BUILDING A BETTER COMMUTE

NJ TRANSIT ANNUAL REPORT 2008

NJ TRANSIT
The Way To Go.

NJ TRANSIT IS AN EQUAL OPPORTUNITY EMPLOYER.

Contents

There is a strong relationship between rising gas prices and record-high ridership on NJ TRANSIT's trains, buses and light rail vehicles. And, there is a strong bond between a robust transit network and a vibrant economy, cleaner air, less traffic and a higher quality of life for our families.

Ensuring New Jersey residents a safe, reliable and affordable alternative to their cars has been a priority of my administration. In the state's recent cost-cutting budget, I invested an additional $60 million in operating support for NJ TRANSIT to prevent a fare increase for our residents making the smart choice for our environment and their wallets.

The mass transit tunnel project remains our number one transportation investment that will pay dividends for generations. When this critical regional project is complete, new trans-Hudson tunnels will double rail capacity between New Jersey and New York, opening new job markets and economic opportunities to maintain our region's competitiveness. In the short term, new modern equipment is providing more seats and linking travelers to work, educational, recreational and cultural destinations.

As more communities host transit centers and support investments that encourage public transit use, we further our goals to conserve energy, reduce pollution and ease roadway congestion.

In the nation's most densely populated state, we remain committed to strengthening our public transit network and increasing mobility options as more and more people discover it holds the key to our collective future.

Sincerely,

Jon S. Corzine
Governor, State of New Jersey

NJ TRANSIT is setting new ridership records, building steadily to nearly 270 million annual passenger trips. Ridership continues to increase as more New Jerseyans discover the convenience and cost effectiveness of incorporating NJ TRANSIT into their daily commutes.

This growth reflects Governor Corzine's commitment to creating connections that provide more choices and easier travel experiences. This year, we continued our focus on providing more intermodal service, creating new transit centers and offering convenient connections across all modes of service.

Thanks to Governor Corzine's leadership in renewing the Transportation Trust Fund, NJ TRANSIT has invested more than $350 million during the last three years on new equipment such as multilevel railcars and modern buses, and is expanding maintenance facilities to improve reliability and efficiency. Funding from the New Jersey Turnpike Authority will help to advance the new mass transit tunnel in order to relieve congestion on the Turnpike's spurs and other highly congested areas.

These transit investments have contributed to the profound ridership increase and removed automobiles from the road while reducing energy consumption and more than a million tons of greenhouse gas emissions annually in our state. Once the new mass transit tunnel project is completed, we will reduce greenhouse gases by another 20 percent, creating a legacy for this generation and beyond.

On behalf of NJ TRANSIT and its Board of Directors, I thank our Governor, legislature and congressional delegation for providing us with resources to keep New Jersey's public transit system safe, reliable and affordable.

Sincerely,

Kris Kolluri
Transportation Commissioner
& NJ TRANSIT Board Chairman

Left to right:
Kenneth E. Pringle
Susan L. Hayes
James A. Carey Jr., Governor's Representative
Kris Kolluri, Chairman
Myron P. Shevell, Vice Chairman
Patrick W. O'Connor, Treasurer's Representative
Flora M. Castillo

Smart investments to support our core system and provide capacity and connectivity among services contribute to building a better commute for our residents. When service levels match the needs of residents, we create a system that is easy for travelers to choose public transit.

The creation of transit hubs is vital to our success. This year, we opened the Wayne Route 23 Transit Center and Mount Arlington Station, both intermodal facilities with convenient highway access and parking. In addition, we unveiled the newly renovated Hackensack Bus Terminal with improved customer amenities and the Trenton Transit Center, which we rebuilt and expanded to offer more amenities and improved connections among bus, light rail and commuter rail services.

We also launched Go Bus, New Jersey's first premium local bus service – a small investment with big benefits. The enhanced service, which was designed for customers by customers, incorporated their feedback into every aspect of the service from bus shelters and unique color scheme to the brand name itself. Serving Newark and Irvington, Go Bus represents a major milestone in revitalizing one of the busiest corridors in northern New Jersey and serves as a model for other heavily traveled areas and future Bus Rapid Transit systems within our state.

Our partnerships with other transit providers, including Port Authority of New York & New Jersey, Metro-North Railroad and SEPTA, are creating an interconnected system that benefits transit users. These partnerships have enabled us to advance plans for an additional rail tunnel between New Jersey and New York City, service to the Meadowlands Sports and Entertainment Complex for Giants and Jets games, express trains to Atlantic City, and the integration of fare media to simplify connections between regional transit services. And we were proud to be the first transit agency in the Northeast to partner with Google, allowing seamless integration of transit information from multiple providers.

These partnerships and new services make travel to many great New Jersey destinations more convenient and affordable for area travelers. Thanks to Governor Corzine's support, we are positioned to meet growing ridership needs and remain dedicated to building a better commute with a robust, interconnected transit system for our customers.

Sincerely,

Rich Sarles
Executive Director

More people than ever made NJ TRANSIT their preferred transportation choice to get to employment, educational and recreational destinations. We set historic ridership records, rising steadily on our march to providing close to one million weekday passenger trips. Planning for this trend and investing in new technologies, modern equipment, premium bus services, and intermodal facilities that connect travelers with multiple modes of service, have built a strong foundation to meet the growing needs of our customers.

Go Bus: Introduced New Jersey's first premium local bus service on a 4.8 mile corridor along Springfield Avenue between Irvington and Newark Penn Station, paving the way for Bus Rapid Transit in the state. The enhanced service was designed by and for customers and adds capacity to the 25 Bus Route during peak periods, serving 11 superstops and providing faster trip times than the existing route. More recently, 18 trips were added to provide bidirectional service.

Exclusive Bus Lane: Opened an exclusive bus lane on Raymond Boulevard to minimize delays for approximately 3,000 bus customers on 130 buses traveling through Downtown Newark during evening rush hours.

Newark Penn Station-Market Street Access: Opened a new gateway at Newark Penn Station to provide additional flexibility in pedestrian movement through the terminal and easier access to the new Prudential Center arena and Ironbound District. Installed train and bus departure boards and a state-of-the-art public address system along Market Street.

Prudential Center: Installed directional signs at Newark Penn Station and Newark Broad Street Station and train departure boards at Prudential Center to assist customers attending events. Ambassador Program featuring yellow-jacketed employees greeted new public transit users and provided direction to the arena and surrounding eating establishments. Approximately 40 percent of Prudential Center's patrons travel to scheduled events via public transportation.

Bus Alternative Service: Implemented a new plan to minimize delays for customers traveling on central New Jersey buses to the Port Authority Bus Terminal. On weekdays, when service delays of 90 minutes or more occur near the Lincoln Tunnel, buses are rerouted to Newark Penn Station or Secaucus Junction where bus customers transfer to rail service to New York.

Bus Control Center: Now able to monitor traffic and other conditions that may impact bus routes and convey them to customers within minutes from our Maplewood Control Center.

Pascack Valley and Raritan Valley Line Improvements: Expanded service options by constructing passing sidings to offer 121 new trains on the Pascack Valley Line, including bidirectional, off-peak and weekend service, and to extend eight trains between Raritan and High Bridge on the Raritan Valley Line.

Service Enhancements: Launched new intermodal service at Wayne Route 23 Transit Center and Atlantic City Rail Terminal, expanded bus service to Newark Liberty International Airport and in Jersey City, and improved connections with River LINE service.

Joint Ticketing: Expanded ticket purchase options to include SEPTA tickets to 125 destinations in Pennsylvania, providing greater convenience for customers connecting with SEPTA service in Trenton.

Google Transit: In March, NJ TRANSIT became the largest public transit agency to partner with Google to provide online rail and light rail trip planning via "Google Transit" and integrating with Google Maps for convenient access to information on local businesses and popular destinations. In September, bus trip planning also became available. To plan a trip, go to www.google.com/transit.

Mobile Website: Added a "Mobile Contact Us" feature to give customers better and faster access to management personnel by submitting comments, suggestions and questions while on the go from web-enabled mobile devices.

Web-Chat: In May, introduced a live online web-chat for customers to communicate with a senior railroad official regarding a long-term Amtrak tie replacement project impacting NJ TRANSIT service.

Bus Service Alerts: Expanded My Transit alert system to include local and intrastate bus routes, allowing all bus customers to receive up-to-the-minute delay information for their specific trip during peak periods via cell phones, pagers, PDAs or emails.

Ticket Vending Machines: Installed 114 new Ticket Vending Machines (TVMs) at 43 bus, rail and light rail locations, featuring touch screens, interactive icons and faster transactions. Many TVMs also allow purchase of tickets from other transportation carriers in the region, including PATH, SEPTA, Metro-North and NY Waterway. In 2010, approximately 700 of the new TVMs will be available on NJ TRANSIT's system.

Smart Cards: Partnered with the Port Authority of New York & New Jersey on a pilot program to honor smart cards on two bus routes serving Jersey City and PATH stations. The pilot, planned for 2009, will test the integration of regional fare media to simplify the commuting experience for customers.

Commute Calculator: In August 2008, introduced an online commute calculator to help travelers determine cost savings using public transit compared to driving. Determine your savings by going to www.njcommutecalculator.com.

2.7 MILLION: AVERAGE NUMBER OF TICKETS/PASSES PURCHASED EACH MONTH AT TVMs


WAITING ROOM

Intermodal Transit Centers: Introduced two transit centers, representing a new era of intermodalism that brings together multiple transit services to maximize travel flexibility and make public transit the preferred choice for New Jersey residents.

• **Wayne Route 23 Transit Center** is located on the Montclair-Boonton Line and offers commuters along routes 23, 46 and Interstate 80 easy access to train and bus service at one location. The station provides more than 1,000 parking spaces, high-level platforms, heated shelters and electronic bus departure screens.

• **Trenton Transit Center** was renamed and expanded, offering customers more spacious seating and ticketing areas, an enhanced Walnut Avenue entrance with its own waiting room and restrooms, more retail services, and convenient access to rail, bus, light rail, taxi and parking facilities. The station also provides access to Amtrak and SEPTA rail services.

Mount Arlington Station: Opened a new station served by Montclair-Boonton Line and Morristown Line trains and private carrier buses to the Port Authority Bus Terminal, offering convenient highway access from Interstate 80. The station features high-level platforms, heated waiting shelters, a pedestrian underpass and customer communication systems.

Hoboken Terminal: Completed construction of a new, 230-foot clock tower that replicates the original 1907 Beaux-Arts design. Dedicated the tower and terminal's grand entrance to the late George D. Warrington, the agency's former executive director who championed innovative services and projects, including the restoration of this historic terminal. Other restoration work continued to improve the structure, roof, exterior copper cladding, a new ferry service waiting room, restoration of five of the six original ferry slips, and Long Slip pedestrian bridge to link Jersey City with the terminal.

Hackensack Bus Terminal: In November, reopened the newly renovated terminal, featuring exterior and interior improvements such as a new waiting area, restrooms, modern heating and air-conditioning system, and new passenger communications technology.

Other Significant Projects: Advanced reconstruction and renovation projects at Newark Broad Street, Penn Station New York, Metropark, South Amboy, Bloomfield, Rutherford, Aberdeen-Matawan, Paterson and 8th Street stations. Nearly doubled parking capacity at North Hackensack Station and worked to expand parking at Morristown and Edison stations.


Multilevel Railcars: Expanded use of multilevel railcars to include the North Jersey Coast, Morris & Essex and Raritan Valley lines. Approximately 153 cars were in service as of September 2008, with delivery of approximately 10 additional railcars each month. Multilevel railcars provide 15 to 20 percent more seating capacity compared to standard cars, have two-by-two seating preferred by customers, extra legroom, and have a remote diagnostics system to monitor vehicle position and speed, customer messages and loads, and real-time data and vehicle status. Recently moved forward on purchasing 50 more multilevel railcars, which will bring the total number up to 329 during 2010.

Transit/Suburban-Style Buses: Introduced first prototype suburban bus in September 2008, featuring expanded legroom, handholds for standing customers, stop-request buttons, overhead parcel racks, airline-style lighting and HVAC controls, and closed-circuit camera systems to enhance customer and employee security. All 1,145 buses meet or exceed the most stringent federal emissions standards and will bring the entire bus fleet into compliance with the Americans with Disabilities Act. Approximately 200 buses will be delivered each year, with full delivery by the end of 2012.

ALP-46A Electric Locomotives: Initiated purchase of 27 new electric locomotives with advanced technology and more power to provide better acceleration and reliability while pulling multilevel railcars. Delivery is scheduled for 2010.

Dual-Powered Locomotives: Initiated purchase of 26 dual-powered locomotives to operate in both electrified and nonelectrified territory, enabling us to provide a transfer-free commute for thousands of customers in the future. Compared to older diesel locomotives, the dual-powered locomotives will provide better acceleration, a more efficient and cleaner operation, and less reliance on diesel fuel. The first locomotives are expected to arrive in 2011, with complete delivery by late 2012.

Access Link Vehicles: Purchased 105 new minibuses for statewide service expansion and vehicle replacements, increasing the fleet from 247 to 305 vehicles.

Rail System Work: Installed 34,000 wood and 32,000 concrete railroad ties, 7.7 miles of continuous welded rail, electric switch heaters at 18 locations, wayside power at one rail yard, 5,700 feet of right-of-way fence, and a new signal system on parts of the Pascack Valley Line for two new interlockings, cab signals and a new passing siding. Also installed Automatic Train Control between West End Interlocking and Hoboken Terminal, bringing coverage of this enhanced safety technology to virtually all of the system.

Morrisville Yard: Opened an enclosed service and inspection building for light maintenance of railcars and installed 10 additional electrified tracks to double rail storage capacity. The yard now includes a new Automated Rail Vehicle Inspection System (ARVIS) that uses lasers, sensors and cameras to monitor disc brake pads, tread brake shoes, wheel roundness and wheel profiles each time a railcar or locomotive passes over it. NJ TRANSIT is the first commuter rail agency in the country to use ARVIS.

Bridge Repairs: Rehabilitated four bridges, made steel repairs to 19 additional bridges, installed electrical control for two movable bridges and more than 1,200 bridge ties, and painted six bridges.

Bus Facilities: Made various infrastructure improvements, including lift, HVAC, roof, vacuum, water main, air compressor and door replacements or repairs at several facilities. Completed new telecommunications room and control center at Port Authority Bus Terminal and new work shop at Egg Harbor Garage.

Hoboken Terminal and Yard: Worked on a master plan to redevelop the terminal and portions of the rail yard as a mixed-use, transit-oriented community hub. The project will improve intermodal functionality and operational efficiency between transit services, maximize economic return from this real estate asset, reactivate the historic terminal as a waterfront gateway, and promote economic development.

