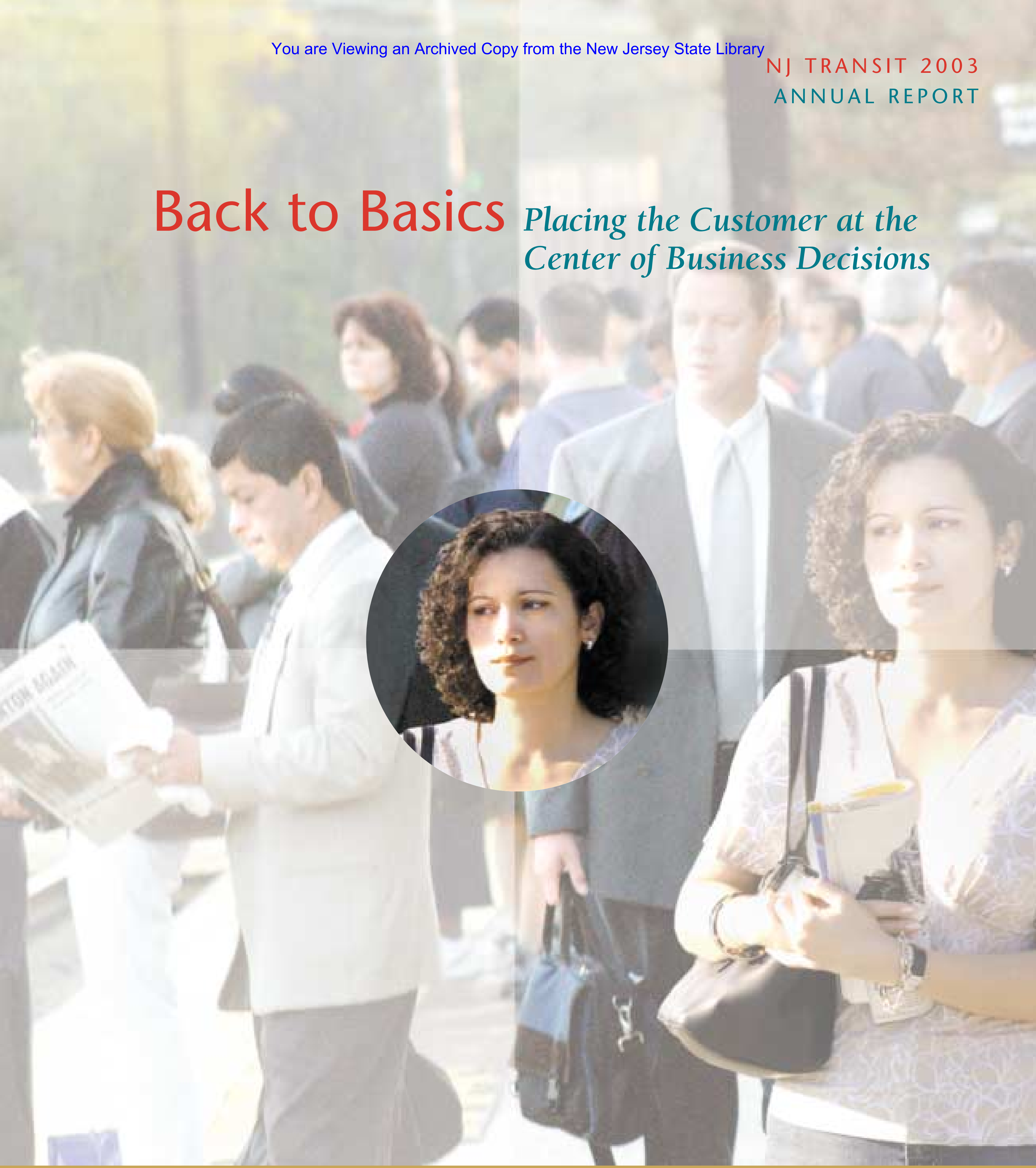
NJ TRANSIT 2003
ANNUAL REPORT

Back to Basics

Placing the Customer at the Center of Business Decisions



NJ TRANSIT
The Way To Go.

NJ TRANSIT operates an extensive transportation system to meet the differing needs of New Jersey's residents, ranging from traditional bus and commuter rail to new and expanding light rail services. We also provide services for people with disabilities and for local community connectors, as well as support for privately operated transit.

Frank R. Lautenberg Rail Station at Secaucus Junction

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Casandra White-Robinson,
Supervisor, Customer Service

Message from Governor McGreevey

New Jersey has many resources and advantages that are the envy of other states. One is its premiere transportation system. New Jersey residents have benefited from investments that have improved mobility and have created a modern and comprehensive transportation network. New Jersey's transit system drives economic development and smart growth, creates jobs, and improves the environment.

Working together with Transportation Commissioner Jack Lettiere and the NJ TRANSIT Board of Directors, I have seen remarkable service improvements, including increases in seating and parking and new transportation services and stations coming online to improve connectivity throughout the state. To ensure that NJ TRANSIT remains a viable transportation source, I have created the Blue Ribbon Transportation Commission to address long-term transportation issues and have laid the foundation for a new train tunnel linking New Jersey and New York, the most important project of our generation. More than ever, public transit is an essential element for maintaining vibrant communities and economic growth in our region, creating an enduring, improved quality of life for New Jersey families.

James E. McGreevey
Governor

At Newark Penn Station, Governor McGreevey announces planning work for trans-Hudson rail capacity expansion.

NJ TRANSIT Board of Directors with Governor McGreevey in the 7th Avenue Concourse at Penn Station New York. Left to Right: Patrick W. Parkinson, Robert Smartt (Treasurer's Representative), Flora M. Castillo, John L. McGoldrick, Governor James E. McGreevey, Jack Lettiere, Paul T. Fader and Myron P. Shevell.

BOARD OF DIRECTORS

JACK LETTIERE
Chairman

Jack Lettiere was appointed by Governor James E. McGreevey to head the New Jersey Department of Transportation in December 2002. Commissioner Lettiere oversees 16,000 employees and a more than $3 billion budget. He is Chairman of the Board of Directors of the New Jersey Transit Corporation and the New Jersey Transportation Trust Fund Authority. He also serves on a number of boards, including the New Jersey Turnpike Authority and the New Jersey Highway Authority.

Mr. Lettiere, who has been with NJDOT for 28 years, served as Assistant Commissioner for Capital Investment for the last three years and managed the department's $2.6 billion Capital Program since 1993.

Mr. Lettiere is a graduate of the General Motors Institute of Technology with a Bachelor of Science degree in Industrial Engineering. He has a Masters of Business Administration from Rider University.

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 is also Board Chairman of 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 40 years.

PAUL T. FADER
Governor's Representative

Paul Fader, Chief of the Governor's Authorities Unit, oversees relationships with over 40 independent authorities, boards and commissions. He was appointed to the NJ TRANSIT Board in April 2003. Mr. Fader lives in Englewood and began his public service career as a Congressional aide. He received his J.D. degree from Rutgers University School of Law and is a member of the New Jersey and Essex County Bar Associations.

JOHN E. MCCORMAC, C.P.A.
State Treasurer

John McCormac was appointed to the Board in January 2002, and lives in the Colonia section of Woodbridge Township. Mr. McCormac has been the Acting Business Administrator for Woodbridge Township where he was responsible for the day-to-day operations of the township, including the supervision of seven departments and over 700 employees. He was also the Chief Financial Officer for the township since 1992, responsible for over $93 million in budget appropriations and over $250 million in cash receipts and disbursements. For the past 13 years, Mr. McCormac has been the owner and manager of McCormac & Co., CPA's.

JOHN L. MCGOLDRICK

John McGoldrick has been a member of the Board of Directors since NJ TRANSIT's establishment in December 1979. During this time, he has helped oversee and direct the building of the agency and has helped lead it to its current APTA award-winning status. He is Executive Vice President and General Counsel of Bristol Myers Squibb. Previously, he was a partner in the law firm of McCarter & English. Mr. McGoldrick is a resident of Princeton.

PATRICK W. PARKINSON

Patrick W. Parkinson, a resident of Middletown, was appointed to the Board by Governor Christine Todd Whitman in September 1994. He is Executive Director of the Middletown Sewerage Authority and, since 1988, a Middletown Township Committeeman. Mr. Parkinson is also active in the community, serving on numerous public boards and committees. He has previously been a youth athletic coach and scoutmaster.

FLORA M. CASTILLO

Flora Castillo was appointed to the Board in April 1999. She is Associate Vice President of Marketing and Public Affairs of Keystone Mercy Health Plan. She also currently serves as First Vice President of the Hispanic Alliance of Atlantic County and is a member of the organization's annual Latin American Festival committee. She is also a board member of the South Jersey AIDS Alliance, First Tee Golf Program, Sun National Bank Community Advisory Board, and North Philadelphia Health System's Latino Advisory Board. Ms. Castillo is a member of the American Public Transportation Association's Legislative Affairs Committee. She is a resident of Ventnor, and is active in community and government affairs.

Message from the Chairman

New Jersey residents have begun to see a transformation in public transit. NJ TRANSIT has made significant strides to increase capacity and maintain its system in a state of good repair. We have accomplished a great deal this past year focusing on a Back to Basics policy, which has strongly guided business decisions and investment strategies.

Over the course of the year, we opened the 7th Avenue Concourse at Penn Station New York, the Montclair-Boonton Line with direct service to New York City, the Hudson-Bergen Light Rail station at Hoboken Terminal, and Union Station on the Raritan Valley Line.

Governor James E. McGreevey and the NJ TRANSIT Board of Directors have set a long-term course to improve reliability, customer comfort and station access. Approximately 36,900 weekday seats and 900 parking spaces were created, with more on the way. An extensive initiative was launched to implement customer service improvements and the largest equipment modernization program in NJ TRANSIT's history has begun, including the purchase of bi-level rail cars and energy-efficient hybrid buses. Every investment has put the customer first in providing more service, more comfort and more value.

In September 2003, NJ TRANSIT premiered weekend service at Secaucus Junction, unifying the statewide rail system and connecting bus service. In addition, thanks to Governor McGreevey, we are now able to take the first step in advancing a critical project that will improve mobility for generations to come—another passenger rail tunnel linking New Jersey and New York beneath the Hudson River. The new tracks, train storage, station and tunnel will provide 70,000 extra rush hour seats for NJ TRANSIT customers, creating access to job opportunities, and reducing highway congestion and pollution.

While NJ TRANSIT has achieved many noteworthy accomplishments this past year, there are still challenges ahead to ensure consistent, quality service for customers. NJ TRANSIT is prepared to meet these challenges and has taken steps to improve its response to customers during service disruptions and emergency situations, including decisive protocols in communication, customer assistance and day-to-day operations.

I am confident that NJ TRANSIT, under the leadership of the Board of Directors and Executive Director George Warrington, will continue strengthening its infrastructure, facilities and fleet to address reliability, communications and customer needs while providing access to our communities and improving the quality of life for all New Jersey residents.

