MOVING NJ FORWARD

2010 NJ TRANSIT ANNUAL REPORT

CONTENTS

A Message from the Chairman

A battered global and regional economy presented NJ TRANSIT with many challenges in FY2010, requiring tough decisions. Steady leadership bridged a change in administrations and helped bring clarity and purpose to the choices that we made to cut spending, increase revenue and target limited resources.

A careful selection of projects that we advanced during the year created a portfolio of investments that will pay dividends to our customers in the days and years ahead, when economic and ridership growth return.

As the fiscal year unfolded, we responded proactively to ridership declines triggered by a sluggish job market and reduced state funding. Austerity measures, including an emergency spending freeze, cuts in executive salaries and other steps, signaled that the corporation understood the need to make sacrifices before it asked customers late in the fiscal year to pay a higher percentage of the actual cost for the transit services they depend on.

It is a testament to the professionalism of NJ TRANSIT leadership and its employees that, despite this difficult fiscal environment, they focused on the future and launched or delivered projects that will serve as the foundation for an improved, interconnected and multimodal public transportation network.

During the fiscal year, we inaugurated new rail service to the Meadowlands, advanced the Hoboken Ferry Terminal restoration project, launched weekend service from Bay Street Station in Montclair to Newark and Hoboken, and broke ground for an intermodal Pennsauken Transit Center that will provide the first direct link between River LINE light rail trains and the Atlantic City Rail Line. NJ TRANSIT also launched a streamlined website that offers customers easy access to the information they need.

The pieces we put in place in FY2010 will increase transit capacity, improve service, benefit the environment, drive economic growth and reduce roadway congestion.

Sincerely,

James S. Simpson

James S. Simpson
Transportation Commissioner & NJ TRANSIT Board Chairman

A Message from the Executive Director

On behalf of the 11,000 dedicated employees at NJ TRANSIT, this was undoubtedly the most challenging year the agency has faced in recent times.

As New Jersey endures its greatest fiscal crisis and the national economy responds to the lasting effects of 'bailouts' as a corporate financial planning solution, NJ TRANSIT is reengineering itself to operate like a business — and do more with less. NJ TRANSIT's focus has been on the long-term financial health of the organization with continued investments in customer service.

Despite challenges, NJ TRANSIT is working towards a stronger financial position and presented a balanced operating budget by using a business-like mindset.

Adopting this approach, NJ TRANSIT confronted financial challenges by taking several hard but necessary steps to answer those challenges. Workforce and organizational efficiencies were instituted in concert with the implementation of a sustainable fare and service plan.

Continuing to provide a customer-focused and high-quality public transportation system, NJ TRANSIT has invested in many highly-requested customer amenities. We have created the Quiet Commute railcar where customers are asked to speak in low voices, refrain from using their cell phones and disable the sound features on pagers, games, computers, and all other electronic devices. Piloted in September on select Northeast Corridor express trains, we hope to roll out more Quiet Commute cars on other lines in the coming year.

NJ TRANSIT's rail customers can soon go wireless traveling on our trains and through our stations; the agency released a Request for Proposals this year. Another exciting investment in technology for bus customers is the NJ TRANSIT 'My Bus' product, providing real-time schedule information to the nearly 600,000 who ride every day.

Capital investments are visibly meeting customers' needs and enhancing the reliability of service with additional multilevel railcars and newer buses in FY2010, and new service to the Meadowlands Sports Complex.

NJ TRANSIT looks forward to working with Governor Christie, our federal and state elected leaders, our regional transportation partners, business leaders and communities to continue bringing our nearly one million customers who ride with us every single day industry leading results.

I encourage you to step aboard and enjoy the ride.

Sincerely,

James Weinstein
Executive Director

THE YEAR IN REVIEW

NJ TRANSIT welcomed new leadership in Fiscal Year 2010 (FY2010) with the arrival of Board Chairman James Simpson and Executive Director James Weinstein. Both quickly worked under the direction of Governor Chris Christie to close a $300 million budget gap, and put the corporation onto a path of sustainable, long-term growth.

The effort began by targeting internal inefficiencies, cutting executive salaries, reducing the workforce, implementing a salary and hiring freeze, and pursuing more commercial revenue. As a last resort, NJ TRANSIT made a difficult but necessary decision to implement a fare and service adjustment plan, with special care taken to reduce the impact on the most transit-dependent riders.

