoing operations. The principal operating revenues are generated from passenger fares. NJ TRANSIT's operating expenses include employment costs, materials, services, claims and insurance, purchased transportation and other expenses related to the delivery of transportation services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Net Assets.*** Net Assets represent the difference between assets and liabilities and are classified into three categories:

- Invested in Capital Assets, Net of Related Debt – This reflects the net assets of NJ TRANSIT that are invested in capital assets, net of related debt. This indicates that these net assets are not accessible for other purposes.
- Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
- Deficit in Unrestricted Net Assets – This relates to the recognition of the liability for post-retirement benefits other than pensions that exceeds the net assets available for general use. When both restricted and unrestricted resources are available for use, it is NJ TRANSIT's policy to use restricted resources first and then unrestricted resources as they are needed.

***Principles of Consolidation.*** The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries. All intercompany transactions have been eliminated.

***Cash and Cash Equivalents.*** Cash and cash equivalents consist of cash on hand, demand deposits and other short-term investments with maturities of three months or less when purchased.

***Investments.*** All investments, except for investment agreements, are stated at fair value based on quoted market prices, as available (see Note 6). Investment agreements are collaterized, non-participating guaranteed investment contracts, which are carried at cost.

***Accounts Receivable.*** Accounts receivable, primarily amounts due from federal and state governments, are included with other current assets and are recorded net of an allowance for uncollectible amounts.

***Capital Assets.*** All capital assets are recorded at cost and include revenue and non-revenue vehicles, buildings, stations, furniture, fixtures, other equipment and infrastructure assets (right-of-way, trackwork and bridges). Capital assets, which were acquired by the state of New Jersey, Department of Transportation and subsequently transferred to NJ TRANSIT at cost, are included in capital assets and are reported as part of the Statement of Revenue, Expenses and Changes in Fund Net Assets.

***Capitalization Policy.*** Under NJ TRANSIT's policy, purchases exceeding $5,000 representing additions or betterments, with a useful life greater than one year, are capitalized. Ordinary maintenance and repairs are charged to expense as incurred.

***Depreciation Policy.*** Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Buildings, structures and trackwork | 25 |
| Rail cars and locomotives | 22-25 |
| Buses, vans and light rail cars | 5-15 |
| Furniture, fixtures and equipment | 3-10 |

***Capital Projects in Process.*** These are expenses incurred by NJ TRANSIT for capital projects in various stages of completion and include all activities designed to construct, acquire or extend useful lives of existing capital assets.

***Net Capitalized Interest.*** Net interest costs on funds borrowed to finance the construction or acquisition of certain capital assets, during the period of construction or acquisition, are capitalized and depreciated over the life of the related assets once placed in service.

***Inventories.*** Fuel, spare parts and supplies purchased are recorded as inventories at average cost, net of a reserve for slow-moving and obsolete parts.

***Injury and Damage Claims.*** Injury and damage claims are accrued at estimated award or settlement amounts when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. NJ TRANSIT is insured against public liability, property damage and Federal Employee Liability Act (FELA) claims through various levels of coverage placed with commercial insurance carriers and its wholly owned subsidiary, ARH III Insurance Co., Inc. Such coverage includes self-insured retention.

***Use of Estimates.*** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Income Taxes.*** NJ TRANSIT is exempt from federal income taxes under the Internal Revenue Code, Section 115 and from state income taxes under N.J.S.A. 27:25-16. Accordingly, no provision is recorded for federal and state income taxes.

***Reclassifications.*** Certain reclassifications have been reflected in the fiscal year 2005 consolidated financial statements to conform to the current year's presentation.

### 3. Other Operating Revenues

Other operating revenues comprise the following *(in millions)*:

| | Years Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Lease and rental | $20.4 | $18.1 |
| Advertising | 11.2 | 8.4 |
| Metro-North operations | 10.3 | 9.2 |
| Other | 12.4 | 13.9 |
| **Total** | **$54.3** | **$49.6** |

### 4. Injury and Damage Claims

As of June 30, 2006, NJ TRANSIT's self-insurance retention was $10 million per occurrence with commercial excess liability insurance coverage for the amounts above $10 million up to $250 million. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment practice claims exceeding $500,000 up to $10 million are covered by insurance. On October 14, 2004, the ARH III Insurance Co., Inc., a wholly owned subsidiary of NJ TRANSIT, was formed. This captive insurance company provides coverage for FELA and rail third-party claims in excess of $5 million up to $10 million, consequently reducing NJ TRANSIT's self-insured retention in these two areas. As of June 30, 2006 and June 30, 2005, the ARH III Insurance Co., Inc. incurred no losses for covered claims.

NJ TRANSIT has recorded an estimated liability of $88.8 million and $85.5 million as of June 30, 2006 and 2005, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, $25.4 million and $23.8 million are included in other current liabilities as of June 30, 2006 and June 30, 2005, respectively (see Note 11).

A reconciliation of the total claims liability follows *(in millions)*:

| | June 30 2006 | June 30 2005 |
|---|---|---|
| Balance, beginning of year | $85.5 | $73.1 |
| Claims expense | 31.7 | 32.5 |
| Payment of claims | (28.4) | (20.1) |
| **Balance, end of year** | **$88.8** | **$85.5** |

### 5. Federal Grants

The Urban Mass Transportation Act of 1964, as amended by ISTEA, TEA-21 and SAFETEA-LU, provides for the funding of a portion of NJ TRANSIT's operating costs and capital needs based upon a defined formula grant program. Generally, such funds may be utilized for no more than 80 percent of the project costs for capital assistance or 50 percent for operating assistance. Funds are apportioned to NJ TRANSIT annually, and generally are available until expended.

NJ TRANSIT also receives discretionary capital grant awards to supplement the capital assistance obtained from the defined formula grant programs. Such discretionary awards are generally limited to projects for equipment acquisition, continued system expansion and modernization or construction of major facilities.

