

CONNECTING FUTURE GENERATIONS

N J TRANSIT ANNUAL REPORT 2005




CONTENTS

Message from the Governor	1
Message from the Chairman	2
Message from the Executive Director	3
Groundwork for Now and the Future	4
Executive Committee	15
Advisory Committees	15
Board of Directors' Biographies	16
FY2005 Facts at a Glance	Back pocket
Financial Section	Inside back pocket

MISSION STATEMENT

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



The Trans-Hudson Express (THE) Tunnel, a transportation investment to improve and strengthen regional mobility, will meet expanding travel needs between New Jersey and Midtown Manhattan by more than doubling peak-period passenger rail capacity. Construction of THE Tunnel—the area's most critical rail project in a generation—is expected to begin in 2007, with completion anticipated during 2015.

MESSAGE FROM THE GOVERNOR

NJ TRANSIT remains the vehicle that links New Jerseyans with jobs, education, health care and recreational opportunities in and around the Garden State. The critical investments and transportation services delivered by NJ TRANSIT over the past year—combined with future improvements such as the Meadowlands Rail Link—will continue to support our quality of life, and the economic vitality of New Jersey and the surrounding region.



NJ TRANSIT's success was evident this past year, setting a new system-wide record by carrying more than 800,000 weekday passenger trips—that means more people taking NJ TRANSIT than at any other time in its 25-year history. Anticipating this ridership growth, the Corporation increased capacity on its bus, rail and light rail systems in FY2005 by adding trips to 46 bus routes, expanding light rail services, adding 45 new trains to the commuter rail system and adding nearly 4,000 parking spaces. By ordering 289 new clean air technology buses this year—and signing into law a bill that will dramatically reduce diesel emissions in New Jersey—we will continue to lead the nation in taking more cars off the road and more pollutants out of the air.

The Access to the Region's Core program, which focuses on improving the commute to Midtown Manhattan with THE Tunnel as its centerpiece, remains our top long-range priority. Combined with other supporting projects such as the purchase of the multilevel rail cars and new rail connections, THE Tunnel will deliver more regional rail service, and more jobs and development opportunities along existing and future rail lines in New Jersey and Midtown Manhattan. THE Tunnel enjoys widespread support, with the first elements of the project on the fast track to begin construction in 2007.

A handwritten signature in black ink that reads "Richard J. Codey".

Richard J. Codey
Acting Governor, State of New Jersey

NJ TRANSIT BOARD OF DIRECTORS



Left to right:
Verice M. Mason,
Governor's Representative
Kenneth E. Pringle
Myron P. Shevell,
Vice Chairman
Jack Lettiere,
Chairman
Patrick W. Parkinson
Robert Smartt,
Treasurer's Representative
Flora M. Castillo



MESSAGE FROM THE CHAIRMAN

Over the past year, NJ TRANSIT continued to solidify its role as a leader in the public transportation industry by responding to the needs of its customers, performing as an economic engine and planning for the future. As a result, the Corporation's strategic business decisions led to record-high ridership levels, rising more than 5 percent this past year to more than 232 million passenger trips on its bus, rail and light rail systems.

NJ TRANSIT made significant investments in FY2005 that will keep its fleet and infrastructure in a state of good repair, and will ensure long-term service reliability to its customers. This Back to Basics strategy included the launch of work to overhaul 315 transit buses, repairing or replacing bus lifts at garages, ongoing expansion work at the Meadows Maintenance Complex where heavy maintenance of rail cars and locomotives takes place, and major rehabilitation or replacement work on 16 rail bridges.

To anticipate and meet growing demand, we added more seats, service and parking spaces to the bus, rail and light rail systems in FY2005. We also opened six new bus, rail and light rail terminals and stations in Irvington, Little Falls, Ramsey, Hoboken and Weehawken. In the coming year, complete makeovers will begin on two intermodal commuter hubs, Trenton and Newark Broad Street stations.

Working with the Port Authority of New York & New Jersey, we are expanding travel options and customer conveniences at Hoboken Terminal. The Hoboken Terminal project will restore a historic structure—with modern amenities—to serve current transportation needs and new economic development opportunities. In FY2005, critical structural work was completed to the century-old terminal building. This fall, our next round of work includes the reconstruction of five ferry slips and replication of a clock tower that previously stood at the site. Hoboken ferry service—which was discontinued in 1967 but restored in 1989—now plays an important role in our trans-Hudson transportation system.

As we prepare for future trans-Hudson transportation services, we made significant progress in FY2005 on plans to advance a new Trans-Hudson Express (THE) Tunnel under the Hudson River. THE Tunnel will allow us to expand existing rail service, launch new rail lines and relieve traffic congestion on our state's most crowded highways.

Moving forward in the coming year, NJ TRANSIT remains committed to meeting the needs and challenges that lie ahead. This includes strengthening our core system, planning for the future, stimulating economic growth in the region, and ensuring that NJ TRANSIT customers are greeted with a safe, efficient and reliable transportation system. With the strong support of Acting Governor Codey and our elected leaders, the Board of Directors and Executive Director George Warrington, I am confident we will get the job done.

Jack Lettiere
Transportation Commissioner & NJ TRANSIT Board Chairman



MESSAGE FROM THE EXECUTIVE DIRECTOR

Fiscal Year 2005 was an extraordinary year for NJ TRANSIT, establishing record-breaking ridership levels, expanding service to meet growing demand and sustaining an unwavering focus on maintaining the core system. We started taking delivery of a new fleet of multilevel rail cars and high-horsepower diesel locomotives, purchased the next generation of buses, expanded light rail services and opened new parking and passenger facilities.

This year, the Board of Directors selected a Locally Preferred Alternative for the Trans-Hudson Express (THE) Tunnel. This vital rail link under the Hudson River—the most important transportation project of this generation—will double peak-period rail capacity between New Jersey and New York, increasing regional mobility and opening new doors for direct rail service to New York from the existing commuter rail system. Early improvements to Penn Station New York are scheduled to begin in 2007—exactly 100 years after the groundbreaking for the existing Hudson River tunnel our customers travel through today.

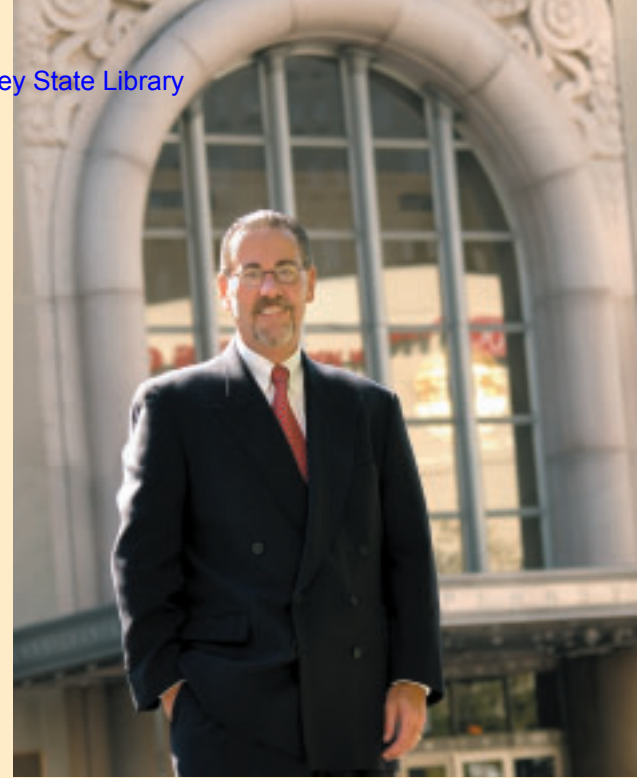
The first of 231 multilevel rail cars designed with the help of our customers and frontline employees has been delivered to NJ TRANSIT for extensive testing. These cars are scheduled to begin entering revenue service in the second half of 2006. We also purchased 289 new transit- and suburban-style buses that will begin entering revenue service next summer, and started the rehabilitation of 315 Nova B transit buses.

Customers remain at the center of our decision-making process. Over the past year, 800 frontline employees participated in customer service training classes with more to come in FY2006. And we upgraded our customer service hotline number, providing our customers with faster access to information.

We continued to make investments in our infrastructure to maintain a state of good repair and improve system reliability. Major projects included the expansion of rail yards and maintenance facilities, and the replacement of bus terminal platforms and garage lifts.

We will be fully engaged in a number of priorities and challenges in the coming year including systems and reliability testing of new rolling stock, extensions of Hudson-Bergen Light Rail and the Newark City Subway, and continued planning and preliminary engineering for THE Tunnel. I want to thank Acting Governor Richard J. Codey, our state and federal legislators, Commissioner Jack Lettiere and the rest of the Board of Directors for their continuing support. I also want to thank my Executive Management Team and all of the men and women at NJ TRANSIT who use their exceptional skills to transform a complex business into a seamless transportation system for hundreds of thousands of daily riders in and around the Garden State.

George D. Warrington
Executive Director





GROUNDWORK FOR NOW AND THE FUTURE

As New Jersey's population and attractiveness to the business community grows, connecting future generations through public transportation becomes increasingly important. We are proud that NJ TRANSIT has a leadership role in shaping the region's future connectivity. Serving more customers over a larger geographic area via more modes than other transit agencies nationwide, we are an economic driver. NJ TRANSIT's systems and services facilitate economic development, mobility, congestion relief, smart growth and transit-oriented development throughout the state. We also are preparing for future demand through strategic business planning that focuses on critical capital investments, cost-cutting initiatives, economic realities, and creative advertising, marketing and property leasing that generate revenue.

In FY2005, we aggressively pursued our goal of improved connectivity by continuing to promote a customer-based company culture, enhancing service reliability, expanding service, investing in New Jersey's communities, and building alliances that address present and future mobility needs.

Our system ridership reached record levels in FY2005, attaining 232.1 million passenger trips, 5.2 percent higher than in FY2004. NJ TRANSIT now carries more than 800,000 passenger trips each weekday. This unprecedented growth demonstrates that future generations will increasingly rely on public transportation to connect them to jobs, schools, health care, shopping and entertainment.

BUILDING PARTNERSHIPS AND REGIONAL DEVELOPMENT

Focused on addressing present and future mobility needs, NJ TRANSIT built important alliances with other area agencies—both across the Hudson River and within New Jersey—that will spur regional development.

THE Tunnel

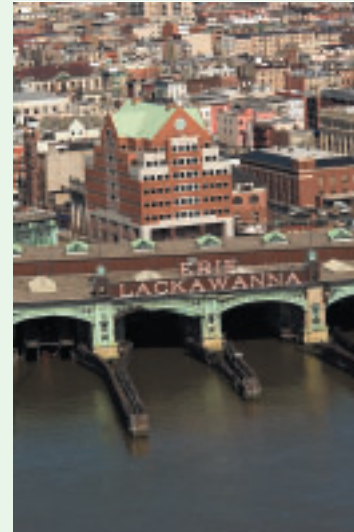
The Trans-Hudson Express (THE) Tunnel project, a transportation investment to improve and strengthen regional mobility, moved forward in FY2005 with the broad support of business, community and transportation leaders, as well as elected officials on both sides of the Hudson River. THE Tunnel, the solution proposed by the Access to the Region's Core study and endorsed by the Board of Directors with their selection of a Locally Preferred Alternative in summer 2005, will meet expanding travel needs by more than doubling peak-period passenger rail capacity between New Jersey and Midtown Manhattan. The project includes a new tunnel with two tracks under the Hudson River, a new underground 34th Street Station below Macy's in New York City, and supporting investments such as track improvements, a rail yard, signal systems and facilities.

The area's most critical passenger rail project in a generation, THE Tunnel will open new opportunities for direct rail service from the existing commuter rail system to Midtown Manhattan and build upon recent transit investments in New Jersey, including the Frank R. Lautenberg Rail Station at Secaucus Junction, MidTOWN DIRECT service and the Montclair Connection. It also will provide the necessary capacity to support other rail expansion projects that are currently being planned and will keep pace with the projected growth in trans-Hudson rail ridership through 2025. NJ TRANSIT completed a Draft Environ-

mental Impact Statement for THE Tunnel in 2005, a requirement for continued federal funding. THE Tunnel also received congressional authorization in 2005 to advance preliminary engineering work this year, and final design and construction work within two years. Construction is expected to begin in 2007, with completion anticipated during 2015.

Hoboken Ferry Slip Rehabilitation

Working in partnership with the Port Authority of New York & New Jersey, NJ TRANSIT is beginning construction on the second phase of the Hoboken Terminal rehabilitation project in late 2005. Marine construction of five of the original six ferry slips will be completed, as well as structural and roof repairs, skylight restoration and lighting improvements. Discontinued in 1967 due to declining demand, Hoboken ferry service was restored in 1989 using temporary ferry slips, and today plays a vital role in trans-Hudson transportation.