Despite challenging times, NJ TRANSIT still provided customers with service improvements, including the launch of rail service to the Meadowlands, the opening of more accessible facilities, and the rollout of additional multilevel railcars and buses. We also partnered with the Port Authority of New York & New Jersey and the New York MTA to launch a contactless bankcard pilot program on select regional bus, PATH and subway lines, and unveiled a new real-time departure system that rail customers can access on their computers or handheld devices.

Meadowlands rail service

Plauderville Station

New transit bus

NJ TRANSIT also invested in state-of-good-repair improvements in stations, infrastructure and equipment to support service reliability, safety and capacity-building initiatives.

Finally, we participated in the federal American Recovery and Reinvestment Act (ARRA) program, which included opening 500 new parking spaces at Edison Station, purchasing new Access Link paratransit vehicles, installing new bus shelters around the state, building new high-level platforms at Plauderville Station in Garfield, and beginning work on a new transfer station linking the River LINE with the Atlantic City Rail Line and buses in Pennsauken, while creating more than 1,000 new jobs.

New Access Link bus

Multilevel railcar

Federal funding enabled NJ TRANSIT to advance projects that build system capacity, extend accessibility, ensure service reliability and create and preserve jobs. During FY2010:

1. **PENNSAUKEN INTERMODAL TRANSFER STATION** Work advanced on a new station in Pennsauken, linking River LINE, Atlantic City Rail Line and regional bus service, which is scheduled for completion in 2013.

2. **PLAUDERVILLE STATION** Work continued on ADA improvements at this Bergen County Line station, including new high-level platforms, a heated waiting area, canopies, lighting and electronic signage. Work is scheduled for completion in 2011.

3. **EDISON STATION** We opened a new parking lot at this Northeast Corridor station in January 2010, which included nearly 500 spaces and pedestrian improvements.

4. **HUDSON-BERGEN LIGHT RAIL** We began installing a new interlocking near Danforth Avenue Station to increase service capacity. Work is scheduled for completion in FY2011.

5. **MORRISTOWN LINE** Work continued on a project to upgrade the signal system between Summit and Denville, providing more operating flexibility and capacity. Work is scheduled for completion in fall 2012.

Plauderville Station

Access Link

Danforth interlocking

Track work

Bus rehabilitation

Plauderville Station

6. **MINIBUSES AND SEDANS** We received delivery of more than 180 new NJ TRANSIT Access Link vehicles, and delivered another 52 accessible vehicles to county, municipal and private, nonprofit agencies that serve seniors, customers with disabilities, and rural or economically disadvantaged residents. It is anticipated that another 178 vehicles will be purchased and delivered to agencies through a variety of federal grant programs in FY2011. We also ordered 40 replacement vehicles in February for the Atlantic City Jitney Association.

7. **BUS SHELTERS** Installed 75 new bus shelters; 100 additional bus shelters will be installed through the end of 2011.

8. **LOWER HACK DRAW BRIDGE** Work on the second phase of a project to rehabilitate this three-track rail bridge over the Hackensack River will be completed in mid-2011.

9. **ENHANCED TRACK WORK** Track work is nearing completion on the Montclair-Boonton, Main/Bergen, Atlantic City, North Jersey Coast and Morristown lines, and on switch installations at Hoboken Terminal.

10. **BUS AND RAILCAR REHABILITATION** Continued a preventative maintenance program for buses, railcars and locomotives, including HVAC and structural repairs.

ALP-46

ALP-46 cab

Transit bus

Delivery was completed on 329 **Multilevel Vehicles** (MLVs); the purchase of an additional 100 MLVs was authorized by the Board of Directors in July 2010.

NJ TRANSIT continued to receive delivery of 36 ALP-46 **electric locomotives**. Production work also advanced on the development of 26 new **dual-power locomotives**, which can be powered by ultra-low-sulfur diesel fuel or overhead electrical wires, and offer more operating flexibility and reduced emissions. In July 2010, the Board of Directors authorized the purchase of 10 more dual-power locomotives.

A modernization of our bus fleet moved forward with the ongoing delivery of 1,145 new **transit and suburban buses**.