Jack Lettiere

Jack Lettiere
Transportation Commissioner & NJ TRANSIT Board Chairman

Letter from the Executive Director

When I was appointed executive director in May 2002, Governor McGreevey and the NJ TRANSIT Board of Directors gave me a mandate: turn NJ TRANSIT into a finely tuned, efficient organization that delivers the services and travel experience our 400,000 customers expect and deserve.

I am pleased to report that, in FY2003, NJ TRANSIT made substantial progress toward achieving that goal.

A Back to Basics policy

We have made progress because we have taken a Back to Basics approach that puts the customer at the center of our business decisions. Our customers want reliable, on-time transportation service. We have responded with smart investments in customer service, reliability, capacity and maintaining our system in a safe state of good repair; and smart planning decisions to meet future needs.

Placing Customers at the Center of Business Decisions

In FY2003, we improved virtually every aspect of customer interface with our transit system. We placed a strong focus on enhancing communications with customers and employees, and invested in technology to improve service reliability and provide real-time information to improve the overall travel experience for customers.

Communication enhancements

Recognizing that communication is one of our primary responsibilities to customers, we made improvements to communications and our response during service disruptions. We increased the frequency of announcements at Penn Station New York and laid plans for a new Customer Service Office at the Port Authority Bus Terminal in New York.

Other activities include: initiating a training program for frontline personnel with a strong focus on customer service; improving communications between train crews, dispatchers and customers; and setting up emergency response teams to assist customers at major terminals and incident locations. We are exploring wireless communication technology, which will be piloted in FY2004, to make on-board train announcements directly from our control center, and we are making investments to better maintain and expand public address systems at major terminals and stations. In addition, we are installing dynamic signs at major rail stations to provide real-time service information, and are upgrading automated schedule information systems.

To improve access to information online, we enhanced navigation on our website to provide schedule and fare information quicker and offer enrollment in a subscription service to pay for monthly passes online. To enhance communication with Access Link customers, drivers and statewide service providers, we installed a new computer system in Access Link vehicles, which enables us to accurately determine the location of vehicles and provide customers with status information.

ROBERT FINDER
at Bay Street Station

"I think the new service from Montclair is great. Getting into New York City now is a breeze and incredibly convenient. I almost wish my commute was longer since the seats are so comfortable."

New technology advancements

To provide more customers with peak-period access to New York, we are working with Amtrak to install a new high-density interlocking signal system between Newark and New York. This will allow us to increase the maximum number of trains from Newark to New York—from 18 to potentially 25 per hour.

We also started moving into our new Rail Operations Center at the Meadows Maintenance Complex. State-of-the-art systems will allow flexibility in controlling train movement and enable remote control of bridge, signal, track and power systems to improve rail on-time performance for customers. This new technology will also provide train status information at stations.

Ticketing improvements

We have broadened our reach to more riders. We relaxed identification requirements for senior citizens as well as the rules regarding the use of off-peak round-trip tickets, for both seniors and people with disabilities. We also increased the validity period of 10-trip tickets and student bus passes. To ease the ticketing experience for connecting customers at Hoboken, we created a combined rail-light rail pass.

To improve ticket purchases at stations, we began modifying ticket vending machines to print tickets more than three times faster and give customers their change and receipt—after dispensing all of their tickets. We installed seven additional ticket vending machines to increase ticket purchase options at the Port Authority Bus Terminal and plan to install approximately 149 new machines at locations during FY2004.

Shortened equipment cleaning cycle

We learned from customers that cleanliness directly affects their on-board experience. We raised the bar on system cleanliness standards, increasing the frequency of extraordinary cleaning, or e-cleaning, on buses from every 30 days to every 25 days, and on trains from every 90 days to every 45 days; and we put in place a schedule for regularly steam cleaning toilets.

Security enhancements

Responding to an aggressive and collective effort to security challenges generated by the 9/11 attacks and the nation's heightened security status, we restructured our Police Department to operate in a more effective and efficient manner. Our police force—strengthened by 48 new officers—collectively worked 12,000 overtime hours through four Orange Alerts in FY2003 to ensure our customers' safety and security. We increased our K-9 Bomb Detection Unit from two to four dogs, established a suspicious activity hotline number, increased entrance level hiring standards for all new police applicants, and took on responsibility for patrol at Trenton Station.

Employee initiatives

Our customers value interactions with courteous, attentive and well-informed employees. While we have many ongoing communication and training efforts, we began this year by providing weekly electronic updates on current activities and have increased the frequency of the employee newspaper to provide updates on projects as well as company and customer initiatives.

We also restructured the Human Resources Department to better support employee career growth, productivity and development, and initiated restructuring of the recruitment process to target the most highly qualified candidates. To create a workforce and vendor base that is as diverse as the customers we serve, we set up a new Office of Business Diversity. This office will ensure that minorities and women compete on equal footing for advancement within NJ TRANSIT and that small businesses have parity with other firms.

BARRY WASHINGTON, Facility Director of the Central Maintenance Facility in Newark

"I like to listen to employees. I also like to hear what customers think, whether it's at a forum, through issues raised with customer service or by speaking to the operators."

Ensuring Reliability: Investments in New Vehicles and Renovations

Our customers expect on-time arrivals and comfortable seats. To meet those expectations, NJ TRANSIT is in the midst of the largest rolling stock modernization program in corporate history, adding more seats to the NJ TRANSIT network, and upgrading buses and rail cars.

New bus equipment

- 1,371 cruiser buses (525 for private carriers)—delivery completed in June 2003
- 85 articulated buses (36 suburban, 49 transit style)—full delivery in spring 2004
- 7 hybrid electric buses (4 cruiser buses for intercity routes, 3 transit buses for local routes)—the first two buses of each type arrived in June 2003

New rail equipment

- 29 ALP-46 electric locomotives—all delivered
- 200 Comet V push-pull cars—122 delivered
- 33 state-of-the-art diesel locomotives—first delivery in 2004
- 100 bi-level rail cars—prototype delivery in 2005

Equipment renovations

In FY2003, renovations progressed on both buses and rail cars. Bus renovation programs included the overhaul of 194 Flxible transit Metro D buses, completed in November 2002, and overhaul of 174 Nova A buses, with 49 completed in FY2003. Rail renovations included the overhaul of 116 Comet II cars, which will be completed in late fall 2003, with the renovation of 44 Comet IIB cars to follow. These initiatives improve equipment reliability and are performed at a significant cost savings to the company.

Customer focus group discussing bi-level rail car design and amenities.

Adding Capacity: More Seats, More Parking, Better Service

Taking into consideration demand trends, equipment availability and scheduling, NJ TRANSIT took important steps in FY2003 to address capacity needs.

Additional seats on buses and trains

Using existing equipment, during FY2003 we adjusted service to provide approximately 36,900 more weekday seats on rail service and created 50 more weekday trains. For bus riders, we redeployed equipment to provide more seats on 14 bus routes, added trips to 35 bus routes, and extended service on five routes in southern New Jersey. More adjustments are planned for FY2004 as new services are activated and additional equipment is delivered.

Parking expansion

To increase customer access to our transit services, we focused on parking expansion projects, authorizing $13 million toward that goal in FY2003. We added over 900 new parking spaces and plan to open an additional 4,400 spaces during FY2004. Some highlights include:

- Addition of 330 spaces at Hamilton Station, 83 spaces at Hazlet, and 68 spaces at the new Midland Park Park & Ride in Ridgewood
- Construction of a 1,500-space parking deck for the new Montclair State University Station in Little Falls on the Montclair-Boonton Line
- Construction of a 1,264-space parking deck for the new Route 17 Station in Ramsey on the Main Line
- Construction of 3,100 spaces for Southern New Jersey Light Rail customers
- Design of a new regional bus Park & Ride on Route 23 in Wayne, providing 1,600 spaces
- Finalization of a five-year program working with the New Jersey Department of Transportation to add up to 20,000 parking spaces throughout the system

7th Avenue Concourse, Penn Station New York

Opened in September 2002, this significant new facility provides a better commuting experience for thousands of NJ TRANSIT customers and prepares us for future riders anticipated when new services come online in FY2004. The 7th Avenue Concourse has helped to ease overcrowding and improve pedestrian circulation through Penn Station. The concourse features seven escalators, seven stairways and six elevators to improve access to and from the platforms; allows a more efficient operation, including a new emergency response area and a second public address announcer; and provides earlier boarding times for customer convenience.

GODFREY LUMAUIG
at 7th Avenue Concourse

"I really like NJ TRANSIT's own concourse; it's easier to access the trains and less crowded, a major improvement. Taking the train into the city is very convenient, less of a headache, and less expensive than driving in and parking."

New Montclair-Boonton Line and more MidTOWN DIRECT service

The combined Montclair-Boonton Line, inaugurated in September 2002, provides direct service to Penn Station New York, Newark Broad Street Station and Hoboken Terminal for residents of Essex, Passaic, Morris and Warren counties. The introduction of MidTOWN DIRECT-Montclair service to New York, which saves an estimated 15 minutes each way for commuters, has contributed to a 15.5 percent increase in ridership on that line. Also in FY2003, we opened the newly renovated line's Bay Street Station in Montclair.

New Hudson-Bergen Light Rail station at Hoboken Terminal

This new Hoboken Terminal Station improves travel choices for customers by allowing connections with NJ TRANSIT rail lines and other transportation providers serving Hoboken Terminal. Since opening in September 2002, the station has contributed to a 38.6 percent increase in ridership on the Hudson-Bergen Light Rail system.

Debut of Union Station on Raritan Valley Line

Opened in April 2003, the new Union Station, and its associated 467 parking spaces, gives customers easy access to Kean University and Schering Plough Corporation and provides a convenient travel option for local residents.

Transit-Friendly Communities

NJ TRANSIT has been working with a consortium of nonprofit organizations, consultant teams, the New Jersey Office of Smart Growth, and local public and private sector partners to deliver on Governor McGreevey's commitment to leverage transit investments to revitalize downtown communities around NJ TRANSIT stations and provide for future ridership growth. During this year, we published *Building a Transit-Friendly Community*, a report that includes recommendations for improving access and encouraging new development based on our experiences working with 11 communities.

Rail yard expansion

To increase storage and maintenance capacity for new rail equipment, we continued or completed rail yard expansion projects in Great Notch; Morrisville, PA; the Meadows Maintenance Complex; and Hoboken Yard B.

Capacity Improvements Coming Soon

This past year, we advanced work on new facilities and services that expand NJ TRANSIT's capacity and broaden its reach to customers. Completion of these projects brings new or improved access to locations where transit is most needed, and where redevelopment is occurring or can be spurred by transportation investment.