Interagency Performance Improvements

In FY2005, we worked with Amtrak, the Port Authority of New York & New Jersey and the U.S. Coast Guard to improve on-time performance and service, and to develop contingency plans for major service disruptions. Our Trans-Hudson Transportation Emergency Task Force completed a transportation plan designed to improve both individual and joint responses to emergencies, including improved interagency communications, customer service and customer communication initiatives, and contingency plans in the event of a service disruption to one or more modes of transportation.

THE Tunnel will meet expanding regional travel needs by more than doubling peak-period passenger rail capacity into Manhattan.

EXPANDED CAPACITY, BETTER SERVICE, MORE SEATS

In FY2005, NJ TRANSIT made service improvements throughout the system. Responding to record-setting ridership levels, we expanded capacity with new and upgraded buses and rail cars, amounting to more service and seats. We increased the number of trips on 46 bus routes, rescheduled service to better meet customer demand on 37 routes, and rerouted or extended 41 routes in response to customer requests. We also expanded our rail service capacity with 45 additional trains, filling in gaps of service during off-peak periods, providing reverse-peak service, and adding peak trains where service had reached capacity.



Hudson-Bergen Light Rail

On the Hudson-Bergen Light Rail system, three new stations—2nd Street and 9th Street/Congress Street stations in Hoboken and Lincoln Harbor Station in Weehawken—debuted in September 2004. In addition, we introduced two-car service on the popular Bayonne Flyer express trains. Supplementing the limited-stop, rush-hour service between 22nd Street Station in Bayonne and either Pavonia-Newport or Hoboken Terminal, the Flyers are now stopping at Essex Street Station, which has become an important destination for commuters and visitors to the Jersey City waterfront. This winter, three additional stations will open, completing the \$1.2 billion MOS-2 segment. These stations include Port Imperial Station in Weehawken (connecting with ferry service to New York), Bergenline Avenue Station in Union City and Tonnel Avenue Station in North Bergen, which includes a 740-space parking lot. In April 2005, NJ TRANSIT celebrated the fifth anniversary of the Hudson-Bergen Light Rail system, which now boasts more than 21,000 passenger trips each weekday.

Montclair State University Station at Little Falls

Partnering with Montclair State University to improve access to public transportation, we celebrated the opening of the MSU Station at Little Falls and its 1,500-space parking deck. The station also features an elevated pedestrian overpass serving the deck, a center-island platform, four elevators, and a coffee and pastry shop. To maximize revenues, we entered into an agreement with a car dealership as well as with the university to provide parking in the deck.

Ramsey Route 17 Station

A five-tier parking deck with 1,200+ parking spaces is a welcome feature of the new Ramsey Route 17 Station, which includes an elevated pedestrian walkway, three elevators, heated shelters and retail space. Similar to the MSU Station parking deck, we entered into an arrangement with a car dealership that will generate additional revenue.

Frank R. Lautenberg Rail Station at Secaucus Junction

Celebrating its first anniversary in FY2005, Secaucus Junction is accomplishing its intended mission: to connect the state's rail network and provide many more commuting options. Spurred by an aggressive marketing campaign, promotions and discounts, ridership grew from 3,700 daily passenger trips to 10,000 passenger trips in June 2005. The facility—which already accommodates a significant number of travelers transferring to other areas within New Jersey—will support growing

Hudson-Bergen Light Rail 9th Street/Congress Street Station, Hoboken

Customers are enjoying our new easier-to-use, more detailed website, www.njtransit.com.



The River LINE connects Trenton, Camden and communities in between.

demand generated by upcoming projects such as a new turnpike interchange, the Meadowlands Rail Link and THE Tunnel.

River LINE

Also celebrating its first anniversary in FY2005, the River LINE—connecting Trenton, Camden and communities in between—welcomed its one millionth customer just six months after opening and reached other milestones, including the introduction of 15-minute, peak-period departures and new early morning service for earlier connections to Northeast Corridor trains. As important, the system is stimulating smart growth and transit-oriented development in southern New Jersey in the form of luxury apartments, new downtown businesses, new office space, a \$1 billion waterfront redevelopment project with a 250-room hotel and golf course, and expanded restaurants. NJ TRANSIT also inaugurated the Capital Connection bus service, which connects River LINE and Northeast Corridor customers with four existing bus routes in downtown Trenton.

CONCENTRATING ON OUR CUSTOMERS

Continuing our commitment to a customer-focused culture, NJ TRANSIT made a series of customer service improvements. Our goal: streamlining access and improving ease of use for customers.

Customer Involvement in Decision Making

From revamped rail timetables to new multilevel rail equipment, customer focus groups and customer suggestions from other communication channels impacted decision making and the new designs.

Communication Improvements

Featuring cutting-edge technology, communication improvements included steps to upgrade public address systems to broadcast crystal clear station announcements and Nextel direct-connect devices that allow frontline employees to provide more timely, accurate and direct information to customers onboard trains and at stations—particularly when there are problems with service.

Nearly 1.2 million people each month visit our new easier-to-use, more detailed website, www.njtransit.com. New features include drop-down menus and quick links to the most popular pages; a new EZ Trips trip planner; improved "Fast Fare" feature and Airport Connections links;



our popular Travel Alerts, Advisories and My Transit services; and the NJ TRANSIT News section, providing additional information about our services. Later this year, customers will be able to access a more comprehensive rail station and bus park & ride section to help them with their travel plans.

We added new call-handling capacity and implemented a single telephone number, 1-800-772-2222, to give customers travel information and assistance from anywhere in the nation. Our Interactive Voice Response system gives customers faster access to information and is more efficient, reducing busy phone signals from 60 percent to less than 1 percent during normal operations. And our new user-friendly rail timetable design includes modern graphics, simplified text, a new layout that puts inbound and outbound service on one side, and improved maps that show available connecting services. The redesign, which uses recycled paper and saves NJ TRANSIT about \$150,000 per year, also will be used for light rail and bus schedules in the future.

Greater Ticketing Flexibility and TVM Improvements

The Board approved upgrades to ticket vending machines (TVMs) throughout NJ TRANSIT's system. Immediate improvements include modifications for faster ticket printing, shorter transaction times for credit and debit card sales, and redeployment of existing TVMs for more efficient service. Long-term enhancements will include a touchscreen for customers with visual impairments, a new cash-and-coin handling system, and improved customer instructions and graphics.

New Ticket Office at Hamilton Station

Hamilton Station on the Northeast Corridor is the seventh busiest suburban station on the NJ TRANSIT rail system. In February 2005, we opened a ticket office at the station to accommodate the growing number of customers.

Customer Service Training for Frontline Employees

By the end of FY2005, Communicating with Competence and Care, our two-year customer-service training program, reached approximately 800 rail, bus, customer service, police, proof-of-payment fare inspectors and Transit Information Center employees. Designed to give our front-line employees one-on-one customer service skills, the program will continue through 2006, training a total of 2,000 employees.

Access Link Scheduling Improvements

Access Link, NJ TRANSIT's paratransit service, provides more than 500,000 trips annually for eligible people with disabilities. In FY2005, the Board approved a two-year contract extension to continue the service, thanks to a consolidation of two low-ridership Access Link regions, which reduces operating costs without compromising service. More savings may be possible after the entire Access Link computer scheduling and dispatching system is fully operational. We also outfitted our Access Link vehicles with new locator



devices, allowing us to give customers real-time information about their pickup times.

Operations Centers

To improve communication and response time to service changes at Newark Penn Station, we began construction of an Operations Center that will be similar to our new Operations Center at Penn Station New York. The center will improve interagency coordination, allowing us to work more closely with Amtrak's operations staff and public address announcers to make timely announcements for customers. We also installed a new signal and switch control system at Hoboken Terminal that streamlines operations and improves performance, the final stage of the consolidation of railroad functions at the Rail Operations Center in Kearny.

ENSURING SERVICE RELIABILITY

Reliable service is a priority for our customers. In FY2005, we took steps to ensure that the next generation of buses and rail cars, whether new or rehabilitated, meet present and future industry standards, that our maintenance yards are equipped to handle growing and more sophisticated fleets, and that our infrastructure can accommodate our equipment and ridership growth.

Nova B Bus Rehabilitation Program

The Board approved a \$22 million in-house overhaul of 315 Nova B transit buses, to be completed between FY2005 and FY2008 at our Central Maintenance Facility. Components and subsystems are being remanufactured or upgraded to the latest industry standards to ensure continued safe and reliable revenue service. The rehabilitation program also includes improvements to passenger comfort.

Bus Equipment Investment

NJ TRANSIT advanced the purchase of 289 new transit- and suburban-style buses to replace our 16-year-old Metro B buses with better, more reliable equipment. The new buses will be equipped with wheelchair lifts and a kneeling feature to make them more accessible to customers. In addition, the buses will incorporate technologies that reduce exhaust emissions and have diesel particulate filters that significantly reduce particulate matter emissions, reducing the average emissions for the entire fleet by nearly 7 percent. Two prototypes are scheduled for delivery and testing early next year, and the new buses are expected to begin entering revenue service by summer 2006.



In FY2005, we took steps to ensure that the next generation of buses and rail cars, whether new or rehabilitated, meet present and future industry standards.





Prototype of our new multilevel rail car at Newark Penn Station

Multilevel Rail Cars

As part of a plan to increase rail capacity, in September 2005, NJ TRANSIT took delivery of a prototype multilevel rail car, initiating delivery of the first 100 cars, which will begin in 2006. Designed with input from customers and employees, the rail cars provide approximately 20 percent more seating, allowing increased capacity to meet growing demand for service to New York City. Customers worked with us on the cars' design, which features large windows, lumbar support for the seats, ample legroom and recessed coat hooks. The cars will replace aging Comet I cars currently in service. In July 2005, the Board approved the purchase of 130 additional multilevel rail cars, allowing us to acquire the cars at \$1.57 million per car, a favorable price built into the original agreement. The additional cars will enable us to provide 15 to 20 percent more seats per train.

PL42-AC Diesel-Electric Locomotives

In FY2005, we began purchasing 33 new PL42-AC diesel-electric locomotives, the first diesel locomotives bought by NJ TRANSIT since 1981. Featuring high-horsepower, 16-cylinder engines that are fully compliant with EPA Tier 1 standards, they will replace 28 obsolete locomotives and add five more to the fleet.

Meadows Maintenance Complex Expansion

Infrastructure improvements at the Meadows Maintenance Complex include construction of a new train washing facility, seven-track switching yard, and locomotive fueling and sanding facility, as well as the

reconstruction of the wheel shop area and related servicing improvements. Work also progressed to expand the warehouse, Service and Inspection Building, car and locomotive areas, and catenary system as we move toward the project's anticipated completion at the end of 2007.

Infrastructure Upgrades

Infrastructure initiatives at *bus facilities* included security system improvements, platform replacements at terminals, roadway pavement projects, an emergency generator installation at North Bergen Park & Ride, lift repairs and replacements at garages, fire panel upgrades, and midlife replacements of heating and air-conditioning units, boilers, vacuum systems and compressor dryers.

Upgrades to our *rail system* included the installation of safety fencing, painting of two railroad bridges along the Morris & Essex Lines, new slope protection and culvert improvements, significant steel repairs to 12 bridges, replacement of a small bridge along the Atlantic City Line, rehabilitation of two bridges along the Raritan Valley Line, and emergency repair work on the bearings of the HX Bridge, which spans the Hackensack River. We also installed 7.4 miles of continuous welded rail and 45,200 railroad ties, surfaced 91 miles of track and replaced 21 turnouts in the Hoboken Yard. In addition, we placed into service a state-of-the-art system allowing dispatchers to remotely control switches and signals to govern train movements through the Terminal interlocking complex in Hoboken and Jersey City.

NJ TRANSIT

Our staff is working on expanding the Meadows Maintenance Complex. Infrastructure improvements include construction of a new train washing facility, seven-track switching yard, and locomotive fueling and sanding facility.



FUTURE SERVICES

In FY2005, significant progress was made toward constructing and planning future services.

The reopening of Mulberry Street after 18 months of construction was a major milestone in our plan to extend the *Newark City Subway*. When completed in 2006, the extension will provide five new station stops, and connect all rail lines served by Newark Penn and Newark Broad Street stations. Other popular Newark destinations served by the extension will be the New Jersey Performing Arts Center, Bears and Eagles Riverfront Stadium, the Newark Museum and Broad Street area businesses.

NJ TRANSIT also entered into agreements with the New Jersey Sports and Exposition Authority, the New Jersey Department of Transportation and the Port Authority of New York & New Jersey to oversee the *Meadowlands Rail Link*, which will bring rail access to one of the nation's top sports and entertainment complexes. The \$150 million initiative, which is scheduled to open in winter 2007-2008 and complements THE Tunnel and other regional transportation projects, will include a new rail station built at the complex, as well as new railroad tracks connected to the Pascack Valley Line, supporting infrastructure, and improvements to integrate the station with the adjacent roadway network. NJ TRANSIT will own, operate and maintain the rail infrastructure improvements and provide support for operation of the new rail station.