Rutherford Station

31st Street entrance

Meadowlands Rail Station

MMC expansion

We opened a state-of-the-art entrance at **Penn Station New York**, providing more customer amenities and direct access between 31st Street and the 7th Avenue Concourse. The project also upgraded the existing HVAC system in the 7th Avenue Concourse.

We opened **Meadowlands Rail Station**, which provides regional rail access to New Meadowlands Stadium via Hoboken Terminal and the Frank R. Lautenberg Station at Secaucus Junction.

We opened an improved **South Amboy Station** on the North Jersey Coast Line, which included an accessible high-level platform, sheltered waiting areas, ticket vending machines and a new customer communications system.

Work was completed on interior and exterior historic restoration work at **Rutherford Station** on the Bergen County Line.

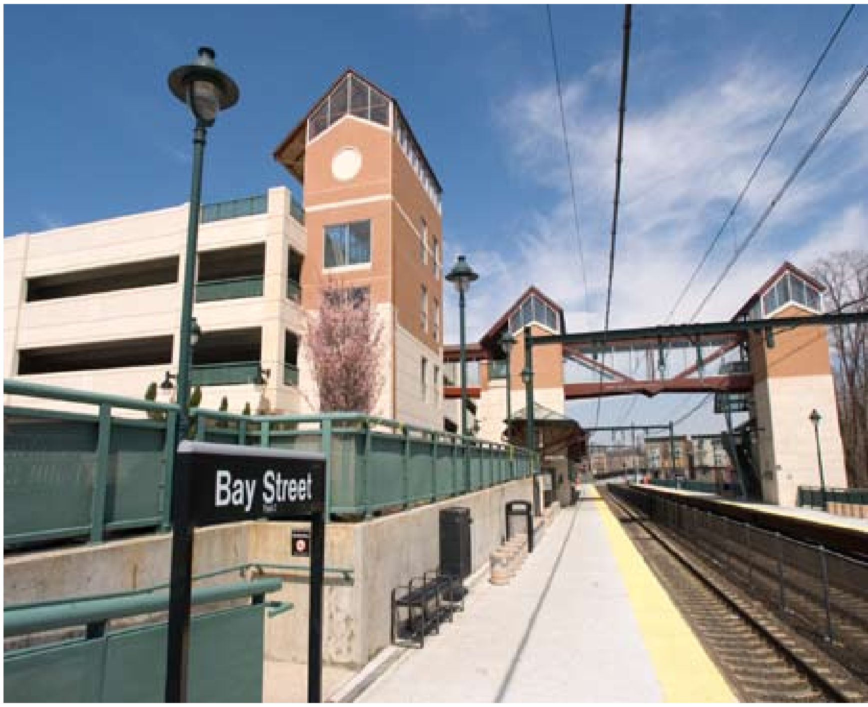
We completed work on a major expansion project at the **Meadows Maintenance Complex** in Kearny, providing more storage, inspection and maintenance capabilities at NJ TRANSIT's primary rail maintenance facility.

Emerson Station TOD

Montclair TOD

Public transportation helps to create and support livable and sustainable communities. As a result, NJ TRANSIT works with communities it serves to implement TOD projects near transit facilities, enhancing the quality of life and economy of neighboring communities, and gaining new riders thanks to the availability of transit services.

Three more communities were selected to the state's "Transit Village" program in FY2010 — **Orange, Montclair** and **Somerville**. To date, 23 New Jersey communities have received this special designation, which qualifies them for state grants from the New Jersey Department of Transportation and technical assistance from NJ TRANSIT and other state departments and agencies as they pursue mixed-use development projects around bus, train, light rail or ferry stations or terminals. NJ TRANSIT assisted several communities with TOD planning in FY2010, including **Linden, Somerville, Bound Brook, Garwood** and **Emerson**.



NJ TRANSIT also worked closely with the Governor's office, other state agencies and nongovernmental organizations to pursue U.S. Housing and Urban Development Sustainable Communities grant funds to create a regional TOD plan for North Jersey.

All diesel locomotives are now equipped with **"Hot Start" systems** that ensure the locomotive will restart after being shut down. This technology, combined with new **"plug-in facilities"** at diesel rail yards, allows NJ TRANSIT to reduce locomotive idling time and fuel consumption.