Frank R. Lautenberg Rail Station at Secaucus Junction

Secaucus Junction creates unprecedented interconnectivity with New York City and many destinations throughout New Jersey. The opening of Secaucus Junction strengthens our rail network, connecting 10 of NJ TRANSIT's 11 rail lines and serving an estimated 7,500 weekday commuters within the first six months of beginning weekday service. This new station will also stimulate job growth, encourage economic development and smart growth, and create an improved quality of life for residents and visitors of New Jersey and beyond. Weekend service premiered on September 6, 2003, and full service will begin after the restoration of PATH service to Lower Manhattan.

Southern New Jersey Light Rail system

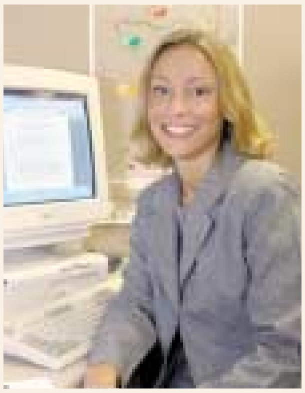
Light rail service is a growing segment of NJ TRANSIT's business, generating development in urban areas and linking cities and towns. The Southern New Jersey Light Rail system is a 20-station, 34.5-mile line between Trenton and Camden that will bring expanded travel options to southern New Jersey residents, an area previously underserved by mass transit. The system will operate with 20 diesel light rail vehicles—each seating up to 90 passengers with more room for standees—and will provide a total of 3,100 parking spaces. Once testing is completed and the system is ready to open for passenger service, we anticipate that the average weekday ridership during the first year of service will reach 5,900 passenger trips.

Hudson-Bergen Light Rail expansion

The Hudson-Bergen Light Rail system has been one of our success stories and will continue to expand north along the Hudson waterfront and farther south into Bayonne, with the new 22nd Street Station opening in Bayonne in November 2003; the 2nd Street, 9th Street, Lincoln Harbor and Port Imperial stations opening in spring 2004; and the Bergenline Avenue and Tonnelle Avenue stations opening in summer 2005.

New Irvington Bus Terminal

Construction will begin in fall 2003 on this new terminal, located in the heart of downtown Irvington. Scheduled to open in 2004, the new bus terminal will be larger and more convenient than the existing terminal, which serves 12,500 customers daily.



REBECCA MACCARO, Passenger Communications Specialist

"In the Passenger Communications Division, our focus is always on our customers. We work to ensure that up-to-date information is available so that they have a pleasant experience with NJ TRANSIT."

Southern New Jersey Light Rail vehicle during test run in Camden.

PATRICIA KORDAS
at Branch Brook Park Station

"I use the City Subway every day to get to and from work in Newark. I live in Nutley so the convenience is great and at rush hour there is always a train here that I can count on. Once the extension is open, it will offer me even more."

Relocation of Atlantic City Bus Terminal

The Casino Reinvestment Development Authority is overseeing relocation of this facility as part of its Atlantic City improvement plan to extend the commercial district along Michigan Avenue. The refurbished facility will feature 13 new boarding platforms, nine off-platform staging locations, 42 new parking spaces and a new multi-level terminal building. The opening of the terminal is anticipated in spring 2004.

New Montclair State University Station at Little Falls

Scheduled to open for full service on the Montclair-Boonton Line in 2004, this new station will provide 1,500 parking spaces for commuters. The station has been in partial operation since April 2003, providing MidTOWN DIRECT transfers for customer convenience.

New Route 17 Station

As part of our commitment to provide more parking for customers, the new Main Line station offers 1,264 parking spaces and easy access to Route 17. The station is scheduled to open in 2004.

Newark City Subway Extension to Newark Broad Street Station

In a joint project with the New Jersey Department of Transportation, which is reconstructing and realigning Route 21 in downtown Newark, we are building a one-mile extension of the Newark City Subway. The added service will feature four new stations between Newark Penn Station and Newark Broad Street Station, and convenient connections to Morris & Essex Lines at Newark Broad Street Station and Northeast Corridor, North Jersey Coast Line and Raritan Valley Line trains at Newark Penn Station.

Maintaining a State of Good Repair

Maintaining NJ TRANSIT's core system and infrastructure in a state of good repair is essential to improving the safety and reliability of service for our customers and to maximizing our resources. As part of our five-year Joint Benefits Agreement with Amtrak, several improvements are in progress to ensure safety and reliability traveling in and out of Penn Station New York and along the Northeast Corridor. Improvements include replacement of switches and crossovers, rehabilitation of the Portal Drawbridge, and ventilation upgrades in the Hudson River Tunnel.

System upgrades

To ensure reliability along our rights of way, we invested $23.7 million in the installation of 35,200 concrete ties and 57 turnouts, the replacement of 32,549 wood ties, the rehabilitation of nine grade crossings, and the surfacing of 54.8 miles of track—all initiatives that will provide a smoother, safer, more reliable ride for our customers.

Capital improvements

We constructed $18.5 million in capital improvements to infrastructure, including six major bridge rehabilitations, drainage improvements and culvert rehabilitations. Major bridge projects included the steel rehabilitation of a Morris & Essex Lines bridge near the Bergen Tunnel; the replacement of a Morris & Essex Lines bridge west of Summit; structural repairs to the North Jersey Coast Line drawbridge over the Shark River; and underwater repairs to the piers and abutments supporting Morgan Drawbridge on the North Jersey Coast Line and the bridge over the Delaware and Raritan Canal on the Princeton Branch.

Safety initiatives

Safety is always our top priority. We have taken steps to ensure safety through the installation of safety equipment on trains and along NJ TRANSIT rights of way, including two advanced braking systems that continually enforce speed and signal restrictions. Automatic Train Control (ATC) provides a visual and audible reminder of the wayside signals and can automatically bring a train under control in case the engineer becomes incapacitated. ATC is now in service on 92 percent—or 481 miles—of track, with installations continuing through 2005. Positive Train Stop (PTS) uses digital messages in transponders to communicate railroad conditions ahead and automatically stops a train if a wayside signal requires it. PTS is now in service on four percent—or 23 miles—of track, with installations continuing through 2008.

Renovation of the Bergen Tunnel

Rehabilitation of the north and south tubes of the Bergen Tunnel near Hoboken Terminal was crucial, both to maintain their safety and viability and to accommodate additional trains with the opening of Secaucus Junction. NJ TRANSIT reopened the north tube of the tunnel in May 2003 and, during summer 2003, completed work to update the signal, communication and ventilation systems in the south tube.

Business Efficiencies Yield Bottom-Line Improvements

Our efficiency improvements in FY2003 generated nearly $27 million in annualized savings. Additional cost savings and revenue enhancements should yield $58 million in bottom-line improvements during FY2004. A large portion of these savings came from an early retirement program and the elimination of 164.5 non-agreement positions, or approximately eight percent of our non-agreement staff. Additionally, we reduced our automobile fleet and closed the Transit Shoppe at Newark Penn Station.

Commercial revenues and procurement

We realized $26 million in commercial revenues through initiatives in advertising, parking and permit fees, and commercial leases, among others. Streamlining the procurement process through the use of Procurement Cards, we significantly reduced the number of small-value purchase orders, thus enabling individual departments to purchase lower-valued items; eliminated over 30,000 invoices and check requisitions; and received rebates exceeding $35,000.

NJ TRANSIT reduced costs by entering into a negotiated procurement process to purchase 100 bi-level rail cars, with an option to purchase up to 326 cars. We also eliminated redundant activities by reorganizing departments and responsibilities; for example, we consolidated functions related to ticket sales and customer service activities.

And we supported transportation investments, with an overriding goal: to improve mobility, reliability, economic growth and quality of life for New Jersey residents—now and for the next generation.

Preparing for Future Demand

As FY2003 came to a close, NJ TRANSIT was working on a multi-year business strategy that continues to focus on improving customer satisfaction levels and infrastructure reliability, expanding capacity, maximizing revenues, containing costs and investing in projects that improve access and support smart growth development.

WILLIAM WONG, AIA
Principal Architect

"Being empowered to make New Jersey a better place to live and work is a source of pride for me. As an architect and a project manager, I am interested in creating a better transportation environment for our customers."

PERCY RAINER
at Trenton Station

"I really enjoy taking the bus; it is convenient. I travel by bus to Trenton Station to commute to my job in Princeton Junction. The new buses are extremely comfortable and make for a nice commute."

Access to the Region's Core

One of the most exciting initiatives of our time is the Access to the Region's Core (ARC) project. A long-term, two-phase project, ARC is designed to significantly increase rail access and overall trans-Hudson capacity between New Jersey and New York and safeguard the region's overall mobility and economic vitality.

In June 2003, with the support of the New Jersey Delegation, Governor McGreevey authorized an environmental impact study to research the potential for trans-Hudson rail capacity expansion, including an additional two-track rail tunnel, more tracks and train storage, and new station capacity proximate to Penn Station New York. Benefits of ARC include:

- Improving train storage and staging at Penn Station New York during the first phase of work, which will add five peak-period train slots
- Adding peak-period train slots during the second phase of work, bringing the total up to approximately 50 trains per hour during peak periods when the project is completed
- Providing capacity for direct, one-seat-ride rail service from existing diesel lines in New Jersey that are not currently electrified
- Providing capacity to accommodate other new rail initiatives throughout New Jersey

The ARC studies provide the groundwork for the largest and most important project of a generation and will strengthen the regional economy, providing access to more than one million jobs in Midtown Manhattan.

Continuing Our Back to Basics Strategy

NJ TRANSIT's Back to Basics policy has been successful in FY2003. Our FY2004 business strategy continues that approach. By being more responsive to customers—while improving reliability, increasing capacity and maintaining our system in a state of good repair—we will be poised to meet the future public transit needs of New Jersey.

As FY2004 begins, we are taking actions to significantly improve our response to customers during service disruptions and emergency situations. We have taken a good look at our methods of communication and put into place new tools and protocols. NJ TRANSIT continues to focus on improving on-time performance as new and renovated rail and bus equipment goes into service and state-of-the-art systems come online to improve operations, infrastructure and communications. These actions have already begun to strengthen our ability to respond to the needs of our customers and ensure reliable performance.

Thanks to the support of Governor James E. McGreevey, Transportation Commissioner and NJ TRANSIT Board Chairman Jack Lettiere and the Board of Directors, we have made substantial progress in meeting our business goals and improving our customer care capabilities. Yet there is much more to be done if we are to maintain New Jersey's competitive position in the region. We have an outstanding team of employees who have made important contributions to ensure that customers are always at the center of our business decisions and who will rise to the new challenges that face us. I look forward to building on this progress in FY2004.

George D. Warrington
Executive Director

Executive and Advisory Committees

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

Frank J. Hopper
Assistant Executive Director, Procurement and Support Services

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

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
Steven Monetti
Timothy O'Reilly
Ralph White
William R. Wright

South Jersey Transit Advisory Committee

Anna Marie Gonnella, 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

John Del Colle
Harriet Findlay
Robbie Friedner
Lee Nash
Robert Paige
Virginia Peters
Kenneth Wedeen
Ina White

The Business Transit Alliance advises public and private sector employers about public transportation options.