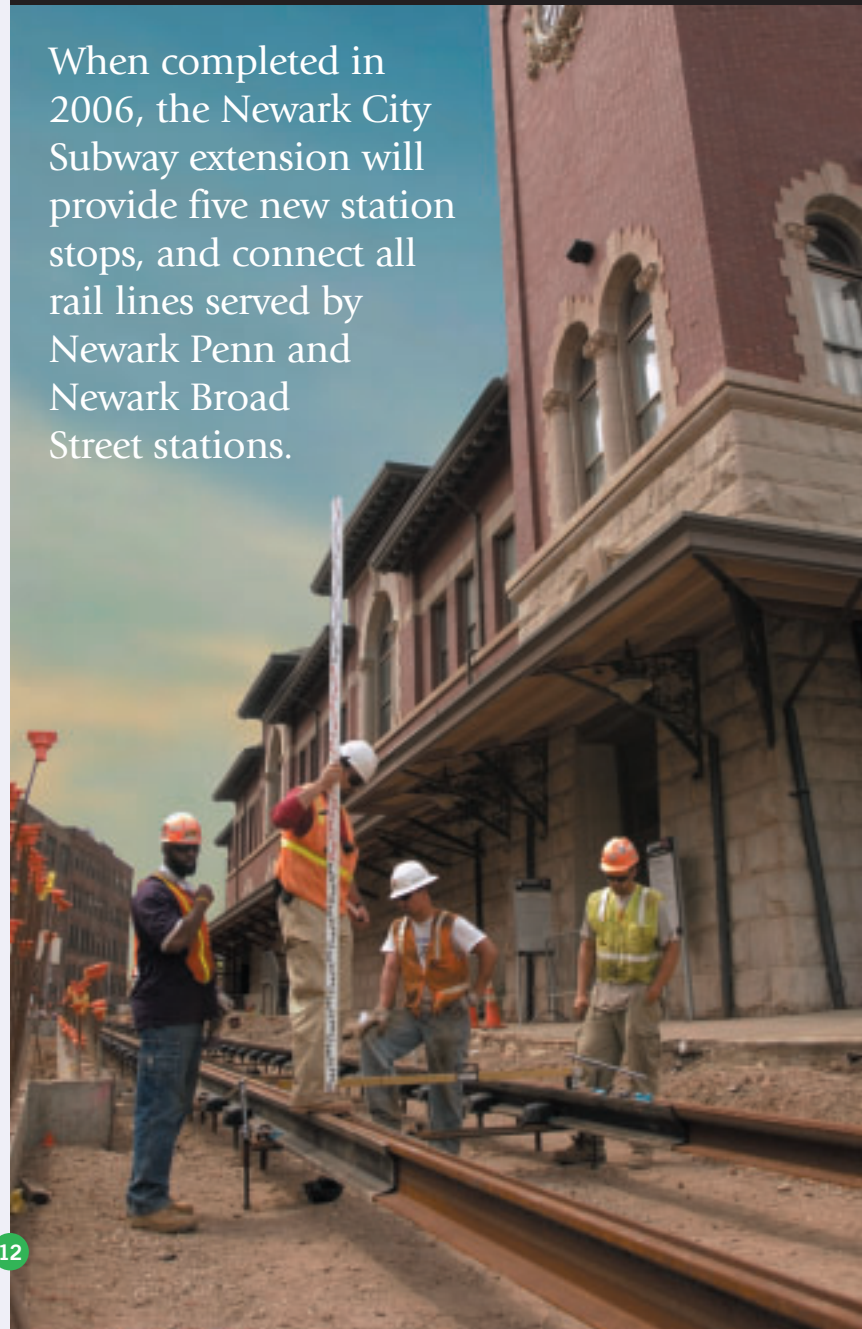
In spring 2005, NJ TRANSIT began construction of the *Pascack Valley Line Sidings project*. The new passing sidings—areas where trains can pull over to allow other trains to pass—are scheduled for completion in 2007, enabling us to offer new midday, reverse-peak and weekend trains for the first time on this single-track railroad.

NJ TRANSIT is advancing environmental and planning work for the reactivation of passenger service on the *Northern Branch* using self-propelled diesel multiple unit rail cars. Reactivating the line will give commuters from Tenafly to North Bergen more frequent and less costly rail service, and eventually a one-seat ride to Manhattan once dual-powered locomotives are purchased and construction of THE Tunnel is completed.

The planned *Mount Arlington Station*, which recently reached 100 percent design, will create a multimodal station with 285-foot, ADA-compliant, high-level platforms on both sides of the tracks, a pedestrian underpass beneath the tracks, elevator and stairs, an enclosed inbound waiting shelter, and an enlarged park & ride lot.



When completed in 2006, the Newark City Subway extension will provide five new station stops, and connect all rail lines served by Newark Penn and Newark Broad Street stations.





INVESTING IN COMMUNITIES

In a number of communities, major construction projects and parking expansions and initiatives got underway and/or were completed in FY2005. Each will significantly impact its community, not only in improving transportation use and accessibility, but also in serving as a catalyst for economic redevelopment and urban renewal.

Major Construction Projects

In June 2005, NJ TRANSIT officially opened the new \$5.2 million *Irvington Bus Terminal*, which replaces the original terminal built in 1946 and today serves more than 12,500 daily commuters. The 2,000-square-foot terminal features a new waiting room, improved parking and pedestrian links, and an enhanced bus circulation area that allows for safer arrivals and departures of the nearly 1,000 buses on the eight routes that use the terminal daily.

Nearly tripling the station's current size, the \$53.2 million plan to reconstruct and expand *Trenton Station* will bring one of NJ TRANSIT's busiest stations into a state of good repair, improving access, circulation and comfort for the approximately 5,900 customers who use the station daily. When completed, the new landmark building will include improved passenger amenities such as expanded waiting areas, new retail shops and restaurants, accessible restrooms, and new heating and air-conditioning systems, elevators, escalators and stairs. Serving as a gateway to New Jersey's capital city, the station rehabilitation will be completed by 2007, and includes a redesigned plaza area that supports connections with the River LINE and NJ TRANSIT bus service.

Historic Newark Broad Street Station is being reconstructed for improved operations and accessibility for all customers, including those with disabilities. Two new full-length, high-level platforms, including a new center-island platform, will make boarding easier and more efficient and improve operational flexibility. The platforms will enable use of all three tracks instead of just the two outer tracks, thus improving travel options and providing for better transfers to other lines. Scheduled for completion in 2008, the completely rehabilitated station building will feature new restrooms, historic lighting, rebuilt stairways and new elevators. Additional work includes reconstruction of railroad bridges over Martin Luther King Boulevard, University Avenue and Broad Street.

We completed work on a new *South Amboy Pedestrian Overpass and Plaza* in March 2005, enabling us to provide a new overpass for safer

We added nearly 3,830 parking spaces during FY2005, bringing the total number of spaces throughout our system to 76,077.



access over North Jersey Coast Line tracks. The overpass, with stairs and elevators linking the parking lot on the inbound side with a new plaza area on the outbound side, allows customers to avoid the grade crossing at Augusta Street. Construction for a new station building and high-level platforms will begin in 2006.

Parking Expansions and Initiatives

Moving forward with plans to improve access to our transit services, we added nearly 3,830 parking spaces during FY2005, bringing the total number of spaces throughout our system to 76,077. Some highlights include:

- 1,500-space parking deck at Montclair State University Station at Little Falls on the Montclair-Boonton Line
- 1,250-space parking deck at Ramsey Route 17 Station on the Main Line
- 300 spaces in a parking deck near Rahway Station on the Northeast Corridor, a joint effort with the city of Rahway
- 245 additional spaces at Allwood Park & Ride, 230 spaces at Plauderville Park & Ride and 224 spaces at Clifton Park & Ride

Parking projects also are in progress at Tonnelle Avenue Station (750 spaces) and Hamilton Station (2,000 spaces).

Transit-Friendly Planning Assistance and Transit-Oriented Development

NJ TRANSIT continued to assist communities in creating transit-friendly vision plans, initiating transit-oriented development work, and supporting additional Transit Village designations that encourage pedestrian/economic activity, public transit ridership and intermodal efficiencies. In FY2005, we completed a vision plan with West Windsor Township and the Office of Smart Growth for 70 acres of publicly and privately held lands near Princeton Junction Station on the Northeast Corridor.

We also completed an economic opportunity analysis for communities with River LINE stations, which identified potential areas for transit-oriented development, economic revitalization and better pedestrian linkages to the transit system. Among our newest transit-oriented development plans is a 30-acre, mixed-use area adjacent to Hamilton Station, now our seventh busiest suburban rail station, featuring a common area that allows users full access to public transportation and a new parking deck. Other initiatives are being pursued and/or negotiated at several stations—including Hoboken, Morristown, South Orange, Bound Brook, Netcong and Manasquan—resulting in non-fare box commercial revenue through lease or sale of NJ TRANSIT property. In FY2005, New Brunswick and Jersey City were designated Transit Villages, a multiagency initiative spearheaded by the New Jersey Department of Transportation, NJ TRANSIT and the New Jersey Department of Community Affairs.

SECURING OUR SYSTEM

In FY2005, NJ TRANSIT continued to enhance the already stringent security in place for the hundreds of thousands of customers who use our system daily.

Our police force is now expanded to 220 uniform and plainclothes officers, a 75 percent increase since 9/11, and we have more K-9 bomb detection teams, including a loan of additional K-9 units from the New Jersey State Police.

We increased the use of electronic surveillance and detection systems, including installation of digital closed-circuit cameras at stations and terminals; aerial and electronic surveillance of railroad infrastructure and security parameters; and vehicle checkpoints in major stations. We acquired GE Itemizer III explosive detection systems and radiation detection pagers. We continue to maintain a 24-hour anonymous hotline, 1-888-TIPS-NJT, for reporting unattended packages or suspicious activity that does not require dialing 911 for immediate police assistance.

In early 2005, we opened a new state-of-the-art Central Communications Center in Newark to consolidate our police offices and improve internal communications and efficiencies.

POSITIONING NJ TRANSIT FOR THE FUTURE

As we move forward, we will continue to focus on creating a strong public transportation system that connects our customers to the people and places they need to reach everyday. To that end, we have set as our priorities development of THE Tunnel and the Meadowlands Rail Link, meeting record ridership demand and forming partnerships that, by pooling resources and ideas, create cost-effective solutions to regional transportation needs.

To position NJ TRANSIT to best achieve these priorities, we will focus on controlling costs, improving efficiency and generating new commercial revenues. We also will pursue market growth where we have the capacity to do so.

Above all, we will maintain and even intensify our strong focus on our customers to continually improve their travel experience. For us, connecting future generations means connecting the “dots”—station-by-station, town-by-town, service-by-service.

EXECUTIVE COMMITTEE

George D. Warrington
Executive Director

Robert J. Guarnieri
Auditor General

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

James P. Redeker
*Assistant Executive Director,
Policy, Technology and Customer
Service*

Joseph C. Bober
Chief, NJ TRANSIT Police

Richard R. Sarles
*Assistant Executive Director,
Capital Planning and Programs*

Lynn M. Bowersox
*Assistant Executive Director,
Corporate Communications and
External Affairs*

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

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

Vincent J. Soleo
*Assistant Executive Director,
Procurement and Support Services*

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

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 the other South Jersey—regularly advise the Board of Directors on passengers' opinions. Committee members are appointed by the Governor with the approval of the State Senate.

North Jersey Transit Advisory Committee

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

South Jersey Transit Advisory Committee

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

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

The Americans with Disabilities Act Task Force

Gerald Caprio
John Del Colle
Harriet Findlay
Bill Smith
Eric Laufenberg
Lee Nash
Robert Paige
Virginia Peters
Kenneth Wedeen
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
Roger W. Bowker
Robert DeCamp
Marta M. Mazzarisi

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

Local Programs Citizens Advisory Committee

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

BOARD OF DIRECTORS

JACK LETTIERE, *Chairman*

A career New Jersey Department of Transportation (NJDOT) employee, Jack Lettiere was named Commissioner of Transportation in December 2002, and oversees 16,000 employees and a \$3 billion annual budget. He is Chairman of the Board of Directors of the New Jersey Transit Corporation and the New Jersey Transportation Trust Fund Authority, and is President of the American Association of State Highway Transportation Officials. He also serves on the boards of a number of other organizations, including the New Jersey Turnpike Authority, the South Jersey Transportation Authority, the New Jersey Motor Vehicle Commission and the New Jersey Redevelopment Authority. Prior to being named Commissioner, Mr. Lettiere served as Assistant Commissioner for Capital Investment at NJDOT, managing capital programs since 1993. He is a graduate of the General Motors Institute of Technology with a Bachelor of Science in Industrial Engineering. He holds a Master of Business Administration from Rider University.