Signal pre-emption technology was installed at certain intersections in Newark for NJ TRANSIT's "Go Bus" service to speed travel times for customers and save on fuel and emissions.

Received federal funding to begin installation of **Variable Frequency Drives** (VFDs) on air compressor systems at Meadows Maintenance Complex, Newark Bus Complex, Greenville Garage and Meadowlands Garage to conserve energy and improve operating efficiencies.

Plug-in facilities

Signal pre-emption

Service and inspection pits

Newark Draw Bridge

- Completed rehabilitation work on **Newark Draw Bridge**, which carries trains on the Morris & Essex and Montclair-Boonton lines over the Passaic River.
- Completed work on the **Ambrose Brook Bridge** on the Raritan Valley Line.
- Installed 70,000 **railroad ties** and resurfaced 100 miles of **track**.
- Completed installation of an additional bus berth at the **Walter Rand Transportation Center** for increased capacity.
- Renovated service and inspection pits at **Oradell, Market Street and Washington Township garages**.
- Completed installation of a new environmentally friendly in-ground lift at **Fairview Garage**.

Railroad tie replacement

New TVMs

DepartureVision

Tap & Go

New fareboxes

- Completed installation of 585 new touch-screen **Ticket Vending Machines** at bus, rail and light rail facilities.
- Upgraded NJ TRANSIT's **credit/debit authorization network** to speed transaction times for customers.
- Launched a **"Tap & Go"** contactless debit or credit card pilot program with MasterCard, Port Authority of New York & New Jersey and New York MTA on select NJ TRANSIT bus routes, PATH trains, some New York City subway and bus lines, and at Newark Liberty International Airport Station.
- Replaced 70 percent of the 1989-vintage bus fare registers and refurbished 70 percent of bus **electronic fareboxes**. The balance of the work will be completed in FY2011.
- Began installation of a new **public address system and variable message signs** at Newark Penn Station.
- Introduced a more customer-friendly version of **njtransit.com**.
- Launched **"DepartureVision,"** a service that displays train departure boards on mobile devices and desktop computers.
- Launched a **Developer Resources** section on njtransit.com, which can be used by third-party developers to create new trip-planning "apps" for mobile and desktop applications.

Somerville Station

Broadway Bus Terminal

Ridgewood Station

Hoboken ferry slips

Work advanced on a southern extension of **Hudson-Bergen Light Rail** (HBLR) from 22nd Street to 8th Street in Bayonne, which is scheduled to open in FY2011. We also are studying alternatives to extend HBLR from West Side Avenue to Route 440 in Jersey City.

Construction continued at **Somerville** (Raritan Valley Line) and **Ridgewood stations** (Main Line), including new high-level platforms, elevators, sheltered waiting areas and customer communication systems. Somerville is scheduled for completion in FY2011; Ridgewood in FY2012.

Work continued at **Hoboken Terminal**, where we are working in partnership with the Port Authority of New York & New Jersey to restore ferry slips, ferry boarding areas, ticket offices, a waiting area and gangways. This project is scheduled for completion in FY2011.

In April 2010, the Board of Directors awarded a contract for improvements at **Lindenwold Station**, which includes a new climate-controlled waiting room, platform and passageway lighting improvements, and installation of a bus shelter in the parking lot. The project is scheduled for completion in 2011.

Rehabilitation work continued at **Broadway Bus Terminal** in Paterson, which includes a new canopy over the bus lanes, new lighting, a public address system and bus departure screen technology. Work is scheduled for completion in FY2011.

8th Street Station

Historic restoration work began in FY2010 at **Morristown Station** on the Morris & Essex Lines. Meanwhile, historic stabilization work got underway in FY2011 on **Red Bank Station** on the North Jersey Coast Line.

Design work began on a new loading area for buses at the **Walter Rand Transportation Center** in Camden. The project will include a canopy, lighting, public address system and signage, enhancing pedestrian safety and improving connections between bus, River LINE and PATCO services.

Preliminary design and engineering work was authorized in July 2010 for accessibility improvements at **Perth Amboy Station** on the North Jersey Coast Line, which will include high-level platforms with canopies, elevators, and an upgraded customer communications system.

Working together with Governor Christie, our state and federal elected leaders, regional transportation partners, the private sector and the communities we serve, we are providing New Jersey and the surrounding region with a safe and reliable transit system that will keep Moving New Jersey Forward.