Business Transit Alliance

Michael Egenton, Chairman
Joseph F. Luste Jr., Vice Chairman
Jaqueline D. Caine
Louis V. Capadona
Francisco J. Cotilla
Richard Diegnan
Isidor Farash
S. Thomas Gagliano
Henry Gardner
John Maxwell
Brian McClean
Michael Perrette
Louis Pignataro
Tricia R. Russo
George D. Sous
Len Sullivan
Charlotte Tomaszewski
Melanie Willoughby

The Transit Plus Advisory Board advises public and private sector employers in Essex and Union counties on the requirements of the Federal Clean Air Act.

Transit Plus Advisory Board

Nancy Schmatz, Chairperson
Al Trenton, Vice Chairperson
Mike Bennett
Louis V. Capadona
Elaine Cooper
Paul Dreyfus
Raul J. Mendes, M.S.W.
Sheila Oliver
Mike Pilsbury
Ronald S. Weening

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

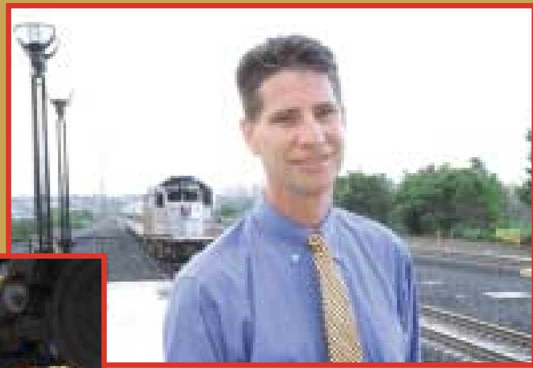
Private Carrier Advisory Committee

Gary D. Mariano, Co-chairperson
Francis A. Tedesco, Co-chairperson
Robert DeCamp
Marta M. Mazzarisi

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

Local Programs Citizens Advisory Committee

Sigmund Kay, Chairperson
William Wright, 1st Vice Chairperson
Ann Burns, 2nd Vice Chairperson
Ernest Anemone
Kathleen Belles
Donald Boeri
Christina Brino
Ellen Brockman
Margaret Cook-Levy
Harriet Findlay
Frank Herbert
Larry Karas
Joseph Phillips
Richard Pinho
Rue Zalia Ray
John Stanik



NJ TRANSIT

Facts at a Glance

as of June 2003

Rail Operations

Rail lines	11
Directional route miles	959*
Annual passenger miles	1.5 billion**
Locomotives in service	140
Revenue cars in service	857
Average weekday train trips	658
Rail stations	161
Parking capacity	50,756

Bus Operations

Bus routes	237
Directional route miles	3,485*
Annual passenger miles	843.2 million**
Buses owned/operated by NJ TRANSIT	2,034
Buses operated by/leased to private carriers	1,009
Parking capacity	14,380

Light Rail Operations

Light rail lines	2
Directional route miles	28.4*
Annual passenger miles	22.7 million**
Light rail stations	28
Light rail cars in service	45
Parking capacity	2,900

* Directional route mileage as of 9/30/02.

** Annual passenger mileage data from FY02.

Mission Statement

NJ TRANSIT's mission is to provide safe, reliable, convenient and cost-effective transit services with a skilled team of employees, dedicated to our customers' needs and committed to excellence.

NJTRANSIT
The Way To Go.

One Penn Plaza East
Newark, New Jersey 07105-2246
www.njtransit.com

Printed on recycled paper.

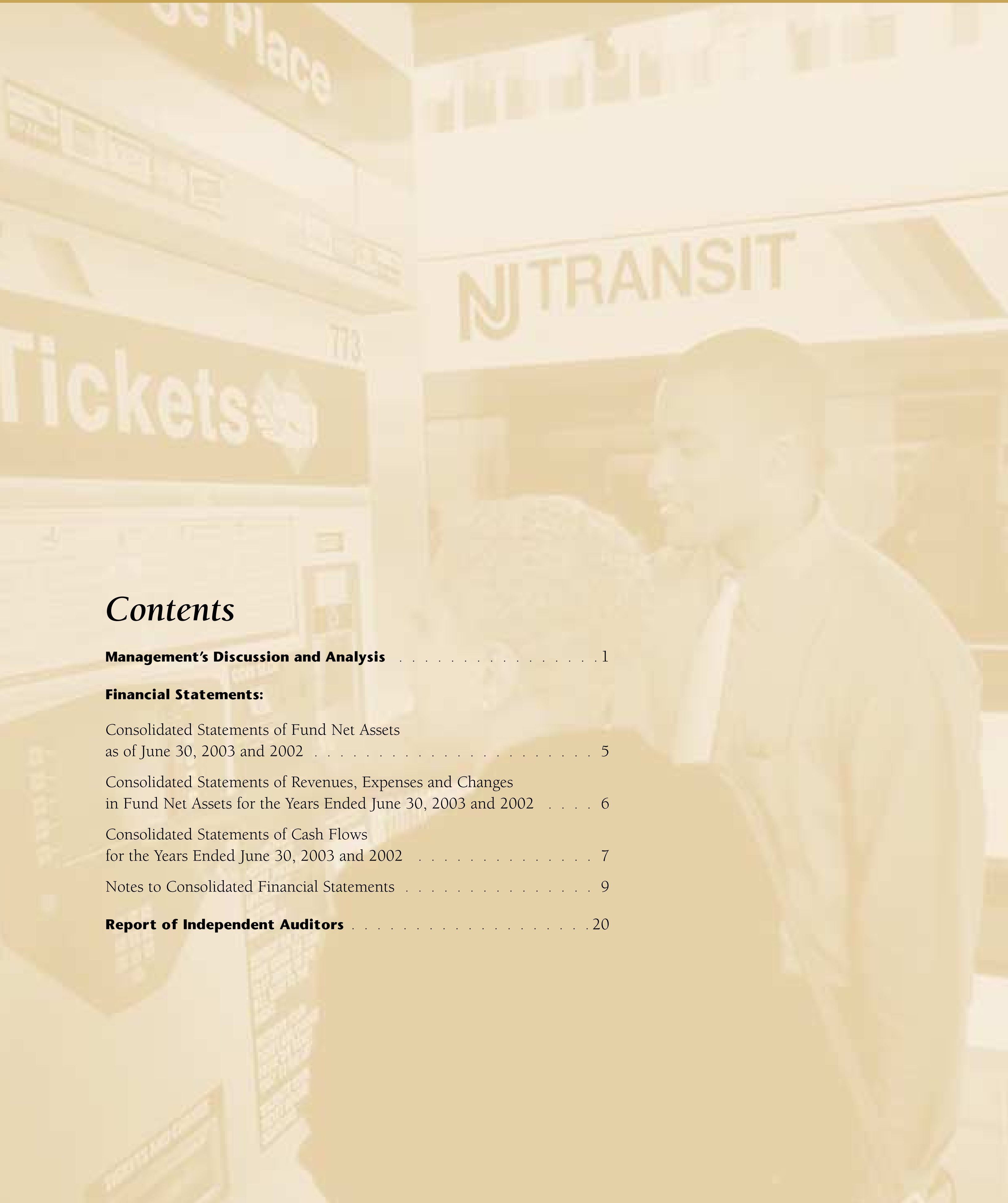
Attention Printer:
Union Bug goes here.

NJ TRANSIT

Fiscal Year 2003

Consolidated Financial Statements

NJ TRANSIT
The Way To Go.



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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 activities of the Corporation for the fiscal year ended June 30, 2003. This discussion and analysis 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 performance. NJ TRANSIT encourages readers to consider the information presented here, in conjunction with the financial statements as a whole.

Financial Highlights

- Total operating revenues for NJ TRANSIT were $569.1 million in fiscal year 2003. This was an increase of $26.2 million or 4.8 percent over the prior year. This increase reflects the impact of an average 10-percent fare increase implemented in April 2002 offset by declines in ridership and other operating revenues.
- Total operating expenses before depreciation were $1,196.7 million in fiscal year 2003, an increase of $107.1 million or 9.8 percent over the prior year. This increase in operating expenses is principally related to increases in employment costs, services, fuel and propulsion, purchased transportation, trackage, tolls and fees expenses.
- Total net assets at June 30, 2003 were $4,480.1 million, an increase of $482.1 million or 12.1 percent over total net assets at June 30, 2002.
- Total capital assets (net of depreciation) were $6,563.0 million at June 30, 2003, an increase of $804.4 million or 14.0 percent over June 30, 2002. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles, construction of and improvements to facilities and structures and increases in capital project activity associated with Hudson-Bergen Light Rail, Newark City Subway Extension, Secaucus Junction, Montclair Connection, Main/Bergen Connection and Southern New Jersey Light Rail.

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 of America (GAAP) as applied to government units. NJ TRANSIT's financial statements are prepared in accordance with Government Accounting Standards Board Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

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 notes 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.

Financial Analysis

Net Assets

NJ TRANSIT's total net assets at June 30, 2003 were $4,480.1 million, an increase of $482.1 million or 12.1 percent over June 30, 2002 (see Table A-1). Total assets increased $573.7 million (6.7 percent) and total liabilities increased $91.6 million (2.0 percent).

Table A-1

NJ TRANSIT Fund Net Assets
(in millions)

	As of June 30, 2003	2002	% Change
Current assets, net	$474.3	$437.1	8.5
Restricted assets	2,055.7	2,330.7	(11.8)
Capital assets, net	6,563.0	5,758.6	14.0
Other assets	40.4	33.3	21.2
Total Assets	**9,133.4**	**8,559.7**	**6.7**
Current liabilities	689.6	606.1	13.8
Liabilities payable from restricted assets	2,180.6	2,400.9	(9.2)
Post-retirement benefits	280.6	261.8	7.2
Long-term debt	1,417.0	1,208.5	17.2
Other liabilities	85.5	84.4	1.4
Total Liabilities	**4,653.3**	**4,561.7**	**2.0**
Net Assets			
Invested in capital assets, net of related debt	4,573.9	4,079.1	12.1
Restricted net assets	14.0	13.0	7.2
Deficit in unrestricted net assets	(107.8)	(94.1)	14.6
Total Net Assets	**$4,480.1**	**$3,998.0**	**12.1**

The 11.8 percent decrease in restricted assets reflects project expenditures financed through the proceeds from the sale of Grant Anticipation Notes and Certificates of Participation to fund revenue fleet and system expansions. A transfer occurs from restricted assets (investments) to capital assets (construction in progress and property and equipment) as expenditures are incurred. Of the $6,563.0 million in capital assets, $3,177.9 million represents construction in progress, $3,180.2 million represents the cost of NJ TRANSIT's investment in locomotives, rail cars, buses, buildings, structures and track, net of depreciation, and $204.9 million represents other capital assets.

Current liabilities increased 13.8 percent due to an increase in short-term debt obligations associated with certain asset financing arrangements.

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 assets include proceeds from the sale of fixed assets and certain leveraged lease benefits. These amounts will eventually be released from restriction to fund capital project activities.