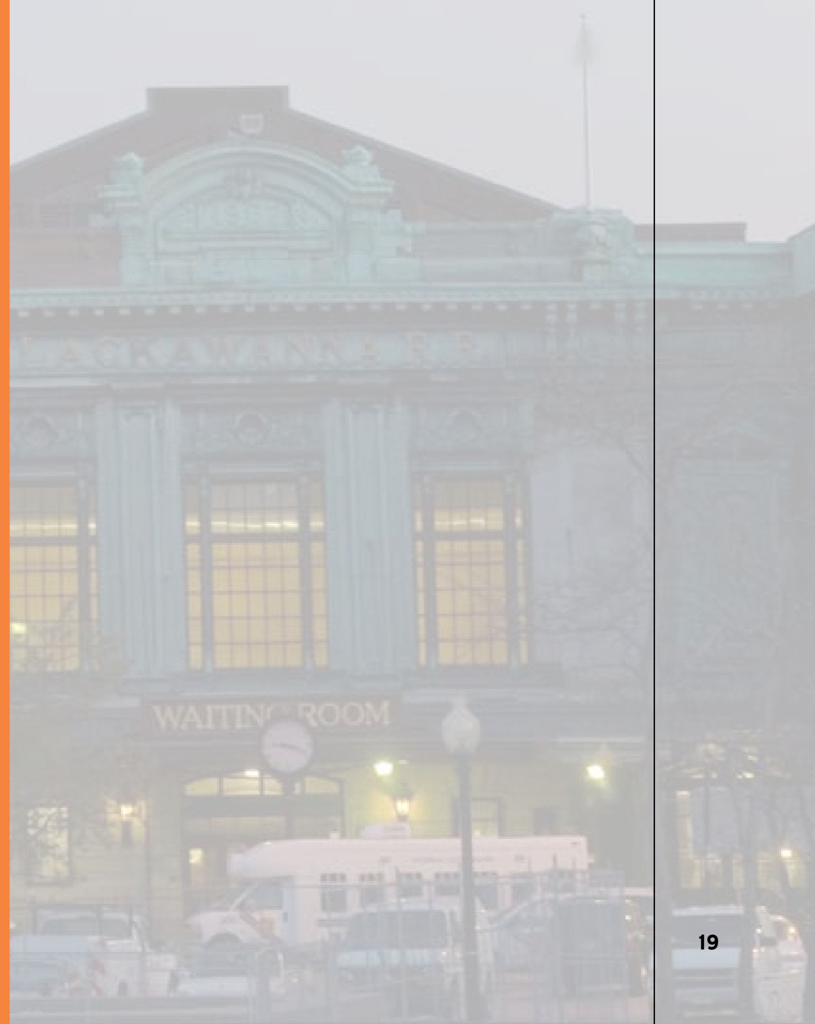
Frank R. Lautenberg Rail Station at Secaucus Junction: Purchased the air rights above the station and sought developers to design and advance a transit-oriented development on approximately 28 acres adjacent to and above the station.

Somerville Station: Partnered with the municipality and Somerset County to seek qualified developers for a mixed-use, transit-oriented development at the station and municipal landfill, including a mix of residential units, commercial and retail space, civic space, a hotel, and a commuter parking deck.

Bound Brook Station: Worked with the borough to select a redeveloper for 3.7 acres of NJ TRANSIT-owned land for proposed development to include residential units, retail space, a commuter parking deck and shared surface parking spaces.

Netcong Station: Worked with the town on a redevelopment plan that includes residential and commercial space adjacent to the station.

Morristown Station: Selected a developer for transit-oriented development around the station that includes residential units, retail space, and a parking deck. Construction work began in early 2008, with the parking deck scheduled to open by mid-2009.



19 MILLION: KILOWATT HOURS SAVED EACH YEAR DUE TO ENERGY CONSERVATION INITIATIVES

Carbon Footprint: Calculated NJ TRANSIT's carbon footprint using a transit industry method and determined that providing NJ TRANSIT service results in a net reduction of 589,000 metric tons of carbon dioxide equivalent per year (based on calculated footprint minus emissions if there was no public transit service). As a result of an effective energy conservation program, carbon emissions from energy used at our facilities have stabilized during the past six years in spite of the startup of new services such as Secaucus Junction, River LINE light rail system and Hudson-Bergen Light Rail extensions.

Sustainability: Advanced initiatives to provide facilities and operations that reduce impacts on the environment and improve energy conservation, focusing on the total process of delivering and operating the building, including construction, materials, waste disposal, energy demand and daily operations. Facility designs are carefully reviewed to comply with the guidelines of the United States Green Building Council to the maximum extent possible. New facilities of 15,000 sq. ft. and larger are designed to obtain a Leadership in Energy and Environmental Design rating of "Silver."

Energy Conservation: Reduced electricity consumption by approximately 19 million kilowatt hours per year during the past five years, resulting in cost savings and energy avoidance of approximately $2.5 million per year or 10 percent.

Head-End Power System: Upgraded locomotives and rail yard infrastructure to allow diesel locomotives to be shut down overnight in temperatures as low as zero degrees at many outlying rail yards, reducing noise and emissions and saving approximately 100,000 gallons of fuel monthly.

Switcher Locomotives: Received delivery of MP 20B-3 switcher locomotives that include environmentally friendly systems such as an engine start/stop control system that automatically shuts down the engine when idling and then restarts it when low battery voltage or engine temperature get to the point where it affects the engine's ability to restart. This system saves fuel and reduces emissions, noise and engine wear. Plans are in progress to retrofit 33 PL 42 locomotives with a similar system before the end of 2009.

Low-Sulfur Fuel: Switched grade of diesel fuel to low-sulfur for locomotives to reduce air emissions.

Low-Emission Buses: Placed 67 MCI buses with low-emission engines into service. Continued use of ultra-low sulfur diesel fuel for entire fleet of diesel engine buses.

Zipcars: Entered into a partnership with Zipcar to extend the reach of the NJ TRANSIT system and offer additional travel flexibility by enabling customers to rent a Zipcar to access destinations near rail and light rail stations.

Service Business Model: Balanced service levels in response to record ridership growth by redeploying existing equipment and personnel. Using a business model that continually evaluates low ridership and low-cost recovery services, we are meeting service demand requirements by adjusting service frequencies and route patterns to serve the greatest number of customers, while continuing to serve destinations for transit-dependent customers.

Real Estate Leases: In FY 2008, received approximately $6.5 million in revenue from real estate leases, including station concessions, buildings and other property. Advanced plans to establish new restaurants and other amenities at Newark Penn Station and the Trenton Transit Center.

Human Resources/Payroll Process: Began design work using web-based technology to reduce costs by automating and expanding business functionality and consolidating and improving record management. The new processes and software support system will enable more efficient processing in payroll, business administration, personnel actions and recruiting, and enable employees to access and update their personal data easily via the Internet.

Workplace Diversity and Training: Continued to strengthen our workforce by providing diversity training and programs that communicate corporate values and policies, and established a Diversity Committee to identify strategies to recruit and retain a highly qualified and diverse workforce. Expanded training curriculum to include Managing Across, a course to strengthen management techniques for a diverse workforce spanning multiple generations, and added other courses emphasizing professional development and quality customer service.

Health Benefits Program: Completed an aggressive and competitive procurement process to reduce health care costs as of July 2008 without reducing employee benefits and anticipate saving in excess of $3 million in administrative fees within the first year.

Fiber-Optic Conduit: Negotiated sale of 37 miles of existing trackside conduit along the Raritan Valley Line to AboveNet Communications, Inc. for $1.5 million, and will receive $200,000 annually for the next 25 years.

Cost Efficiencies: Identified nearly $500,000 in internal cost savings beginning in FY 2009 through negotiated contracts with businesses that provide services and equipment, office supplies and printing.

Security Systems: Expanded surveillance camera coverage on critical infrastructure, including movable and water-crossing structures and at 10 rail yards.

Emergency Communications: Installed satellite units at dispatch locations and control centers for emergency voice, radio and data communications and video transfer.

Security and Emergency Response Training:

- Trained police officers in counter-terrorism awareness, response and intelligence analysis, as well as in the use of portable radiation-detection pagers, thermo isotope identifiers, hazardous materials and other emergency response activities.

- Provided 600 police officers and operations' employees with National Incident Management System training to meet requirements of Homeland Security Presidential Order #5 and Governor's Executive Order #50, bringing NJ TRANSIT into full compliance.

- Conducted Behavioral Assessment Screening System training so police officers can better detect and intercept terrorist operations at the intelligence gathering, planning and deployment phases.

- Provided safety and emergency response training to 2,250 state, county and local police, fire and emergency management personnel and conducted counter-terrorism training related to transit operations to law enforcement agencies.

Community Outreach: Continued visits to businesses within eyesight of NJ TRANSIT's critical infrastructure to educate and increase awareness of the private sector on precursor activity associated with terrorism. Initiated a public awareness campaign to prevent accidents at railroad grade crossings and to encourage use of 888-TIPS-NJT line.

System expansions to increase travel flexibility and connectivity among bus, rail and light rail services are critical to providing convenient, affordable and environmentally-friendly transportation alternatives for a wide range of travelers. New travel options to attend sporting events, get to airline jobs, or that shorten commute time through congested areas, will expand and connect our system to deliver more service for our customers.

Meadowlands Rail Spur: Working with the New Jersey Sports and Exposition Authority, completed utility relocation work and construction of railroad embankments to support the new tracks, and began construction of the rail station. The station and roadway improvement project is a multiagency cooperative effort to provide rail service to the Meadowlands Sports and Entertainment Complex. The station is scheduled to open in 2009.

Atlantic City Express Rail Service: Currently testing locomotives acquired from Amtrak to provide 18 express weekend trains using retrofitted luxury railcars between Penn Station New York and Atlantic City Rail Terminal, with a stop in Newark. This service will be operated under contract for the casino consortium Atlantic City Express Service, LLC by early 2009.

Liberty Corridor Bus Rapid Transit: Advanced plans for an interconnected Bus Rapid Transit line to serve Newark Liberty International Airport, Downtown Newark, and the Newark Innovation Zone. The new service would improve access to key job centers and the airport, support economic revitalization in priority redevelopment areas, ease traffic congestion, and enhance intermodal connections.

Greater Newark Bus System Study: Began three-year study to analyze potential transit improvements to increase mobility and intermodal connectivity, reduce traffic congestion, and promote economic growth in Essex County and portions of Passaic, Union, Middlesex and Hudson counties. The study is being conducted in four phases, with some early service enhancements for the Newark area already in progress.

Route 1 Bus Rapid Transit: Continued work on defining a plan for a Bus Rapid Transit line along the Route 1 corridor in Mercer and Middlesex counties. The analysis is being coordinated with private-sector development projects in the corridor.

Greater New Brunswick Bus Rapid Transit: Completed the initial planning work for a Bus Rapid Transit line in the greater New Brunswick area. The study includes potential routes, intermodal facility improvement needs around New Brunswick Station, and near-term improvements to benefit existing bus services.

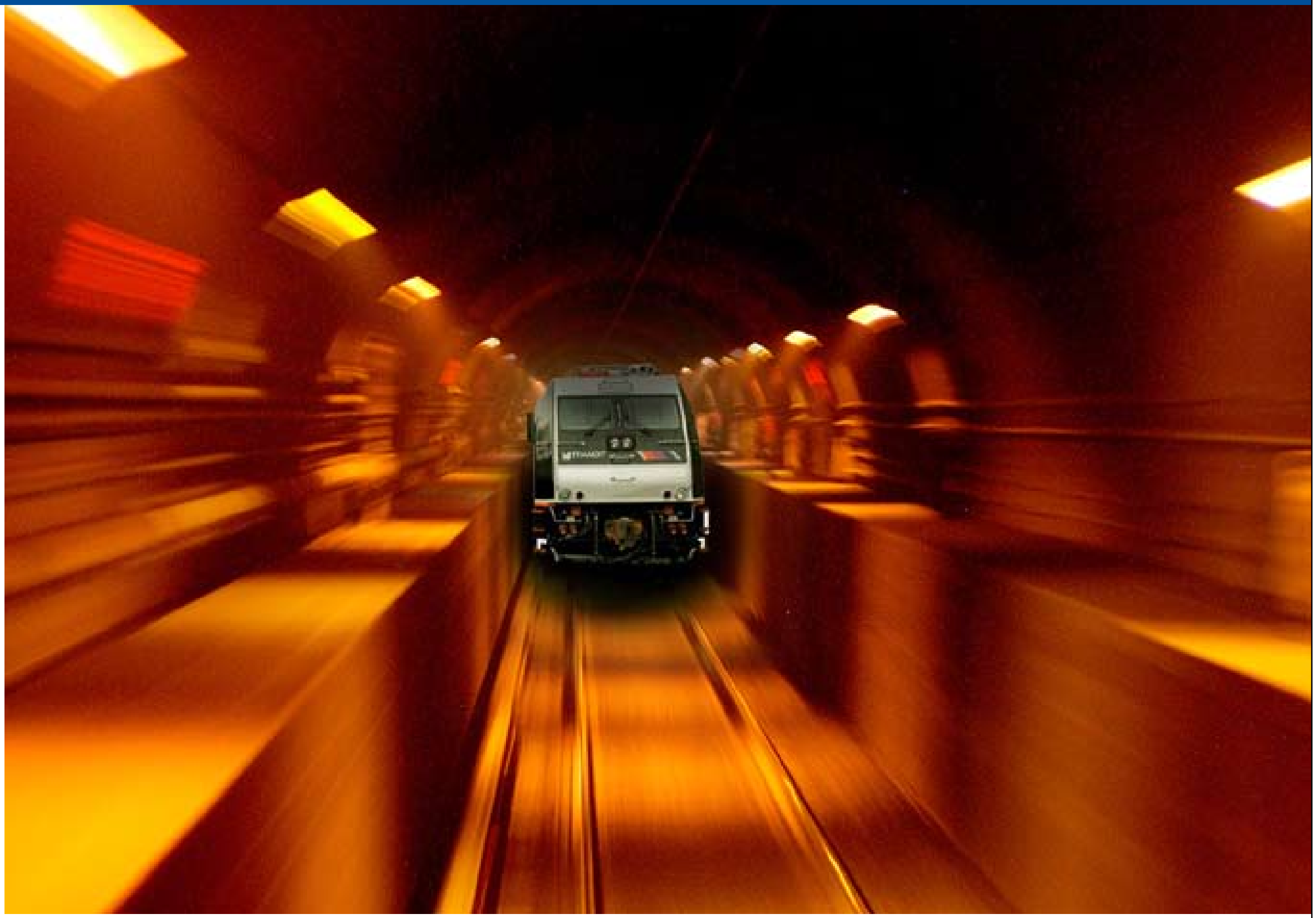
NJ TRANSIT, working together with the Port Authority of New Jersey & New York, Amtrak, Metro-North and other transit providers, is making substantial progress to improve regional mobility by making wise capital investments that interconnect our systems and expand travel options. Projects such as Access to the Region's Core and Portal Bridge replacement will significantly increase capacity and service reliability for our customers while spurring our region's economy. Our continued ridership growth strengthens our commitment to providing a robust, interconnected transit system, making NJ TRANSIT the preferred travel choice now and for future generations.

Mass Transit Tunnel: Advanced engineering and environmental analysis activities that support this critical bistate project to increase rail capacity, improve regional mobility and grow the economy. In February, the Federal Transit Administration boosted its rating to medium high for the tunnel project, known as Access to the Region's Core (ARC). This improved the project's eligibility for federal funding. In April, the project team completed the Supplemental Draft Environmental Impact Statement and have begun working on the Final Environmental Impact Statement. In July, the U.S. Senate included $75 million in additional funding to advance the project. ARC includes two new single-track railroad tunnels between New Jersey and New York, additional Penn Station capacity under 34th Street in Manhattan, and signal and track improvements along and adjacent to the Northeast Corridor. When completed, the project will double the number of commuter rail tracks and double peak-period, trans-Hudson train capacity from 23 trains per hour to 48. Construction is expected to begin in 2009. For more information and a full-screen video, go to www.arctunnel.com.