### 6. Cash, Cash Equivalents and Investments

NJ TRANSIT's cash, cash equivalents and investments follow *(in millions)*:

| | June 30 2006 | June 30 2005 |
|---|---|---|
| Current | | |
| Cash on hand | $10.1 | $5.8 |
| Short-term investments | 161.7 | 114.0 |
| Total current cash and short-term investments | 171.8 | 119.8 |
| Non-current | | |
| Restricted cash and cash equivalents | 9.1 | 8.3 |
| Restricted investments | 500.7 | 388.7 |
| Restricted total non-current | 509.8 | 397.0 |
| **Total Cash, Cash Equivalents and Investments** | **$681.6** | **$516.8** |

NJ TRANSIT's cash and cash equivalents on deposit with various entities as of June 30, 2006 and June 30, 2005, totaled $15.0 million and $9.9 million, respectively.

| Account Type | Balance *(in millions)* 2006 | 2005 |
|---|---|---|
| Insured | $0.7 | $0.6 |
| Insured held at NJ TRANSIT's locations | 2.9 | 1.3 |
| Uncollateralized: | | |
| Held by bank trustees | 1.0 | 1.0 |
| Held by health care providers | 3.9 | 3.1 |
| Uninsured held by banks | 6.5 | 3.9 |
| **Total** | **$15.0** | **$9.9** |

***Custodial Credit Risk:*** Custodial credit risk is the risk that a bank failure would result in the forfeiture of NJ TRANSIT deposits. NJ TRANSIT does not have a policy for custodial credit risk. As of June 30, 2006 and June 30, 2005, $11.4 million and $8.0 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2006 and June 30, 2005, totaled $662.4 million and $502.7 million, respectively.

| Investments | Fair Value *(in millions)* 2006 | 2005 | Weighted Average Maturity *(in years)* 2006 | 2005 |
|---|---|---|---|---|
| State of NJ Cash Management Fund | $61.8 | $264.9 | .75 | .48 |
| Repurchase Agreements | 442.4 | 97.7 | .71 | .27 |
| U.S. Treasury/Securities | 158.2 | 138.7 | .04 | .62 |
| Other | -- | 1.4 | -- | .50 |
| **Total** | **$662.4** | **$502.7** | | |
| Portfolio weighted average maturity (inclusive of proceeds from debt issuance) | | | 1.50 | .47 |

***Interest Rate Risk:*** In accordance with NJ TRANSIT's investment policy, NJ TRANSIT manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year. However, up to 25 percent of all investments may be invested in eligible securities, which mature within two years provided that the average maturity of all investments shall not exceed one year. Investments associated with the proceeds of debt issuance are governed by the related bond covenant agreements.

***Credit Risk:*** NJ TRANSIT's investments are restricted to (a) United States Treasury Securities; (b) corporate obligations provided they are rated Baa/BBB or better; (c) senior debt securities, provided such securities are rated at least AA; (d) commercial paper which must have the highest prime rating and must be issued by a company incorporated in the United States; and (e) certificates of deposit, both collateralized and uncollateralized; in the case of collateralized, the market value of the collateral must be 120 percent of the purchase price at the time of purchase; (f) repurchase agreements; (g) banker's acceptances; (h) loan participation notes; and (i) money market mutual funds. The restrictions pertaining to each class of these securities are outlined in NJ TRANSIT's investment policy and are strictly adhered to. Any deviation from the established risk is authorized by the Board of Directors.

NJ TRANSIT investment policy limits its exposure to any single issuer to 20 percent of the investment portfolio. This restriction does not apply to issues of the U.S. government or its agencies that are explicitly guaranteed by the U.S. government or the State of New Jersey Cash Management Fund.

The investment of NJ TRANSIT funds is governed by NJ TRANSIT By-Laws. The Treasurer is authorized to invest and deposit funds of NJ TRANSIT in obligations and/or depositories, which are generally consistent with the investment policies of the State of New Jersey Cash Management Fund as permitted under Public Law 1950 c.270 and subsequent legislation or as otherwise prescribed by the Board of Directors of NJ TRANSIT. Investee institutions and organizations qualify as depositories based on such criteria as minimum capital, credit ratings and other evaluation factors.

U.S. government and agencies obligations are guaranteed by the full faith and credit of the issuing entity and are held by NJ TRANSIT's escrow agent in an account for NJ TRANSIT. Repurchase agreements are uncollateralized and uninsured and are limited to investment-grade paper. The State of New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of Treasury, Division of Investment and is an unrated investment.

### 7. Restricted Assets

Restricted assets include cash, investments and amounts on deposit with lessors that have been restricted from use for normal operations as a result of agreements with outside parties.

Since April 1997, certain proceeds, primarily from the issuance of Grant Anticipation Notes, Certificates of Participation and New Jersey Economic Development Authority Bonds, financed portions of NJ TRANSIT's capital projects. These proceeds are restricted by applicable agreement covenants. As of June 30, 2006 and 2005, the balance of restricted cash related to these proceeds was $480.9 million and $363.9 million, respectively.

In October 1997, NJ TRANSIT entered into a funding agreement with Metro-North Commuter Railroad Company for Secaucus Junction and the right-of-way modifications to the Main/Bergen and Northeast Corridor rail lines. This agreement provided for an initial cash payment to NJ TRANSIT. The balance of this payment along with interest earnings on investment of these funds have been recorded as restricted investments and restricted net assets in the amount of $2.5 million and $7.6 million as of June 30, 2006 and June 30, 2005, respectively.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas lessors. Restricted leveraged lease deposits as of June 30, 2006 and 2005 were $1,549.4 million and $1,525.8 million, respectively, for these lease agreements that represent investment arrangements made to meet NJ TRANSIT's payment obligations throughout the term of the leases.

In May 1984, NJ TRANSIT purchased the land under and adjacent to Newark Penn Station along with air rights above the land and acquired operational control of the station. This arrangement also provides cash proceeds to NJ TRANSIT, which management projects will assist in the funding of net station operating expenses. Proceeds in the amount of $6.9 million have been recorded as restricted cash and restricted net assets as of June 30, 2006. Smaller amounts relative to reserve funds, health plan deposits and residual grant proceeds total $19.5 million.

### 8. Capital Assets

A summary of capital assets follows *(in millions)*:

| | Balance June 30, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| **Capital Assets not being Depreciated** | | | | |
| Land | $242.2 | $47.6 | $8.3 | $281.5 |
| Capital projects in process | 1,313.9 | 601.5 | 669.3 | 1,246.1 |
| **Total** | **1,556.1** | **649.1** | **677.6** | **1,527.6** |
| **Capital Assets being Depreciated** | | | | |
| Buildings and structures | 3,978.9 | 259.6 | 124.7 | 4,113.8 |
| Track | 1,729.3 | 176.6 | 40.5 | 1,865.4 |
| Rail cars and locomotives | 1,454.4 | 182.7 | 37.4 | 1,599.7 |
| Buses, vans and light rail cars | 1,259.0 | 104.8 | 7.2 | 1,356.6 |
| Furniture, fixtures and equipment | 347.2 | 14.6 | 2.5 | 359.3 |
| **Total** | **8,768.8** | **738.3** | **212.3** | **9,294.8** |
| **Less Accumulated Depreciation** | | | | |
| Buildings and structures | 1,190.3 | 221.3 | 0.5 | 1,411.1 |
| Track | 471.9 | 80.6 | -- | 552.5 |
| Rail cars and locomotives | 761.7 | 76.7 | 19.8 | 818.6 |
| Buses, vans and light rail cars | 499.3 | 103.8 | 2.8 | 600.3 |
| Furniture, fixtures and equipment | 257.9 | 24.6 | 1.2 | 281.3 |
| **Total** | **3,181.1** | **507.0** | **24.3** | **3,663.8** |
| **Total Capital Assets, Net of Depreciation** | **5,587.7** | **231.3** | **188.0** | **5,631.0** |
| **Total Net Capital Assets** | **$7,143.8** | **$880.4** | **$865.6** | **$7,158.6** |