NJ TRANSIT **ON-TIME PERFORMANCE BY MODE**

NJ TRANSIT
On-time Performance
By Mode FY 2010

RAIL – 94.8%

BUS – 94.0%

LIGHT RAIL – 97.6%

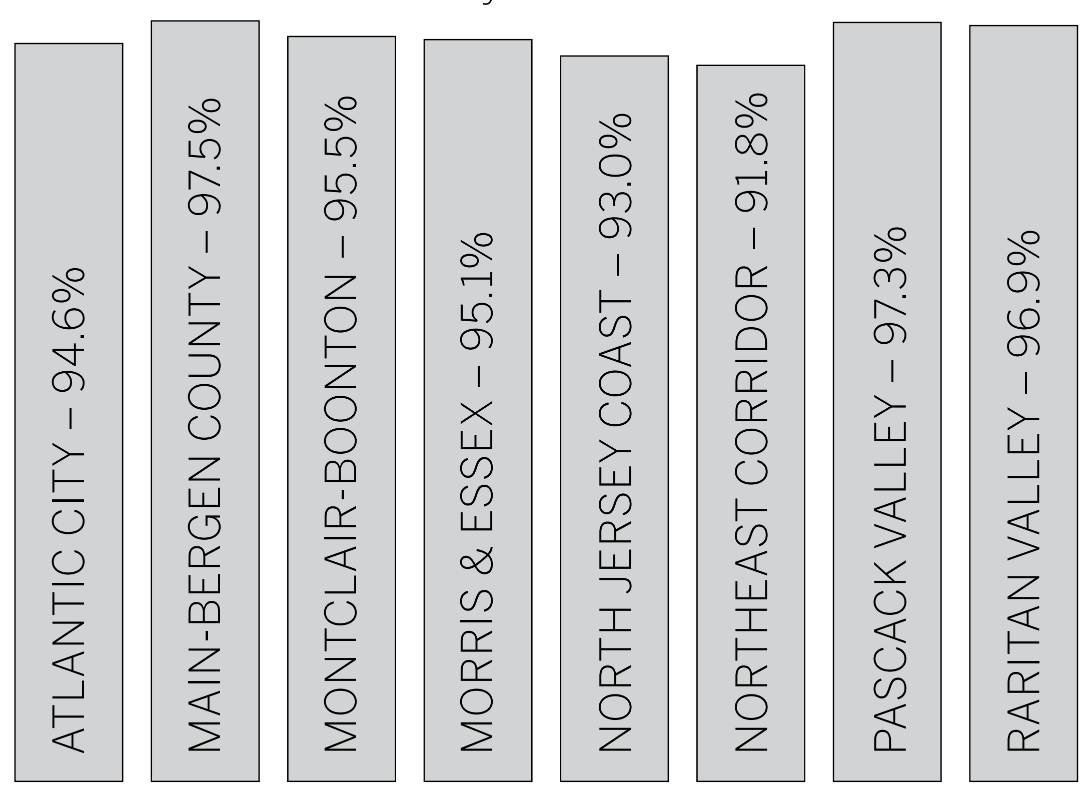
NJ TRANSIT considers a train to be on time if it arrives at its final destination within five minutes and 59 seconds of its scheduled time. Trains that fail to depart from their originating station or are canceled en route are considered late for recording purposes. This standard is used by all commuter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

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

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

Arrival times of trains operating on Amtrak's Northeast Corridor are recorded by the Amtrak delay clerk and forwarded to the supervisor at the Rail Operations Center at prescribed times during the day. An NJ TRANSIT supervisor, located at the Amtrak dispatching center in New York, reviews delays to ensure they are accurate before they are transmitted. Amtrak also uses a computerized software system to dispatch trains and record timing locations.