Portal Bridge: Submitted the Final Environmental Impact Statement to the Federal Railroad Administration. The project includes the replacement of the existing bridge, which spans the Hackensack River and is more than 100 years old, to improve reliability and provide additional capacity on the Northeast Corridor. Construction is scheduled to begin in 2011 with completion in 2017. For more information, go to www.portalbridgenec.com.

Northern Branch: Submitted the Draft Environmental Impact Statement to the Federal Transit Administration (FTA) to review and anticipate public comment in early 2009. The regulatory and public review and comment period is a final step before a Final Environmental Impact Statement can be published and FTA issues a Record of Decision. The project would reintroduce rail service in eastern Bergen County and North Bergen in Hudson County, improving regional mobility, reducing traffic congestion and fostering economic development.

Passaic-Bergen: Completed the environmental impact study and final engineering to provide a new rail link along more than eight miles of existing



freight track between Downtown Hackensack and the Main Line's Hawthorne Station. The project includes up to nine stations and provides cross-county service to increase travel flexibility for residents in that area.

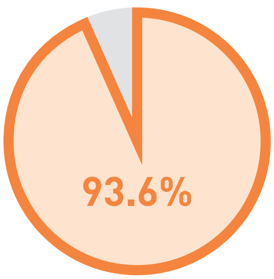
Lackawanna Cutoff: Completed the Environmental Assessment and made it available for public review in July 2008. The project would restore passenger rail service on existing and out-of-service rail right-of-way between Scranton, Pennsylvania and Midtown-Manhattan/Hoboken, New Jersey, a distance of 133 miles. Also in development is the initial project phase, an extension to Andover Township, using available federal funding.

Regional Shore Services: Worked with Monmouth, Ocean and Middlesex counties and the North Jersey Transportation Planning Authority on a Draft Environmental Impact Statement (DEIS) examining different rail alternatives. Work advanced on preparing ridership forecasts and on defining the infrastructure elements that will be analyzed in the DEIS document, scheduled to be completed in 2009.

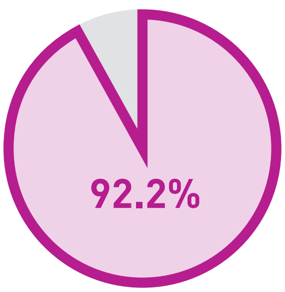
Northwest New Jersey Bus Study: Initiated a study to review existing transit services in the northwest region of New Jersey and identify opportunities for improvements to reduce congestion on that region's roads. The study will consider service reconfiguration options, new services, park and rides and bus priority treatments.

Central New Jersey-Raritan Valley Study: Initiated a study to evaluate bus and rail improvements to serve the I-78/Raritan Valley Line corridor west of I-287. Improvements being considered include park and rides, bus priority treatments, and extension of rail service to Phillipsburg.

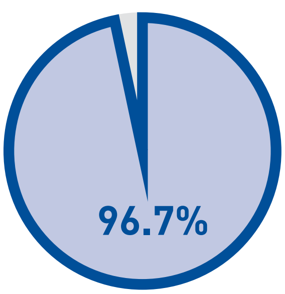
NJ TRANSIT ON-TIME PERFORMANCE BY MODE FY 2008



RAIL



BUS



LIGHT RAIL

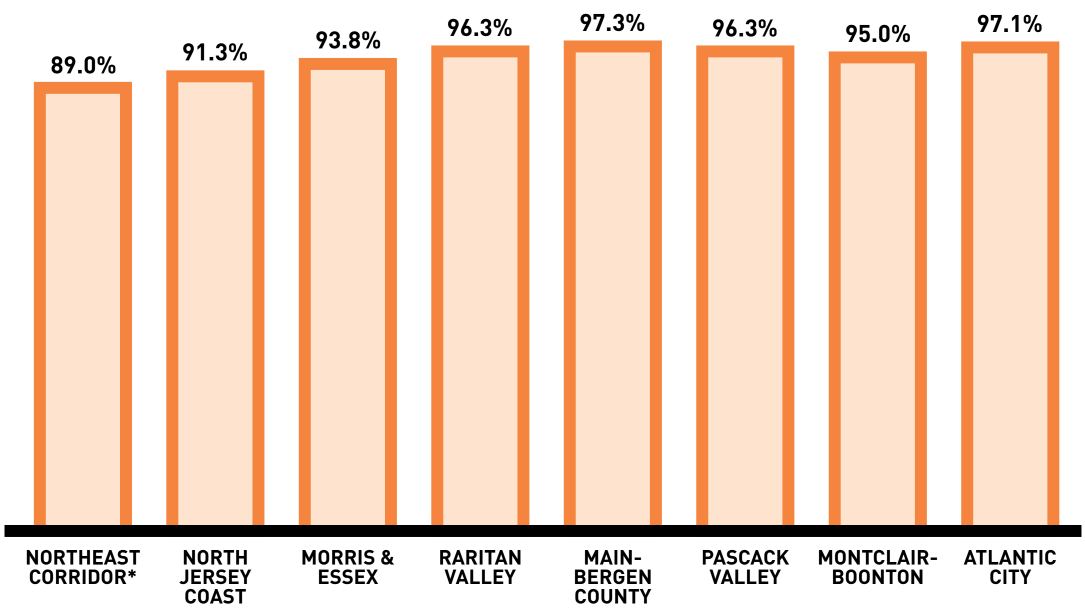
NJ TRANSIT considers a train to be on time if it arrives at its final destination within five minutes and 59 seconds of its scheduled time. Trains that fail to depart from their originating station or are canceled en route are considered late for recording purposes. This standard is used by all commuter railroads in the Northeast.

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

NJ TRANSIT also uses a computer-based train dispatching system called Train Management and Control (TMAC) at its Rail Operations Center, which is synchronized with the atomic clock located at the Naval Observatory in Colorado. TMAC provides NJ TRANSIT with the ability to accurately record a train's arrival at its final destination.

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

NJ TRANSIT ON-TIME PERFORMANCE BY RAIL LINE
FY 2008



*** Impacted by Amtrak tie replacement project.**

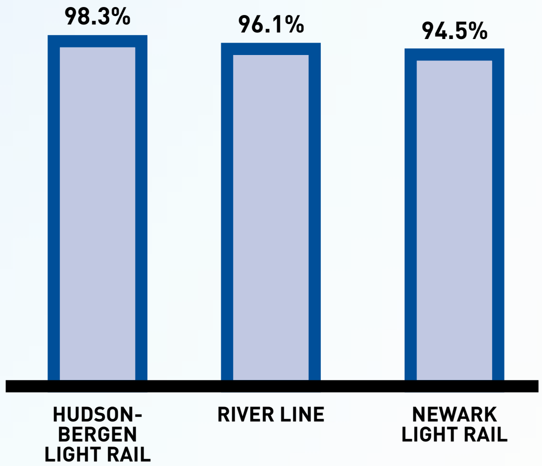
NJ TRANSIT monitors on-time performance using information management systems in its control centers. Train departure and arrival times are automatically tracked by computer systems that compare terminal departure and arrival times to the times posted in the public timetable.

A Hudson-Bergen Light Rail train is counted as late if it leaves its origin terminal ahead of schedule or arrives at its final destination terminal more than four minutes and 59 seconds late. A River LINE train is late if it arrives at its final destination terminal more than five minutes and 59 seconds late.

On Newark Light Rail, a train operated as a separate segment between Newark Penn Station and Broad Street Station is considered late if it leaves its origin terminal ahead of schedule or arrives at its final destination after three minutes. On the segment between Grove Street Station and Newark Penn Station and on through service from Grove Street Station to Broad Street Station, a train is considered late if it leaves its origin terminal ahead of schedule or arrives at its final destination after five minutes.

NJ TRANSIT conducts audits of the information management and reporting systems to ensure the accuracy of the data.

NJ TRANSIT ON-TIME PERFORMANCE BY LIGHT RAIL
FY 2008



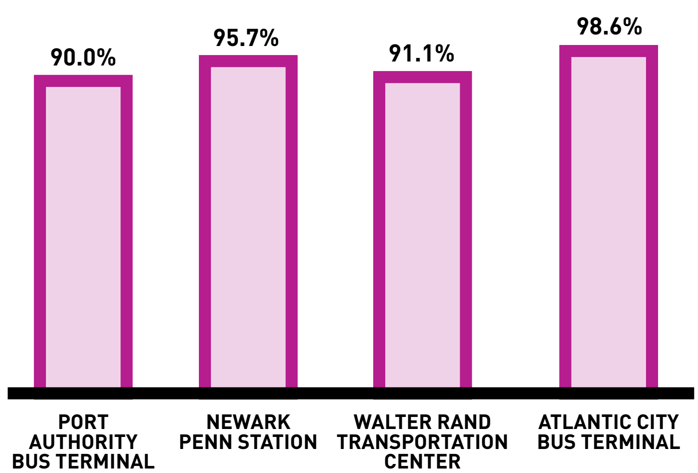
NJ TRANSIT records on-time performance at the following bus terminals:

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

Any bus that departs the terminal within five minutes and 59 seconds of its scheduled departure is considered on time. Station Starters at these locations are responsible for logging passenger counts, delays, and their causes.

Hoboken Terminal will be included in the on-time performance report beginning in FY 2009.

NJ TRANSIT
ON-TIME PERFORMANCE
BY BUS TERMINAL
FY 2008



KRIS KOLLURI, ESQ. **Board Chairman**

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

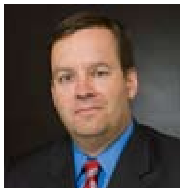
Mr. Kolluri was formerly Chief of Staff at the New Jersey Department of Transportation and, before that, was Assistant Commissioner of Intergovernmental Relations in charge of legislative relations, customer advocacy and public outreach. Prior to working in state government, Mr. Kolluri held top positions in Congressional offices, including Senior Policy Advisor to House Democratic Leader Richard A. Gephardt and special advisor to Congressman Gephardt on India and Indian-American affairs. He also served as Congressman Robert E. Andrews' Legislative Director and his principal staffer on the International Relations Subcommittee on Asia and the Pacific.

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

MYRON P. SHEVELL

Vice Chairman

Myron P. Shevell was appointed to the Board by Governor Christine Todd Whitman in May 1995. He is Chairman of the Board of New England Motor Freight and Chairman of the Shevell Group – real estate, trucking and logistic companies. He also is Board Chairman of New Jersey Motor Truck Association, Regional Director of the Bank of New York, and a member of the Defense Orientation Conference Association. Mr. Shevell has worked in the transportation industry for more than 60 years and resides in Elberon.



JAMES A. CAREY JR.

Governor's Representative

James A. Carey, Jr. was named Director of the Authorities Unit in the Office of Governor Jon S. Corzine in April 2008. He previously served as an assistant counsel in the Authorities Unit for Governor Corzine and Governor Richard J. Codey. Prior to joining the Governor's Office, he served as a Deputy Attorney General in the New Jersey Attorney General's Office from 2001 to 2005. He also serves on the boards of the Delaware Valley Regional Planning Commission and the North Jersey Transportation Planning Authority. He graduated from the University of South Carolina in 1990, and received a law degree in 1994 from Seton Hall School of Law, where he was an associate editor of the Law Review. He lives in Hoboken.

R. DAVID ROUSSEAU **State Treasurer**

Mr. Rousseau was sworn in as State Treasurer on April 7, 2008. Prior to that time, Mr. Rousseau was the Senior Advisor to the Governor for Budget and Fiscal Policy and Deputy State Treasurer. He worked closely with the Governor and Treasurer in developing and implementing the annual State budget and on other fiscal policy issues. He served as Deputy State Treasurer from 2002 until 2006 and provided policy guidance to the Governor, Treasurer and Governor's office. He also oversaw the operations of the Office of Management and Budget and participated in the operations of the Division of Taxation, Division and Pensions and Benefits and the Office of Public Finance. Mr. Rousseau was Senior Policy Advisor to the Senate President, focusing on the budget before returning to the Treasury Department. He served as the Budget Director for the Senate Democratic Office from 1990 to 2002. He moved to the Senate staff after serving as Research and Project Coordinator for the Election Law Enforcement Commission. Mr. Rousseau has a bachelor's degree from Temple University and holds an MBA from Rider University. He lives in Hamilton.

FLORA M. CASTILLO

Flora Castillo has served on the Board since 1999. She is Vice President of Corporate Marketing at AmeriHealth Mercy, the largest family of Medicaid Health Plans in the United States headquartered in Philadelphia. She serves on the boards of the American Public Transportation Association, American Public Transportation Foundation, and The Alan M. Voorhees Transportation Center Advisory Board at Rutgers University. She is a founding member of the NJ COMTO Chapter and serves as a board member. Ms. Castillo also is a member of APTA's Executive Committee and is the Vice Chair of Transit Board Members. She is president of the Latinas United for Political Empowerment Fund, a member of the boards of the Greater Philadelphia Health Action, Inc. and Philadelphia's Police Athletic League, and a member of Medicaid Health Plans of America's Marketing Committee. Ms. Castillo is a resident of Ventnor.

KENNETH E. PRINGLE, ESQ.

Kenneth E. Pringle is the managing partner of Pringle Quinn Anzano, P.C., a 25-attorney law firm with offices in Belmar, Morristown and Trenton. His practice is focused primarily on complex insurance and financial fraud litigation and land use matters. Mr. Pringle has served as the Mayor of Belmar, a Transit Village, since 1990, and is the Borough Attorney for the Borough of Red Bank. He is a member of the Board of Directors of Downtown New Jersey, and of the Belmar Planning Board. Mr. Pringle resides in Belmar.

SUSAN L. HAYES

Ms. Hayes is President and CEO of Cauldwell Wingate Company, LLC. A strong advocate for the recruitment and advancement of women in the construction industry, Ms. Hayes served for seven years as Board Chair for Non-Traditional Employment for Women, an organization that trains women for jobs in the building trades, the utilities and transportation industries, and in facilities repair and maintenance. She currently serves as Vice Chair of that organization. In 2005, Ms. Hayes was appointed to Mayor Bloomberg's Commission on Construction Opportunity and holds leadership positions in a number of business and professional groups and associations. She currently serves on the Board of Directors of Apple Bank for Savings, is a former Vice Chair on the Board of Directors of the New York Building Congress, is First Vice President of the Contractors' Association of Greater New York and served on the Board of Governors of the Building Trades Employers' Association. She also serves as Municipal Chair in Oradell in Bergen County, where she resides. She earned a Bachelor of Arts degree in Correctional Administration from John Jay College, City University of New York.