MYRON P. SHEVELL, *Vice Chairman*

Appointed to the NJ TRANSIT Board of Directors in May 1995, Myron P. Shevell has served as Vice Chairman for the past six years. He also chairs the Board Capital Planning, Policy and Privatization Committee and serves on the Board Audit Committee. Mr. Shevell is Chairman and CEO of New England Motor Freight and Chairman of the Shevell Group, which includes real estate, trucking and logistic companies. He is also Chairman of the New Jersey Motor Truck Association and Regional Director of the Bank of New York. A resident of Long Branch, Mr. Shevell has worked in the trucking industry for more than 40 years.

VERICE M. MASON, *Governor's Representative*

Verice M. Mason serves as Chief of the Authorities Unit in the office of Acting Governor Richard J. Codey, where she is responsible for overseeing the operation of more than 40 independent authorities, boards and commissions. Her more than 25 years of experience with state agencies, law firms and insurance companies includes serving as Assistant Commissioner for Legislative and Regulatory Affairs for the New Jersey Department of Insurance. A resident of Metuchen, Ms. Mason received her Bachelor of Arts degree from Case Western Reserve University in Cleveland and her Doctor of Law degree from Rutgers School of Law in Newark.

JOHN E. McCORMAC, C.P.A., *State Treasurer*

John McCormac was appointed to the Board of Directors in January 2002, upon his confirmation as New Jersey State Treasurer, and serves on the

Audit and Capital Planning, Policy and Privatization committees. As State Treasurer, Mr. McCormac oversees the financial operations of the State of New Jersey, directly supervising 12 divisions in state government with over 3,500 employees. A resident of the Colonia section of Woodbridge, Mr. McCormac previously served as Acting Township Administrator and Chief Financial Officer for Woodbridge and managed his own Certified Public Accounting firm.

PATRICK W. PARKINSON

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

FLORA M. CASTILLO

Flora M. Castillo was appointed to the Board of Directors in April 1999. A resident of Ventnor, she is Associate Vice President of Marketing and Public Affairs for Keystone Mercy Health Plan. She chairs the NJ TRANSIT Board Customer Service and Administration committees, and serves as a national board member of the American Public Transportation Association (APTA), the Conference of Minority Transportation Officials (COMTO) and The Alan M. Voorhees Transportation Center (VTC) Advisory Board at Rutgers University. She is also a member of The Hispanic Alliance of Atlantic County and South Jersey AIDS Alliance advisory boards, and the Sun National Bank Community Advisory Board.

KENNETH E. PRINGLE

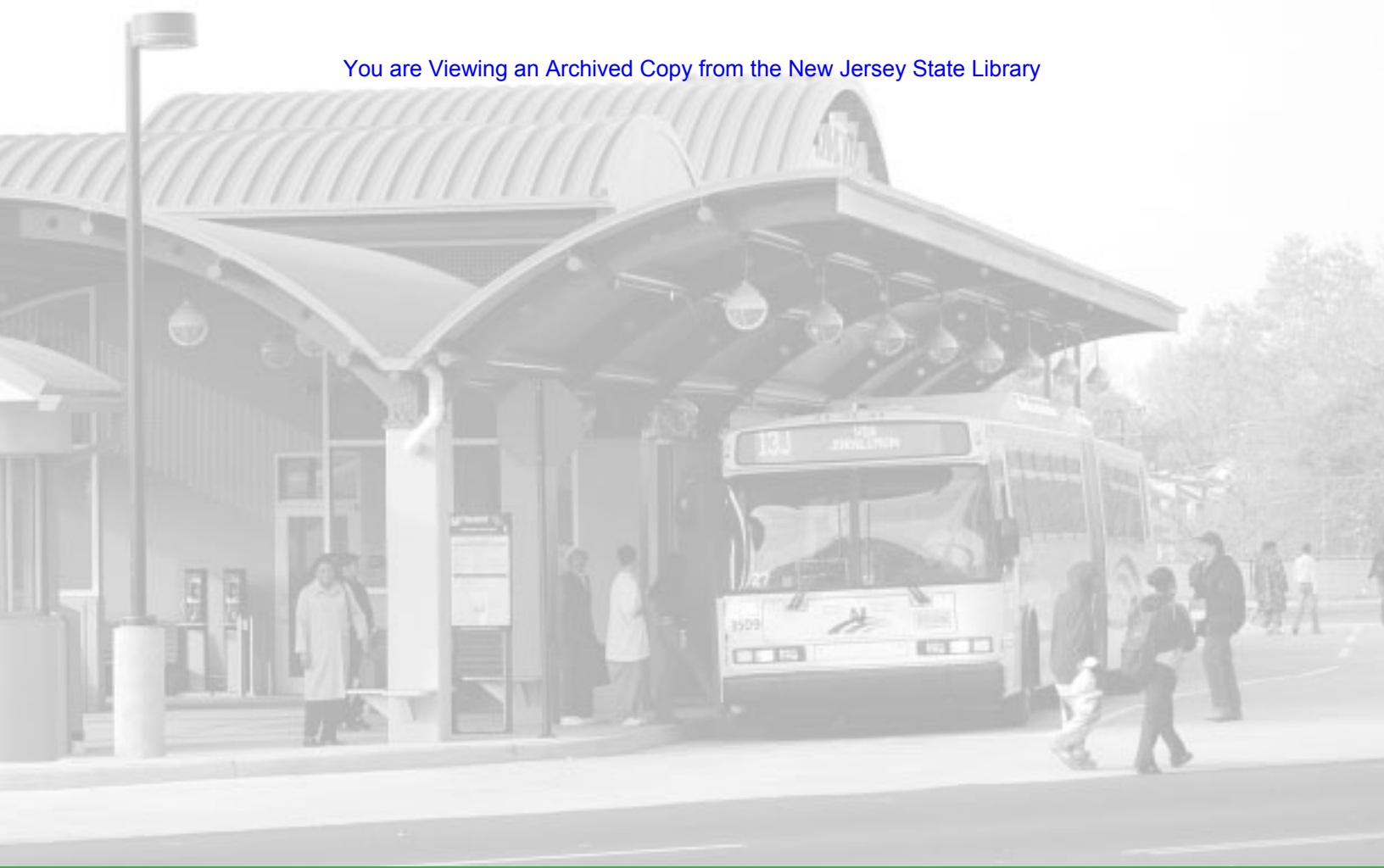
Kenneth E. Pringle was appointed to the Board of Directors by Acting Governor Richard J. Codey in March 2005. Mr. Pringle serves on the Board Capital Planning, Policy and Privatization Committee and the Customer Service Committee. He is the managing partner of Pringle Quinn Anzano, P.C., a law firm with offices in Belmar, Morristown and Trenton. A resident of Belmar and an active member of his community, Mr. Pringle has served as the Mayor of Belmar since 1990; he also is a member of the Belmar Planning Board, the Board of Trustees of Mount St. Mary's College and the Board of Trustees of the Monmouth-Ocean Development Council.



JOHN L. MCGOLDRICK

John McGoldrick, who left the NJ TRANSIT Board of Directors in FY2005, served on the Board since its creation more than 25 years ago, making him the longest serving Board member in the corporation's history. In that time, he helped guide the transformation of a fragmented transportation system into a centerpiece of New Jersey's economic growth. Combining a corporate background with personal experiences as a commuter, Mr. McGoldrick has been an effective advocate on behalf of commuters, consistently providing a voice of reason, common sense and good judgment. We wish him luck in his new appointment to the Montclair State University Board, but we will deeply miss the depth of understanding, vision and leadership he brought to our organization.





NJ TRANSIT

FISCAL YEAR 2005

CONSOLIDATED FINANCIAL STATEMENTS



CONTENTS

Management's Discussion and Analysis	1
Financial Statements:	
Consolidated Statements of Fund Net Assets as of June 30, 2005 and 2004	5
Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets for the Years Ended June 30, 2005 and 2004	6
Consolidated Statements of Cash Flows for the Years Ended June 30, 2005 and 2004	7
Notes to Consolidated Financial Statements	9
Report of Independent Auditors	Inside back cover



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended June 30, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial performance. NJ TRANSIT encourages readers to consider the information presented in conjunction with the financial statements as a whole.

Financial Highlights – Fiscal Year 2005

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

Financial Highlights – Fiscal Year 2004

- Total operating revenues for NJ TRANSIT were \$583.3 million in fiscal year 2004, an increase of \$14.2 million, or 2.5 percent, over the prior fiscal year. It was composed of an \$8.5 million, or 1.6 percent, increase in passenger revenue, reflecting a 2.7 percent increase in ridership, and a \$5.7 million, or 14.8 percent, increase in other operating revenues.
- Total operating expenses before depreciation were \$1,336.6 million in fiscal year 2004, an increase of \$139.9 million, or 11.7 percent, over the prior fiscal year. This increase is principally related to increases in employment costs, parts, materials and supplies, claims and insurance, fuel and propulsion, and purchased transportation.
- Total net assets at June 30, 2004, were \$4,737.0 million, an increase of \$256.9 million, or 5.7 percent, over total net assets at June 30, 2003.

- Total capital assets (net of depreciation) were \$6,962.8 million at June 30, 2004, an increase of \$399.8 million, or 6.1 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles, construction and improvements to facilities and structures, and increases in capital project activity associated with Hudson-Bergen Light Rail, Secaucus Junction, Newark City Subway Extension, Main/Bergen Connection and River LINE.

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.

Financial Analysis

NET ASSETS

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

NJ TRANSIT'S total net assets at June 30, 2004, were \$4,737.0 million, an increase of \$256.9 million, or 5.7 percent, over June 30, 2003 (Table A-1). Total assets increased \$664.0 million (7.3 percent) and total liabilities increased \$407.1 million (8.7 percent).

Table A-1

NJ TRANSIT FUND NET ASSETS

<i>(in millions)</i>	As of June 30,			%Inc/(Dec) 2005/2004
	2005	2004	2003	
Current assets, net	\$468.2	\$500.7	\$474.3	(6.5)
Restricted assets	1,922.7	2,293.4	2,055.7	(16.2)
Capital assets, net	7,143.8	6,962.8	6,563.0	2.6
Other assets	40.6	40.5	40.4	0.0
Total Fund Assets	9,575.3	9,797.4	9,133.4	(2.3)
Current liabilities	652.6	735.5	689.6	(11.3)
Notes payable	2,112.7	2,300.3	2,180.6	(8.2)
Post-retirement benefits	329.2	305.7	280.6	7.7
Long-term debt	1,549.9	1,616.7	1,417.0	(4.1)
Other liabilities	121.8	102.2	85.5	19.2
Total Liabilities	4,766.2	5,060.4	4,653.3	(5.8)
Net Fund Assets				
Invested in capital assets, net of related debt	5,111.4	4,944.8	4,573.9	3.4
Restricted net assets	8.3	9.5	14.0	(12.9)
Deficit in unrestricted net assets	(310.6)	(217.3)	(107.8)	42.9
Total Fund Net Assets	\$4,809.1	\$4,737.0	\$4,480.1	1.5

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

The 11.6 percent increase in restricted assets in fiscal year 2004 reflects proceeds reported from leveraged lease transactions. Of the \$6,962.8 million in capital assets, \$2,126.7 million represents construction in progress; \$4,572.3 million represents the cost of NJ TRANSIT's investment in locomotives, rail cars, buses, buildings, structures and track, net of depreciation; and \$263.8 million represents other capital assets.

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

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

NJ TRANSIT complies with the Statement of Financial Accounting Standards No. 106, which has resulted in a deficit in unrestricted net assets.

Changes in Net Assets

The increase in net assets in fiscal year 2005 was \$72.1 million, or 1.5 percent, compared with net assets in fiscal year 2004 (Table A-2), and resulted from an increase in investment in capital assets

from federal, state and local grants and appropriations.

NJ TRANSIT's total operating revenues increased \$26.6 million, or 4.6 percent, and total operating expenses, before depreciation, increased \$86.4 million, or 6.5 percent.

The increase in net assets in fiscal year 2004 was \$256.9 million, or 5.7 percent, compared with net assets in fiscal year 2003 (Table A-2), and resulted from an increase in investment in capital assets from federal, state and local grants and appropriations. NJ TRANSIT's total operating revenues for fiscal year 2004 increased \$14.2 million, or 2.5 percent, and total operating expenses, before depreciation, increased \$139.9 million, or 11.7 percent.