In fiscal year 1994, NJ TRANSIT adopted Statement of Financial Accounting Standards No. 106. The impact of adopting this standard resulted in the deficit in unrestricted net assets which continued through the current fiscal year.

Changes in Net Assets

The increase in net assets in fiscal year 2003 was $482.1 million greater than the increase in net assets in fiscal year 2002 (see Table A-2), reflecting an increase in investment in capital assets made possible by capital appropriations. NJ TRANSIT's total operating revenues increased $26.2 million or 4.8 percent, and total operating expenses, before depreciation, increased $107.1 million or 9.8 percent.

Table A-2

Changes in NJ TRANSIT Fund Net Assets
(in millions)

	Years Ended June 30, 2003	2002	% Change
Operating Revenues			
Passenger fares	$530.9	$502.7	5.6
Other	38.2	40.2	(4.9)
Total Operating Revenues	569.1	542.9	4.8
Operating Expenses			
Total operating expenses before depreciation	1,196.7	1,089.6	9.8
Depreciation	275.7	241.0	14.4
Total Operating Expenses Including Depreciation	1,472.4	1,330.6	10.7
Operating loss	(903.3)	(787.7)	14.7
Non-operating revenues, net	619.1	588.3	5.2
Capital contributions, net of transfers out	766.3	556.6	37.7
Change in Net Assets	482.1	357.2	35.0
Total net assets, beginning	3,998.0	3,640.8	9.8
Total Net Assets, Ending	$4,480.1	$3,998.0	12.1

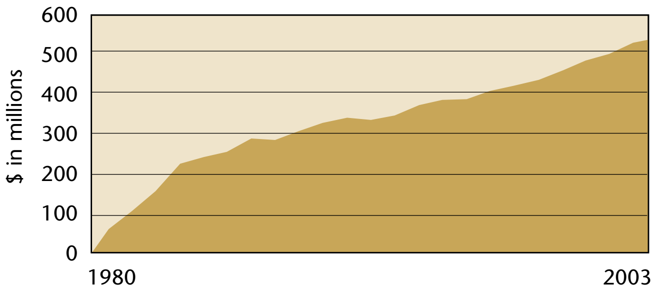
Operating Revenues

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

Passenger Fare Revenue

Passenger fare revenue consists of: fares earned from the sale of rail tickets and passes utilized during the year by riders on either NJ TRANSIT or Amtrak trains (under a cross-honoring agreement) and bus farebox receipts and tickets and passes sold, which were utilized during the year by riders on NJ TRANSIT buses, subway, contract bus service and Hudson-Bergen Light Rail.

Passenger Revenue



(June 1980 – July 1981, First Year of Financial Reports)

Rail passenger revenue increased $16.9 million or 6.3 percent over fiscal year 2002, with ridership declining by 2.7 million passengers. Bus passenger revenue increased $10.4 million or 4.5 percent over fiscal year 2002, with ridership declining by 6.3 million passengers. Hudson-Bergen Light Rail passenger revenues increased by $1.1 million over fiscal year 2002, with ridership increasing by 1.0 million riders.

Ridership
(in millions)

	FY03	FY02	% Inc/ (Dec)
Rail Lines			
Newark Division	38.4	40.3	(4.6)
Hoboken Division	20.5	21.3	(4.0)
Atlantic City	1.0	1.0	0.0
Total Rail Ridership	59.9	62.6	(4.3)
Bus Lines			
Northern Division	55.7	58.2	(4.2)
Central Division	72.9	75.9	(4.0)
Southern Division	24.4	25.2	(3.2)
Total Bus Ridership	153.0	159.3	(4.0)
Hudson-Bergen Light Rail	4.1	3.1	33.5
Total Ridership	217.0	225.0	(3.6)

Other Operating Revenues

Other operating revenues consist of contracted service revenues, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue.

The decrease in other operating revenues of $2.0 million was primarily due to a decrease in contracted service revenues.

Operating Expenses

Operating expenses are composed of employment costs and other operating costs.

Employment Costs

Employment costs consist of full-time and part-time agreement 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 $66.1 million or 9.8 percent compared to fiscal year 2002. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and to cost increases associated with service expansion, as well as the inclement weather conditions experienced during fiscal year 2003. NJ TRANSIT's pension and medical and health-care expenses also increased, further impacting overall employment costs.

Other Operating Costs

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

Services expenses increased $11.7 million or 17.6 percent. This increase reflects greater contracted snow removal costs related to the weather conditions mentioned above, a settlement with Amtrak for prior period charges and increased costs for contracted vehicle maintenance and electronic equipment services associated with additional service implemented during fiscal year 2003.

Purchased transportation expenses increased $8.7 million or 8.0 percent reflecting increased costs for operation of the Hudson-Bergen Light Rail system, and increased Amtrak charges (under a cross-honoring agreement) for NJ TRANSIT rail passes utilized during the fiscal year by riders on Amtrak trains on the Northeast Corridor. This line item also includes additional reimbursement of costs from counties and municipalities under the Senior Citizen/Rural Transportation program.

Fuel and propulsion power expenses increased $8.4 million or 18.1 percent above fiscal year 2002. Fuel expense increased $6.5 million or 26.4 percent as a result of an average $0.20 per gallon increase in the cost of diesel fuel compared to fiscal year 2002 along with increased consumption of approximately 460,400 gallons during fiscal year 2003 due to additional service. Propulsion power expense increased $1.9 million or 8.5 percent reflecting service expansions implemented during fiscal year 2003.

Claims and insurance expenses increased $3.0 million or 13.6 percent. This increase was the result of additional public liability and property damage insurance premium costs related to terrorism and increased expenses for third party injury and damage claims.

Parts, materials and supplies expenses increased $3.3 million or 3.4 percent due to an increase in the consumption of parts and materials during fiscal year 2003 related to the rehabilitation of NJ TRANSIT's revenue vehicle fleet.

Trackage, tolls and fees expenses increased $4.3 million or 12.3 percent due to an increase in the charges from Amtrak for access fees to operate train service on the Northeast Corridor associated with service expansion implemented during fiscal year 2003.

Non-Operating Revenues, Net

Non-operating revenues, net, increased $30.8 million or 5.2 percent reflecting increased operating assistance and other governmental reimbursements partially offset by increased interest expense. Total state and federal operating assistance and reimbursements increased $70.4 million compared to the prior fiscal year. State of New Jersey general fund appropriations increased $5.6 million, while other federal, state and local reimbursements increased $64.8 million during the fiscal year. Other reimbursements represent funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities.

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 14, Net Assets. Capital grant expenditures totaling $810.1 million were $209.0 million or 34.8 percent above fiscal year 2002.

Major capital project activity during the year included Hudson-Bergen Light Rail, Newark City Subway Extension, Secaucus Junction, Montclair Connection, Main/Bergen Connection, Southern New Jersey Light Rail, the acquisition and rehabilitation of rolling stock and construction of and improvements to passenger and support facilities and rail infrastructure.

Capital Assets

As of June 30, 2003, NJ TRANSIT had invested $9,060.6 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2003 totaled $6,563.0 million (see Table A-3). This amount represents a net increase of $804.4 million or 14.0 percent over June 30, 2002.

Table A-3

NJ TRANSIT Capital Assets *(net of depreciation)*
(in millions)

	As of June 30, 2003	2002	% Change
Capital projects in process	$3,177.9	$2,690.1	18.1
Revenue vehicles	1,328.4	1,096.7	21.1
Buildings and structures	1,329.0	1,231.5	7.9
Track	522.9	545.1	(4.1)
Land	152.8	149.7	2.1
Equipment	52.0	45.5	14.3
Total Net Capital Assets	**$6,563.0**	**$5,758.6**	**14.0**

As previously stated, major capital project activity during the year included Hudson-Bergen Light Rail, Secaucus Junction, Main/Bergen Connection, Montclair Connection, Newark City Subway Extension, Southern New Jersey Light Rail, the acquisition and rehabilitation of rolling stock and construction of and improvements to passenger and support facilities and rail infrastructure. This has resulted in an 18.1 percent increase in capital projects in process.

A 21.1 percent increase in revenue vehicles is the result of the acquisition of buses, light rail vehicles, locomotives and rail cars that were placed into service during fiscal year 2003 to replace aging equipment and support system expansion.

The Board of Directors approved a fiscal year 2004 capital program that authorizes NJ TRANSIT to request funds totaling $1,340.6 million to provide for the continuation of the major projects currently underway, as well as new initiatives. Funds have been requested for the overhaul and maintenance of rolling stock, debt service related to the acquisition of buses, trains, locomotives and the construction of light rail projects and new system expansion. Provisions have also been made to comply with all federally mandated accessibility and environmental regulations. More detailed information about NJ TRANSIT's capital assets is presented in Note 8 to the financial statements.

Debt Administration

The following table summarizes the changes in capital debt between fiscal years 2003 and 2002 *(in millions)*:

	As of June 30, 2003	2002	% Change
Notes payable	$2,402.3	$2,541.7	(5.5)
Obligations under capital leases	1,514.3	1,293.1	17.1
Total	**$3,916.6**	**$3,834.8**	**2.1**

At June 30, 2003, NJ TRANSIT had $3,916.6 million of debt obligations outstanding compared to $3,834.8 million at June 30, 2002, an increase of 2.1 percent.

Budgetary Integrity, Accounting Systems and Internal Controls

Budgetary control is exercised at the department level by major types of expenditures, and budget to actual performance is regularly reported to the Board of Directors. These reports are reviewed quarterly by NJ TRANSIT's independent auditors who provide a separate report thereon to the Board of Directors as well as the Department of Transportation's Office of the Inspector General. This report discloses the difference between GAAP and budgetary reporting in the areas of capitalization and depreciation expense.

In developing and maintaining NJ TRANSIT's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived from its use and that the evaluation of cost and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework.

Other Matters

NJ TRANSIT's contractor for the construction of the Southern New Jersey Light Rail project has filed suit against NJ TRANSIT as a result of alleged 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 consolidated financial position of NJ TRANSIT.