ROBERT SHANE

Governor's Alternate Representative

PATRICK W. O'CONNOR

Treasurer's Representative

EXECUTIVE COMMITTEE

Richard R. Sarles
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, Communications and Customer Service

William B. Duggan
Vice President and General Manager, Rail Operations

James J. Gigantino
Vice President and General Manager, Bus Operations

Warren A. Hersh
Auditor General

James P. Redeker
Vice President, Technology Services

Steven H. Santoro
Assistant Executive Director, Capital Planning and Programs

Alma R. Scott-Buczak
Assistant Executive Director, Human Resources

Jan L. Walden
Assistant Executive Director, Diversity

Gwen A. Watson
Board Secretary

H. Charles Wedel
Chief Financial Officer and Treasurer

ADVISORY COMMITTEES

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

NORTH JERSEY TRANSIT ADVISORY COMMITTEE

Suzanne T. Mack, Chair
Ronald Monaco, Vice Chairman
Nino Coviello
Michael DeCicco
Robert Dinardo
Kathy Edmond
Margaret Harden
Steven Monetti
Timothy O'Reilly
Ralph White
William R. Wright

SOUTH JERSEY TRANSIT ADVISORY COMMITTEE

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

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

THE AMERICANS WITH DISABILITIES ACT TASK FORCE

Frank Coye
Doug Gilbert
Judy Goldman
Francis Grant
Nancy Hodgins
Lee Nash
Barbara Small
Bill Smith
Maryanne Valls
Ina White

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

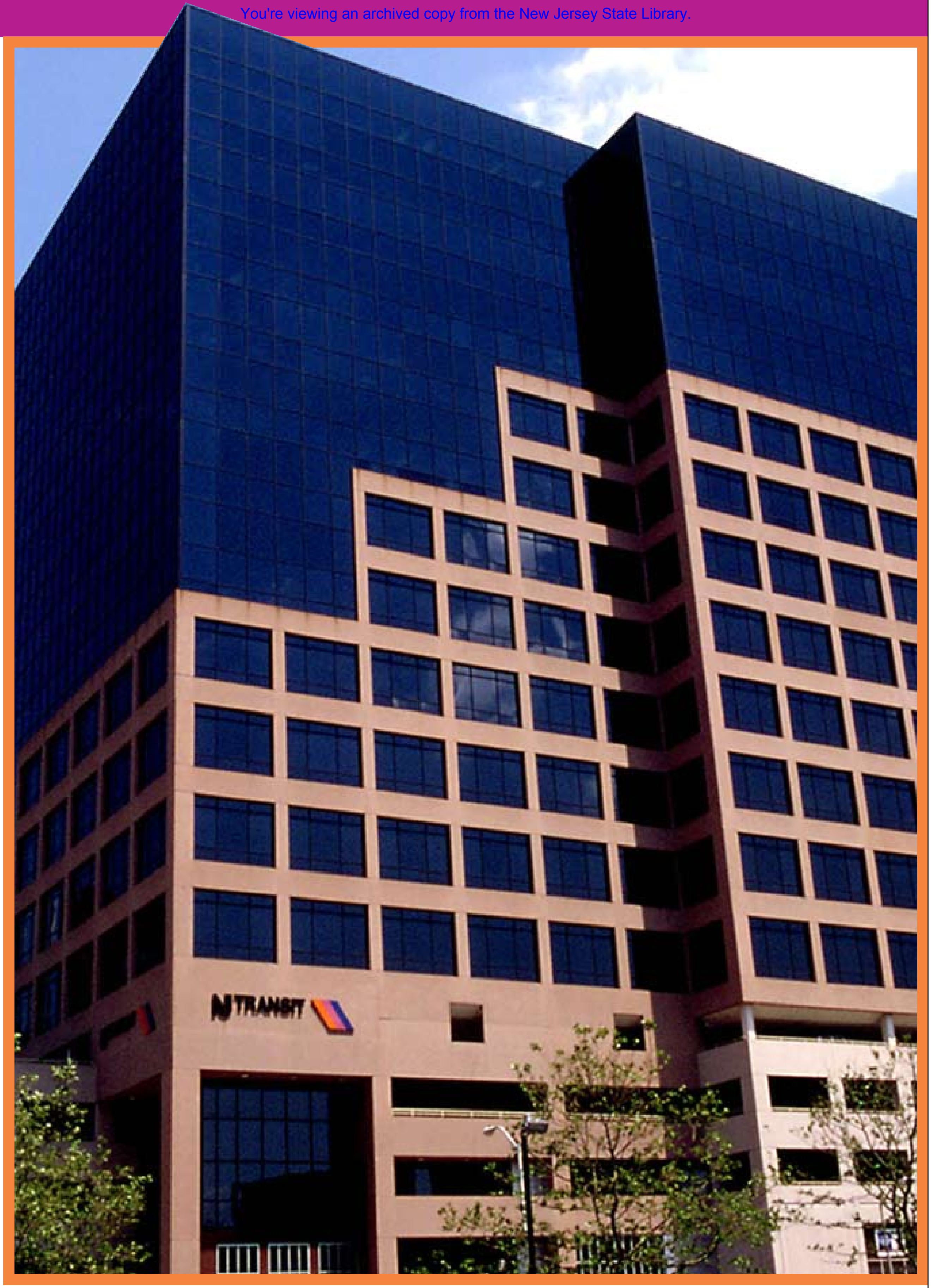
PRIVATE CARRIER ADVISORY COMMITTEE

Francis A. Tedesco, Chairperson
Robert B. DeCamp, Jr.
Donald Mazzarisi
Dale R. Moser

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

LOCAL PROGRAMS CITIZENS ADVISORY COMMITTEE

Ernest Anemone, Chairperson
Richard Bartello, 1st Chairperson
Ellen Brockmann, 2nd Chairperson
David Peter Alan
Kathleen Belles
Don Brauckmann, Sr.
Ann Burns
Louise Dance
Tony Hall
Gary Johnson
Maryann Mason
Henry Nicholson
Sam Podeitz
Ruezalia Ray
Marianne Valls
Margaret Vas
Michael Vieira
William Wright



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

NJ TRANSIT
The Way To Go.

NJ TRANSIT CONSOLIDATED FINANCIAL STATEMENTS

FISCAL YEAR
2008

NJ TRANSIT
The Way To Go.

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial position and results of operations of the Corporation as of and for the fiscal year ended June 30, 2008. This discussion and analysis covers the last three fiscal years and is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial position and performance. NJ TRANSIT encourages readers to consider the information presented in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The **Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets** show NJ TRANSIT's operating results and how its net assets changed during the calendar year. All revenues, expenses and changes in net assets are reported on the *accrual basis* of accounting, which reports the event as it occurs, rather than when cash changes hands (*cash basis* of accounting).

The **Consolidated Statements of Cash Flows** report how NJ TRANSIT's cash and cash equivalents increased or decreased during the year. The statements show how cash and cash equivalents were provided by and used in NJ TRANSIT's operating, non-capital financing, capital and related financing, and investing activities. The net increase or decrease in NJ TRANSIT's cash and cash equivalents is added to or subtracted from the balance at the beginning of the year to arrive at the cash and cash equivalents balance at the end of the year. NJ TRANSIT uses the direct method of presenting cash flows, which includes a reconciliation of operating income or loss to operating activities.

The **Notes to the Financial Statements** are an integral part of the financial statements and provide information that is essential to a full understanding of the statements.

The **Required Supplementary Information** presents the information regarding NJ TRANSIT's progress in funding its obligation to provide pension benefits and postemployment benefits other than pensions to its employees.

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2008

- Total operating revenues for NJ TRANSIT were $829.2 million in fiscal year 2008, an increase of $91.3 million, or 12.4 percent, over the prior fiscal year. Passenger revenue increased $83.2 million, or 12.3 percent, reflecting the fare increase implemented in June 2007 and a 2.9 percent increase in ridership. Other operating revenues increased $8.1 million, or 13.4 percent.

- Total operating expenses before depreciation were $1,709.9 million in fiscal year 2008, an increase of $102.7 million, or 6.4 percent, over the prior fiscal year. This increase is principally related to increases in employment costs, contracted services, fuel and propulsion and purchased transportation.

- Total net assets at June 30, 2008 were $5,433.8 million, an increase of $259.1 million, or 5.0 percent, over total net assets at June 30, 2007.

- Total capital assets (net of depreciation) were $7,185.5 million at June 30, 2008, a net increase of $138.9 million, or 2.0 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles, improvements to the right-of-way, land acquisitions and improvements to buildings and structures.

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2007

- Total operating revenues for NJ TRANSIT were $737.9 million in fiscal year 2007, an increase of $39.9 million, or 5.7 percent, over fiscal year 2006. Passenger revenue increased $33.8 million, or 5.3 percent, reflecting a 4.1 percent increase in ridership and the one-month impact of an average 9.6 percent fare increase implemented in June 2007. Other operating revenues increased $6.1 million, or 11.2 percent.

- Total operating expenses before depreciation were $1,607.2 million in fiscal year 2007, an increase of $97.2 million, or 6.4 percent, over fiscal year 2006. This increase is principally related to increases in employment costs, parts, materials and supplies, fuel and propulsion and purchased transportation.

- Total net assets at June 30, 2007 were $5,174.7 million, a decrease of $11.3 million, or 0.2 percent, under total net assets at June 30, 2006.

- Total capital assets (net of depreciation) were $7,046.6 million at June 30, 2007, a net decrease of $112.1 million, or 1.6 percent, under the previous fiscal year. The decrease in total capital assets was primarily the result of current year depreciation and a transfer of certain capital expenditures to other entities.

FINANCIAL ANALYSIS
NET ASSETS

NJ TRANSIT's total net assets at June 30, 2008, were $5,433.8 million, an increase of $259.1 million, or 5.0 percent, over June 30, 2007 (Table A-1). Total assets increased $286.9 million (3.0 percent) and total liabilities increased $27.8 million (0.6 percent).

NJ TRANSIT's total net assets at June 30, 2007, were $5,174.7 million, a decrease of $11.3 million, or 0.2 percent, under June 30, 2006 total net assets (Table A-1). Total assets decreased $230.9 million (2.4 percent) and total liabilities decreased $219.6 million (4.8 percent).

TABLE A-1
NJ TRANSIT FUND NET ASSETS *(in millions)*

	AS OF JUNE 30,			%INC/(DEC)	
	2008	**2007**	**2006**	**2008/2007**	**2007/2006**
Current assets	$425.6	$389.2	$493.4	9.4	(21.1)
Restricted assets	2,174.2	2,061.1	2,075.9	5.5	(0.7)
Capital assets, net	7,185.5	7,046.6	7,158.6	2.0	(1.6)
Other assets	20.8	22.4	22.3	(7.1)	0.5
TOTAL ASSETS	**9,806.1**	**9,519.3**	**9,750.2**	**3.0**	**(2.4)**
Current liabilities	713.9	782.7	686.7	(8.8)	14.0
Notes payable	1,954.4	1,910.7	2,154.8	2.3	(11.3)
Postemployment benefits	112.5	74.9	38.3	50.2	95.6
Long-term debt	1,493.3	1,480.0	1,563.5	0.9	(5.3)
Other non-current liabilities	98.3	96.3	120.9	2.1	(20.4)
TOTAL LIABILITIES	**4,372.4**	**4,344.6**	**4,564.2**	**0.6**	**(4.8)**
Fund Net Assets					
Invested in capital assets, net of related debt	5,559.2	5,465.8	5,279.4	1.7	3.5
Restricted net assets	1.6	9.1	9.1	(82.4)	—
Deficit in unrestricted net assets	(127.0)	(300.2)	(102.5)	(57.7)	192.9
TOTAL FUND NET ASSETS	**$5,433.8**	**$5,174.7**	**$5,186.0**	**5.0**	**(0.2)**

FISCAL YEAR 2008

The 9.4 percent increase in current assets in fiscal year 2008 reflects an increase in cash and cash equivalents. Restricted assets increased 5.5 percent as a result of the issuance of $309.2 million of Certificates of Participation. The proceeds from the sale of these certificates are being used to acquire 27 electric locomotives and 37 multilevel railcars. Of the $7,185.5 million in capital assets, net, $649.6 million represents construction in progress; $6,195.2 million represents NJ TRANSIT's investment in buildings, structures, track, locomotives, railcars and buses, net of depreciation; and $340.7 million represents other capital assets.

The 8.8 percent decrease in current liabilities was the result of a decrease in accrued payroll and benefits reflecting contract settlements of both Bus and Rail bargaining units' employees.

The 50.2 percent increase in postemployment benefits reflects the fiscal year 2008 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

Restricted net assets include proceeds from the sale of capital assets. The 82.4 percent decrease in restricted net assets was due to the release of funds for operations, which was in compliance with related guidelines.

FISCAL YEAR 2007

The 21.1 percent decrease in current assets in fiscal year 2007, reflects a decrease in cash and cash equivalents. Of the $7,046.6 million in capital assets, net, $767.5 million represents construction in progress; $5,894.6 million represents NJ TRANSIT's investment in locomotives, railcars, buses, buildings, structures and track, net of depreciation; and $384.5 million represents other capital assets.

The 14.0 percent increase in current liabilities was the result of increases in accrued payroll and benefits payable and short-term debt obligations.

The 95.6 percent increase in postemployment benefits reflects a fiscal year 2007 incremental increase under GASB Statement No. 45.

The 20.4 percent decrease in other non-current liabilities is representative of a decrease in accrued injuries and damages payable.

CHANGES IN NET ASSETS

The increase in net assets in fiscal year 2008 was $259.1 million, or 5.0 percent, compared to the fund net assets, in fiscal year 2007 (Table A-2). NJ TRANSIT's total operating revenues increased $91.3 million, or 12.4 percent, and total operating expenses, before depreciation, increased $102.7 million, or 6.4 percent. Depreciation increased $86.4 million, or 17.5 percent. Net capital contributions increased $381.0 million, or 70.8 percent.

The change in net assets in fiscal year 2007 of $11.3 million was 0.2 percent below the change in net assets for fiscal year 2006, as adjusted for the accounting change in fiscal year 2006 (Table A-2). NJ TRANSIT's total operating revenues increased $39.9 million, or 5.7 percent, and total operating expenses, before depreciation, increase $97.2 million or 6.4 percent. Depreciation decreased $13.0 million or 2.6 percent. Net capital contributions decreased $70.4 million, or 11.6 percent.