| | Balance June 30, 2004 | Increases | Decreases | Balance June 30, 2005 |
|---|---|---|---|---|
| **Capital Assets not being Depreciated** | | | | |
| Land | $174.5 | $67.7 | $ -- | $242.2 |
| Capital projects in process | 2,126.7 | 705.8 | 1,518.6 | 1,313.9 |
| **Total** | **2,301.2** | **773.5** | **1,518.6** | **1,556.1** |
| **Capital Assets being Depreciated** | | | | |
| Buildings and structures | 3,458.0 | 606.7 | 85.8 | 3,978.9 |
| Track | 993.4 | 1,092.1 | 356.2 | 1,729.3 |
| Rail cars and locomotives | 1,433.9 | 22.2 | 1.7 | 1,454.4 |
| Buses, vans and light rail cars | 1,239.4 | 29.6 | 10.0 | 1,259.0 |
| Furniture, fixtures and equipment | 343.2 | 19.5 | 15.5 | 347.2 |
| **Total** | **7,467.9** | **1,770.1** | **469.2** | **8,768.8** |
| **Less Accumulated Depreciation** | | | | |
| Buildings and structures | 1,049.4 | 140.9 | -- | 1,190.3 |
| Track | 404.2 | 67.7 | -- | 471.9 |
| Rail cars and locomotives | 689.4 | 73.7 | 1.4 | 761.7 |
| Buses, vans and light rail cars | 409.4 | 99.8 | 9.9 | 499.3 |
| Furniture, fixtures and equipment | 253.9 | 17.3 | 13.3 | 257.9 |
| **Total** | **2,806.3** | **399.4** | **24.6** | **3,181.1** |
| **Total Capital Assets, Net of Depreciation** | **4,661.6** | **1,370.7** | **444.6** | **5,587.7** |
| **Total Net Capital Assets** | **$6,962.8** | **$2,144.2** | **$1,963.2** | **$7,143.8** |

As of June 30, 2006 and 2005, capital assets include net capitalized interest expense of $400.0 million and $126.5 million, respectively, and interest income of $307.7 million and $53.1 million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Notes 11 and 12).

During fiscal years 2006 and 2005, NJ TRANSIT received capital contributions of $654.7 million and $628.8 million, respectively, of which $45.3 million and $103.0 million were passed through to other entities, respectively. The transferred amounts represented assets for which NJ TRANSIT has transferred ownership upon completion of the project. For fiscal year 2006, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line and the acquisition of Metro-North rail cars. NJ TRANSIT also routinely transfers amounts initially recorded in capital projects in process that do not meet capitalization criteria to expense.

**9. Pension and Employee Benefit Plans**

Certain employees of NJ TRANSIT and its subsidiaries participate in the New Jersey Public Employee Retirement System (PERS), the Police and Firemen's Retirement System (PFRS) and the Railroad Retirement Fund. NJ TRANSIT contributes to the PERS plan, the PFRS plan and Railroad Retirement Fund based upon a fixed percentage of applicable compensation as determined by the respective plan sponsors. The PERS, PFRS and Railroad Retirement plans are cost-sharing, multiple employers' defined benefit pension plans and require employee contributions. NJ TRANSIT's contributions to these plans for the years ended June 30, 2006, 2005 and 2004 were $33.8 million, $32.9 million and $32.0 million, respectively. The state of New Jersey issues separate, stand alone financial reports for the PERS and PFRS plans that can be obtained through the Division of Pensions, State of New Jersey.

NJ TRANSIT employees not participating in PERS, PFRS or the Railroad Retirement Fund as defined above are covered by five defined benefit, single-employer pension plans. Total payroll used for benefits and cost calculations for employees covered by the five NJ TRANSIT-sponsored plans was $368.3 million, $359.5 million and $326.8 million for the 2006, 2005 and 2004 plan years, respectively. Under the provisions of the five pension plans, pension benefits vest after 10 years of full-time employment. Certain employees who begin their employment at age 50 are 100 percent vested beginning at age 55 after five years of full-time employment. As of June 30, 2006, an employee who retires at age 65 with 10 years of credited service is entitled to an annual retirement benefit equal to 2.0 percent for each year of service multiplied by the average of the highest three years' earnings (excluding overtime for Non-Agreement employees) in the last 10 years of service. The sponsored pension plans also provide early retirement programs and death benefits.

A variety of significant actuarial assumptions are used to determine the valuation of the pension benefit obligation at the pension plan valuation dates. The current assumptions include (a) a weighted average assumed rate of return of 8.0 percent for all plans, (b) annual salary increases ranging from 3.5 percent to 5.3 percent, and (c) no post-retirement benefit increases. For fiscal year 2006, there were no changes in actuarial assumptions or funding method.

Periodic employer contributions to the pension plans are also determined on an actuarial basis using the projected unit credit actuarial method. Normal costs are accrued on a current basis. The prior service costs are amortized over a 30-year period. Contributions to sponsored plans during fiscal year 2006 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2005.

The plan assets are held in a variety of investment instruments including common stock, fixed income securities and corporate bonds.

The significant actuarial assumptions used to compute the contribution requirements are the same as those used to determine the pension benefit obligation. The pension benefit obligations of all NJ TRANSIT-sponsored plans as of June 30 for the previous five fiscal years are summarized below:

**Pension Benefit Obligation**

| *(in millions)* | June 30 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Accrued Benefit Obligation** | | | | | |
| Participants currently receiving payments | $403.9 | $389.3 | $363.4 | $279.6 | $244.3 |
| Employer-financed vested benefits | 359.3 | 310.8 | 282.7 | 307.8 | 284.9 |
| Employer-financed nonvested benefits | 121.5 | 106.2 | 98.2 | 97.4 | 91.0 |
| **Total Accrued Benefit Obligation** | $884.7 | $806.3 | $744.3 | $684.8 | $620.2 |
| **Pension Funding** | | | | | |
| Pension benefit obligation | $1,016.6 | $953.9 | $869.3 | $813.4 | $745.9 |
| Fair value of net assets available for plan benefits | 845.2 | 766.5 | 678.6 | 628.9 | 620.0 |
| **Unfunded Pension Benefit Obligation** | $(171.4) | $(187.4) | $(190.7) | $(184.5) | $(125.9) |

Pension expense for defined benefit plans (excluding PERS, PFRS and the Railroad Retirement Fund) totaled $60.9 million, $61.0 million and $57.6 million for fiscal years 2006, 2005 and 2004, respectively.