NJ TRANSIT On-time Performance By Rail Line FY 2010



LIGHT RAIL **METHODOLOGY**

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

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

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

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

NJ TRANSIT
On-time Performance
By Light Rail FY 2010

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

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

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

NJ TRANSIT
On-time Performance
By Bus Terminal FY 2010

ATLANTIC CITY BUS TERMINAL – 99.2%

HOBOKEN TERMINAL – 92.4%

NEWARK PENN STATION – 92.0%

PORT AUTHORITY BUS TERMINAL – 93.0%

WALTER RAND TRANSPORTATION CENTER – 95.4%

JAMES S. SIMPSON
Board Chairman

James S. Simpson was sworn in as Commissioner of the New Jersey Department of Transportation (NJDOT) on March 11, 2010. In his capacity as Commissioner, he also serves as Chairman of NJ TRANSIT, the New Jersey Turnpike Authority and the South Jersey Transportation Authority. Prior to his appointment as Commissioner of Transportation, Jim served as Chairman of both a transportation infrastructure management company and a corporate relocation company.

In 2005, President George W. Bush nominated him to serve as Administrator of the Federal Transit Administration (FTA), serving until the end of 2008. Prior to his confirmation, Jim served briefly as a Senior Advisor to the U.S. Secretary of Transportation. In 2004, Jim was appointed Chairman of the St. Lawrence Seaway Board at the U.S. Department of Transportation. Jim worked as a tractor-trailer driver while attending St. John's University where he graduated Magna Cum Laude. He is a David Rockefeller Fellow and is a pilot rated for Jet Aircraft.

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

Andrew P. Sidamon-Eristoff was sworn in as State Treasurer on March 2, 2010. Prior to that, Andrew served as Commissioner of the N.Y. State Department of Taxation & Finance, the nation's second largest state revenue administration. Andrew previously served as the Department's Executive Deputy Commissioner. His public career also includes service as New York City Commissioner of Finance, a three-time elected member of the New York City Council, and legislative counsel in the New York State Senate. Prior to entering public service, he was an associate at the law firm of Webster and Sheffield specializing in federal and state income tax planning and compliance.

Andrew earned a bachelor's degree, cum laude, in politics from Princeton University and juris doctor degree, cum laude, from Georgetown University Law Center. He earned an Advanced Professional Certificate in Information Technology from New York University.

DEBORAH L. GRAMICCIONI
Governor's Representative

Deborah L. Gramiccioni currently serves as Director of The Governor's Authorities Unit under Governor Chris Christie. Prior to her appointment, she served as the Director of the Division of Criminal Justice for the N.J. Office of the Attorney General, Department of Law and Public Safety. Deborah joined the Attorney General's Office in September 2007 as a Special Assistant to the Attorney General.

Before she came to work in state government, Deborah served as an Assistant U.S. Attorney for the District of New Jersey. She was then appointed Assistant Chief of the Fraud Section in the Criminal Division of the U.S. Department of Justice in Washington, D.C. Deborah graduated magna cum laude from the University of Pennsylvania and the University of Virginia School of Law.

MYRON P. SHEVELL
Vice Chairman

Myron P. Shevell was appointed to the Board of Directors in May 1995. He is Chairman of the Board of New England Motor Freight (NEMF) and Chairman of the Shevell Group – real estate, trucking and logistics companies. He also is Board Chairman of the New Jersey Motor Truck Association and has worked in the transportation industry for more than 60 years.

KENNETH E. PRINGLE, ESQ.

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

SUSAN L. HAYES

Susan L. Hayes is President and CEO of Cauldwell Wingate Company, LLC. A strong advocate for recruitment and advancement of women in the construction industry, Susan is a long-standing member of the Board for Non-Traditional Employment for Women, an organization that trains women for jobs in the building trades, the utilities and transportation industries, and in facilities repair and maintenance. She holds leadership positions in a number of business and professional groups and associations. Susan currently serves on the Board of Directors of Apple Bank for Savings, is a Vice Chair on the Board of Directors of the New York Building Congress, is First Vice President of the Contractors' Association of Greater New York and is a member of the AIA-NY Advisory Board. She has served on the Board of Governors of the Building Trades Employers' Association and is a past Municipal Chair in Oradell in Bergen County. Susan earned a Bachelor of Arts degree in Correctional Administration from John Jay College, City University of New York.