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

TABLE A-2
CHANGES IN NJ TRANSIT FUND NET ASSETS *(in millions)*

	YEARS ENDED JUNE 30			% INC/(DEC)	
	2008	**2007**	**2006**	**2008/2007**	**2007/2006**
Operating Revenues					
Passenger Fares	$760.7	$677.5	$643.7	12.3	5.3
Other	68.5	60.4	54.3	13.4	11.2
Total Operating Revenues	**829.2**	**737.9**	**698.0**	**12.4**	**5.7**
Operating Expenses					
Total operating expenses before depreciation	1,709.9	1,607.2	1,510.0	6.4	6.4
Depreciation	579.9	493.5	506.5	17.5	(2.6)
Total Operating Expenses	**2,289.8**	**2,100.7**	**2,016.5**	**9.0**	**4.2**
Operating Loss	**(1,460.6)**	**(1,362.8)**	**(1,318.5)**	**7.2**	**3.4**
Non-operating revenues, net	800.8	813.6	757.9	(1.6)	7.3
Capital contributions, net	918.9	537.9	608.3	70.8	(11.6)
Change in Fund Net Assets	**259.1**	**(11.3)**	**47.7**	**—**	**—**
Total Fund Net Assets, Beginning, As Previously Reported	**5,174.7**	**5,186.0**	**4,809.1**	**(0.2)**	**7.8**
Cumulative Effect of Accounting Change	**—**	**—**	**329.2**	**—**	**—**
Total Fund Net Assets, Beginning, Adjusted for Accounting Change	**5,174.7**	**5,186.0**	**5,138.3**	**(0.2)**	**0.9**
Total Fund Net Assets, Ending	**$5,433.8**	**$5,174.7**	**$5,186.0**	**5.0**	**(0.2)**

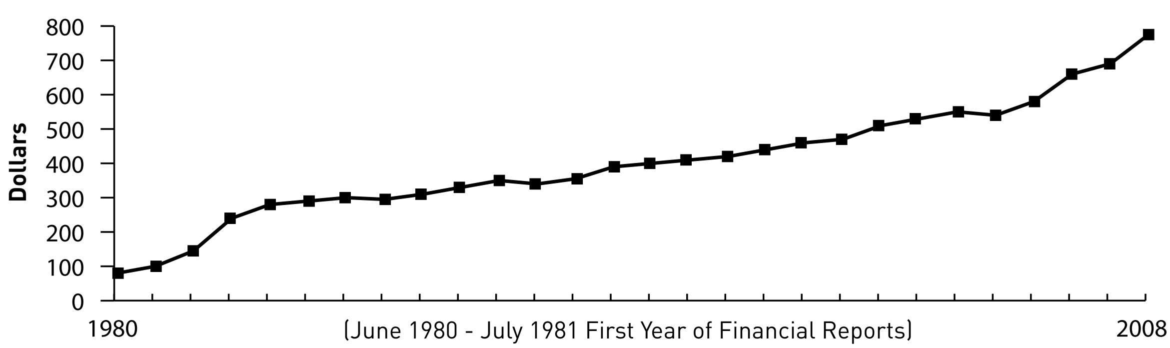
OPERATING REVENUES

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

PASSENGER FARE REVENUES

Passenger fare revenue consists of fares earned during the year from the sale of tickets and monthly passes and bus farebox receipts. Passenger fare revenues for fiscal years 2008 and 2007 reflect the impact of an average 9.6 percent fare increase implemented in June 2007.

Passenger Revenue *(in millions)*



Rail passenger revenue for fiscal year 2008 increased $50.9 million, or 13.6 percent, with ridership increasing by 4.0 million passenger trips. Bus passenger revenue increased $28.3 million, or 9.9 percent, with ridership increasing by 1.4 million passenger trips. Light rail passenger revenues, consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, increased $3.3 million, or 18.8 percent, with ridership increasing by 2.2 million passenger trips.

Rail passenger revenue for fiscal year 2007 increased $22.0 million, or 6.3 percent, with ridership increasing by 4.5 million passenger trips. Bus passenger revenue increased $8.6 million, or 3.1 percent, with ridership increasing 2.4 million passenger trips. Light rail passenger revenues, consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, increased $3.5 million, or 24.8 percent, with ridership increasing by 3.3 million passenger trips.

TABLE A-3
RIDERSHIP *(in millions)*

				% INC/(DEC)	
	FY08	**FY07***	**FY06***	**2008/2007**	**2007/2006**
Rail Lines					
Newark Division	52.9	50.3	47.4	5.2	6.1
Hoboken Division	28.3	26.9	25.3	5.2	6.3
Atlantic City	1.3	1.3	1.3	—	—
Total	**82.5**	**78.5**	**74.0**	**5.1**	**6.1**
Bus Lines					
Northern Division	69.0	67.7	65.8	1.9	2.9
Central Division	71.2	70.9	70.7	0.4	0.3
Southern Division	25.5	25.7	25.4	(0.8)	1.2
Total	**165.7**	**164.3**	**161.9**	**0.9**	**1.5**
Light Rail Lines					
Newark Light Rail	6.2	6.0	5.5	3.3	9.1
Hudson-Bergen Light Rail	12.4	10.7	7.9	15.9	35.4
River LINE	2.7	2.4	2.4	12.5	—
Total	**21.3**	**19.1**	**15.8**	**11.5**	**20.9**
Total Ridership	**269.5**	**261.9**	**251.7**	**2.9**	**4.1**

*Adjusted

OTHER OPERATING REVENUES

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The increase in other operating revenues of $8.1 million, or 13.4 percent, was principally due to an increase in parking lot income, contract revenue, rental income and revenue from Metro-North Operations.

OPERATING EXPENSES

Operating expenses consist of employment costs, depreciation and other operating costs.

EMPLOYMENT COSTS

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

Employment costs increased by $32.6 million, or 3.5 percent. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and overtime cost increases associated with service expansion and disruptions. NJ TRANSIT's health care and pension expenses also increased, further impacting overall employment costs. This increase also includes the impact of the incremental costs for fiscal year 2008 related to GASB Statement No. 45, which requires the recording of non-pension, "other postemployment benefits (OPEB)."

OTHER OPERATING COSTS

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

Outside services expenses increased $14.4 million, or 16.2 percent, as a result of additional costs for contracted maintenance of facilities and revenue vehicles, electronic equipment services and security. In addition, services expense was impacted by increased costs associated with various fiscal year 2008 project activities, such as environmental remediation, bridge inspections and painting, repairs to revenue vehicles and the Access to the Regions Core project (Mass Transit Tunnel).

Fuel and propulsion expenses increased $39.5 million, or 33.4 percent. Fuel expenses increased $33.3 million or 44.5 percent as a result of a $0.90 per gallon increase in the cost of diesel fuel, along with increased diesel fuel consumption of approximately 147,000 gallons. Propulsion expenses increased $6.2 million, or 14.8 percent, reflecting an increase in the charges from the National Railroad Passenger Corporation (Amtrak) for traction power on the Northeast Corridor rail line and increased propulsion power costs for the Hudson-Bergen Light Rail system.

Purchased transportation expenses increased $27.6 million, or 17.0 percent, due to increased costs for Access Link (ADA) services, the Senior Citizen and Rural Transportation program, and operation of the Hudson-Bergen Light Rail system and the River LINE system.

NON-OPERATING REVENUES

Non-operating revenues, net, decreased $12.8 million, or 1.6 percent, attributable to a reduction in income from financing arrangements and increased interest expense, partially offset by increased governmental reimbursements. Federal, state and local reimbursements, which represents funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities, increased $22.7 million, or 4.0 percent, compared to the prior fiscal year.

CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Further information about federal, state and local interest in assets acquired and constructed is provided in Note 16, Net Assets. Funding of capital grant expenditures totaling $918.8 million was $381.0 million, or 70.8 percent, above fiscal year 2007.

Major capital projects during the year included the Mass Transit Tunnel, the acquisition and rehabilitation of revenue vehicles, and construction of and improvements to passenger and support facilities and rail infrastructure.

CAPITAL ASSETS

As of June 30, 2008, NJ TRANSIT had invested $11,884.0 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2008 totaled $7,185.5 million (Table A-4). This amount represents a net increase of $138.9 million, or 2.0 percent, over June 30, 2007 net capital assets.

As of June 30, 2007, NJ TRANSIT had invested $11,180.2 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2007 totaled $7,046.6 million (Table A-4). This amount represents a net decrease of $112.0 million, or 1.6 percent, below June 30, 2006 net capital assets.

TABLE A-4
NJ TRANSIT CAPITAL ASSETS *(net of depreciation)*
(in millions)

	AS OF JUNE 30,			% INC/(DEC)	
	2008	**2007**	**2006**	**2008/2007**	**2007/2006**
Capital projects in process	$649.6	$767.5	$1,246.1	(15.4)	(38.4)
Revenue vehicles	1,572.2	1,447.3	1,537.4	8.6	(5.9)
Buildings and structures	3,093.6	3,003.1	2,702.7	3.0	11.1
Track	1,417.1	1,444.3	1,312.9	(1.9)	10.0
Land	340.7	291.5	281.5	16.9	3.6
Equipment	112.3	92.9	78.0	20.9	19.1
Total Capital Assets, Net	**$7,185.5**	**$7,046.6**	**$7,158.6**	**2.0**	**(1.6)**

A 15.4 percent decrease in capital projects in process in fiscal year 2008 essentially reflects the transfer of capital project costs associated with the acquisition of buses and railcars and improvements to passenger and support facilities to revenue vehicles, buildings and structures and land as evidenced by the 8.6 percent, 3.0 percent and 16.9 percent increases in these categories, respectively.

A 38.4 percent decrease in capital projects in process in fiscal year 2007 reflects the transfer of project costs associated with the Hudson-Bergen Light Rail system, the River LINE, Secaucus Transfer and Port Imperial Ferry Terminal to buildings and structures, track and land as evidenced by the 11.1 percent, 10.0 percent and 3.6 percent increases in these categories, respectively.

The Board of Directors approved a fiscal year 2009 capital program that authorizes NJ TRANSIT to request funds totaling $1,290.0 million to provide for the continuation of the major projects currently underway, as well as new initiatives. Funds have been requested for rail, bus and light rail infrastructure improvements; the overhaul and maintenance of rolling stock; debt service related to the acquisition of revenue vehicles and new system expansion. Provisions also have been made to comply with all federally mandated accessibility and environmental regulations. Additional information about NJ TRANSIT's capital assets is presented in Note 5 to the financial statements.

DEBT OBLIGATIONS

Debt obligations outstanding at June 30, 2008, totaled $3,791.2 million compared with $3,778.2 million at June 30, 2007, an increase of 0.3 percent. Debt obligations outstanding at June 30, 2007, totaled $3,778.2 million compared to $4,026.7 million at June 30, 2006, a decrease of 6.2 percent. The following table summarizes the changes in debt between fiscal years 2008, 2007 and 2006 *(in millions)*:

	AS OF JUNE 30,			% INC/(DEC)	
	2008	**2007**	**2006**	**2008/2007**	**2007/2006**
Notes payable	$2,169.4	$2,115.2	$2,349.2	2.6	(10.0)
Obligations under capital leases*	1,621.8	1,663.0	1,677.5	(2.5)	(0.9)
Total	**$3,791.2**	**$3,778.2**	**$4,026.7**	**0.3**	**(6.2)**

*Includes $1,522.0 million, $1,548.6 million and $1,549.4 million of leveraged lease transactions as of fiscal years 2008, 2007 and 2006, respectively.

Additional information about NJ TRANSIT's debt is presented in Notes 10 and 11 to the financial statements.

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, 2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	$236,011	$84,715
Due from federal government	26,792	130,439
Due from state of New Jersey	27,563	34,899
Inventories, net	97,693	89,678
Other	37,545	49,492
Total Current Assets	**425,604**	**389,223**
Non-Current Assets		
Restricted cash and cash equivalents	1,550	9,076
Restricted investments	668,535	503,388
Restricted leveraged lease deposits	1,504,124	1,548,569
Other	20,857	22,384
Capital assets not being depreciated	990,310	1,059,091
Capital assets, net of accumulated depreciation	6,195,190	5,987,535
Total Non-Current Assets	**9,380,566**	**9,130,043**
Total Assets	**9,806,170**	**9,519,266**
LIABILITIES		
Current Liabilities		
Accounts payable	157,535	155,220
Accrued payroll and benefits	138,067	158,154
Current installments under capital leases	128,512	182,976
Short-term notes payable	214,998	204,574
Other current liabilities	74,832	81,738
Total Current Liabilities	**713,944**	**782,662**
Non-Current Liabilities		
Notes payable	1,954,416	1,910,660
Accrued injury and damage claims	53,169	43,307
Obligations under capital leases	1,493,298	1,479,980
Other postemployment benefits	112,464	74,996
Deferred revenue and other non-current liabilities	45,119	52,963
Total Non-Current Liabilities	**3,658,466**	**3,561,906**
Total Liabilities	**4,372,410**	**4,344,568**
Net Assets		
Invested in capital assets, net of related debt	5,559,234	5,465,828
Restricted for capital projects	1,550	9,076
Deficit in unrestricted net assets	(127,024)	(300,206)
Total Net Assets	**$5,433,760**	**$5,174,698**

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, 2008	2007
Operating Revenues		
Passenger fares	$760,714	$677,472
Other	68,520	60,440
Total Operating Revenues	**829,234**	**737,912**
Operating Expenses		
Labor	566,703	552,370
Fringe benefits	409,914	391,616
Parts, materials and supplies	139,495	143,898
Services	103,394	88,974
Claims and insurance	32,198	38,409
Fuel and propulsion	157,864	118,359
Trackage, tolls and fees	41,052	44,908
Utilities	41,652	40,474
Purchased transportation	189,920	162,281
Other	27,754	25,943
Total Operating Expenses, Before Depreciation	**1,709,946**	**1,607,232**
Loss Before Depreciation	**(880,712)**	**(869,320)**
Depreciation	(579,905)	(493,468)
Operating Loss	**(1,460,617)**	**(1,362,788)**
Non-Operating Revenues (Expenses)		
State appropriation	298,200	298,200
Federal, state and local reimbursements	593,700	571,016
Investment income	2,178	13,202
Income from financing arrangements	4,844	23,920
Other non-operating revenues	13,466	8,313
Interest expense	(111,552)	(101,057)
Total Non-Operating Revenues (Expenses)	**800,836**	**813,594**
Loss Before Capital Contributions	**(659,781)**	**(549,194)**
Capital contributions, net	918,843	537,909
Change in net assets	259,062	(11,285)
Total Net Assets, Beginning	**5,174,698**	**5,185,983**
Total Net Assets, Ending	**$5,433,760**	**$5,174,698**

See Notes to Consolidated Financial Statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS *(in thousands)*

	YEARS ENDED JUNE 30, 2008	2007
Cash Flows from Operating Activities		
Cash receipts from fares	$764,009	$679,841
Other cash receipts	69,290	66,344
Payments for claims	(31,522)	(46,288)
Payments to employees	(959,236)	(881,504)
Payments to suppliers	(695,773)	(664,677)
Net Cash Used by Operating Activities	**(853,232)**	**(846,284)**
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants and appropriations	892,653	873,605
Net Cash Provided by Non-Capital Financing Activities	**892,653**	**873,605**
Cash Flow from Capital and Related Financing Activities		
Proceeds from issuance of notes	321,111	—
Payment of obligations under capital leases	(14,546)	(13,696)
Interest payments	(111,552)	(101,057)
Repayment of note obligations	(266,932)	(233,952)
Purchase of capital assets	(778,223)	(425,241)
Capital grants	1,094,790	608,394
Net Cash Provided (Used) by Capital and Related Financing Activities	**244,648**	**(165,552)**
Cash Flows from Investing Activities		
Purchase of investments	(321,111)	—
Sales and maturities of investments	155,944	13,977
Interest on investments	2,178	13,202
Leveraged lease proceeds	4,728	2,589
Income from other financing activities	17,962	21,330
Net Cash (Used) Provided by Investing Activities	**(140,299)**	**51,098**
Net Increase (Decrease) in Cash and Cash Equivalents	**143,770**	**(87,133)**
Cash and Cash Equivalents		
Beginning of Year	**93,791**	**180,924**
End of Year	**$237,561**	**$93,791**
Non-Cash Investing Activities		
(Decrease) Increase in fair value of investments	$(9,678)	$4,879

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, 2008	2007
Operating Loss	**$(1,460,617)**	**$(1,362,788)**
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation	579,905	493,468
Changes in Assets and Liabilities		
Inventories	(8,015)	(7,785)
Other current assets	2,909	(867)
Other non-current assets	1,528	(4,615)
Accounts payable	2,315	(29,860)
Accrued payroll and benefits	(20,087)	25,757
Other current liabilities	(4,123)	18,376
Accrued injury and damage claims	9,863	(20,033)
Other postemployment benefits	37,468	36,725
Deferred revenue and other non-current liabilities	5,622	5,338
Net Cash Used by Operating Activities	**$(853,232)**	**$(846,284)**

See Notes to Consolidated Financial Statements.