For the three plan years ended June 30, 2005, 2004 and 2003, available assets were sufficient to fund 83.1, 80.4 and 78.1 percent, respectively, of the pension benefit obligation. The unfunded pension benefit obligation represented 46.5, 52.1 and 58.3 percent of the annual payroll for employees covered by NJ TRANSIT pension plans for fiscal years 2005, 2004 and 2003, respectively. Disclosing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. NJ TRANSIT's contributions to the plans for the three plan years ended June 30, 2005, 2004 and 2003, all made in accordance with actuarially determined requirements, were 16.5, 20.0 and 18.6 percent, respectively, of applicable fiscal year covered payroll.

Of the five single-employer defined benefit pension plans, four cover bus agreement employees, and one plan covers all non-agreement employees. The four agreement plans are the Amalgamated Transit Union Employees Retirement Plan, the Transport Union Employees Retirement Plan, the Utility Co-Workers Association Employees Retirement Plan and the Mercer Employees Retirement Plan. The plan covering all non-agreement employees is the Transit Employees Retirement Plan (TERP).

Each plan provides retirement, disability and death benefits to plan members and beneficiaries with the exception of the TERP plan, which has no disability provision. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement plan while the agreement plans are subject to the collective bargaining process. Separate audited financial statements are issued for the five pension plans, copies of which can be obtained from NJ TRANSIT.

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan 401(k) for all eligible non-agreement employees. NJ TRANSIT provides a maximum 50 percent matching contribution on the first six percent contributed by the employee. This plan permits employees to contribute up to 50 percent of their salary not to exceed $15,000 annually on a pre-tax basis.

NJ TRANSIT also provides a money purchase pension plan 401(a) and an employee savings/deferred compensation plan (457) for eligible agreement employees. NJ TRANSIT contributed 3 to 5 percent of annual compensation to certain employees' accounts in the 401(a) plan. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed $15,000 annually on a pre-tax basis.

Beginning in 2002, a new type of pre-tax contribution was added for participants of the 401(k) and 457 plans. The Economic Growth and Tax Relief Act of 2001 permits individuals who are age 50 (or older) by the end of the calendar year to elect to make additional "catch up" contributions to the plan. This is in addition to the pre-tax employee contribution limit. NJ TRANSIT retirement plan participants can only "catch up" in one plan.

Pursuant to the act, participants in the 401(k) and 457 plans who are over 50 years of age can contribute an additional $5,000 above the $15,000 limit.

NJ TRANSIT's expense for the defined contribution plans totaled $15.0 million and $15.1 million in fiscal years 2006 and 2005, respectively.

Recorded expenses for all plans (including PERS, PFRS and the Railroad Retirement Fund) amount to $109.7 million and $109.1 million for the fiscal years ended June 30, 2006 and 2005, respectively.

**10. Other Post-Employment Benefits**

NJ TRANSIT sponsors a single employer health care plan that provides post-retirement medical, dental and life insurance benefits for eligible retirees and their spouses. NJ TRANSIT does not issue a financial report for this plan. Contribution requirements are negotiated between the company and union representatives for Rail and Bus Agreement employees. NJ TRANSIT establishes and may amend the contribution requirements for Non-Agreement employees. The required contribution is based on projected pay-as-you-go financing requirements; payments under the plan were $16.6 million for fiscal year 2006.

NJ TRANSIT's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the components of the annual OPEB cost for the year, the amount contributed to the plan, and changes in NJ TRANSIT's net OPEB obligation for fiscal year 2006 *(in millions)*:

| | |
|---|---|
| Annual required contribution | $54.8 |
| Contributions made | (16.6) |
| Increase in net OPEB obligation | 38.2 |
| Net OPEB obligation, beginning of year | -- |
| **Net OPEB obligation, end of year** | **$38.2** |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2006 are as follows *(in millions)*:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2006 | $54.8 | 30.2% | $38.2 |

As of June 30, 2005, the actuarial accrued liability (AAL) for benefits was $499.8 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $368.3 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 135.7 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress provided as required supplemental information following the notes to the financial statements presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan member) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation.

As of June 30, 2005, the actuarial valuation utilized the projected unit credit method. The actuarial assumptions included a 4.5 percent discount rate and an annual health care cost trend rate of 4.5 percent. The unfunded actuarial accrued liability is being amortized on a level dollar amortization basis. The remaining amortization period at June 30, 2005 was 30 years.

**11. Other Current Liabilities**

Other current liabilities comprise the following *(in millions)*:

| | June 30 | |
|---|---|---|
| | **2006** | **2005** |
| Injury and damage claims (Note 4) | $25.4 | $23.8 |
| Retainage on construction projects | 13.5 | 22.2 |
| Other | 22.0 | 25.4 |
| **Total Other Current Liabilities** | **$60.9** | **$71.4** |

**12. Long-Term Debt and Other Obligations**

In September 2005, NJ TRANSIT issued $253.5 million of series 2005A Certificates of Participation (COPS) accruing interest at 5.0 percent with a final maturity in 2021. The funds will be used to acquire 131 multilevel rail cars.

In March 2004, NJ TRANSIT issued $253.2 million of Series 2004A Certificates of Participation (COPS) accruing interest between 1.9 percent and 4.1 percent with the final maturity date in 2016. The proceeds are being used to acquire articulated buses, diesel locomotives and Metro B replacement buses.

In October 2003, NJ TRANSIT entered into a 16-year lease/sublease agreement with the New Jersey Economic Development Authority (NJEDA) as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of $325.9 million in Series 2003A Refunding Bonds. This debt matures in 2019. The proceeds from this issuance were used to refinance a portion of the existing NJEDA Series 1999A Bonds. Bond proceeds were placed in an irrevocable trust and will satisfy debt servicing associated with the refinanced portion of the NJEDA 1999 bonds. This refinancing allowed NJ TRANSIT to take advantage of favorable interest rates in the market. In connection with these agreements, NJ TRANSIT entered into several interest-rate swap agreements.