FLORA M. CASTILLO

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

JOHANNA BARBA JONES

Governor's Alternate Representative

STEVEN PETRECCA

Treasurer's Representative

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

NORTH JERSEY TRANSIT ADVISORY COMMITTEE

SUZANNE T. MACK, CHAIR
RONALD MONACO, VICE CHAIR
NINO COVIELLO
MICHAEL DECICCO
KATHY EDMOND
MARGARET HARDEN
STEVEN MONETTI
TIMOTHY O'REILLY
RALPH WHITE
WILLIAM R. WRIGHT

SOUTH JERSEY TRANSIT ADVISORY COMMITTEE

ANNA MARIE GONNELLA-ROSATO, CHAIR
RUTH BYARD, VICE CHAIR
JEFFREY MARINOFF, 2ND VICE CHAIR
ROBERT DAZLICH, SECRETARY
RICHARD D. GAUGHAN
CALVIN O. ISZARD JR.
DANIEL KELLY
VAL ORSINMARSI
DOMINICK PAGLIONE
FRED WINKLER

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

ADA TASK FORCE

FRANK COYE
JUDY GOLDMAN
FRANCIS GRANT
NANCY HODGINS
LEE NASH
DR. SALVATORE PIZZARO
BARBARA SMALL
BILL SMITH
MARYANNE VALLS
INA WHITE

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

PRIVATE CARRIER ADVISORY COMMITTEE

FRANCIS A. TEDESCO, CHAIR
ROBERT B. DECAMP JR.
DONALD MAZZARISI
DALE R. MOSER

The Senior Citizens and Disabled Residents Transportation Advisory Committee advises NJ TRANSIT on public transit decisions regarding accessibility issues.

SENIOR CITIZENS AND DISABLED RESIDENTS TRANSPORTATION ADVISORY COMMITTEE

RICHARD BARTELLO, CHAIR
ERNEST ANEMONE, 1ST VICE CHAIR
DAVID PETER ALAN, 2ND VICE CHAIR
DON BRAUCKMANN SR.
ANN BURNS
LOUISE DANCE
TONY HALL
GARY JOHNSON
MARYANN MATTHEWS-MASON
HENRY NICHOLSON
SAM PODEITZ
MARIANNE VALLS
MARGARET VAS
MICHAEL VIEIRA
WILLIAM R. WRIGHT
DAVID WYCHE

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NJTRANSIT
The Way To Go.

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FISCAL YEAR 2010
CONSOLIDATED FINANCIAL STATEMENTS

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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, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and subsidiaries as of June 30, 2010 and 2009, and the consolidated changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, as of July 1, 2009, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.*

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

Ernst + Young LLP

October 19, 2010

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial position and changes in financial position of NJ TRANSIT as of and for the fiscal year ended June 30, 2010. This discussion and analysis covers the last three fiscal years and is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial position and performance. NJ TRANSIT encourages readers to consider the information presented in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2010

- Total operating revenues for NJ TRANSIT were $838.7 million in fiscal year 2010, an increase of $9.8 million, or 1.2 percent compared to the prior fiscal year. Passenger revenue increased $11.4 million, or 1.5 percent, reflecting a systemwide fare increase averaging 22.0 percent effective May 1, 2010. Other operating revenues decreased $1.6 million, or 2.1 percent.

- Total operating expenses before depreciation were $1,820.3 million in fiscal year 2010, a decrease of $16.4 million, or 0.9 percent, below the prior fiscal year. This decrease was principally related to lower costs for fuel and propulsion, outside services, and materials and supplies.

- Total net assets at June 30, 2010 were $5,663.1 million, an increase of $283.8 million, or 5.3 percent, over total net assets at June 30, 2009.

- Total capital assets (net of depreciation) were $7,821.5 million at June 30, 2010, a net increase of $363.0 million, or 4.9 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles and improvements to buildings and structures (Table A-4).

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2009

- Total operating revenues for NJ TRANSIT were $828.9 million in fiscal year 2009, a decrease of $0.3 million compared to the prior fiscal year. Passenger revenue decreased $6.3 million, or 0.8 percent, reflecting a decline in ridership in the latter part of fiscal year 2009, which has continued into fiscal year 2010. Other operating revenues increased $6.0 million, or 8.8 percent.

- Total operating expenses before depreciation were $1,836.7 million in fiscal year 2009, an increase of $126.7 million, or 7.4 percent, over the prior fiscal year. This increase is principally related to increases in employment costs, outside services and claims and insurance.

- Total net assets at June 30, 2009 were $5,379.3 million, a decrease of $54.5 million, or 1.0 percent, under total net assets at June 30, 2008.