1. ORGANIZATIONS AND BUSINESS PURPOSE

Reporting Entity. The New Jersey Transit Corporation (NJ TRANSIT) is a component unit of the state of New Jersey created by the New Jersey Public Transportation Act of 1979. NJ TRANSIT is empowered with the authority to acquire, own, operate and contract for the operation of public passenger transportation services. NJ TRANSIT provides these services through the operations of wholly owned bus (NJ TRANSIT Bus Operations, Inc. and NJ TRANSIT Mercer, Inc.), commuter rail (NJ TRANSIT Rail Operations Inc.) and insurance (ARH III Insurance Co., Inc.) 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 management services.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

New Accounting Pronouncement. In fiscal year 2008, NJ TRANSIT adopted the provisions of GASB Statement No. 50, *Pension Disclosures*. The objective of this statement is to amend note disclosure and required supplementary information standards of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with applicable changes adopted in Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers (see Note 6).

Accounting Pronouncement Issued But Not Yet Adopted. GASB Statement No. 49 (GASB 49) *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November 2006. This statement identifies the circumstances under which NJ TRANSIT would be required to report a liability related to pollution remediation. Under the requirements of GASB 49, NJ TRANSIT would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem.

- A government has violated a pollution prevention-related permit or license.

- Either a regulator has identified or evidence indicates a regulator will identify a government as responsible or potentially responsible for cleaning up pollution, or paying all or some of the cost of the cleanup.

- A government is named in a lawsuit, or evidence that it will be, to compel it to address the pollution.

- A government begins to clean up pollution or conducts related activities, or the government legally obligates itself to do so.

Under GASB 49 liabilities and expenses are estimated using an "expected cash flows" measurement technique. GASB 49 also requires governments to disclose information about their pollution remediation obligations associated with cleanup efforts in the notes to the financial statements. GASB 49 is effective for NJ TRANSIT's 2009 fiscal year. Management has not made a final determination of the impact of this new standard on its financial position.

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

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

- Invested in Capital Assets, Net of Related Debt – This reflects the net assets of NJ TRANSIT that are invested in capital assets, net of related debt. This indicates that these net assets are not accessible for other purposes.

- Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

- Deficit in Unrestricted Net Assets – This relates to net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted," as discussed above, such as the recognition of the liability for postretirement benefits other than pensions that exceed the net assets for general use. When both restricted and unrestricted resources are available for use, it is NJ TRANSIT's policy to use restricted resources first and then unrestricted resources as they are needed.

Principles of Consolidation. The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries (blended component units). All inter-company transactions have been eliminated.

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

Investments. All investments, except for investment agreements, are stated at fair value based on quoted market prices, as available (see Note 3). Investment agreements are collateralized, non-participating guaranteed investment contracts, which are carried at cost. Income from investments is recognized on the accrual basis. Realized gains or losses on sales of investment securities are accounted for using the specific identification method. NJ TRANSIT has elected to combine realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses include unrealized amounts from prior years.

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

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

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

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

	YEARS
Buildings, structures and trackwork	25
Railcars and locomotives	22-25
Buses, vans and light railcars	5-15
Furniture, fixtures and equipment	3-10

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

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

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

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

Interest Rate Swaps. NJ TRANSIT enters into various interest rate swaps to manage risks associated with interest on its notes portfolio. As currently allowed under accounting principles generally accepted in the United States, NJ TRANSIT does not record the fair value or changes in fair value on the face of its consolidated financial statements.

Note Premiums and Discounts. Underwriters' premiums and discounts, which are recorded net with Notes Payable, are deferred and amortized over the life of the debt in the financial statements using the effective interest method.

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.

Other Postemployment Benefits. Other Postemployment Benefits (OPEB) cost for health care is measured and disclosed using the accrual basis of accounting (see Note 7). Annual OPEB cost is equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters.

Reclassifications. Certain reclassifications have been reflected in the fiscal year 2007 Consolidated Financial Statements to conform to the current year's presentation.

3. DEPOSITS AND INVESTMENTS

NJ TRANSIT's deposits and investments follow *(in millions)*:

	AS OF JUNE 30,	
	2008	**2007**
Current		
Cash on hand	$12.4	$9.9
Short-term investments	223.6	74.8
Total current cash and investments	236.0	84.7
Non-current		
Restricted cash on hand	1.6	9.1
Restricted investments	668.5	503.4
Restricted total non-current	670.1	512.5
Total Deposits and Investments	**$906.1**	**$597.2**

NJ TRANSIT's cash on deposit with various entities as of June 30, 2008 and 2007 totaled $17.2 million and $14.6 million, respectively.

ACCOUNT TYPE	BALANCE *(in millions)*	
	2008	**2007**
Insured	$0.7	$0.6
Insured held at NJ TRANSIT's locations	1.8	3.2
Uncollateralized:		
Held by bank trustees	0.1	1.4
Held by health care providers	4.7	3.3
Uninsured held by banks	9.9	6.1
Total	**$17.2**	**$14.6**

Custodial Credit Risk. Custodial credit risk is the risk that a bank failure would result in the forfeiture of NJ TRANSIT deposits. NJ TRANSIT does not have a policy for custodial credit risk. As of June 30, 2008 and 2007, $14.7 million and $10.8 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2008 and 2007 totaled $892.1 million and $578.2 million, respectively.

	Fair Value *(in millions)*		Weighted Average Maturity in Years	
Investments	**2008**	**2007**	**2008**	**2007**
State of NJ Cash Management Fund	$90.9	$127.8	.05	.57
Repurchase Agreements	626.1	324.8	.68	.62
U.S. Treasury/Securities	158.6	99.4	.09	.09
Cash Equivalents	4.8	4.7	—	—
Other	11.7	21.5	—	—
Total	**$892.1**	**$578.2**		
Portfolio weighted average maturity (inclusive of proceeds from debt issuance)			.56	.52

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

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

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

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

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

4. RESTRICTED ASSETS

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

Since April 1997, certain proceeds, primarily from the issuance of Grant Anticipation Notes, Certificates of Participation and New Jersey Economic Development Authority Bonds, financed portions of NJ TRANSIT's capital projects. These proceeds are restricted by applicable agreement covenants. As of June 30, 2008 and 2007, the balance of restricted investments related to these proceeds was $643.0 million and $471.4 million, 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, 2008 and 2007, were $1,504.0 million and $1,548.6 million, respectively, for these lease agreements that represent investment agreements made to meet NJ TRANSIT's payment obligations throughout the term of the leases. As these transactions do not meet the definition of an "in-substance defeasance," NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Fund Net Assets. In fiscal year 2008, NJ TRANSIT made provisions for the decrease in value of investments held to meet payment obligations under one of the agreements.

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. In January 2007, NJ TRANSIT drew down the balance of proceeds in this account. Smaller amounts relative to reserve funds, health plan deposits and residual grant proceeds total $15.3 million and $19.6 million as of June 30, 2008 and 2007, respectively.

5. CAPITAL ASSETS

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

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets not being Depreciated				
Land	$291.5	$113.6	$64.4	$340.7
Capital projects in process	767.5	640.4	758.3	649.6
Total	**1,059.0**	**754.0**	**822.7**	**990.3**
Capital Assets being Depreciated				
Buildings and structures	4,600.0	450.2	149.1	4,901.1
Track	2,083.6	126.5	73.2	2,136.9
Railcars and locomotives	1,655.6	259.0	3.0	1,911.6
Buses, vans and light railcars	1,378.2	45.7	2.1	1,421.8
Furniture, fixtures and equipment	403.8	120.4	1.9	522.3
Total	**10,121.2**	**1,001.8**	**229.3**	**10,893.7**
Less Accumulated Depreciation				
Buildings and structures	1,596.9	210.5	—	1,807.4
Track	639.3	80.4	—	719.7
Railcars and locomotives	894.4	81.2	2.4	973.2
Buses, vans and light railcars	692.1	106.9	10.9	788.1
Furniture, fixtures and equipment	310.9	100.9	1.7	410.1
Total	**4,133.6**	**579.9**	**15.0**	**4,698.5**
Total Capital Assets, Net of Depreciation	**5,987.6**	**421.9**	**214.3**	**6,195.2**
Total Net Capital Assets	**$7,046.6**	**$1,175.9**	**$1,037.0**	**$7,185.5**

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets not being Depreciated				
Land	$281.5	$27.3	$17.3	$291.5
Capital projects in process	1,246.1	507.5	986.1	767.5
Total	**1,527.6**	**534.8**	**1,003.4**	**1,059.0**
Capital Assets being Depreciated				
Buildings and structures	4,113.8	492.5	6.3	4,600.0
Track	1,865.4	218.2	—	2,083.6
Railcars and locomotives	1,599.7	63.9	8.0	1,655.6
Buses, vans and light railcars	1,356.6	32.7	11.1	1,378.2
Furniture, fixtures and equipment	359.3	56.3	11.8	403.8
Total	**9,294.8**	**863.6**	**37.2**	**10,121.2**
Less Accumulated Depreciation				
Buildings and structures	1,411.1	185.8	—	1,596.9
Track	552.5	86.8	—	639.3
Railcars and locomotives	818.6	83.7	7.9	894.4
Buses, vans and light railcars	600.3	102.4	10.6	692.1
Furniture, fixtures and equipment	281.3	31.3	1.7	310.9
Total	**3,663.8**	**490.0**	**20.2**	**4,133.6**
Total Capital Assets, Net of Depreciation	**5,631.0**	**373.6**	**17.0**	**5,987.6**
Total Net Capital Assets	**$7,158.6**	**$908.3**	**$1,020.4**	**$7,046.6**

For the years ended June 30, 2008 and 2007, capital assets include capitalized interest costs of $434.5 million and $426.0 million, respectively, net of interest income of $341.9 million and $325.8 million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Note 10).

During fiscal years 2008 and 2007, NJ TRANSIT received capital contributions of $978.3 million and $586.2 million, respectively, of which $58.3 million and $47.7 million were passed through to other entities, respectively. The transferred amounts represented assets for which NJ TRANSIT has transferred ownership upon completion of the project. For fiscal year 2008, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line, the acquisition of Metro-North railcars, the Meadowlands Rail Spur, and the modernization of the Newark Penn Station Hudson and Dock interlockings.

6. PENSION AND EMPLOYEE BENEFIT PLANS

Plan Descriptions. NJ TRANSIT and its subsidiaries contribute to the New Jersey Employee Retirement System (PERS) and the Police and Firemen's System (PFRS). These cost-sharing multiple-employers' defined benefit pension plans are administered by the state of New Jersey. Each plan provides retirement, disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the state legislature. The state of New Jersey issues separate, standalone financial reports for the PERS and PFRS plans that can be obtained through the Division of Pensions, state of New Jersey.

NJ TRANSIT sponsors five defined benefit, single-employer pension plans to the employees not participating in PERS and PFRS. Of the five single-employer defined benefit pension plans, four cover bus agreement employees, and one plan covers all non-agreement employees. The four agreement plans are the Amalgamated Transit Union Employees Retirement Plan, the Transport Workers Union Employees Retirement Plan, the Utility Workers' Union of America Employees Retirement Plan, and the Mercer Employees Retirement Plan. The plan covering all non-agreement employees, hired prior to July 1, 2006, is the Transit Employees Retirement Plan (TERP).

Each single-employer pension plan provides retirement, disability and death benefits to plan members and beneficiaries with the exception of the TERP plan, which has no disability provision and was closed to non-agreement employees hired on or after July 1, 2006. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement plan while the agreement plans are subject to the collective bargaining process. Separate audited financial statements are issued for the five pension plans, copies of which can be obtained from NJ TRANSIT.

Funding Policy and Annual Pension Cost. For the cost-sharing PERS and PFRS plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the state legislature. Plan members are required to contribute 5.5 and 8.5 percent of their covered salary to the PERS and PFRS, respectively. NJ TRANSIT is required to contribute an amount based on a fixed percentage of applicable compensation as determined by the respective plan sponsors. NJ TRANSIT's contributions to these plans for the years ended June 30, 2008, 2007 and 2006 were $4.5 million, $4.4 million and $3.5 million, respectively, equal to the required contributions for each year.

Under the provisions of five single-employer pension plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the Retirement Plan Committee of the company as a result of bargaining agreements between the unions and the company, except the TERP plan. Plan members are required to contribute 2 to 4 percent of their annual covered salary. NJ TRANSIT is required to contribute at an actuarially determined rate; the current rate is 17.6 percent of annual covered payroll. NJ TRANSIT's annual pension cost was $60.8 million for fiscal year 2008.

THREE-YEAR TREND INFORMATION *(in millions)*

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Non-Agreement Employees Retirement Plan			
06/30/2008	$26.0	100%	$0
06/30/2007	26.0	100	0
06/30/2006	21.5	100	0
Amalgamated Transit Union Employees Retirement Plan			
06/30/2008	$30.8	100%	$0
06/30/2007	29.4	100	0
06/30/2006	34.9	100	0
Transport Workers Union Employees Retirement Plan			
06/30/2008	$1.2	100%	$0
06/30/2007	1.2	100	0
06/30/2006	1.8	100	0
Utility Workers' Union of America Employees Retirement Plan			
06/30/2008	$0.3	100%	$0
06/30/2007	0.3	100	0
06/30/2006	0.3	100	0
Mercer Employees Retirement Plan			
06/30/2008	$ 2.5	100%	$0
06/30/2007	2.5	100	0
06/30/2006	2.1	100	0

Actuarial Methods and Assumptions. In the June 30, 2007, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included (a) 8 percent investment rate of return and (b) projected salary increase ranging from 3.5 percent to 5.3 percent per year. Both (a) and (b) included an inflation component of 3.5 percent. The assumptions did not include postretirement benefit increases. Contributions to sponsored plans during fiscal year 2007 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2006. The Plan assets are held in a variety of investment instruments including common stock, fixed-income securities and corporate bonds, all of which are reported at fair value. The actuarial value of assets was determined using a technique that smooths the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liabilities are being amortized as a level-dollar amount over various periods on a closed basis. The remaining amortization periods at June 30, 2007, ranged from 3 to 30 years.

Funded Status and Funding Progress. As of June 30, 2007, the most recent actuarial valuation date, the plans were 80.5 percent funded. The actuarial accrued liability for benefits was $1,248.5 million, and the actuarial value of assets was $1,004.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $244.2 million. The annual payroll of active employees covered by the plan was $381.2 million, and the ratio of the UAAL to the covered payroll was 64.1 percent.

The following is the funded status information for each plan as of June 30, 2007, the most recent actuarial valuation date *(in millions)*:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (Excess of Assets over AAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c)
Non-agreement Employees Retirement Plan	$307.9	$424.2	$116.3	72.6%	$122.3	95.1%
Amalgamated Transit Union Employees Retirement Plan	638.8	757.6	118.8	84.3	240.1	49.5
Transport Workers Union Employees Retirement Plan	34.1	34.4	0.3	99.1	9.7	3.1
Utility Workers' Union Employees Retirement Plan	5.6	5.9	0.3	94.9	1.6	18.8
Mercer Employees Retirement Plan	17.9	26.4	8.5	67.8	7.5	113.3

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan 401(k) for all eligible non-agreement employees. NJ TRANSIT provides a maximum 50 percent matching contribution on the first six percent contributed by the employees. This plan permits employees to contribute up to 50 percent of their salary not to exceed $15,500 annually on a pre-tax basis.