In October 2003, NJ TRANSIT entered into a 16-year lease/sublease agreement with NJEDA as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of $35.0 million in Series 2003B Bonds. This debt will mature in 2019. Bond proceeds were used for the additional funding for the River LINE (Southern New Jersey Light Rail System). This refinancing allowed NJ TRANSIT to take advantage of favorable interest rates in the market. In connection with these agreements, NJ TRANSIT entered into several interest-rate swap agreements.

***Objective of the Interest-Rate Swaps.*** In order to protect against the potential of rising interest rates, NJ TRANSIT entered into several interest-rate swap agreements with AA rated counterparties at a cost anticipated to be less than what NJ TRANSIT would have paid to issue fixed-rate debt.

***Terms.*** The notional amounts of these swap agreements are equal to the face value of the bond issuance. Based upon the swap agreements, NJ TRANSIT pays interest at a fixed rate of 3.32 percent for Series 2003A Bonds and 3.45 percent for Series 2003B Bonds to the counterparties. In return, the counterparties pay interest to NJ TRANSIT based upon 62 percent of the one-month LIBOR rate plus 20 basis points. This rate is designed to offset the market rate paid on the underlying bonds, which are periodically auctioned. As the bonds are redeemed, the notional amounts of the respective swap agreement will decrease proportionately.

***Credit Risk.*** Credit risk is the risk that the swap counterparty will not perform pursuant to the contract's terms. Under a fixed payer swap, for example, if the counterparty defaults, the issuer would be exposed to an unhedged variable rate bond position. The creditworthiness of the counterparty is indicated by its issuer credit rating.

***Basis Risk.*** Basis risk refers to a mismatch between the interest rate received from the swap contract and the interest actually owed on the issuer's bonds. The issuer's risk is that the variable interest payments received from the counterparty will be less than the variable interest payments actually owed on the issuer's variable rate bonds. This mismatch could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the issuer's credit quality, or a reduction of federal income tax rates for corporations and individuals.

***Termination risk.*** Termination risk is the risk that the swap could be terminated as a result of any of several events, which may include a ratings downgrade for the issuer or counterparty, covenant violation by either party, bankruptcy of either party, swap payment default by either party, and default events as defined in the bond indenture. Termination may require a payment to be made by the issuer or may result in a payment being made to the issuer, depending on the market at the time of termination.

In September 2003, NJ TRANSIT issued $149.8 million of Series 2003A COPs accruing interest between 1.0 percent and 4.1 percent. The proceeds were used to refinance the Series 2003B COPs. The bond proceeds were placed in an irrevocable trust and will satisfy designated debt servicing. The debt matures in 2015.

In February 2003, NJ TRANSIT issued $61.5 million of Refunding COPs bearing interest between 2.0 percent and 5.5 percent with final maturity in 2016. The proceeds from the sale of these certificates were deposited into an irrevocable trust with an escrow agent to provide debt service on the 1991 COP notes. The refunding transaction, which was consummated to take advantage of low interest rates, decreased the aggregate debt service payments and resulted in an economic benefit of approximately $2.0 million over the life of the transaction with a $10.8 million deferral of refunding cost. As of June 30, 2006, $51.8 million of defeased notes remain outstanding.

In June 2002, NJ TRANSIT issued $162.8 million of Series 2002A Refunding COPs bearing interest between 3.0 percent and 5.5 percent with a final maturity in 2015. The proceeds from the sale of these certificates provided advance refunding of $158.7 million of certain maturities of NJ TRANSIT's Series 2000A COPs. The proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide for the debt service on certain Series 2000A notes. The refunding transaction was consummated to provide a structural modification to the original agreement.

In June 2002, NJ TRANSIT issued $94.7 million of Series 2002B COPs bearing interest between 4.0 percent and 5.75 percent with a final maturity in 2015. The proceeds of these certificates were used to purchase 28 light rail cars.

In November 2000, NJ TRANSIT issued $562.2 million of Capital Grant Anticipation Notes (GANs), consisting of $452.2 million of Series 2000B and $110.0 million of Series 2000C, bearing interest between 4.5 percent and 5.75 percent. The Series 2000B note matures in 2011. The proceeds of this note were used to fund the cost of constructing the next segment of Hudson-Bergen Light Rail (MOS-2). The proceeds of the series 2000C notes were used to fund the Newark City Subway Extension and this note matured in 2005.

In October 2000, NJ TRANSIT issued $693.1 million of Series 2000B COPs bearing interest between 4.5 percent and 6.0 percent with a final maturity in 2015. The proceeds of these certificates were used to fund the purchase of 24 ALP-46 electric locomotives and 1,244 cruiser buses.

In January 2000, NJ TRANSIT issued $234.1 million of Series 2000A COPs bearing interest between 4.4 percent and 6.125 percent with a final maturity in 2015. The proceeds of the certificates were used to purchase 200 rail cars and spare parts.

In August 1999, NJ TRANSIT entered into a 20-year lease/sublease agreement with the NJEDA as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of $486.7 million in Series 1999A Bonds and $147.2 million in Series 1999B Bonds, bearing interest between 4.375 percent and 5.75 percent and with a final maturity in 2011. The Series A Bonds were issued to provide funds for the River LINE project while the Series B Bonds were issued to provide funds for the second phase of the Hudson-Bergen Light Rail project.

In March 1999, NJ TRANSIT issued $151.5 million of COPs bearing interest between 3.625 percent and 5.0 percent with a final maturity in 2008. The proceeds of the certificates were used to purchase 500 transit buses.