NJ TRANSIT is party to various other legal actions and disputes which 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 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 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, 2003	2002
Assets		
Current Assets		
Cash and cash equivalents	$243,606	$173,571
Due from federal government	19,727	59,076
Due from State of New Jersey	100,107	80,018
Inventories, net	65,177	69,364
Other	45,684	55,073
Total Current Assets	474,301	437,102
Non-Current Assets		
Restricted cash	13,953	13,010
Restricted investments	688,888	1,253,157
Restricted leveraged lease deposits	1,352,850	1,064,511
Other	40,368	33,305
Capital assets, net	6,563,000	5,758,661
Total Non-Current Assets	8,659,059	8,122,644
Total Assets	9,133,360	8,559,746
Liabilities		
Current Liabilities		
Accounts payable	177,718	187,583
Accrued payroll and benefits	118,135	113,237
Current installments under capital leases	97,315	84,534
Short-term notes payable	221,642	140,820
Other current liabilities	74,733	79,951
Total Current Liabilities	689,543	606,125
Non-Current Liabilities		
Notes payable	2,180,635	2,400,920
Accrued injury and damage claims	39,250	42,713
Obligations under capital leases	1,416,954	1,208,525
Post-retirement benefits other than pensions	280,614	261,814
Deferred revenue and other non-current liabilities	46,234	41,608
Total Non-Current Liabilities	3,963,687	3,955,580
Total Liabilities	4,653,230	4,561,705
Net Assets		
Invested in capital assets, net of related debt	4,573,966	4,079,109
Restricted net assets	13,953	13,010
Deficit in unrestricted net assets	(107,789)	(94,078)
Total Net Assets	**$4,480,130**	**$3,998,041**

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, 2003	2002
Operating Revenues		
Passenger fares	$530,871	$502,674
Other	38,245	40,212
Total Operating Revenues	**569,116**	**542,886**
Operating Expenses		
Labor	451,091	417,976
Fringe benefits	288,130	255,107
Parts, materials and supplies	102,462	99,124
Services	78,281	66,577
Claims and insurance	24,871	21,902
Fuel and propulsion	54,821	46,437
Trackage, tolls and fees	39,079	34,811
Utilities	22,785	21,927
Purchased transportation	117,274	108,618
Other	17,895	17,137
Total Operating Expenses, Before Depreciation	**1,196,689**	**1,089,616**
Loss Before Depreciation	**(627,573)**	**(546,730)**
Depreciation	(275,674)	(240,950)
Operating Loss	**(903,247)**	**(787,680)**
Non-Operating Revenues (Expenses)		
State appropriation	260,027	254,427
Federal appropriation	454	475
Federal, state and local reimbursements	404,555	339,737
Investment income	12,935	10,406
Income from financing arrangements	9,577	11,338
Other non-operating revenues	9,165	9,055
Interest expense	(77,628)	(37,181)
Total Non-Operating Revenues (Expenses)	**619,085**	**588,257**
Loss Before Capital Contributions	**(284,162)**	**(199,423)**
Capital contributions	810,078	601,077
Capital assets transferred to other entities	(43,827)	(44,426)
Change in net assets	482,089	357,228
Total Net Assets, Beginning	**3,998,041**	**3,640,813**
Total Net Assets, Ending	**$4,480,130**	**$3,998,041**

See Notes to Consolidated Financial Statements.

New Jersey Transit Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)	Years Ended June 30, 2003	2002
Cash Flows from Operating Activities		
Cash receipts from fares	$533,245	$503,187
Other cash receipts	51,442	4,839
Cash disbursements for claims	(38,513)	(37,408)
Payments to employees	(715,523)	(645,990)
Payments to suppliers	(428,817)	(391,553)
Net Cash Used by Operating Activities	**(598,166)**	**(566,925)**
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants	634,894	588,507
Net Cash Provided by Non-Capital Financing Activities	**634,894**	**588,507**
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of notes	--	94,710
Proceeds from issuance of refunding notes	68,040	177,072
Payment of obligations under capital leases	(65,411)	(11,367)
Interest payments	(77,628)	(28,254)
Repayment of note obligations	(189,396)	(208,157)
Transfers from (to) restricted funds	563,325	481,544
Purchase of capital assets	(1,141,025)	(1,144,347)
Capital grants	852,358	561,690
Net Cash Provided (Used) by Capital and Related Financing Activities	**10,263**	**(77,109)**
Cash Flows from Investing Activities		
Interest on investments	5,246	5,379
Leveraged lease proceeds	8,106	2,737
Income from other financing activities	10,635	21,598
Net Cash Provided from Investing Activities	**23,987**	**29,714**
Net Increase (Decrease) in Cash and Cash Equivalents	**70,978**	**(25,813)**
Cash and Cash Equivalents		
Beginning of Year	**186,581**	**212,394**
End of Year	**$257,559**	**$186,581**
Non-Cash Investing and Capital Financing Activities		
Increase in fair value of investments	$111	$1,084

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, 2003	2002
Net Operating Loss	$(903,247)	$(787,680)
Adjustment to Reconcile Net Operating Loss to Net Cash Used by Operating Activities		
Depreciation	275,674	240,950
Changes in Assets and Liabilities		
Inventories	4,187	4,516
Other current assets	17,231	(5,321)
Other non-current assets	(7,062)	(9,675)
Accounts payable	(9,863)	(4,456)
Accrued payroll and benefits	4,898	13,592
Other current liabilities	(890)	8,449
Accrued injury and damage claims	(3,464)	(15,119)
Post-retirement benefits	18,800	13,500
Deferred revenue and other non-current liabilities	5,570	(25,681)
Net Cash Used by Operating Activities	$(598,166)	$(566,925)

See Notes to Consolidated Financial Statements.

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 transportation services. NJ TRANSIT provides these services through the operations of wholly owned bus and commuter rail subsidiaries. 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 services.

NJ TRANSIT receives operating assistance and capital funds from the State of New Jersey by legislative appropriation, the federal government by defined formula grants and discretionary funding under the Urban Mass Transportation Act of 1964 as amended by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 and the Transportation Equity Act for the 21st Century (TEA-21) of 1998, and local sources. The federal grants are administered by the Federal Transit Administration (FTA). These government 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 in 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 as they relate to fund accounting for enterprise funds of state and local governmental units. Also, all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 20, 1989, except those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, have been applied.

Revenues are recognized in the period in which they are earned; 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 two principal sources of revenue are passenger fares and governmental operating assistance and reimbursements. Operating expenses for NJ TRANSIT include the costs of operating the system, administrative expenses and depreciation on capital assets.

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 generally result from providing passenger services in connection with NJ TRANSIT's principal on-going operations. The principal operating revenues are generated from passenger fares. NJ TRANSIT's operating expenses include labor and benefits, materials, services, claims and insurance, purchased transportation and other expenses related to the delivery of passenger transportation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments."

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 the Corporation 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 its use is subject to restrictions enforceable by third parties.
- Unrestricted Net Assets—This represents the net assets that are available for general use.

Principles of Consolidation. The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries.

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.

Investment Valuation. Investments are stated at fair value based on quoted market prices, as available (see Note 6).

Accounts Receivable. Accounts receivable 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. The cost of property and equipment includes costs for 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 recorded as capital assets.

Capitalization Policy. Under NJ TRANSIT's policy, expenditures over $5,000 determined to represent 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

Construction in Progress. Construction in progress represents expenditures incurred by NJ TRANSIT for in-process project 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 resulting from NJ TRANSIT operations 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. Such coverages include self-insurance retention.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 made to the fiscal year 2002 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, 2003	2002
Lease and rental revenues	$16.3	$13.0
Advertising revenues	8.4	8.8
Metro-North operations revenues	6.9	7.0
Bus contracted revenues	0.4	2.5
Other operating revenues	6.2	8.9
Total	**$38.2**	**$40.2**

4. Injury and Damage Claims

As of June 30, 2003, NJ TRANSIT's self-insurance retention was $10 million per occurrence with commercial excess liability insurance coverage for the amounts in excess of $10 million to $250 million. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment practice claims over $500,000 to $10 million are covered by insurance. NJ TRANSIT has recorded an estimated liability of $67.2 million and $80.8 million as of June 30, 2003 and 2002, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, $28.0 million and $38.2 million are included in other current liabilities as of June 30, 2003 and 2002, respectively (see Note 10).

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

	As of June 30, 2003	2002
Balance, beginning of year	$80.8	$93.3
Claims expense	23.4	18.0
Payment of claims	(37.0)	(30.5)
Balance, End of Year	**$67.2**	**$80.8**

5. Federal Grants

The Urban Mass Transportation Act of 1964, as amended by ISTEA and TEA-21, 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 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

As of June 30, 2003, NJ TRANSIT's cash balance was $18.6 million. Of the cash balance, $0.7 million was covered by federal depository insurance and $17.9 million was covered by a collateral pool maintained by the banks as required by New Jersey statutes (Category 1).

The investment of NJ TRANSIT funds is governed by the By-Laws of NJ TRANSIT. 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 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. Cash, cash equivalents and investments consist of the following *(in millions)*:

	As of June 30, 2003	2002
Current		
Cash on hand	$18.6	$13.6
Short-term investments	225.0	159.9
Total current cash and cash equivalents	243.6	173.5
Non-current		
Restricted cash	14.0	13.0
Restricted investments	688.8	1,253.1
Restricted total non-current	702.8	1,266.1
Total Cash, Cash Equivalents and Investments	**$946.4**	**$1,439.6**

Government Accounting Standards Board (GASB) Statement No. 3 requires disclosure of the level of investment custodial risk assumed by NJ TRANSIT as of June 30, 2003 and 2002. Category 1 includes investments that are insured or registered, or held by NJ TRANSIT or its agent in its name. Category 3 includes uninsured and unregistered investments held by a broker or dealer or by its trust department or agent, but not in the entity's name. NJ TRANSIT's portfolio of investments includes the following *(in millions)*:

	GASB Category	As of June 30, 2003	2002
Categorized			
Commercial paper	3	$119.3	$411.2
Collateralized investment agreements	1	399.4	946.9
		518.7	1,358.1
Uncategorized			
State of New Jersey Cash Management Fund	N/A	409.1	67.9
Total		**$927.8**	**$1,426.0**

All investments, except for investment agreements, are carried at fair value. Investment agreements are collateralized, nonparticipating guaranteed investment contracts, which are carried at cost. 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. Commercial paper is uncollateralized and uninsured and is limited to investment-grade paper. The New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of Treasury, Division of Investment. Securities in the fund are insured, registered or held by the division or its agent in the fund's name.

7. Restricted Assets

Restricted assets include cash, investments and amounts on deposit with various lessors restricted from use for normal operations.

Since April 1997, certain proceeds, primarily from the issuance of Grant Anticipation Notes and Certificates of Participation to finance portions of NJ TRANSIT's capital projects, are restricted by applicable agreement covenants. As of June 30, 2003 and 2002, the balance of cash received and restricted related to these proceeds was $683.7 million and $1,146.1 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 remaining balance of this payment along with interest earnings on investment of funds have been recorded as restricted assets and deferred revenue in the amount of $10.4 million and $21.4 million as of June 30, 2003 and 2002, 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, 2003 and 2002 were $1,352.9 million and $1,064.5 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 $8.8 million have been recorded as restricted assets and deferred revenue as of June 30, 2003.