NJ TRANSIT also provides a money purchase pension plan 401(a) and an employee savings/deferred compensation plan (457) for eligible agreement and non-agreement employees. NJ TRANSIT contributed 3 to 6 percent of annual compensation to certain employees' accounts in the 401(a) plan. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed $15,500 annually on a pre-tax basis.

Beginning in 2002, a new type of pre-tax contribution was added for participants of the 401(k) and 457 plans. The Economic Growth and Tax Relief Act of 2001 permits individuals who are age 50 (or older) by the end of the calendar year to elect to make additional "catch up" contributions to the plan. This is in addition to the pre-tax employee contribution limit. NJ TRANSIT retirement plan participants can only "catch up" in one plan. Pursuant to the act, participants in the 401(k) and 457 plans who are over 50 years of age can contribute an additional $5,000 above the $15,500 limit.

NJ TRANSIT's expense for the defined contribution plans totaled $19.0 million and $16.1 million in fiscal years 2008 and 2007, respectively.

Recorded expenses for all plans (including PERS and PFRS) amount to $84.3 million and $80.2 million for the fiscal years ended June 30, 2008 and 2007, respectively.

7. OTHER POSTEMPLOYMENT BENEFITS

NJ TRANSIT sponsors a single-employer defined benefit health care plan that provides postretirement medical, dental and life insurance benefits for eligible retirees and their spouses. NJ TRANSIT does not issue a financial report for this plan. Contribution requirements are negotiated between NJ TRANSIT and union representatives for Rail and Bus agreement employees. NJ TRANSIT establishes and may amend the contribution requirements and benefit provisions for non-agreement employees. NJ TRANSIT's required contribution is based on projected pay-as-you-go financing requirements. NJ TRANSIT's payments under the plan were $24.7 million for fiscal year 2008. Plan members receiving benefits contributed $3.5 million or approximately 14.2% of total premiums.

NJ TRANSIT's annual Other Postemployment Benefit (OPEB) cost is calculated based on the employer Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the components of the annual OPEB cost for the year, the amount contributed to the plan, and changes in NJ TRANSIT's net OPEB obligation for fiscal years 2008 and 2007 *(in millions)*:

	YEARS ENDED JUNE 30,	
	2008	**2007**
Annual required contribution	$63.6	$56.0
Interest on net OPEB obligation	3.4	1.7
Adjustment to annual required contribution	(4.8)	(2.3)
Annual OPEB cost	62.2	55.4
Contributions made	(24.7)	(18.7)
Increase in net OPEB obligation	37.5	36.7
Net OPEB Obligation, Beginning of Year	**74.9**	**38.2**
Net OPEB Obligation, End of Year	**$112.4**	**$74.9**

This annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2008, 2007 and 2006 are as follows *(in millions)*:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$62.2	39.7%	$112.4
2007	55.4	33.7	74.9
2006	54.8	30.2	38.2

As of June 30, 2007, the Actuarial Accrued Liability (AAL) for benefits was $550.9 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $381.2 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 144.5 percent.

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

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

As of June 30, 2007, the actuarial valuation utilized the projected unit-credit method. The actuarial assumption included a 4.5 percent discount rate and an annual health care cost trend rate of 10.0 percent. The unfunded actuarial accrued liability is being amortized on a level-dollar amount over a thirty-year period on a closed basis. The remaining amortization period at June 30, 2007 was 28 years.

8. OTHER CURRENT LIABILITIES

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

	AS OF JUNE 30,	
	2008	**2007**
Injury and damage claims (Note 13)	$28.4	$37.6
Retainage on construction projects	18.1	17.5
Other	28.3	26.6
Total Other Current Liabilities	**$74.8**	**$81.7**

9. DEFERRED REVENUE AND OTHER NON-CURRENT LIABILITIES

Deferred revenue and other non-current liabilities totaled $45.1 million and $53.0 million as of June 30, 2008 and 2007, respectively. These amounts are primarily comprised of deferred revenues, which are designated for the future purchase of fixed assets. The following schedule summarizes deferred and other non-current liabilities balances.

	AS OF JUNE 30,	
	2008	**2007**
Balance, Beginning of Year	**$53.0**	**$57.6**
Additions	14.6	7.1
Reductions	(22.5)	(11.7)
Balance, End of Year	**$45.1**	**$53.0**

10. LONG-TERM DEBT AND OTHER OBLIGATIONS

In April 2008, NJ TRANSIT issued $309.2 million of Series 2008A Certificates of Participation (COPs), accruing interest at 5.0 percent with maturity in 2023. The funds will be used to acquire 27 electric locomotives and 37 multilevel railcars.

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

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

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

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

In September 2003, NJ TRANSIT issued $149.8 million of Series 2003A COPs, accruing interest between 1.0 percent and 4.1 percent. The proceeds were used to refinance the Series 2003B COPs. The bond proceeds were placed in an irrevocable trust and will satisfy designated debt servicing. The debt matures in 2015. As of June 30, 2008, $147.9 million of defeased COPs remain outstanding.

In February 2003, NJ TRANSIT issued $61.5 million of Refunding COPs bearing interest between 2.0 percent and 5.5 percent with final maturity in 2016. The proceeds from the sale of these certificates were deposited into an irrevocable trust with an escrow agent to provide debt service on the 1991 COPs notes. The refunding transaction, which was consummated to take advantage of low interest rates, decreased the aggregate debt service payments and resulted in an economic benefit of approximately $2.0 million over the life of the transaction with a $10.8 million deferral of refunding costs. As of June 30, 2008, $43.9 million of defeased notes remain outstanding.

In June 2002, NJ TRANSIT issued $162.8 million of Series 2002A Refunding COPs bearing interest between 3.0 percent and 5.5 percent with a final maturity in 2015. The proceeds from the sale of these certificates provided advance refunding of $158.7 million of certain maturities of NJ TRANSIT's Series 2000A COPs. The proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide for the debt service on certain Series 2000A notes. The refunding transaction was consummated to provide a structural modification to the original agreement. As of June 30, 2008, $159.4 million of defeased COPs remain outstanding.

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

In November 2000, NJ TRANSIT issued $562.2 million of Capital Grant Anticipation Notes (GANs), consisting of $452.2 million of Series 2000B and $110.0 million of Series 2000C, bearing interest between 4.5 percent and 5.75 percent. The Series 2000B notes mature in 2011. The proceeds of these notes were used to fund the cost of constructing the second segment of Hudson-Bergen Light Rail (MOS-2). The proceeds of the Series 2000C notes were used to fund the Newark Light Rail Extension and these notes matured in 2005. As security for these GANs, NJ TRANSIT received a federal full-funding grant agreement dedicated to the repayment of these debts. Principal and interest paid for the current year totaled $106.5 million, which was fully funded with revenue from this dedicated grant. At June 30, 2008, the principal and interest remaining to be paid on these notes amounted to $74.1 million.

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

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

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

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

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

Terms. The notional amounts of these swap agreements are equal to the face value of the bond issuance. Based upon the swap agreements, NJ TRANSIT pays interest at a fixed rate of 3.32 percent for Series 2003A

Bonds and 3.45 percent for series 2003B Bonds to the counterparties. In return, the counterparties pay interest to NJ TRANSIT based upon 62 percent of the one-month LIBOR rate plus 20 basic points. This rate is designed to offset the market rate paid on the underlying bonds, which are periodically auctioned. As the bonds are redeemed, the notional amounts of the respective swap agreement will decrease proportionately.

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

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

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

The following schedule summarizes notes payable obligations as of June 30, 2008 *(in millions)*:

	Inception Date	Balance June 30, 2007	Additions	Payments/ Reduction	Balance June 30, 2008	Due Within One Year
COPs 1999	03/99	$37.6	$—	$22.1	$15.5	$15.5
NJEDA 1999 A&B	08/99	166.5	—	42.9	123.6	45.2
COPs 2000A	01/00	67.0	—	1.9	65.1	9.1
COPs 2000B	10/00	366.8	—	51.4	315.4	54.3
GANs 2000B	11/00	171.4	—	98.0	73.4	62.8
COPs 2002A	06/02	159.6	—	0.2	159.4	0.3
COPs 2002B	06/02	92.6	—	2.0	90.6	2.6
COPs 2003	02/03	48.0	—	4.1	43.9	4.2
COPs 2003A	09/03	148.2	—	0.3	147.9	0.3
NJEDA 2003A	10/03	314.8	—	4.1	310.7	4.3
NJEDA 2003B	10/03	35.0	—	—	35.0	—
COPs 2004A	03/04	237.6	—	34.9	202.7	16.4
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	—	309.2	—	309.2	—
Total		**2,098.6**	**309.2**	**261.9**	**2,145.9**	**$215.0**
Unearned Bond Premium		69.6	11.9	12.3	69.2	
Unamortized Deferral on Refunding		(53.0)	—	(7.3)	(45.7)	
Total Notes Payable		**$2,115.2**	**$321.1**	**$266.9**	**$2,169.4**	

The following schedule summarizes notes payable obligations as of June 30, 2007 *(in millions)*:

	Inception Date	Balance June 30, 2007	Additions	Payments/ Reduction	Balance June 30, 2007	Due Within One Year
COPs 1999	03/99	$58.8	$—	$21.2	$37.6	$22.1
NJEDA 1999 A&B	08/99	207.2	—	40.7	166.5	42.9
COPs 2000A	01/00	68.8	—	1.8	67.0	1.9
COPs 2000B	10/00	415.4	—	48.6	366.8	51.4
GANs 2000B	11/00	262.3	—	90.9	171.4	59.5
COPs 2002A	06/02	160.0	—	0.4	159.6	0.2
COPs 2002B	06/02	94.7	—	2.1	92.6	2.0
COPs 2003	02/03	51.8	—	3.8	48.0	4.1
COPs 2003A	09/03	148.5	—	0.3	148.2	0.3
NJEDA 2003A	10/03	318.6	—	3.8	314.8	4.2
NJEDA 2003B	10/03	35.0	—	—	35.0	—
COPs 2004A	03/04	253.2	—	15.6	237.6	16.0
COPs 2005A	09/05	253.5	—	—	253.5	—
Total		**2,327.8**	—	**229.2**	**2,098.6**	**$204.6**
Unearned Bond Premium		82.0	—	12.4	69.6	
Unamortized Deferral on Refunding		(60.6)	—	(7.6)	(53.0)	
Total Notes Payable		**$2,349.2**	**$—**	**$234.0**	**$2,115.2**	

Long-term notes payable maturities as of June 30, 2008 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2009	$215.0	$103.2	$318.2
2010	186.2	91.3	277.5
2011	165.2	81.5	246.7
2112	174.1	72.7	246.8
2113	182.4	64.1	246.5
2014-2018	854.4	214.9	1,069.3
2019-2023	368.6	40.6	409.2
Total	**2,145.9**	**$668.3**	**$2,814.2**
Unamortized premium	69.2		
Unamortized deferral on Refunding	(45.7)		
Total Notes Payable	**$2,169.4**		

11. LEASES AND OTHER COMMITMENTS

Leveraged Lease Transactions

NJ TRANSIT has entered into a number of leveraged lease transactions with certain domestic and foreign lessors. These transactions entail the sale/leaseback (SILO) or lease/leaseback (LILO) of various NJ TRANSIT commuter and light rail vehicles, buses, equipment and facilities to third party lessors.

In connection with the leveraged lease transactions, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the term of the respective leases. As these transactions do not meet the definition of an "in-substance defeasance," NJ TRANSIT has recorded Obligations under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Fund Net Assets (see Note 4).

In fiscal year 2008, NJ TRANSIT received a total of $4.6 million in net benefits from leveraged lease transactions related to cross-border leases of 47 multilevel railcars with a net present value lease obligation of $113.2 million with lease terms ranging from 15 to 20 years. In connection with these 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, 2008.

Defeased Leveraged Lease Obligations

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

These leveraged lease obligations as of June 30, 2008 are as follows *(in millions)*:

Fiscal Years	Lease Term	Equipment	Amount
1995	15 Years	32 Arrow III cars	$46.7
1994	15 Years	24 Arrow III cars	38.0
1994	15 Years	26 Arrow III cars	46.2

In connection with these lease agreements, NJ TRANSIT has made certain indemnification provisions and must comply with certain covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2008.

Leveraged Lease Risk Exposures

Under the terms of these agreements, a significant portion of the initial amount received by NJ TRANSIT from the third party (approximately 80%) is paid to an affiliate of the third party's lender which has the obligation to make an equivalent portion of the sublease rent payments, eliminating the need for NJ TRANSIT to make these payments to the third party. This portion of the lease rent payments is equal to the debt service on the related third party loan.

NJ TRANSIT also pays an amount to and enters into an Equity Payment Undertaking Agreement with a third party whereby that party has the obligation to provide the amounts necessary to make the remainder of the basic lease rent payments and pay the purchase price due upon exercise by NJ TRANSIT at the end of the lease. The amount remaining after payment of transaction expenses is NJ TRANSIT's net benefit from these transactions.

Counterparty Risk. Counterparty risk is the risk of a party to a leveraged lease agreement failing to fulfill their contractual obligation. Each leveraged lease transaction involves a variety of parties and counterparties. Counterparty risk is a type of credit risk that closely relates to the credit quality of the parties involved in the transactions. It is reduced by having an organization with good credit act as a guarantor between the two or more parties.

On September 15, 2008, subsequent to the preparation of the FY08 financial statements, AIG Financial Products Corporation (AIG) credit rating was changed from AA– to A– with additional credit watch by Standard &Poor's. AIG is both the third party lender and payment undertaker in several of these transactions. Under the applicable transaction documents, the lessor may require NJ TRANSIT to replace AIG in these transactions.

Collateral and Surety Risk. Collateral means a security or guarantee (usually an asset) pledged for the repayment of a loan if one cannot or is unable to repay. In the event of deterioration in the credit ratings of the counterparty, the agreement may require that collateral be posted to secure the party's obligations. Further ratings deterioration below levels agreed to in the Equity Payment Undertaking Agreement could result in additional collateral being posted with a third-party custodian. In most cases, collateral must be cash, U.S. Treasuries or certain federal agency securities. Additional insurance coverage of possible early termination payments is provided by separate surety policies in most contracts, which protects the counterparties from financial loss should the guarantors fail to perform in accordance with contract terms and conditions. Furthermore, if the credit ratings of the companies that provide the surety protections fall below the rating trigger associated with the early termination surety, NJ TRANSIT may also be required to replace the surety company. If the required replacement of either a surety or counterparty is not performed, it could trigger a termination event requiring a cash settlement.

Termination Risk. A leveraged lease agreement could be terminated if one party does not fulfill the obligations set forth in the contract. When an Event of Default or a Termination Event has occurred, either NJ TRANSIT or the counterparties could be required to make a termination payment according to the contract terms. Events of Default include non-payment, false or misleading representations, or the bankruptcy of NJ TRANSIT or the counterparties. Termination Events include a downgrade of the counterparty's credit rating to below that stated in the agreement. For example, under a current Equity Payment Undertaking Agreement, with respect to ratings of the equity payment undertaker, the counterparty, which may be a bank or other financial institution, must have a Credit Rating of at least AA by Standard & Poor's and of at least Aa2 by Moody's at all times before the final maturity of a leveraged lease. A party has the right to terminate the lease agreement earlier when there is a downgrading of the counterparty's credit ratings.