The following schedule summarizes notes payable obligations as of June 30, 2006 *(in millions):*

| | Inception Date | Balance June 30, 2005 | Additions | Payments/ Reductions | Balance June 30, 2006 | Due Within One Year |
|---|---|---|---|---|---|---|
| COPs 1999 | 03/99 | $79.0 | $ -- | $20.2 | $58.8 | $21.2 |
| NJEDA 1999A&B | 08/99 | 245.8 | -- | 38.6 | 207.2 | 40.7 |
| COPs 2000A | 01/00 | 70.6 | -- | 1.8 | 68.8 | 1.8 |
| COPs 2000B | 10/00 | 461.5 | -- | 46.1 | 415.4 | 48.7 |
| GANs 2000B | 11/00 | 347.1 | -- | 84.8 | 262.3 | 56.2 |
| COPs 2002A | 06/02 | 160.2 | -- | 0.2 | 160.0 | 0.2 |
| COPs 2002B | 06/02 | 94.7 | -- | -- | 94.7 | 2.1 |
| COPs 2003 | 02/03 | 55.2 | -- | 3.4 | 51.8 | 3.8 |
| COPs 2003A | 09/03 | 148.8 | -- | 0.3 | 148.5 | 0.3 |
| NJEDA 2003A | 10/03 | 322.3 | -- | 3.7 | 318.6 | 3.8 |
| NJEDA 2003B | 10/03 | 35.0 | -- | -- | 35.0 | -- |
| COPs 2004A | 03/04 | 253.2 | -- | -- | 253.2 | 15.6 |
| COPs 2005A | 09/05 | -- | 253.5 | -- | 253.5 | -- |
| **Total** | | **2,273.4** | **253.5** | **199.1** | **2,327.8** | **$194.4** |
| Unearned Bond Premium | | 75.2 | 23.0 | 16.2 | 82.0 | |
| Unamortized Deferral on Refunding | | (68.5) | -- | (7.9) | (60.6) | |
| **Total Notes Payable** | | **$2,280.1** | **$276.5** | **$207.4** | **$2,349.2** | |

The following schedule summarizes notes payable obligations as of June 30, 2005 *(in millions):*

| | Inception Date | Balance June 30, 2004 | Additions | Payments/ Reductions | Balance June 30, 2005 | Due Within One Year |
|---|---|---|---|---|---|---|
| COPs 1999 | 03/99 | $98.4 | $ -- | $19.4 | $79.0 | $20.2 |
| NJEDA 1999A&B | 08/99 | 282.6 | -- | 36.8 | 245.8 | 38.6 |
| COPs 2000A | 01/00 | 72.3 | -- | 1.7 | 70.6 | 1.8 |
| COPs 2000B | 10/00 | 505.3 | -- | 43.8 | 461.5 | 46.1 |
| GANs 2000B | 11/00 | 413.8 | -- | 66.7 | 347.1 | 53.2 |
| GANs 2000C | 11/00 | 27.2 | -- | 27.2 | -- | -- |
| COPs 2002A | 06/02 | 160.4 | -- | 0.2 | 160.2 | 0.2 |
| COPs 2002B | 06/02 | 94.7 | -- | -- | 94.7 | -- |
| COPs 2003 | 02/03 | 58.5 | -- | 3.3 | 55.2 | 3.4 |
| COPs 2003A | 09/03 | 149.8 | -- | 1.0 | 148.8 | 0.3 |
| NJEDA 2003A | 10/03 | 325.9 | -- | 3.6 | 322.3 | 3.7 |
| NJEDA 2003B | 10/03 | 35.0 | -- | -- | 35.0 | -- |
| COPs 2004A | 03/04 | 253.2 | -- | -- | 253.2 | -- |
| **Total** | | **2,477.1** | -- | **203.7** | **2,273.4** | **$167.5** |
| Unearned Bond Premium | | 86.6 | -- | 11.4 | 75.2 | |
| Unamortized Deferral on Refunding | | (76.1) | -- | (7.6) | (68.5) | |
| **Total Notes Payable** | | **$2,487.6** | -- | **$207.5** | **$2,280.1** | |

Long-term notes payable maturities as of June 30, 2006 *(in millions):*

| Fiscal Years | Principal | Interest | Total |
|---|---|---|---|
| 2007 | $194.4 | $114.8 | $309.2 |
| 2008 | 204.6 | 104.5 | 309.1 |
| 2009 | 215.0 | 93.7 | 308.7 |
| 2010 | 226.1 | 82.1 | 308.2 |
| 2011 | 166.0 | 69.3 | 235.3 |
| 2012-2016 | 861.6 | 221.6 | 1,083.2 |
| 2017-2021 | 367.5 | 54.2 | 421.7 |
| 2022-2026 | 92.6 | 1.2 | 93.8 |
| **Total** | **2,327.8** | **$741.4** | **$3,069.2** |
| Unamortized bond premium | 82.0 | | |
| Unamortized deferral on refunding | (60.6) | | |
| **Total Notes Payable** | **$2,349.2** | | |

## 13. Leases and Other Commitments

### Leveraged Lease Transactions

NJ TRANSIT has entered into a number of leveraged lease agreements with certain domestic and foreign lessors. In connection with these agreements, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the term of the respective leases. Effective January 1, 1997, NJ TRANSIT changed its method of accounting for the extinguishment of leveraged leased obligations and no longer records "in-substance" defeasance of its leveraged lease obligations as extinguished. Accordingly, NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leverage Lease Deposits in the Consolidated Statements of Fund Net Assets (see Note 7).

In fiscal year 2006, NJ TRANSIT received a total of $4.1 million in benefits from leveraged lease transactions related to a 23-year cross border lease of 26 diesel locomotives with a net present value lease obligation of $115.7 million. In connection with the agreement, NJ TRANSIT has made certain indemnification provisions and must comply with certain lease covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2006.

### Extinguished Leveraged Lease Obligations

From 1991 through 1996, NJ TRANSIT entered into a number of leveraged leasing arrangements with overseas investors for the purchase of transit operating equipment. NJ TRANSIT has made investment arrangements to meet all of its payment obligations throughout the terms of the leases for all of these agreements and, in some instances, has been released as the primary obligor. Accordingly, these lease obligations have not been recorded in the Consolidated Statements of Fund Net Assets.

Extinguished leveraged lease obligations as of June 30, 2006 follows *(in millions):*

| Fiscal Years | Lease Years | Equipment | Amount |
|---|---|---|---|
| 1995 | 15 Years | 32 Arrow III cars | $51.1 |
| 1994 | 15 Years | 24 Arrow III cars | $40.8 |
| 1994 | 15 Years | 26 Arrow III cars | $51.3 |
| 1993 | 15 Years | 43 Arrow III cars | $51.5 |

In connection with these lease agreements, NJ TRANSIT has made certain indemnification provisions and must comply with certain lease covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2006.

### Capital Leases

In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light rail cars for the Hudson-Bergen Light Rail system and the Newark City Subway. These cars were financed through a sale of COPs by the state of New Jersey in May 1998. The cars were subleased by the state of New Jersey, Department of Transportation to NJ TRANSIT pursuant to an equipment sublease purchase agreement. NJ TRANSIT will repay the financed amount of $156.2 million over 15 years through June 2014.

In 1994, NJ TRANSIT entered into a 23-year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an aboveground parking facility. A portion of the financing for this facility was provided by the NJEDA through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the NJEDA bond obligations. The remaining rental payments have a present value of approximately $13.1 million as of June 30, 2006.