8. Capital Assets

Capital assets, as of June 30, 2003, are summarized as follows *(in millions)*:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not Being Depreciated				
Land	$149.7	$3.3	$(0.2)	$152.8
Capital projects in process	2,690.1	1,153.4	(665.6)	3,177.9
Total Capital Assets not Being Depreciated	**2,839.8**	**1,156.7**	**(665.8)**	**3,330.7**
Capital Assets Being Depreciated				
Buildings and structures	2,032.8	188.0	(0.2)	2,220.6
Track	873.5	13.6	(0.3)	886.8
Rail cars and locomotives	1,073.8	316.5	(64.8)	1,325.5
Buses, vans and light rail cars	1,026.6	72.2	(86.5)	1,012.3
Furniture, fixtures and equipment	266.0	19.1	(0.4)	284.7
Total Capital Assets Being Depreciated	**5,272.7**	**609.4**	**(152.2)**	**5,729.9**
Less Accumulated Depreciation				
Buildings and structures	801.3	90.5	(0.2)	891.6
Track	328.4	35.5	0.0	363.9
Rail cars and locomotives	651.5	61.5	(48.9)	664.1
Buses, vans and light rail cars	352.2	75.9	(82.8)	345.3
Furniture, fixtures and equipment	220.5	12.5	(0.3)	232.7
Total Accumulated Depreciation	**2,353.9**	**275.9**	**(132.2)**	**2,497.6**
Total Capital Assets, Net of Depreciation	**2,918.8**	**333.5**	**(20.0)**	**3,232.3**
Total Net Capital Assets	**$5,758.6**	**$1,490.2**	**$(685.8)**	**$6,563.0**

As of June 30, 2003, capital projects in progress include net capitalized interest expense and income of $83.6 million and $40.1 million, respectively, related to the Grant Anticipation Notes and Certificates of Participation (see Notes 11 and 12).

During fiscal years 2003 and 2002, NJ TRANSIT transferred $40.6 million and $33.3 million of assets, respectively, from capital assets and capital contributions to other entities. These amounts represented assets for which NJ TRANSIT has transferred ownership upon completion of the project. These projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line and the construction of the Newark Liberty International Airport Northeast Corridor Station. NJ TRANSIT also routinely transfers amounts initially recorded in capital projects in process that do not meet capitalization criteria to expense. In fiscal years 2003 and 2002 these amounts totaled $25.5 million and $24.7 million, respectively.

9. Pension and Employee Benefit Plans

NJ TRANSIT and its subsidiaries have pension plans covering substantially all employees who participate in the New Jersey Public Employee Retirement System (PERS), certain police employees who participate in the Police and Fireman's Retirement System (PFRS) and certain rail operations employees who participate in 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, 2003, 2002 and 2001 were $32.3 million, $30.4 million and $28.7 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 $323.0 million, $310.4 million and $285.2 million for the 2002, 2001 and 2000 plan years, respectively. Under the provisions of the five pension plans, pension benefits vest after 10 years of full-time employment. Employees are 100 percent vested if they are age 55 and have five years of full-time employment. As of June 30, 2003, 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, in the last 10 years of service. The sponsored pension plans also provide early retirement programs and death benefits.

Presented below is the total pension benefit obligation of the NJ TRANSIT-sponsored pension plans as of June 30, 2002. 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 4.0 percent to 5.9 percent, and (c) no post-retirement benefit increases. For fiscal year 2003, 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 2003 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2002.

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 obligations. The pension benefit obligations of all NJ TRANSIT-sponsored plans are summarized below.

Pension expense for defined benefit plans (excluding PERS, PFRS and Railroad Retirement) totaled $51.8 million, $36.7 million and $26.6 million for fiscal years 2003, 2002 and 2001, respectively.

For the three plan years ended June 30, 2002, 2001 and 2000, available assets were sufficient to fund 77.3, 83.1 and 96.5 percent, respectively, of the pension benefit obligation. The unfunded pension benefit obligation represented (57.1), (40.5) and (7.6) percent of the annual payroll for employees covered by NJ TRANSIT pension plans for fiscal years 2002, 2001 and 2000, 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, 2002, 2001 and 2000, all made in accordance with actuarially determined requirements, were 17.8, 11.8 and 9.5 percent, respectively, of applicable fiscal year covered payroll.

Of the five single-employer defined benefit pension plans, four cover bus agreement employees and the fifth 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 Non-Agreement Employees Retirement Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. 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, 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. This plan permits employees to contribute up to 50 percent of their salary not to exceed $12,000 annually on a pre-tax basis. NJ TRANSIT provides a maximum 50 percent matching contribution on the first six percent contributed by the employee.

NJ TRANSIT also provides a money purchase pension plan 401(a) and an employee savings/deferred compensation plan (457) for eligible agreement employees. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed $12,000 annually on a pre-tax basis. NJ TRANSIT contributed three to five percent of annual compensation to certain employees' accounts in the 401(a) plan.

Beginning in 2002, a new type of pre-tax contribution has been added for participants of the 401(k) and 457 plans who are

Pension Benefit Obligation *(in millions)*	As of June 30, **2002**	**2001**	**2000**	**1999**	**1998**
Accrued Benefit Obligation					
Participants currently receiving payments	$279.6	$244.3	$205.2	$182.6	$168.5
Employer-financed vested benefits	307.8	284.9	243.1	197.1	186.0
Employer-financed nonvested benefits	97.4	91.0	74.6	64.0	60.2
Total Accrued Benefit Obligation	**$684.8**	**$620.2**	**$522.9**	**$443.7**	**$414.7**
Pension Funding					
Pension benefit obligation	$813.4	$745.9	$621.2	$535.1	$506.7
Fair value of net assets available for plan benefits	628.9	620.0	599.5	587.5	544.6
Funded Excess/(Unfunded) Pension Benefit Obligation	**$(184.5)**	**$(125.9)**	**$(21.7)**	**$52.4**	**$37.9**

nearing retirement. 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 $2,000 above the $12,000 limit. This amount increases to $3,000 in 2004.

NJ TRANSIT's expense for the defined contribution plans totaled $13.7 million and $12.0 million in fiscal years 2003 and 2002, respectively.

Recorded expenses for all plans (including PERS, PFRS and Railroad Retirement) amounted to $97.7 million and $79.1 million for the years ended June 30, 2003 and 2002, respectively.

In addition, NJ TRANSIT sponsors a health care plan that provides post-retirement medical, dental and life insurance benefits for retired agreement and non-agreement employees.

Bus agreement retirees are eligible for benefits upon attainment of age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retiree and spousal coverage for medical and life insurance. Dental coverage is also available for bus agreement retirees until the age of 65.

Rail agreement retirees are eligible for benefits once they reach age 60 with 30 years of service. These benefits include retiree and spousal coverage for medical benefits and life insurance. The spousal coverage becomes 100 percent contributory once the retiree reaches age 65.

Non-agreement retirees are eligible for benefits upon attainment of whichever is earlier: age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retirees and spousal coverage for medical and life insurance.

Dental coverage is also available for non-agreement retirees until the age of 65 and for those non-agreement employees who retired under the Voluntary Special Retirement Program.

The accumulated post-retirement benefit obligation of NJ TRANSIT's post-retirement benefit plan is summarized as follows *(in millions)*:

	As of June 30, 2003	2002
Retirees	$165.5	$82.3
Fully eligible active plan participants	65.7	29.8
Other active plan participants	163.1	134.9
Accumulated post-retirement benefit obligation	394.3	247.0
Unrecognized net actuarial (loss)/gain	(113.7)	14.8
Total Accumulated Post-Retirement Benefit Obligation	**$280.6**	**$261.8**

The accumulated post-retirement benefit obligation was determined using the unit credit method and an assumed discount rate of 7.0 percent. The assumed health care trend rate used was 5.5 percent for bus agreement employees, pre- and post-age 65 retirees; non-agreement employees, pre- and post-age 65 retirees; and rail agreement employees, pre-age 65 retirees. The net periodic post-retirement benefit cost for fiscal years 2003 and 2002 follows *(in millions)*:

	Years Ended June 30, 2003	2002
Service costs	$11.5	$9.6
Interest costs	19.0	15.9
Special termination benefits	1.2	--
Amortization of actuarial (gain)	--	(0.5)
Total Post-Retirement Benefit Cost	**$31.7**	**$25.0**

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plan. A one-percentage-point change in assumed health-care cost trend rates would have the following effect *(in millions)*:

	1 Percentage Point Increase	Decrease
Effect on total of service and interest cost components	$5.4	$4.2
Effect on the post-retirement benefit obligation	$38.3	$30.0

10. Other Current Liabilities

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

	As of June 30, 2003	2002
Injury and damage claims (Note 4)	$28.0	$38.2
Miscellaneous	46.7	41.8
Total	**$74.7**	**$80.0**

11. Long-Term Debt and Other Obligations

In February 2003, NJ TRANSIT issued $61.5 million of Refunding Certificates of Participation (COPs) bearing interest between 2.0 percent and 5.5 percent with final maturity in 2016. The proceeds from the sale of these certificates provided advance refunding of $57.6 million of NJ TRANSIT Certificates of Participation issued in 1991 to finance the purchase of One Penn Plaza East. The proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide debt service on the COPs 1991 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 million over the life of the transaction with a $10.8 million deferral of refunding cost. As of June 30, 2003, $57.6 million of defeased notes remain outstanding.

In June 2002, NJ TRANSIT issued $162.8 million of Series 2002A Certificates of Participation 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 Certificates of Participation, Series 2000A. The proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide for the debt service on certain 2000A notes. The refunding transaction was consummated to provide a structural modification to the original agreement. As of June 30, 2003, $73.8 million of defeased 2000A notes remain outstanding. NJ TRANSIT has recorded the remaining balance of cash received and the payment obligations as capital assets, restricted investments and notes payable, respectively.

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

In November 2000, NJ TRANSIT issued $562.2 million of Capital Grant Anticipation Notes, consisting of $452.2 million Series 2000B and $110.0 million Series 2000C, bearing interest between 4.5 percent and 5.75 percent. The Series 2000B and 2000C notes have maturity dates of 2011 and 2005, respectively. The proceeds of the notes are being used to fund the costs of constructing the next segment of Hudson-Bergen Light Rail (MOS-2) and Newark City Subway Extension.

In October 2000, NJ TRANSIT issued $693.1 million of Series 2000B Certificates of Participation bearing interest between 4.5 percent and 6.0 percent with 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 September 2000, NJ TRANSIT issued $283.5 million of Series 2000A Capital Grant Anticipation Refunding Notes (Refunding Notes) bearing interest between 4.4 percent and 5.125 percent with final maturity in 2004. The proceeds of these notes refunded NJ TRANSIT's Capital Grant Anticipation Notes, Series 1997A, which were issued to finance the first phase of Hudson-Bergen Light Rail (MOS-1). A portion of the proceeds of the Refunding Notes was deposited into an irrevocable trust with an escrow agent to provide for debt service on the 1997 notes. The remaining proceeds of $27.4 million were deposited into a debt service reserve to support the timely payment of debt service on the Refunding Notes. As of June 30, 2003, $36.4 million of defeased 1997 notes remain outstanding.

In January 2000, NJ TRANSIT issued $234.1 million of Certificates of Participation bearing interest between 4.4 percent and 6.125 percent and maturing on September 15 of the years 2003 through 2015. The proceeds of the certificates were used to purchase 200 rail cars and spare parts.