Table A-2

CHANGES IN NJ TRANSIT FUND NET ASSETS

<i>(in millions)</i>	Years Ended June 30, % Inc/(Dec)			
	2005	2004	2003	2005/2004
Operating Revenues				
Passenger fares	\$560.3	\$539.4	\$530.9	3.9
Other	49.6	43.9	38.2	13.0
Total Operating Revenues	609.9	583.3	569.1	4.6
Operating Expenses				
Total operating expenses before depreciation	1,423.0	1,336.6	1,196.7	6.5
Depreciation	399.4	396.4	275.7	0.8
Total Operating Expenses Including Depreciation	1,822.4	1,733.0	1,472.4	5.2
Operating loss	(1,212.5)	(1,149.7)	(903.3)	5.5
Non-operating revenues, net	758.8	745.4	619.1	1.8
Capital contributions, net	525.8	661.2	766.3	(20.5)
Change in Fund Net Assets	72.1	256.9	482.1	(71.9)
Total Fund Net Assets, Beginning	4,737.0	4,480.1	3,998.0	5.7
Total Fund Net Assets, Ending	\$4,809.1	\$4,737.0	\$4,480.1	1.5

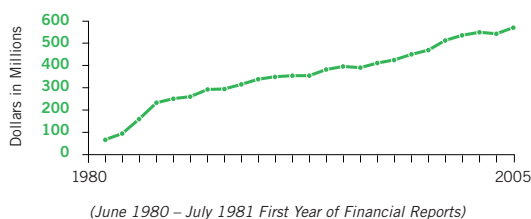
Operating Revenues

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

Passenger Fare Revenue

Passenger fare revenue consists of fares earned during the year from the sale of tickets and monthly passes, bus farebox receipts and NJ TRANSIT's monthly rail passes on certain Amtrak trains under a cross-honoring agreement.

Passenger Revenue



Rail passenger revenue for fiscal year 2005 increased \$9.9 million, or 3.4 percent, with ridership increasing by 3.8 million passengers. Bus passenger revenue increased \$8.3 million, or 3.4 percent, with ridership increasing by 5.5 million passengers. Light rail passenger revenues, consisting of Newark City Subway, Hudson-Bergen Light Rail and River LINE, increased by \$2.7 million, or 29.7 percent, with ridership increasing by 2.3 million passengers.

Rail passenger revenue for fiscal year 2004 increased \$4.6 million, or 1.6 percent, over fiscal year 2003, with ridership increasing by 2.9 million passengers. Bus passenger revenue increased \$3.1 million, or 1.3 percent, over fiscal year 2003, with ridership increasing by 2.1 million passengers. Light rail passenger revenues, consisting of Newark City Subway, Hudson-Bergen Light Rail and River LINE, increased by \$0.8 million, or 9.1 percent, over fiscal year 2003, with ridership increasing by 1.1 million passengers.

Table A-3

<i>RIDERSHIP (in millions)</i>	FY05	FY04*	FY03*	% Inc 2005/2004
Rail Lines				
Newark Division	45.1	42.6	41.1	5.9
Hoboken Division	23.0	21.8	20.5	5.5
Atlantic City	1.2	1.1	1.0	9.1
Total Rail Ridership	69.3	65.5	62.6	5.8
Bus Lines				
Northern Division	61.1	57.0	55.7	7.2
Central Division	69.6	68.2	68.0	2.1
Southern Division	25.0	25.0	24.4	0
Total Bus Ridership	155.7	150.2	148.1	3.7
Light Rail Lines				
Newark City Subway	5.6	5.4	4.1	3.7
Hudson-Bergen Light Rail	5.3	4.2	4.9	26.2
River LINE	1.5	0.4	-	275.0
Total Light Rail Ridership	12.4	10.0	9.0	24.0
Total Ridership	237.4	225.7	219.7	5.2

*Adjusted

Other Operating Revenues

Other operating revenues consist of contracted service revenues, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The increase in other operating revenues of \$5.7 million, or 13.0 percent, was principally due to an increase in parking lot income, advertising revenue and revenue from Metro-North operations.

Operating Expenses

Operating expenses consist of employment costs and other operating costs.

Employment Costs

Employment costs consist of full- 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 \$45.6 million, or 5.6 percent. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and to overtime cost increases associated with service expansion and disruptions. NJ TRANSIT's pension and medical and health care expenses also increased, further impacting overall employment costs.

Other Operating Costs

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

Parts, materials and supplies expenses increased \$12.9 million, or 11.5 percent, due to an increase in the consumption of parts and materials during fiscal year 2005, primarily related to the rehabilitation of NJ TRANSIT's revenue vehicle fleet.

Services expense increased \$18.1 million, or 23.9 percent, as a result of additional costs for contracted security services and electronic equipment services related to the maintenance of ticket vending machines. In addition, services expense was impacted by increased costs associated with various fiscal year 2005 projects, such as the Access to the Region's Core program and Environmental Compliance.

Fuel and propulsion power expenses increased \$16.1 million, or 24.4 percent. Fuel expenses increased \$16.9 million, or 47.3 percent, as a result of an average \$0.45 per gallon increase in the cost of diesel fuel, along with increased consumption of approximately 1,363,000 gallons of diesel fuel during fiscal year 2005 due to service expansion.

Trackage, tolls and fees expenses decreased \$15.1 million, or 32.3 percent, reflecting the impact of a settlement with the National Railroad Passenger Corporation (Amtrak) related to NJ TRANSIT's commuter rail services on Amtrak's Northeast Corridor.

Purchased transportation expenses increased \$6.3 million, or 4.6 percent, as a result of increased costs for operation of the Hudson-Bergen Light Rail system and the River LINE system, as well as bus Contract Carrier services.

Non-Operating Revenues, Net

Non-operating revenues, net, increased \$13.4 million, or 1.8 percent, attributable to increased state of New Jersey appropriation. Total state and federal operating assistance and reimbursements increased \$38.8 million, or 4.8 percent. Federal, state and local reimbursements, which represent funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities, decreased \$46.3 million, or 7.5 percent, while the state of New Jersey general fund appropriation increased by \$85.3 million, or 44.1 percent.

Capital Contributions, Net

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. The federal, state and local interest in assets acquired and constructed is provided in Note 14, Net Assets. Funding of capital grant expenditures totaling \$631.3 million was \$99.7 million, or 13.6 percent, below fiscal year 2004.

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

Capital Assets

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

As of June 30, 2004, NJ TRANSIT had invested \$9,769.1 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2004, totaled \$6,962.8 million (Table A-4). This amount represents a net increase of \$399.8 million, or 6.1 percent, over June 30, 2003.

Table A-4

NJ TRANSIT CAPITAL ASSETS (net of depreciation)

(in millions)	As of June 30,			% Inc/(Dec) 2005/2004
	2005	2004	2003	
Capital projects				
in process	\$1,313.9	\$2,126.7	\$3,177.9	(38.2)
Revenue vehicles	1,452.4	1,574.5	1,328.4	(7.8)
Buildings and structures	2,788.6	2,408.6	1,329.0	15.8
Track	1,257.4	589.2	522.9	113.4
Land	242.2	174.5	152.8	38.8
Equipment	89.3	89.3	52.0	0
Total Net				
Capital Assets	\$7,143.8	\$6,962.8	\$6,563.0	2.6

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

A 33.1 percent decrease in capital projects in process in fiscal year 2004 reflects the transfer of Hudson-Bergen Light Rail, River LINE and Secaucus Junction capital project costs to buildings and structures, track and equipment, as is evidenced by the 81.2 percent increase, the 12.7 percent increase and the 71.7 percent increase in these categories, respectively.

An 18.5 percent increase in revenue vehicles in fiscal year 2004 is the result of the acquisition of buses, light rail vehicles, locomotives and rail cars that were placed into service during fiscal year 2004 to replace aging equipment and provide additional capacity.

The Board of Directors approved a fiscal year 2006 capital program that authorizes NJ TRANSIT to request funds totaling \$1,147.2 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 rehabilitation and maintenance of rolling stock; debt service related to the acquisition of buses, rail cars, locomotives and the construction of light rail projects; and new system expansion. Provisions have also been made to comply with all federally mandated accessibility and environmental regulations. Additional information about NJ TRANSIT's capital assets is presented in Note 8 to the financial statements.

Debt Obligations

Debt obligations outstanding at June 30, 2005, totaled \$3,946.8 million compared with \$4,277.6 million at June 30, 2004, a decrease of 7.7 percent. Debt obligations outstanding at June 30, 2004, totaled \$4,277.6 million compared with \$3,916.6 million at June 30, 2003, an increase of 9.2 percent. The following table summarizes the changes in capital debt between fiscal years 2005, 2004 and 2003 (in millions):

	As of June 30,			% (Dec) 2005/2004
	2005	2004	2003	
Notes payable	\$2,280.2	\$2,487.6	\$2,402.3	(8.3)
Obligations under capital leases*	1,666.6	1,790.0	1,514.3	(6.9)
Total	\$3,946.8	\$4,277.6	\$3,916.6	(7.7)

*Includes \$1,495.8 million of leveraged lease transactions as of fiscal year 2005.

Additional information about NJ TRANSIT's debt is presented in Notes 11 and 12 to the financial statements.

Other Matters

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

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

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

Contacting NJ TRANSIT Financial Management

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

FINANCIAL STATEMENTS

New Jersey Transit Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF FUND NET ASSETS

<i>(in thousands)</i>	As of June 30,	
	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	\$ 119,795	\$ 77,875
Due from federal government	160,457	198,672
Due from state of New Jersey	74,623	100,668
Inventories, net	71,549	63,361
Other	41,831	60,155
Total Current Assets	468,255	500,731
Non-Current Assets		
Restricted cash	8,260	9,481
Restricted investments	388,719	646,908
Restricted leveraged lease deposits	1,525,757	1,637,008
Other	40,592	40,584
Capital assets not being depreciated	1,556,016	2,301,124
Capital assets, net of accumulated depreciation	5,587,730	4,661,627
Total Non-Current Assets	9,107,074	9,296,732
Total Assets	9,575,329	9,797,463
Liabilities		
Current Liabilities		
Accounts payable	176,693	188,708
Accrued payroll and benefits	120,297	110,683
Current installments under capital leases	116,714	173,327
Short-term notes payable	167,485	187,314
Other current liabilities	71,413	75,464
Total Current Liabilities	652,602	735,496
Non-Current Liabilities		
Notes payable	2,112,687	2,300,331
Accrued injury and damage claims	61,735	48,690
Obligations under capital leases	1,549,894	1,616,655
Post-retirement benefits other than pensions	329,207	305,707
Deferred revenue and other non-current liabilities	60,095	53,556
Total Non-Current Liabilities	4,113,618	4,324,939
Total Liabilities	4,766,220	5,060,435
Net Assets		
Invested in capital assets, net of related debt	5,111,443	4,944,878
Restricted net assets	8,260	9,481
Deficit in unrestricted net assets	(310,594)	(217,331)
Total Net Assets	\$4,809,109	\$4,737,028

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

(in thousands)

	Years Ended June 30,	
	2005	2004
Operating Revenues		
Passenger fares	\$560,250	\$539,354
Other	49,630	43,918
Total Operating Revenues	<u>609,880</u>	<u>583,272</u>
Operating Expenses		
Labor	505,398	481,330
Fringe benefits	348,249	326,706
Parts, materials and supplies	124,929	112,025
Services	93,738	75,635
Claims and insurance	42,664	39,194
Fuel and propulsion	82,084	66,003
Trackage, tolls and fees	31,632	46,743
Utilities	29,872	26,761
Purchased transportation	143,260	136,924
Other	21,188	25,325
Total Operating Expenses, Before Depreciation	<u>1,423,014</u>	<u>1,336,646</u>
Loss Before Depreciation	(813,134)	(753,374)
Depreciation	<u>(399,383)</u>	<u>(396,351)</u>
Operating Loss	<u>(1,212,517)</u>	<u>(1,149,725)</u>
Non-Operating Revenues (Expenses)		
State appropriation	278,700	193,448
Federal appropriation	423	577
Federal, state and local reimbursements	570,978	617,238
Investment income	4,449	2,539
Income from financing arrangements	2,044	29,801
Other non-operating revenues	5,118	16,648
Interest expense	<u>(102,886)</u>	<u>(114,832)</u>
Total Non-Operating Revenues (Expenses)	<u>758,826</u>	<u>745,419</u>
Loss Before Transfers and Capital Contributions	(453,691)	(404,306)
Capital contributions, net	<u>525,772</u>	<u>661,204</u>
Change in net assets	<u>72,081</u>	<u>256,898</u>
Total Net Assets, Beginning	<u>4,737,028</u>	<u>4,480,130</u>
Total Net Assets, Ending	<u>\$4,809,109</u>	<u>\$4,737,028</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended June 30,	
	2005	2004
Cash Flows from Operating Activities		
Cash receipts from fares	\$562,930	\$539,826
Other cash receipts	59,552	55,311
Payments for claims	(30,209)	(33,387)
Payments to employees	(820,534)	(780,129)
Payments to suppliers	(550,020)	(477,061)
Net Cash Used by Operating Activities	(778,281)	(695,440)
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants and appropriations	869,754	825,587
Net Cash Provided by Non-Capital Financing Activities	869,754	825,587
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of notes	0	313,320
Proceeds from issuance of refunding notes	0	492,125
Payment of obligations under capital leases	(12,124)	(10,754)
Interest payments	(102,885)	(114,832)
Repayment of note obligations	(207,473)	(700,335)
Transfers from restricted funds	258,189	43,037
Purchase of capital assets	(685,876)	(889,794)
Capital grants	692,902	529,447
Net Cash Used by Capital and Related Financing Activities	(57,267)	(337,786)
Cash Flows from Investing Activities		
Interest on investments	4,449	2,539
Leveraged lease proceeds	1,390	29,006
Income from other financing activities	654	5,891
Net Cash Provided from Investing Activities	6,493	37,436
Net Increase/(Decrease) in Cash and Cash Equivalents	40,699	(170,203)
Cash and Cash Equivalents		
Beginning of Year	87,356	257,559
End of Year	<u>\$128,055</u>	<u>\$87,356</u>
Non-Cash Investing Activities		
Increase in fair value of investments	\$2,059	\$75

See Notes to Consolidated Financial Statements.