In 1986, NJ TRANSIT entered into a $35.9 million lease agreement for land and building facilities to be utilized for bus maintenance and storage. The initial lease term is 25 years, and the lease contains options for an additional 25 years.

In total, NJ TRANSIT has recorded obligations under capital leases of $1,677.5 million and $1,666.6 million as of June 30, 2006 and June 30, 2005, respectively, of which $114.0 million and $116.7 million represent current installments under capital leases as of June 30, 2006 and June 30, 2005, respectively.

The cost of capital assets under capital leases, including leveraged leases, is summarized as follows and is included in capital assets (see Note 8) *(in millions):*

| | June 30 2006 | 2005 |
|---|---|---|
| Land | $27.5 | $27.4 |
| Buildings | 516.1 | 514.6 |
| Rail cars and locomotives | 814.7 | 672.2 |
| Buses and light rail cars | 729.1 | 721.6 |
| Furniture, fixtures and equipment | 63.4 | 63.1 |
| Capital assets under capital leases (at cost) | 2,150.8 | 1,998.9 |
| Less accumulated depreciation | (995.5) | (869.6) |
| **Net Capital Assets Under Capital Leases** | **$1,155.3** | **$1,129.3** |

The following schedules summarize the capital lease obligations as of June 30, 2006 *(in millions)*:

| | Inception Date | Balance June 30, 2005 | Additions | Payments/ Reductions | Balance June 30, 2006 | Due Within One Year |
|---|---|---|---|---|---|---|
| NBC facility | 07/86 | $17.6 | $ -- | $2.3 | $15.3 | $2.5 |
| Metropark parking facility | 03/94 | 14.0 | -- | 0.9 | 13.1 | 0.8 |
| MMC, locos. & rail cars | 01/97 | 139.2 | -- | 9.2 | 130.0 | 9.2 |
| ALP-44 locomotives | 06/97 | 7.2 | -- | -- | 7.2 | -- |
| Comet IV coaches | 07/97 | 30.2 | 5.8 | 8.4 | 27.6 | 2.5 |
| Bus garages | 07/97 | 79.4 | -- | 5.3 | 74.1 | 5.5 |
| Arrow coaches & ALP-44s | 03/98 | 254.4 | -- | 38.0 | 216.4 | 32.7 |
| Light rail cars | 06/98 | 109.3 | -- | 9.8 | 99.5 | 10.3 |
| Bus garage | 09/98 | 107.1 | 1.1 | -- | 108.2 | 0.6 |
| HBLR | 12/00 | 171.2 | 4.3 | -- | 175.5 | 7.7 |
| MCI buses | 12/01 | 90.6 | -- | 15.5 | 75.1 | 5.0 |
| MCI buses | 10/02 | 266.9 | 8.7 | 2.2 | 273.4 | 11.1 |
| Qualified technical equipment | 08/03, 09/03 | 120.5 | -- | 9.0 | 111.5 | 9.0 |
| ALP-46 locomotives | 09/03 | 70.4 | -- | 10.6 | 59.8 | 10.6 |
| Comet IV coaches | 09/03 | 80.2 | -- | 9.5 | 70.7 | -- |
| Light rail cars | 09/03, 10/03 | 70.5 | -- | 1.8 | 68.7 | 1.9 |
| Articulated buses | 07/04 | 37.9 | -- | 2.0 | 35.9 | 2.0 |
| Diesel locomotives | 12/05 | -- | 115.7 | 0.4 | 115.3 | 2.5 |
| Other | 02/05 | -- | 0.3 | 0.1 | 0.2 | 0.1 |
| **Total Capital Lease Obligations** | | **$1,666.6** | **$135.9** | **$125.0** | **$1,677.5** | **$114.0** |

The following schedules summarize the capital lease obligations as of June 30, 2005 *(in millions)*:

| | Inception Date | Balance June 30, 2004 | Additions | Payments/ Reductions | Balance June 30, 2005 | Due Within One Year |
|---|---|---|---|---|---|---|
| NBC facility | 07/86 | $19.6 | $ -- | $2.0 | $17.6 | $2.3 |
| Metropark parking facility | 03/94 | 14.7 | -- | 0.7 | 14.0 | 0.8 |
| MMC, locos. & rail cars | 01/97 | 148.1 | -- | 8.9 | 139.2 | 9.2 |
| ALP-44 locomotives | 06/97 | 7.2 | -- | -- | 7.2 | -- |
| Comet IV coaches | 07/97 | 32.9 | -- | 2.7 | 30.2 | 2.7 |
| Bus garages | 07/97 | 88.3 | -- | 8.9 | 79.4 | 5.3 |
| Arrows coaches & ALP-44s | 03/98 | 289.5 | 0.5 | 35.6 | 254.4 | 38.0 |
| Light rail cars | 06/98 | 118.7 | -- | 9.4 | 109.3 | 9.8 |
| Bus garage | 09/98 | 100.8 | 6.3 | -- | 107.1 | 0.4 |
| HBLR | 12/00 | 167.2 | 4.0 | -- | 171.2 | 7.0 |
| MCI buses | 12/01 | 107.9 | -- | 17.3 | 90.6 | 6.1 |
| MCI buses | 10/02 | 331.6 | -- | 64.7 | 266.9 | 2.2 |
| Qualified technical equipment | 08/03, 09/03 | 129.5 | -- | 9.0 | 120.5 | 9.0 |
| ALP-46 locomotives | 09/03 | 81.0 | -- | 10.6 | 70.4 | 10.6 |
| Comet IV coaches | 09/03 | 80.8 | -- | 0.6 | 80.2 | 9.5 |
| Light rail cars | 09/03, 10/03 | 72.2 | -- | 1.7 | 70.5 | 1.8 |
| Articulated buses | 07/04 | -- | 37.9 | -- | 37.9 | 2.0 |
| **Total Capital Lease Obligations** | | **$1,790.0** | **$48.7** | **$172.1** | **$1,666.6** | **$116.7** |

Minimum capital lease maturities as of June 30, 2006 *(in millions):*

| Fiscal Years | Principal | Interest | Total |
|---|---|---|---|
| 2007 | $114.0 | $48.4 | $162.4 |
| 2008 | 192.2 | 56.2 | 248.4 |
| 2009 | 155.9 | 47.6 | 203.5 |
| 2010 | 132.0 | 46.4 | 178.4 |
| 2011-2015 | 118.0 | 45.6 | 163.6 |
| 2016-2020 | 507.6 | 403.7 | 911.3 |
| 2021-2025 | 285.2 | 193.0 | 478.2 |
| 2026-2030 | 148.0 | 96.5 | 244.5 |
| 2031-2035 | 6.0 | 35.2 | 41.2 |
| 2032-2036 | 18.6 | 5.3 | 23.9 |
| **Total Capital Lease Obligations** | **$1,677.5** | **$977.9** | **$2,655.4** |