In March 1999, NJ TRANSIT issued $151.5 million of Certificates of Participation bearing interest between 3.625 percent and 5.0 percent and maturing on September 15 of the years 2001 through 2008. The proceeds of the certificates were used to purchase 500 transit buses.

In April 1997, NJ TRANSIT issued $351.6 million of Capital Grant Anticipation Notes bearing interest between 4.625 percent and 5.5 percent and maturing on September 1 of the years 2000 through 2003. The proceeds of the notes were used to design, acquire, construct and equip a portion of the first phase of Hudson-Bergen Light Rail.

The notes and certificates referred to above are special limited obligations of NJ TRANSIT payable solely from federal capital grant proceeds and investment earnings on undisbursed proceeds held by the trustee.

In August 1999, NJ TRANSIT entered into a 20-year lease/sublease agreement with the New Jersey Economic Development Authority as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of $486.7 million in 1999 Series A Bonds and $147.2 million in 1999 Series B Bonds, bearing interest between 4.375 percent and 5.75 percent and maturing on May 1 of each year through 2011. The Series A Bonds were issued to provide funds for the Southern New Jersey Light Rail project while the Series B Bonds were issued to provide funds for the second phase of the Hudson-Bergen Light Rail project.

The following schedule summarizes notes payable obligations as of June 30, 2003 and includes Capital Grant Anticipation Notes (GANs), Certificates of Participation (COPs), and New Jersey Economic Development Authority (NJEDA) debt *(in millions)*:

	Inception Date	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
COPs 1999	03/99	$134.6	$ --	$(17.7)	$116.9	$18.5
NJEDA 1999 A&B	09/99	609.8	--	(16.3)	593.5	35.1
COPs 2000A	01/00	75.4	--	(1.6)	73.8	1.6
GANs 2000A	09/00	172.3	--	(135.9)	36.4	36.3
COPs 2000B	10/00	693.1	--	--	693.1	41.6
GANs 2000B	11/00	452.1	--	--	452.1	28.3
GANs 2000C	11/00	108.2	--	(15.2)	93.0	57.3
COPs 2002A	06/02	162.8	--	(2.3)	160.5	0.2
COPs 2002B	06/02	94.7	--	--	94.7	--
COPs 2003	03/03	--	61.5	(0.3)	61.2	2.7
Total		2,503.0	61.5	(189.3)	2,375.2	$221.6
Unearned Bond Premium		**58.6**	**4.1**	**(7.7)**	**55.0**	
Unamortized Deferral on Refunding		**(19.9)**	**(10.8)**	**2.7**	**(28.0)**	
Total Notes Payable Commitment		**$2,541.7**	**$54.8**	**$(194.3)**	**$2,402.2**	

Long-term notes payable maturities as of June 30, 2003 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2004	$221.6	$126.1	$347.7
2005	191.2	114.8	306.0
2006	163.6	105.1	268.7
2007	174.7	96.4	271.1
2008	184.1	87.0	271.1
2009-2013	874.2	279.7	1,153.9
2014-2018	561.0	68.0	629.0
2019	4.8	0.3	5.1
Total	2,375.2	**$877.4**	**$3,252.6**
Unamortized premium	55.0		
Unamortized deferral on refunding	(28.0)		
Total Notes Payable	**$2,402.2**		

12. Leases and Other Commitments

Leveraged Lease Transactions

NJ TRANSIT has entered into a number of leveraged lease agreements with certain domestic lessors. In connection with these agreements, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the terms of the respective lease. 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 Notes 6 and 7).

The fiscal year 2003 leveraged lease agreement is summarized as follows:

Lease type	Domestic
Lease term	18 years
Assets leased	843 MCI Commuter buses
Present value of lease obligations	$331.5 million

NJ TRANSIT received a benefit of $8.1 million for fiscal year 2003 related to the above agreement. In connection with this leveraged lease transaction, NJ TRANSIT invested in triple A rated swap agreements in the amount of $1.8 million which are structured to meet scheduled payments in December 2003. Similar agreements are also scheduled to be made in year 12 of the lease and again are structured to meet scheduled payments in year 13. These agreements guarantee a fixed rate of return and NJ TRANSIT bears no risk relative to either the instruments or any potential changes in interest rates which may occur. Counter party assumes all risk associated with interest rates. These agreements are structured interest rate swaps for hedging purposes and provide specific amounts on specific dates approximately one year after their purchase.

In connection with the above 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, 2003.

Extinguished Leveraged Lease Obligations

Since 1991, through December 31, 1996, NJ TRANSIT has entered into a number of leveraged leasing arrangements with overseas investors for 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, 2003 *(in millions)*:

Fiscal Years	Lease Years	Equipment	Amount
1997	18 Years	12 locomotives	$18.1
1995	15 Years	17 Arrow III cars and 5 locomotives	$52.9
1995	15 Years	46 Arrow III cars	$69.5
1994	15 Years	46 Arrow III cars	$62.5
1994	15 Years	48 Arrow III cars	$70.3
1993	15 Years	43 Arrow III cars	$62.3

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, 2003.

Capital Leases

In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light rail cars for the Hudson-Bergen Light Rail project and the Newark City Subway. These cars were financed through a sale of Certificates of Participation 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 above-ground parking facility. A portion of the financing for this facility was provided by the New Jersey Economic Development Authority 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 New Jersey Economic Development Authority bond obligations. The remaining rental payments have a present value of approximately $15.4 million as of June 30, 2003.

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 $1,514.3 million and $1,293.1 million as of June 2003 and 2002, respectively, of which $97.3 million and $84.5 million represent current installments under capital leases as of June 2003 and 2002, 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)*:

	As of June 30, 2003	2002
Land	$27.4	$27.4
Buildings	512.5	510.4
Rail cars and locomotives	584.9	585.0
Buses and light rail cars	655.0	346.6
Capital assets under capital leases (at cost)	1,779.8	1,469.4
Accumulated depreciation	(694.3)	(578.0)
Net Capital Assets Under Capital Leases	**$1,085.5**	**$891.4**

The following schedules summarize the capital lease obligations as of June 30, 2003 *(in millions)*:

	Inception Date	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
NBC facility	07/86	$23.1	$ --	$1.7	$21.4	$1.8
One Penn Plaza East	09/91	57.4	--	57.4	--	--
Metropark parking facility	03/94	15.8	--	.4	15.4	0.7
MMC, locos. & rail cars	01/97	168.0	--	10.3	157.7	9.6
ALP-44 locomotives	06/97	7.2	--	--	7.2	--
Comet IV coaches	07/97	100.9	--	5.2	95.7	7.4
Bus garages	07/97	77.9	--	6.0	71.9	5.6
FY98-181 Arrows & 30 ALP-44s	03/98	363.1	--	38.0	325.1	35.7
Light rail cars	06/98	136.1	--	8.5	127.6	8.9
FY99-bus garage	09/98	88.8	5.8	--	94.6	--
FY01-HBLR	12/00	158.0	5.5	--	163.5	5.9
MCI buses (250)	12/01	100.6	5.0	--	105.6	7.2
MCI buses (843)	10/02	--	331.6	--	331.6	14.5
Total		1,296.9	347.9	127.5	1,517.3	$97.3
Unamortized Deferral on Refunding		(3.8)	--	(.8)	(3.0)	
Total Capital Lease Commitment		**$1,293.1**	**$347.9**	**$126.7**	**$1,514.3**	

Minimum capital lease commitments as of June 30, 2003 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2004	$97.3	$26.2	$123.5
2005	114.4	29.3	143.7
2006	117.9	32.3	150.2
2007	109.8	30.9	140.7
2008	130.7	32.2	162.9
2009-2013	561.5	250.0	811.5
2014-2018	307.5	318.2	625.7
2019-2023	43.9	29.3	73.2
2024-2027	34.3	3.5	37.8
Total	1,517.3	**$751.9**	**$2,269.2**
Unamortized Deferral on Refunding	(3.0)		
Total Capital Lease Commitment	**$1,514.3**		

As of June 30, 2003, NJ TRANSIT was committed for future expenditures under the following capital projects and special services which will be funded from federal, state, local or other capital sources *(in millions):*

Rolling stock improvements	$126.1
Hudson-Bergen Light Rail	84.1
Rail infrastructure	82.7
Bus and light rail rolling stock	46.1
Rail passenger facilities	61.0
Rail support facilities & equipment	28.3
Main/Bergen Connection	11.4
Secaucus Junction	19.2
Southern New Jersey Light Rail	27.5
Newark City Subway Extension	27.5
Special services	9.4
Ticket vending machines	5.9
Bus and light rail infrastructure	9.9
Other	84.6
Total Capital Projects and Special Services Commitments	**$623.7**

13. Contingencies

NJ TRANSIT is party to various legal actions and disputes which 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 Southern New Jersey Light Rail project has filed suit against NJ TRANSIT as a result of alleged 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.

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 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 for capital projects and other reimbursable activities which 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 which 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 must also be made accessible. Additionally, NJ TRANSIT was required to identify high-usage, strategically located rail stations which 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, 23 of which have been made accessible. The remaining stations required major renovations and the FTA granted time extensions through 2008. A mix of capital funding sources, including federal and state transportation trust and casino revenue 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 U.S. Department of Justice.

14. Net Assets

For the years ended June 30, 2003 and 2002, changes in net assets consisted of the following *(in thousands)*:

	Deficit in Unrestricted Net Assets	Restricted Net Assets	Invested in Capital Assets Federal	Invested in Capital Assets State/Local/Other	Total
Balance June 30, 2001	**$(129,797)**	**$12,214**	**$2,356,754**	**$1,401,642**	**$3,640,813**
Loss before capital contributions	(199,423)	--	--	--	(199,423)
Capital grants	--	--	186,984	414,092	601,076
Capital grants pass-throughs	--	--	4,760	(38,054)	(33,294)
Capital assets removed from service	--	--	(6,798)	(5,129)	(11,927)
Restricted net assets	--	796	--	--	796
Depreciation on capital funded assets	235,142	--	(161,389)	(73,753)	--
Balance June 30, 2002	**(94,078)**	**13,010**	**2,380,311**	**1,698,798**	**3,998,041**
Loss before capital contributions	(284,162)	--	--	--	(284,162)
Capital grants	--	--	386,466	423,612	810,078
Capital grants pass-throughs	--	--	(5,248)	(35,328)	(40,576)
Capital assets removed from service	--	--	--	(4,194)	(4,194)
Restricted net assets	--	943	--	--	943
Depreciation on capital funded assets	270,451	--	(191,820)	(78,631)	--
Balance June 30, 2003	**$(107,789)**	**$13,953**	**$2,569,709**	**$2,004,257**	**$4,480,130**

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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, a component unit of the State of New Jersey, as of and for the years ended June 30, 2003 and 2002. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Jersey Transit Corporation and subsidiaries as of June 30, 2003 and 2002, and the consolidated changes in financial position and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis as listed in the foregoing 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 30, 2003

Central

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