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

<i>(in thousands)</i>	Years Ended June 30,	
	2005	2004
Net Operating Loss	\$(1,212,517)	\$(1,149,725)
Adjustment to Reconcile Net Operating Loss to Net Cash Used by Operating Activities		
Depreciation	399,383	396,351
Changes in Assets and Liabilities		
Inventories	(8,189)	1,817
Other current assets	1,210	(1,956)
Other non-current assets	(7)	490
Accounts payable	(12,015)	10,989
Accrued payroll and benefits	9,614	(7,453)
Other current liabilities	(3,963)	16,663
Accrued injury and damage claims	13,045	9,441
Post-retirement benefits other than pensions	23,500	25,093
Deferred revenue and other non-current liabilities	11,658	2,850
Net Cash Used by Operating Activities	<u>\$(778,281)</u>	<u>\$(695,440)</u>

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements for the Years Ended June 30, 2005 and 2004

1. Organization and Business Purpose

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

NJ TRANSIT receives operating assistance and capital funds from the state of New Jersey by legislative appropriation; the federal government by defined formula; and discretionary grants under the 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, and local sources. The federal grants are administered by the Federal Transit Administration (FTA). These government grants are used to support construction, acquisition and operation of public transportation facilities, equipment and services.

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

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

2. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING. The accounts are maintained and financial statements prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP) as they relate to enterprise funds of state and local governmental units. Also, all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 20, 1989, except those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, have been applied.

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 for NJ TRANSIT include the costs of operating the system, administrative expenses and depreciation of capital assets.

NEW ACCOUNTING PRONOUNCEMENT. In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement establishes guidance for the financial reporting of other post-employment benefits (OPEB) costs over a period that approximates employees' years of service, and for providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. NJ TRANSIT currently accounts for OPEB in accordance with FASB Statement No. 106 as explained in Note 9. For NJ TRANSIT financial reporting, GASB Statement No. 45 effectively supercedes FASB Statement No. 106 for periods beginning after December 15, 2006. NJ TRANSIT is currently evaluating the impact of implementing GASB Statement No. 45.

REVENUE AND EXPENSE CLASSIFICATION. NJ TRANSIT distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with NJ TRANSIT's principal 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 passenger transportation. All revenues and expenses not meeting this definition are reported as non-operating 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 its use is subject to restrictions enforceable by third parties.
- Deficit in Unrestricted Net Assets—This primarily represents the recognition of the liability for post-retirement benefits other than pensions that exceeds the net assets available for general use.

When both restricted and unrestricted resources are available for use, it is NJ TRANSIT's policy to use restricted resources first and then unrestricted resources as needed.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries. All intercompany transactions have been eliminated.

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

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.

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

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, track work and bridges). Capital assets, which were acquired by the state of New Jersey, Department of Transportation, and subsequently transferred to NJ TRANSIT at cost, are included in capital assets and are reported as part of contributed capital in the Statement of Revenue, Expenses and Changes in Fund Net Assets.

CAPITALIZATION POLICY. Under NJ TRANSIT's policy, expenditures of more than \$5,000 determined to represent additions or betterments, with a useful life greater than one year, are capitalized. Ordinary maintenance and repairs are charged to expense as incurred.

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

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

CONSTRUCTION IN PROGRESS. Construction in progress represents expenditures incurred by NJ TRANSIT for capital projects in process and includes 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. Such coverages include self-insurance retention.

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

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

RECLASSIFICATIONS. Certain reclassifications have been reflected in the fiscal year 2004 consolidated financial statements to conform to the current year's presentation.

3. Other Operating Revenues

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

	For the Years Ended June 30,	
	2005	2004
Lease and rental	\$18.1	\$18.1
Advertising	8.4	7.8
Metro-North operations	9.2	8.4
Other	13.9	9.6
Total	\$49.6	\$43.9

4. Injury and Damage Claims

As of June 30, 2005, NJ TRANSIT's self-insurance retention was \$10 million per occurrence with commercial excess liability insurance coverage for the amounts in excess of \$10 million up to \$250 million. Additionally, NJ TRANSIT is self-insured for workmen's compensation. Employment practice claims exceeding \$500,000 up to \$10 million are covered by insurance. On October 14, 2004, ARH III Insurance Company, 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.

NJ TRANSIT has recorded an estimated liability of \$85.5 million and \$73.1 million as of June 30, 2005 and 2004, respectively, for outstanding public liability, property damage, FELA, workmen's compensation and employment practice claims. Of this amount, \$23.8 million and \$24.4 million are included in other current liabilities as of June 30, 2005, and June 30, 2004, respectively (see Note 10).

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

	As of June 30,	
	2005	2004
Balance, beginning of year	\$73.1	\$67.2
Claims expense	32.5	30.7
Payment of claims	(20.1)	(24.8)
Balance, end of year	\$85.5	\$73.1

5. Federal Grants

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

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

6. Cash, Cash Equivalents and Investments

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

	As of June 30,	
	2005	2004
Current		
Cash on hand	\$5.8	\$7.0
Short-term investments	114.0	70.9
Total current cash and short-term investments	119.8	77.9
Non-current		
Restricted cash	4.1	9.5
Restricted investments	392.9	646.9
Restricted total non-current	397.0	656.4
Total Cash, Cash Equivalents and Investments	\$516.8	\$734.3

NJ TRANSIT's cash and cash equivalents at June 30, 2005, totaled \$9.9 million.

Depository Account	Deposit Balance (in millions)
Insured	\$0.6
Insured held at NJ TRANSIT locations	1.3
Uncollateralized:	
Held by bank trustees	1.0
Held by health care providers	3.1
Uninsured held by banks	3.9
Total	\$9.9

CUSTODIAL CREDIT RISK-DEPOSITS. Custodial credit risk is the risk that a bank failure would cause NJ TRANSIT deposits not to be returned. NJ TRANSIT does not have a policy for custodial credit risk. As of June 30, 2005, \$8.0 million of NJ TRANSIT's cash balance was exposed to custodial credit risk-deposits.

NJ TRANSIT's investments at June 30, 2005, totaled \$506.9 million.

Investments	Weighted Average	
	Fair Value (in millions)	Maturity (years)
State of NJ Cash Management Fund	\$264.9	.48
Repurchase Agreements	101.9	.27
U.S. Treasury Securities	138.7	.62
Other	1.4	.50
Total	\$506.9	
Portfolio weighted average maturity		.47

INTEREST RATE RISK. In accordance with NJ TRANSIT's investment policy, NJ TRANSIT manages its exposure to declines in fair values by limiting the weighted average maturity of its investments portfolio to less than one year. An exception is that 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.

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 A/A; (d) commercial paper, which must have the highest prime rating and must be issued by a company incorporated in the United States; (e) certificates of deposit, both collateralized and uncollateralized; in the case of collateralized, the market value of the collateral must be 120 percent of the purchase price at the time of purchase; (f) repurchase agreements; (g) banker's acceptances; (h) loan participation notes; and (i) money market mutual funds. The restrictions pertaining to each class of these securities are outlined in NJ TRANSIT's Investment Policy and are strictly adhered to. Any deviation from the established risk is authorized by the Board of Directors.

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

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

All investments, except for investment agreements, are carried at fair value. Investment agreements are collateralized, non-participating guaranteed investment contracts, which are carried at cost. U.S. government and agencies' obligations are guaranteed by the full faith and credit of the issuing entity and are

held by NJ TRANSIT's escrow agent in an account for NJ TRANSIT. Commercial paper is uncollateralized and uninsured and is limited to investment-grade paper. The State of New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of Treasury, Division of Investment. Securities in the fund are insured, registered or held by the division or its agent in the fund's name.

7. Restricted Assets

Restricted assets include cash, investments and amounts on deposit with various lessors 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, financed portions of NJ TRANSIT's capital projects. These proceeds are restricted by applicable agreement covenants. As of June 30, 2005, and June 30, 2004, the balance of restricted cash related to these proceeds was \$363.6 million and \$638.6 million, respectively.

In October 1997, NJ TRANSIT entered into a funding agreement with Metro-North Commuter Railroad Company

for Secaucus Junction and the right-of-way modifications to the Main/Bergen and Northeast Corridor rail lines. This agreement provided for an initial cash payment to NJ TRANSIT. The balance of this payment along with interest earnings on investment of funds has been recorded as restricted investments and deferred revenue in the amount of \$7.6 million and \$9.8 million as of June 30, 2005, and June 30, 2004, 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, 2005, and June 30, 2004, were \$1,525.8 million and \$1,637.0 million, respectively, for these lease agreements that represent investment arrangements made to meet NJ TRANSIT's payment obligations throughout the term of the leases.

In May 1984, NJ TRANSIT purchased the land under and adjacent to Newark Penn Station along with air rights above the land and acquired operational control of the station. This arrangement also provides cash proceeds to NJ TRANSIT, which management projects will assist in the funding of net station operating expenses. Proceeds in the amount of \$7.5 million have been recorded as restricted cash and deferred revenue as of June 30, 2005. Smaller amounts relative to reserve funds, health plan deposits and residual grant proceeds total \$10 million.

8. Capital Assets

CAPITAL ASSETS ARE SUMMARIZED AS FOLLOWS:

(in millions)

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets not being Depreciated				
Land	\$174.5	\$67.7	\$0.0	\$242.2
Capital projects in process	2,126.7	705.8	1,518.6	1,313.9
Total Capital Assets not being Depreciated	2,301.2	773.5	1,518.6	1,556.1
Capital Assets being Depreciated				
Buildings and structures	3,458.0	606.7	85.8	3,978.9
Track	993.4	1,092.1	356.2	1,729.3
Rail cars and locomotives	1,433.9	22.2	1.7	1,454.4
Buses, vans and light rail cars	1,239.4	29.6	10.0	1,259.0
Furniture, fixtures and equipment	343.2	19.5	15.5	347.2
Total Capital Assets being Depreciated	7,467.9	1,770.1	469.2	8,768.8
Less Accumulated Depreciation				
Buildings and structures	1,049.4	140.9	0.0	1,190.3
Track	404.2	67.7	0.0	471.9
Rail cars and locomotives	689.4	73.7	1.4	761.7
Buses, vans and light rail cars	409.4	99.8	9.9	499.3
Furniture, fixtures and equipment	253.9	17.3	13.3	257.9
Total Accumulated Depreciation	2,806.3	399.4	24.6	3,181.1
Total Capital Assets, Net of Depreciation	4,661.6	1,370.7	444.6	5,587.7
Total Net Capital Assets	\$6,962.8	\$2,144.2	\$1,963.2	\$7,143.8

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets not being Depreciated				
Land	\$152.8	\$23.3	\$1.6	\$174.5
Capital projects in process	3,177.9	878.6	1,929.8	2,126.7
Total Capital Assets not being Depreciated	3,330.7	901.9	1,931.4	2,301.2
Capital Assets being Depreciated				
Buildings and structures	2,220.6	1,242.4	5.0	3,458.0
Track	886.8	106.6	0.0	993.4
Rail cars and locomotives	1,325.5	175.3	66.9	1,433.9
Buses, vans and light rail cars	1,012.3	265.5	38.4	1,239.4
Furniture, fixtures and equipment	284.7	60.2	1.7	343.2
Total Capital Assets being Depreciated	5,729.9	1,850.0	112.0	7,467.9
Less Accumulated Depreciation				
Buildings and structures	891.6	160.1	2.3	1,049.4
Track	363.9	40.3	0.0	404.2
Rail cars and locomotives	664.1	71.9	46.6	689.4
Buses, vans and light rail cars	345.3	101.2	37.1	409.4
Furniture, fixtures and equipment	232.7	22.9	1.7	253.9
Total Accumulated Depreciation	2,497.6	396.4	87.7	2,806.3
Total Capital Assets, Net of Depreciation	3,232.3	1,453.6	24.3	4,661.6
Total Net Capital Assets	\$6,563.0	\$2,355.5	\$1,955.7	\$6,962.8

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

During fiscal years 2005 and 2004, NJ TRANSIT received capital contributions of \$628.8 million and \$661.2 million, respectively, of which \$103.0 million and \$66.1 million were transferred to other entities, respectively. The amounts transferred represented assets of which NJ TRANSIT has transferred ownership upon completion of the project. For fiscal year 2005, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line and the acquisition of rail cars on behalf of Metro-North.