As of June 30, 2006, NJ TRANSIT was committed for future purchases under the following capital projects and special services which will be funded from federal, state, local or other capital sources *(in millions):*

| | |
|---|---|
| Rail support facilities & equipment | $3.8 |
| Morris & Essex Lines viaduct waterproofing | 4.1 |
| Northeast Corridor improvements | 4.7 |
| Morgan Rolling Girder | 4.8 |
| Newark Light Rail link | 5.1 |
| Comet V rail car purchase | 5.3 |
| River LINE | 5.6 |
| Woodbridge platform replacement | 6.0 |
| Arrow III rail car reliability & EMU replacement | 6.3 |
| Positive Train Stop program | 10.5 |
| Atlantic City track rehabilitation | 12.1 |
| Mount Arlington construction | 12.8 |
| Rolling stock improvements | 14.4 |
| Rail passenger facilities | 14.4 |
| MMC facility expansion | 14.4 |
| Hudson-Bergen Light Rail system | 15.4 |
| Rail infrastructure | 17.6 |
| Newark Broad Street–ADA improvements | 40.8 |
| Design & engineering–Hoboken ferry slips | 48.3 |
| Trenton Station building improvements | 50.5 |
| Morrisville Yard improvements | 79.4 |
| Other projects | 122.7 |
| **Total capital projects and special service commitments** | **$499.0** |

## 14. Contingencies

NJ TRANSIT is party to various legal actions and disputes that are considered customary for an entity such as NJ TRANSIT. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results of operations or the Consolidated Statements of Fund Net Assets of NJ TRANSIT. In addition, NJ TRANSIT's contractor for the construction of the River LINE has filed suit against NJ TRANSIT alleging changes in the project. The contractor is seeking additional compensation in excess of $100 million. Although the ultimate effect of this matter is not presently determinable, management believes that the resolution of this suit will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

At several locations within the state, by virtue of ownership or use of the railroad or bus facilities, NJ TRANSIT is addressing environmental issues. Management has analyzed all of these matters and has provided for amounts, which it currently believes are adequate. In management's opinion, the ultimate liability, if any, will have no material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

NJ TRANSIT receives federal and state grants and appropriations for capital projects and other reimbursable activities that are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

The Railroad Retirement Board has conducted an examination of NJ TRANSIT's payroll and tax records for prior fiscal years through 1991 and has proposed certain adjustments to increase NJ TRANSIT's payroll tax liability for that period. Management has analyzed all of these matters and has provided for amounts that it currently believes are adequate. In management's opinion, the ultimate additional liability, if any, will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

The Americans with Disabilities Act (ADA) is a civil rights law passed by Congress in July 1990. The law requires that people with disabilities be guaranteed access to public services, including transportation. The ADA requires that all new equipment, services and facilities be accessible to people with disabilities. Elements of stations or facilities that are undergoing renovations or construction also must be made accessible.

Additionally, NJ TRANSIT was required to identify high-usage, strategically located rail stations that were assigned priority to be made accessible to people with disabilities. These stations were designated as Key Stations. The Key Station Plan identified 37 stations that would be made accessible, 33 of which have been made accessible. The remaining stations require major renovations, and the FTA has granted time extensions through 2008. A mix of capital funding sources, including federal and state transportation trust funds, are funding these renovations. NJ TRANSIT must complete these renovations as required or face severe sanctions by the federal government. Failure to comply with the ADA can result in the termination of all federal funds, as well as civil litigation by private citizens and the United States Department of Justice.

**15. Net Assets**

Changes in Net Assets for fiscal years 2006 and 2005 *(in thousands):*

| | Deficit in Unrestricted Net Assets | Restricted Net Assets | Invested in Capital Assets Net of Related Debt Federal | Invested in Capital Assets Net of Related Debt State/Local/Other | Total |
|---|---|---|---|---|---|
| **Balance, June 30, 2004** | **$(217,331)** | **$9,481** | **$2,529,455** | **$2,415,423** | **$4,737,028** |
| Loss before capital contributions | (452,470) | (1,221) | -- | -- | (453,691) |
| Capital grants | -- | -- | 208,789 | 422,480 | 631,269 |
| Transfers | (25,335) | -- | -- | 25,335 | -- |
| Capital grants pass-throughs | -- | -- | (26,874) | (76,106) | (102,980) |
| Capital assets removed from service | -- | -- | -- | (2,517) | (2,517) |
| Depreciation of capital funded assets | 384,542 | -- | (235,067) | (149,475) | -- |
| **Balance, June 30, 2005** | **(310,594)** | **8,260** | **2,476,303** | **2,635,140** | **4,809,109** |
| Loss before capital contributions | (561,481) | 841 | -- | -- | (560,640) |
| Capital grants | -- | -- | 270,800 | 391,786 | 662,586 |
| Transfers | (51,229) | -- | -- | 51,229 | -- |
| Capital grants pass-throughs | -- | -- | (53) | (45,269) | (45,322) |
| Adjustment primarily related to GASB Statement No. 45 implementation | 328,099 | -- | -- | -- | 328,099 |
| Capital assets removed from service | -- | -- | -- | (7,849) | (7,849) |
| Depreciation of capital funded assets | 492,657 | -- | (304,926) | (187,731) | -- |
| **Balance, June 30, 2006** | **$(102,548)** | **$9,101** | **$2,442,124** | **$2,837,306** | **$5,185,983** |

# Required Supplementary Information

New Jersey Transit Corporation
FY2006 GASB Statement No. 45
Required Supplementary Information
Schedule of Funding Progress
For Retiree Health Care Plan *(in millions)*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | AAL* Level Dollar (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/c |
|---|---|---|---|---|---|---|
| June 30, 2005 | $ -- | $499.8 | $499.8 | $ -- | $368.3 | 135.7% |

**Actuarial Accrued Liability*

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# Report of Independent Auditors

Board of Directors of
New Jersey Transit Corporation

We have audited the accompanying consolidated financial statements of the New Jersey Transit Corporation and subsidiaries (the "Corporation"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 consolidated financial position of the Corporation and subsidiaries as of June 30, 2006 and 2005, and the consolidated 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.

As discussed in Note 2 to the financial statements, effective July 1, 2005 the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

Management's Discussion and Analysis and required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

September 29, 2006

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