Interest Rate Risk. The interest rate risk goes up when the market interest rate goes down and the returns on the investment decline. Accounts initially deposited together with the aforementioned obligation of the third party's lender, result in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase option is exercised. Should an event occur that changes the initial deposit instruments, it is possible that the amount earned on the deposit account balance may not match the option price stated in the agreement at the end of the lease period. Under the terms of the agreement, should there be less interest earned on deposits than scheduled to make related payments, NJ TRANSIT would be liable for the shortfall.

Among the counterparties to the leveraged lease transactions, American International Group, Inc. (AIG) is one of the primary guarantors that provide surety in the event of lease payment defaults. Due to the current worldwide financial crisis, the ratings of AIG Financial Products Corp. were changed on September 15, 2008 as follows: downgrade by Standard & Poor's from AA- to A- and Moody's from Aa3 to A2. This downgrade has resulted in a technical default to several of the agreements and could trigger a request for a replacement guarantor and, if not addressed, could trigger a termination event and subsequently result in termination payments being made to the equity investors.

Currently, NJ TRANSIT is exploring potential options for replacing AIG as a guarantor. However, in the current market, securing replacement guarantors could be difficult and any replacement strategy would require approval from the equity investor. Because of the uncertainties related to these matters and the fact that all lease payments have been made according to the terms of the agreements and all collateral has been posted to date with respect to this transaction, NJ TRANSIT management believes that the amount of loss, although not probable, could amount to $150 million.

Capital Leases
In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light railcars for the Hudson-Bergen Light Rail and Newark Light Rail systems. These cars were financed through a sale of COPs by the state of New Jersey in May 1998. The cars were subleased by the 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 NJEDA through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the NJEDA bond obligations. The remaining rental payments have a present value of approximately $11.5 million as of June 30, 2008.

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 $1,621.8 million and $1,663.0 million as of June 30, 2008 and 2007, respectively, of which $128.5 million and $183.0 million represent current installments under capital leases as of June 30, 2008 and 2007, respectively.

The cost of capital assets under capital leases, including leveraged leases, is summarized as follows and is included in capital assets (see Note 5) (in millions):

	AS OF JUNE 30, 2008	2007
Land	$27.5	$27.5
Buildings	538.4	531.3
Railcars and locomotives	957.7	867.2
Buses and light railcars	699.0	691.8
Furniture, fixtures and equipment	63.2	63.4
Capital assets under capital leases (at cost)	2,285.8	2,181.2
Less accumulated depreciation	(1,191.6)	(1,062.7)
Net Capital Assets Under Capital Leases	**$1,094.2**	**$1,118.5**

The following schedule summarizes the capital lease obligations as of June 30, 2008 *(in millions)*:

	Inception Date	Balance June 30, 2007	Additions	Payments/ Reduction	Balance June 30, 2008	Due Within One Year
NBC facility	07/86	$12.8	$—	$2.8	$10.0	$3.0
Metropark parking facility	03/94	12.3	—	0.8	11.5	0.9
MMC, locos. & railcars	01/97	120.8	—	9.0	111.8	8.1
ALP-44 locomotives	06/97	7.2	—	—	7.2	—
Comet IV coaches	07/97	25.1	—	2.7	22.4	2.5
Bus garages	07/97	68.6	—	5.4	63.2	5.0
Arrow coaches & ALP-44s	03/98	183.8	—	52.7	131.1	45.2
Light railcars	06/98	89.2	—	10.9	78.3	11.5
Bus garages	09/98	108.8	1.5	1.8	108.5	2.0
HBLR	12/00	180.0	13.2	8.4	184.8	9.3
MCI buses	12/01	80.1	9.2	5.4	83.9	5.7
MCI buses	10/02	267.4	4.7	19.4	252.7	—
Qualified technical equipment	08/03, 09/03	102.6	—	9.0	93.6	9.0
ALP-46 locomotives	09/03	49.2	—	10.6	38.6	10.6
Comet IV coaches	09/03	70.7	—	37.1	33.6	7.1
Light railcars	09/03, 10/03	66.7	—	2.0	64.7	2.0
Articulated buses	07/04	34.0	—	2.0	32.0	2.2
Diesel locomotives	12/05	112.7	—	2.8	109.9	2.9
MCI buses	11/06	17.6	—	—	17.6	—
Multilevel railcars	12/06	19.0	—	0.1	18.9	—
Multilevel railcars	06/07	34.3	—	—	34.3	—
Multilevel railcars	12/07	—	63.1	0.2	62.9	0.4
Multilevel railcars	01/08	—	50.9	0.6	50.3	1.1
Other	02/05	0.1	—	0.1	—	—
Total Capital Lease Obligations		**$1,663.0**	**$142.6**	**$183.8**	**$1,621.8**	**$128.5**

The following schedule summarizes the capital lease obligations as of June 30, 2007 *(in millions)*:

	Inception Date	Balance June 30, 2006	Additions	Payments/ Reduction	Balance June 30, 2007	Due Within One Year
NBC facility	07/86	$15.3	$—	$2.5	$12.8	$2.8
Metropark parking facility	03/94	13.1	—	0.8	12.3	0.8
MMC, locos. & railcars	01/97	130.0	—	9.2	120.8	9.0
ALP-44 locomotives	06/97	7.2	—	—	7.2	—
Comet IV coaches	07/97	27.6	—	2.5	25.1	2.7
Bus garages	07/97	74.1	—	5.5	68.6	5.4
Arrow coaches & ALP-44s	03/98	216.4	—	32.6	183.8	52.7
Light railcars	06/98	99.5	—	10.3	89.2	10.9
Bus garage	09/98	108.2	0.6	—	108.8	1.8
HBLR	12/00	175.5	4.5	—	180.0	8.4
MCI buses	12/01	75.1	5.0	—	80.1	5.4
MCI buses	10/02	273.4	5.1	11.1	267.4	19.4
Qualified technical equipment	08/03, 09/03	111.5	—	8.9	102.6	9.0
ALP-46 locomotives	09/03	59.8	—	10.6	49.2	10.6
Comet IV coaches	09/03	70.7	—	—	70.7	37.1
Light railcars	09/03, 10/03	68.7	—	2.0	66.7	2.0
Articulated buses	07/04	35.9	—	1.9	34.0	2.0
Diesel locomotives	12/05	115.3	0.1	2.7	112.7	2.8
MCI buses	11/06	—	17.6	—	17.6	—
Multilevel railcars	12/06	—	19.0	—	19.0	0.1
Multilevel railcars	06/07	—	34.3	—	34.3	—
Other	02/05	0.2	—	0.1	0.1	0.1
Total Capital Lease Obligations		**$1,677.5**	**$86.2**	**$100.7**	**$1,663.0**	**$183.0**

Minimum capital lease maturities as of June 30, 2008 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2009	$128.5	$56.1	$184.6
2010	140.0	54.7	194.7
2011	144.2	53.8	198.0
2012	117.1	52.7	169.8
2013	133.2	118.3	251.5
2014-2018	433.5	424.7	858.2
2019-2023	322.0	123.6	445.6
2024-2028	159.4	76.0	235.4
2029-2033	25.3	19.1	44.4
2034-2038	18.6	—	18.6
Total Capital Lease Obligations	**$1,621.8**	**$979.0**	**$2,600.8**

As of June 30, 2008, NJ TRANSIT was committed for future purchases under the following capital projects and special services which will be funded from federal, state, local or other capital sources *(in millions)*:

Lower Hackensack Drawbridge Drive	$10.0
Positive Train Stop Program	10.0
Hoboken Wheel Truing Machine	10.6
Trenton Transit Center	10.9
Rail Passenger Facilities	14.8
MMC Engine Shop Droptables	15.4
Lower Hackensack Bridge Rehab – phase 1	17.1
Rail Infrastructure	20.6
South Amboy Station Development	21.8
Access to the Regions Core	24.2
Metropark Platform Replacement	24.5
Newark Drawbridge	25.2
Bus Rolling Stock	60.6
Hudson-Bergen Light Rail System	70.6
Other, for commitments less than $10 million	174.7
Total Capital Projects and Special Service Commitments	**$511.0**

12. OTHER OPERATING REVENUES

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

	YEARS ENDED JUNE 30, 2008	2007
Lease and rental	$24.7	$20.8
Advertising	13.5	13.5
Metro-North operations	12.3	10.9
Other	18.0	15.2
Total	**$68.5**	**$60.4**

13. INJURY AND DAMAGE CLAIMS

As of June 30, 2008, NJ TRANSIT's self-insurance retention was $10 million per occurrence with commercial excess liability insurance coverage for the amounts above $10 million up to $250 million. Settlements have not exceeded this insurance coverage for each of the past three years. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment-practice claims exceeding $500,000 up to $10 million are covered by insurance. On October 14, 2004, the ARH III Insurance Co., Inc., a wholly owned subsidiary of NJ TRANSIT, was formed. This captive insurance company provides coverage for FELA and rail third-party claims in excess of $5 million up to $10 million, consequently reducing NJ TRANSIT's self-insured retention in these two areas. As of June 30, 2008 and 2007, the ARH III Insurance Co., Inc. incurred no losses for covered claims.

NJ TRANSIT has recorded an estimated liability of $81.6 million and $80.9 million as of June 30, 2008 and 2007, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, $28.4 million and $37.6 million are included in other current liabilities as of June 30, 2008 and 2007, respectively (see Note 8).

The liability is based on NJ TRANSIT's past loss experience. NJ TRANSIT believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss expenses. Management believes that its reserves for claims incurred but not reported is determined in accordance with generally accepted actuarial principles and practices. However, estimating the ultimate liability is a complex and judgmental process inasmuch as the amounts are based on management's informed estimates and judgments using data currently available. As additional experience and data become available regarding claim payments and reporting patterns, legislative developments and economic conditions, the estimates are revised accordingly and the impact is reflected currently in NJ TRANSIT's financial statements.

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

	AS OF JUNE 30, 2008	2007
Balance, Beginning of Year	**$80.9**	**$88.8**
Claims expense	27.3	37.3
Payment of claims	(26.6)	(45.2)
Balance, End of Year	**$81.6**	**$80.9**

14. FEDERAL GRANTS

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

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

15. CONTINGENCIES

NJ TRANSIT is a defendant in a number of lawsuits arising from claims for personal injury, property damage, breach of contract, civil rights and personnel matters. Management believes that the ultimate resolution of these matters will not have a material adverse impact on the financial position of NJ TRANSIT.

NJ TRANSIT's contractor for the construction of the Hudson-Bergen Light Rail system has filed a claim against NJ TRANSIT alleging project cost overruns. The contractor is seeking additional compensation of approximately $100 million. Although the ultimate effect of this matter is not presently determinable, management believes that the resolution of this claim will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

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

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

The Railroad Retirement Board has conducted an examination of NJ TRANSIT's payroll and tax records for prior fiscal years through 1991 and has proposed certain adjustments to increase NJ TRANSIT's payroll tax liability for that period. Management has analyzed all of these matters and has provided for amounts that it currently believes are adequate.

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

Additionally, NJ TRANSIT was required to identify high-usage, strategically located rail and light rail stations that were assigned priority to be made accessible to people with disabilities. These stations were designated as Key Stations. The Key Station Plan identified 37 stations that would be made accessible, 34 of which have been made accessible. A mix of capital funding sources, including federal and state transportation trust funds, are funding these renovations. NJ TRANSIT must complete these renovations as required or face severe sanctions by the federal government. Failure to comply with the ADA can result in the termination of all federal funds, as well as civil litigation by private citizens and the United States Department of Justice.

16. NET ASSETS

Changes in net assets for fiscal years 2007 and 2008 *(in thousands)*:

	Deficit in Unrestricted Net Assets	Restricted Net Assets	Invested in Capital Assets Net of Related Debt: Federal	Invested in Capital Assets Net of Related Debt: State/Local/Other	Total
Balance, June 30, 2006	**$(102,548)**	**$9,101**	**$2,442,124**	**$2,837,306**	**$5,185,983**
Loss before capital contributions	(549,169)	(25)	—	—	(549,194)
Capital grants	—	—	214,065	372,141	586,206
Transfers	(126,260)	—	—	126,260	—
Capital grants pass-throughs	—	—	(848)	(46,806)	(47,654)
Capital assets removed from service	—	—	—	(643)	(643)
Depreciation of capital funded assets	477,771	—	(247,235)	(230,536)	—
Balance, June 30, 2007	**(300,206)**	**9,076**	**2,408,106**	**3,057,722**	**5,174,698**
Loss before capital contributions	(652,255)	(7,526)	—	—	(659,781)
Capital grants	—	—	344,347	633,939	978,286
Transfers	262,007	—	—	(262,007)	—
Capital grants pass-throughs	—	—	(170)	(58,107)	(58,277)
Capital assets removed from service	—	—	—	(1,166)	(1,166)
Depreciation of capital funded assets	563,430	—	(289,765)	(273,665)	—
Balance, June 30, 2008	**$(127,024)**	**$1,550**	**$2,462,518**	**$3,096,716**	**$5,433,760**

REQUIRED SUPPLEMENTARY INFORMATION

GASB Statement No. 45
Schedule of Funding Progress
For Retiree Health Care Plan *(in millions)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/2007	$ —	$550.9	$550.9	—	$381.2	144.5%
6/30/2005	—	499.8	499.8	—	368.3	135.7

GASB Statement No. 50
Schedule of Funding Progress
For Retirement Pension Plans *(in millions)*

Non-Agreement Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/2007	$307.9	$424.2	$116.3	72.6%	$122.3	95.1%
6/30/2006	274.3	374.2	99.9	73.3	125.4	79.7
6/30/2005	242.6	340.1	97.5	71.3	125.1	77.9

Amalgamated Transit Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/2007	$638.8	$757.6	$118.8	84.3%	$240.1	49.5%
6/30/2006	593.2	650.9	57.7	91.1	229.1	25.2
6/30/2005	554.5	614.5	60.0	90.2	223.2	26.9

Transport Workers Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/2007	$34.1	$34.4	$0.3	99.1%	$9.7	3.1%
6/30/2006	31.5	32.8	1.3	96.0	9.2	14.1
6/30/2005	30.2	31.6	1.4	95.6	9.2	15.2

Utility Workers Union of America Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/2007	$5.6	$5.9	$0.3	94.9%	$1.6	18.8%
6/30/2006	5.2	5.4	0.2	96.3	1.4	14.3
6/30/2005	4.8	5.2	0.4	92.3	1.9	21.1

Mercer Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/2007	$17.9	$26.4	$ 8.5	67.8%	$7.5	113.3%
6/30/2006	15.5	26.2	10.7	59.2	7.5	142.7
6/30/2005	13.0	25.1	12.1	51.8	8.9	136.0

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Report of Independent Auditors

Board of Directors of
New Jersey Transit Corporation

We have audited the accompanying consolidated financial statements of the New Jersey Transit Corporation and subsidiaries (the "Corporation"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and subsidiaries as of June 30, 2008 and 2007, and the consolidated changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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

Ernst & Young LLP

January 14, 2009

NJ TRANSIT is an equal opportunity employer.

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