NJ TRANSIT also routinely transfers to expense amounts initially recorded in capital projects in process that do not meet capitalization criteria. In fiscal years 2005 and 2004, these amounts totaled \$15.5 million and \$11.6 million, respectively.

9. Pension and Employee Benefit Plans

Certain employees of NJ TRANSIT and its subsidiaries participate in the New Jersey Public Employee Retirement System (PERS), the Police and Firemen's Retirement System (PFRS) and the Railroad Retirement Fund. NJ TRANSIT contributes to the PERS plan, the PFRS plan and Railroad Retirement Fund based upon a fixed percentage of applicable compensation as determined by the respective plan sponsors. The PERS, PFRS and Railroad Retirement Fund plans are cost-sharing, multiple employers' defined benefit pension plans and require employee contributions. NJ TRANSIT's contributions to these plans for the years ended June 30, 2005, 2004 and 2003 were \$32.9 million, \$32.0 million and \$32.3 million, respectively. The state of New Jersey issues separate, stand-alone financial reports for the PERS and PFRS plans that can be

obtained through the New Jersey Division of Pensions.

NJ TRANSIT employees not participating in PERS, PFRS or the Railroad Retirement Fund as defined above are covered by five defined benefit, single-employer pension plans. Total payroll used for benefits and cost calculations for employees covered by the five NJ TRANSIT-sponsored plans was \$359.5 million, \$326.8 million and \$323.0 million for the 2005, 2004 and 2003 plan years, respectively. Under the provisions of the five pension plans, pension benefits vest after 10 years of full-time employment. Employees who began their employment after age 49 are 100 percent vested beginning at age 55 after five years of full-time employment. As of June 30, 2005, an employee who retires at age 65 with 10 years of credited service is entitled to an annual retirement benefit equal to 2.0 percent for each year of service multiplied by the average of the highest three years' earnings, excluding overtime, in the last 10 years of service. The sponsored pension plans also provide early retirement programs and death benefits.

A variety of significant actuarial assumptions are used to determine the valuation of the pension benefit obligation at the pension plan valuation dates. The current assumptions include (a) a weighted average assumed rate of return of 8.0 percent for all plans, (b) annual salary increases ranging from 4.0 percent to 5.9 percent, and (c) no post-retirement benefit increases. For fiscal year 2005, there were no changes in actuarial assumptions or funding method.

Periodic employer contributions to the pension plans are also determined on an actuarial basis using the projected unit credit actuarial method. Normal costs are accrued on a current basis. The prior service costs are amortized over a 30-year period. Contributions to sponsored plans during fiscal year 2005 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2004.

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

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

Pension Benefit Obligation (in millions)	As of June 30,				
	2004	2003	2002	2001	2000
Accrued Benefit Obligation					
Participants currently receiving payments	\$389.3	\$363.4	\$279.6	\$244.3	\$205.2
Employer-financed vested benefits	310.8	282.7	307.8	284.9	243.1
Employer-financed nonvested benefits	106.2	98.2	97.4	91.0	74.6
Total Accrued Benefit Obligation	\$806.3	\$744.3	\$684.8	\$620.2	\$522.9
Pension Funding					
Pension benefit obligation	953.9	\$869.3	\$813.4	\$745.9	\$621.2
Fair value of net assets available for plan benefits	766.5	678.6	628.9	620.0	599.5
Unfunded Pension Benefit Obligation	\$(187.4)	\$(190.7)	\$(184.5)	\$(125.9)	\$(21.7)

Pension expense for defined benefit plans (excluding PERS, PFRS and the Railroad Retirement Fund) totaled \$61 million, \$57.6 million and \$51.8 million for fiscal years 2005, 2004 and 2003, respectively.

For the three plan years ended June 30, 2004, 2003 and 2002, available assets were sufficient to fund 80.4, 78.1 and 77.3 percent, respectively, of the pension benefit obligation. The unfunded pension benefit obligation represented 52.1, 58.3 and 57.1 percent of the annual payroll for employees covered by NJ TRANSIT pension plans for fiscal years 2004, 2003 and 2002, respectively. Disclosing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. NJ TRANSIT's contributions to the plans for the three plan years ended June 30, 2004, 2003 and 2002, all made in accordance with actuarially determined requirements, were 20.0, 18.6 and 17.8 percent, respectively, of applicable fiscal year covered payroll.

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

Each plan provides retirement, disability and death benefits to plan members and beneficiaries. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement

plan while the agreement plans are subject to the collective bargaining process. Separate audited financial statements are issued for the five pension plans, which can be obtained from NJ TRANSIT.

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan 401(k) for all eligible non-agreement employees. NJ TRANSIT provides a maximum 50 percent matching contribution on the first 6 percent contributed by the employee. This plan permits employees to contribute up to 50 percent of their salary not to exceed \$14,000 annually on a pre-tax basis.

NJ TRANSIT also provides a money purchase pension plan 401(a) and an employee savings/deferred compensation plan (457) for eligible agreement employees. NJ TRANSIT contributed 3 percent to 5 percent of annual compensation to certain employees' accounts in the 401(a) plan. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed \$14,000 annually on a pre-tax basis.

Beginning in 2002, a new type of pre-tax contribution has been added for participants of the 401(k) and 457 plans who are nearing retirement. The Economic Growth and Tax Relief Act of 2001 permits individuals who are age 50 (or older) by the end of the calendar year to elect to make additional "catch up" contributions to the plan. This is in addition to the pre-tax employee contribution limit. NJ TRANSIT retirement plan participants can only "catch up" in one plan. Pursuant to the act, participants in the 401(k) and 457 plans who are over 50 years of age can contribute an additional \$4,000 above the \$14,000 limit.

NJ TRANSIT's expense for the defined contribution plans totaled \$15.1 million and \$14.5 million in fiscal years 2005 and 2004, respectively.

Recorded expenses for all plans (including PERS, PFRS and the Railroad Retirement Fund) amount to \$109.1 million and \$104.1 million for the years ended June 30, 2005, and June 30, 2004, respectively.

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

The plan is funded on a pay-as-you-go basis and payments under the plan were \$15.9 million for fiscal year 2005. Bus agreement retirees are eligible for benefits upon attainment of age 55 with 10 years of service, or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retiree and spousal coverage for medical and life insurance. Dental coverage is also available for bus agreement retirees until the age of 65. Rail agreement retirees are eligible for benefits once they reach age 60 with 30 years of service. These benefits include retiree and spousal coverage for medical benefits and life insurance. The spousal coverage becomes 100 percent contributory once the retiree reaches age 65.

Non-agreement retirees are eligible for benefits upon attainment of whichever is earlier: age 55 with 10 years of service, or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retiree and spousal coverage for medical, life insurance and paid prescriptions. Dental coverage also is available for non-agreement retirees until the age of 65 and for those non-agreement employees who retired under the Voluntary Special Retirement Program.

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

	As of June 30,	
	2005	2004
Retirees	\$157.5	\$156.9
Fully eligible active plan participants	77.4	64.0
Other active plan participants	210.9	167.4
Accumulated post-retirement benefit obligation	445.8	388.3
Unrecognized net actuarial loss	(116.6)	(82.6)
Total Accumulated Post-Retirement Benefit Obligation	\$329.2	\$305.7

The accumulated post-retirement benefit obligation was determined using the unit credit method and an assumed discount rate of 6.0 percent. The assumed health care trend rate used was 4.5 percent for bus agreement employees, pre- and post-age 65 retirees; non-agreement employees, pre- and post-age 65 retirees; and rail agreement employees, pre-age 65 retirees. The net periodic post-retirement benefit cost for fiscal years 2005 and 2004 follows (*in millions*):

	Years Ended June 30,	
	2005	2004
Service costs	\$15.7	\$15.8
Interest costs	22.7	21.9
Amortization of actuarial gain	1.0	3.5
Total Post-Retirement Benefit Cost	\$39.4	\$41.2

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

	1 Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components	\$6.8	\$5.5
Effect on the post-retirement benefit obligation	\$49.7	\$42.0

10. Other Current Liabilities

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

	As of June 30,	
	2005	2004
Injury and damage claims (Note 4)	\$23.8	\$24.4
Retainage on construction projects	22.2	20.6
Other	25.4	30.5
Total Other Current Liabilities	\$71.4	\$75.5

11. Long-Term Debt and Other Obligations

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

In October 2003, NJ TRANSIT entered into a 16-year lease/sublease agreement with the New Jersey Economic Development Authority (NJEDA) as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of \$325.9 million in Series 2003A Refunding Bonds. 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 with AA-rated counterparties. 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 to the counterparties. In return, the counterparties pay interest to NJ TRANSIT based upon 62 percent of the one-month LIBOR rate plus 20 basis points. This rate is designed to offset the market rate paid on the underlying bonds, which are periodically auctioned. As the bonds are redeemed, the notional amounts of the respective swap agreement will decrease proportionately. This debt will fully mature in 2019.

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. Bond proceeds will be 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 with AA-rated counterparties. The notional amounts of these swaps are equal to the face value of the bond issuance. Based upon the swap agreements, NJ TRANSIT pays interest at a fixed rate of 3.45 percent to the counterparties. In return, the counterparties pay interest to NJ TRANSIT based upon 62 percent of the one-month LIBOR rate plus 20 basis points. This rate is designed to offset the market rate paid on the underlying bonds, which are periodically auctioned. As the bonds are redeemed, the notional amounts of the respective swap agreements decrease proportionately. This debt will fully mature in 2019.

In September 2003, NJ TRANSIT issued \$149.8 million of Series 2003A COPs accruing interest between 1.0 percent and 4.1 percent with the final maturity date in 2015. 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 will fully mature in 2015.

In February 2003, NJ TRANSIT issued \$61.5 million of Refunding COPs bearing interest between 2.0 percent and 5.5 percent with final maturity in 2016. The proceeds from the sale of these certificates were deposited into an irrevocable trust with an escrow agent to provide debt service on the COPs 1991

notes. The refunding transaction, which was consummated to take advantage of low interest rates, decreased the aggregate debt service payments and resulted in an economic benefit of approximately \$2 million over the life of the transaction with a \$10.8 million deferral of refunding cost. As of June 30, 2005, \$55.2 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, 2005, \$70.6 million of defeased Series 2000A notes remain outstanding. NJ TRANSIT has recorded the remaining balance of cash received and the payment obligations as capital assets, restricted investments and notes payable, respectively.

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

In November 2000, NJ TRANSIT issued \$562.2 million of Capital Grant Anticipation Notes (GANs), consisting of \$452.2 million Series 2000B and \$110.0 million Series 2000C, bearing interest between 4.5 percent and 5.75 percent. The Series

2000B note has a final maturity date of 2011. The proceeds of this note are being used to fund the cost of constructing the next segment of Hudson-Bergen Light Rail (MOS-2). The proceeds of the series 2000C notes are being used to fund the Newark City Subway Extension. This note matured in fiscal year 2005.

In October 2000, NJ TRANSIT issued \$693.1 million of Series 2000B COPs bearing interest between 4.5 percent and 6.0 percent with a final maturity date of 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 date of 2015. The proceeds of the certificates were used to purchase 200 rail cars and spare parts.

In August 1999, NJ TRANSIT entered into a 20-year lease/sublease agreement with the NJEDA as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of \$486.7 million in Series 1999A Bonds and \$147.2 million in Series 1999B Bonds, bearing interest between 4.375 percent and 5.75 percent with a final maturity date of 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 date of 2008. The proceeds of the certificates were used to purchase 500 transit buses.

The following schedule summarizes notes payable obligations as of June 30, 2005, and includes GANs, COPs and NJEDA issued debt (*in millions*):

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

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The following schedule summarizes notes payable obligations as of June 30, 2004 and includes GANs, COPs and NJEDA issued debt (*in millions*):

	Inception Date	Balance June 30, 2003	Additions	Payments/ Reductions	Balance June 30, 2004	Due Within One Year
COPs 1999	03/99	\$116.9	\$-	\$18.5	\$98.4	\$19.4
NJEDA 1999A&B	08/99	593.5	-	310.9	282.6	36.8
COPs 2000A	01/00	73.9	-	1.6	72.3	1.7
GANs 2000A	09/00	36.3	-	36.3	-	-
COPs 2000B	10/00	693.1	-	187.8	505.3	43.7
GANs 2000B	11/00	452.2	-	38.4	413.8	50.4
GANs 2000C	11/00	92.8	-	65.6	27.2	27.2
COPs 2002A	06/02	160.6	-	0.2	160.4	0.2
COPs 2002B	06/02	94.7	-	-	94.7	-
COPs 2003	02/03	61.2	-	2.7	58.5	3.3
COPs 2003A	09/03	-	149.8	-	149.8	1.0
NJEDA 2003A	10/03	-	325.9	-	325.9	3.6
NJEDA 2003B	10/03	-	35.0	-	35.0	-
COPs 2004A	03/04	-	253.2	-	253.2	-
Total		<u>2,375.2</u>	<u>763.9</u>	<u>662.0</u>	<u>2,477.1</u>	<u>\$187.3</u>
Unearned Bond Premium		55.0	41.1	9.5	86.6	
Unamortized Deferral on Refunding		<u>(28.0)</u>	<u>(53.9)</u>	<u>(5.8)</u>	<u>(76.1)</u>	
Total Notes Payable		<u>\$2,402.2</u>	<u>\$751.1</u>	<u>\$665.7</u>	<u>\$2,487.6</u>	

Long-term notes payable maturities as of June 30, 2005
(*in millions*):

Fiscal Years	Principal	Interest	Total
2006	\$167.5	\$102.5	\$270.0
2007	194.4	103.3	297.7
2008	204.6	93.0	297.6
2009	215.0	82.2	297.2
2010	226.1	70.6	296.7
2011-2015	870.3	200.5	1,070.8
2016-2020	395.6	30.2	425.8
Total	<u>\$2,273.5</u>	<u>\$682.3</u>	<u>\$2,955.8</u>
Unamortized premium	75.2		
Unamortized deferral on refunding	<u>(68.6)</u>		
Total Notes Payable	<u>\$2,280.1</u>		

Long-term notes payable maturities as of June 30, 2004
(*in millions*):

Fiscal Years	Principal	Interest	Total
2005	\$187.3	\$124.8	\$312.1
2006	167.5	113.0	280.5
2007	194.4	104.2	298.6
2008	204.6	93.8	298.4
2009	215.0	82.7	297.7
2010-2014	932.6	249.7	1,182.3
2015-2019	575.7	53.4	629.1
Total	<u>2,477.1</u>	<u>\$821.6</u>	<u>\$3,298.7</u>
Unamortized premium	86.6		
Unamortized deferral on refunding	<u>(76.1)</u>		
Total Notes Payable	<u>\$2,487.6</u>		

12. Leases and Other Commitments

LEVERAGED LEASE TRANSACTIONS

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

as Restricted Leverage Lease Deposits in the Consolidated Statements of Fund Net Assets (see Notes 6 and 7).

In fiscal year 2005, NJ TRANSIT received a total of \$1.4 million in proceeds from leveraged lease transactions related to a 15-year cross-border lease of 81 articulated buses with a net present value lease obligation of \$37.9 million. In connection with the agreement, NJ TRANSIT has made certain indemnification provisions and must comply with certain lease covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2005.

Extinguished Leveraged Lease Obligations

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

Extinguished leveraged lease obligations as of June 30, 2005 follow (*in millions*):

Fiscal Years	Lease Years	Equipment	Amount
1995	15 Years	32 Arrow III cars	\$52.6
1994	15 Years	24 Arrow III cars	\$42.0
1994	15 Years	26 Arrow III cars	\$52.2
1993	15 Years	43 Arrow III cars	\$55.4

In connection with these lease agreements, NJ TRANSIT has made certain indemnification provisions and must comply with certain lease covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2005.

Capital Leases

In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light rail cars for the Hudson-Bergen Light Rail system and the Newark City Subway. These cars were financed through a sale of COPs by the state of New Jersey in May 1998. The cars were subleased by the 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 \$14.0 million as of June 30, 2005.

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 \$1,666.6 million and \$1,790.0 million as of June 30, 2005 and June 30, 2004, respectively, of which \$116.7 million and \$173.3 million represent current installments under capital leases as of June 2005 and June 2004, respectively.

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

	As of June 30	
	2005	2004
Land	\$27.4	\$27.4
Buildings	514.6	514.3
Rail cars and locomotives	672.2	672.2
Buses and light rail cars	721.6	684.4
Furniture, fixtures and equipment	63.1	62.7
Capital assets under capital leases (at cost)	1,998.9	1,961.0
Less accumulated depreciation	(869.6)	(758.5)
Net Capital Assets		
Under Capital Leases	\$1,129.3	\$1,202.5

The following schedule summarizes the capital lease obligations, including leveraged leases, as of June 30, 2005 (*in millions*):

	Inception Date	Balance June 30, 2004	Additions	Payments/Reductions	Balance June 30, 2005	Due Within One Year
NBC facility	07/86	\$19.6	\$-	\$2.0	\$17.6	\$2.3
Metropark parking facility	03/94	14.7	-	0.7	14.0	0.8
MMC, locos. & rail cars	01/97	148.1	-	8.9	139.2	9.2
ALP-44 locomotives	06/97	7.2	-	-	7.2	-
Comet IV coaches	07/97	32.9	-	2.7	30.2	2.7
Bus garages	07/97	88.3	-	8.9	79.4	5.3
Arrow coaches & ALP-44s	03/98	289.5	0.5	35.6	254.4	38.0
Light rail cars	06/98	118.7	-	9.4	109.3	9.8
Bus garage	09/98	100.8	6.3	-	107.1	0.4
HBLR	12/00	167.2	4.0	-	171.2	7.0
MCI buses	12/01	107.9	-	17.3	90.6	6.1
MCI buses	10/02	331.6	-	64.7	266.9	2.2
Qualified technical equipment	08 & 09/03	129.5	-	9.0	120.5	9.0
ALP-46 locomotives	09/03	81.0	-	10.6	70.4	10.6
Comet IV coaches	09/03	80.8	-	0.6	80.2	9.5
Light rail cars	09 & 10/03	72.2	-	1.7	70.5	1.8
Articulated Buses	07/04	0.0	37.9	-	37.9	2.0
Total Capital Lease Commitment		\$1,790.0	\$48.7	\$172.1	\$1,666.6	\$116.7

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The following schedule summarizes the capital lease obligations as of June 30, 2004 (in millions):

	Inception Date	Balance June 30, 2003	Additions	Payments/ Reductions	Balance June 30, 2004	Due Within One Year
NBC facility	07/86	\$21.4	\$-	\$1.8	\$19.6	\$2.0
Metropark parking facility	03/94	15.4	-	0.7	14.7	0.7
MMC, locos. & rail cars	01/97	157.7	-	9.6	148.1	8.9
ALP-44 locomotives	06/97	7.2	-	-	7.2	-
Comet IV coaches	07/97	95.7	-	62.8	32.9	2.7
Bus garages	07/97	71.9	16.4	-	88.3	8.9
Arrow coaches & ALP-44s	03/98	325.1	-	35.6	289.5	35.1
Light rail cars	06/98	127.6	-	8.9	118.7	9.4
Bus garage	09/98	94.6	6.2	-	100.8	-
HBLR	12/00	163.5	3.7	-	167.2	6.4
MCI buses	12/01	105.6	2.3	-	107.9	7.3
MCI buses	10/02	331.6	-	-	331.6	70.0
Qualified technical equipment	08 & 09/03	-	171.4	41.9	129.5	9.0
ALP-46 locomotives	09/03	-	135.2	54.2	81.0	10.6
Comet IV coaches	09/03	-	84.7	3.9	80.8	0.6
Light rail cars	09 & 10/03	-	72.6	0.4	72.2	1.7
Total		1,517.3	492.5	219.8	1,790.0	\$173.3
Unamortized Deferral on Refunding		(3.0)	-	(3.0)	-	
Total Capital Lease Commitment		\$1,514.3	\$492.5	\$216.8	\$1,790.0	

Minimum capital lease commitments as of June 30, 2005
(in millions):

Fiscal Years	Principal	Interest	Total
2006	\$116.7	\$42.5	\$159.2
2007	133.8	44.1	177.9
2008	187.0	51.4	238.4
2009	150.5	42.8	193.3
2010	126.3	41.6	167.9
2011-2015	500.9	292.2	793.1
2016-2020	303.8	291.6	595.4
2021-2025	91.1	66.9	158.0
2026-2030	37.9	53.1	91.0
2031-2035	18.6	10.2	28.8
Total Capital Lease Commitment	\$1,666.6	\$936.4	\$2,603.0

Minimum capital lease commitments as of June 30, 2004
(in millions):

Fiscal Years	Principal	Interest	Total
2005	\$173.3	\$39.4	\$212.7
2006	139.4	41.0	180.4
2007	123.8	42.5	166.3
2008	182.4	49.9	232.3
2009	145.8	41.4	187.2
2010-2014	534.8	277.9	812.7
2015-2019	323.7	327.8	651.5
2020-2024	95.0	73.8	168.8
2025-2029	53.3	51.9	105.2
2030-2034	18.5	14.8	33.3
Total Capital Lease Commitment	\$1,790.0	\$960.4	\$2,750.4

As of June 30, 2005, NJ TRANSIT was committed for future expenditures under the following capital projects and special services that will be funded from federal, state, local or other capital sources (in millions):

Bay Head Yard improvements	\$4.0
Special Services	4.7
Rail support facilities & equipment	5.3
Bus and light rail infrastructure	5.5
Arrow III rail cars reliability	6.0
River LINE	6.8
Madison Station ADA improvements	7.1
Rolling stock improvements	7.4
Morrisville Yard improvements	7.7
Positive Train Stop program	10.2
Main/Bergen Connection	10.6
Atlantic City track rehabilitation	11.3
Newark City Subway extension	11.7
Comet V rail cars purchase	12.1
Rail passenger facilities	12.5
Bus passenger facilities	13.0
Morris & Essex Lines viaduct waterproofing	14.4
Rail infrastructure	16.5
Hudson-Bergen Light Rail	22.5
MMC facility expansion	28.2
Broad Street Subway-ADA improvements	51.6
Trenton Station building improvements	55.8
Other	72.6
Total Capital Projects and Special Services Commitments	\$397.5

13. Contingencies

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

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

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

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

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

14. Net Assets

For the years ended June 30, 2005 and June 30, 2004, changes in net assets consisted of the following (*in thousands*):

	Deficit in Unrestricted Net Assets	Restricted Net Assets	Invested in Capital Assets		Total
			Federal	State/Local/Other	
Balance, June 30, 2003	\$(107,789)	\$13,953	\$2,569,709	\$2,004,257	\$4,480,130
Loss before capital contributions	(399,834)	(4,472)	-	-	(404,306)
Capital grants	-	-	250,936	479,998	730,934
Transfers	(93,542)	-	-	93,542	-
Capital grants pass-throughs	-	-	(1,183)	(64,922)	(66,105)
Capital assets removed from service	-	-	-	(3,625)	(3,625)
Depreciation on capital funded assets	383,834	-	(290,007)	(93,827)	-
Balance, June 30, 2004	(217,331)	9,481	2,529,455	2,415,423	4,737,028
Loss before capital contributions	(452,470)	(1,221)	-	-	(453,691)
Capital grants	-	-	208,789	422,480	631,269
Transfers	(25,335)	-	-	25,335	-
Capital grants pass-throughs	-	-	(26,874)	(76,106)	(102,980)
Capital assets removed from service	-	-	-	(2,517)	(2,517)
Depreciation on capital funded assets	384,542	-	(235,067)	(149,475)	-
Balance, June 30, 2005	\$(310,594)	\$8,260	\$2,476,303	\$2,635,140	\$4,809,109

15. Subsequent Event

In September 2005, NJ TRANSIT issued \$253.5 million of Series 2005A Subordinated Certificates of Participation (COPs), accruing interest between 4.0 percent and 4.3 percent with a final maturity date of 2021. The proceeds will be used to acquire 131 multilevel rail cars and spare parts.



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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, 2005 and 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and subsidiaries as of June 30, 2005 and 2004, and the consolidated changes in financial position and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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

A handwritten signature in black ink that reads 'Ernst & Young LLP' in a cursive, stylized font.

September 30, 2005



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NJ TRANSIT is an equal opportunity employer.

FY2005 FACTS AT A GLANCE

RIDERSHIP			RAIL OPERATIONS		BUS OPERATIONS		LIGHT RAIL OPERATIONS	
Mode	Passenger Trips (million)	Change Versus FY2004						
Bus	153.4	+ 3.6%	Rail lines	11	Bus routes	242	Light rail lines	3
Rail	64.9	+ 4.4%	Directional route miles	951	Directional route miles	3,508.4	Directional route miles	102.1
Light Rail	13.7	+31.7%	Annual passenger miles	1.8 billion*	Annual passenger miles	888.4 million*	Annual passenger miles	35.9 million*
System Total	232.1	+ 5.2%	Locomotives in service	152	Buses owned/operated by	2,029	Light rail stations	52
			Revenue cars in service	885	NJ TRANSIT		Light rail cars in service	65
			Average weekday train trips	722	Buses operated by/leased	973	Parking capacity	6,220
			Rail stations	162	to private carriers			
			Parking capacity	54,631	Parking capacity	15,226		

* Annual passenger mileage data from FY2004.



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