- Total capital assets (net of depreciation) were $7,458.5 million at June 30, 2009, a net increase of $258.1 million, or 3.6 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of an increase in capital projects in process expenditures.

FINANCIAL ANALYSIS
NET ASSETS

NJ TRANSIT's total net assets at June 30, 2010, were $5,663.1 million, an increase of $283.8 million, or 5.3 percent, over June 30, 2009 (Table A-1). Total assets increased $43.3 million (0.4 percent) and total liabilities decreased $240.5 million (5.2 percent).

NJ TRANSIT's total net assets at June 30, 2009 were $5,379.3 million, a decrease of $54.5 million, or 1.0 percent, under June 30, 2008 (Table A-1). Total assets increased $169.3 million (1.7 percent) and total liabilities increased $223.7 million (5.1 percent).

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

	AS OF JUNE 30, 2010	2009	2008	% INC/(DEC) 2010/2009	2009/2008
Current assets	$473.8	$507.7	$425.1	(6.7)	19.4
Restricted assets	1,717.2	2,003.2	2,174.2	(14.3)	(7.9)
Capital assets, net	7,821.5	7,458.5	7,200.4	4.9	3.6
Other assets	6.2	6.0	6.4	3.3	(6.3)
TOTAL ASSETS	**10,018.7**	**9,975.4**	**9,806.1**	**0.4**	**1.7**
Current liabilities	644.6	725.2	696.8	(11.1)	4.1
Notes payable	2,018.5	2,192.0	1,954.4	(7.9)	12.2
Postemployment benefits	200.3	153.6	112.5	30.4	36.5
Long-term debt	1,336.1	1,382.1	1,493.3	(3.3)	(7.5)
Other non-current liabilities	156.1	143.2	115.4	9.0	24.1
TOTAL LIABILITIES	**4,355.6**	**4,596.1**	**4,372.4**	**(5.2)**	**5.1**
Fund Net Assets					
Invested in capital assets, net of related debt	5,923.6	5,615.5	5,559.2	5.5	1.0
Restricted net assets	2.7	2.0	1.6	35.0	25.0
Deficit in unrestricted net assets	(263.2)	(238.2)	(127.0)	10.5	87.6
TOTAL FUND NET ASSETS	**$5,663.1**	**$5,379.3**	**$5,433.8**	**5.3**	**(1.0)**

FISCAL YEAR 2010

The 6.7 percent decrease in current assets in fiscal year 2010 reflects a decrease in accounts receivables due from the State of New Jersey and the Federal Government. Restricted assets decreased 14.3 percent as a result of payments for the acquisition of rolling stock and service improvements and expansion. Of the $7,821.5 million in capital assets, net, $1,352.2 million represents construction in progress; $6,112.7 million represents NJ TRANSIT's investment in buildings, structures, track, locomotives, railcars and buses, net of depreciation; and $356.6 million represents other capital assets.

The 11.1 percent decrease in current liabilities was the result of a payback to the State of New Jersey for funds advanced to NJ TRANSIT in fiscal year 2009.

The 30.4 percent increase in postemployment benefits reflects the fiscal year 2010 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

By far, the largest portion of NJ TRANSIT's total net assets reflects its investment in capital assets, net of the 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 and an escrow deposit for potential environmental cleanup activity related to the Access to the Regions Core (ARC) project.

FISCAL YEAR 2009

The 19.4 percent increase in current assets in fiscal year 2009 reflects an increase in accounts receivables due from the federal government and the State of New Jersey, which is reflected in an offsetting decrease in cash and cash equivalents. Restricted assets decreased 7.9 percent as a result of payments for the acquisition of rolling stock and service improvements and expansion. Of the $7,458.5 million in capital assets, net, $965.0 million represents construction in process; $6,135.3 million represents NJ TRANSIT's investment in buildings, structures, track, locomotives, railcars and buses, net of depreciation; and $358.2 million represents other capital assets.

The 12.2 percent increase in notes payable reflects the issuance of $394.3 million of Certificates of Participation. The proceeds from the sale of these certificates are being used to acquire 181 multilevel railcars, 4 dual-power locomotives and spare parts.

The 36.5 percent increase in postemployment benefits reflects the fiscal year 2009 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The 24.1 percent increase in other non-current liabilities reflects an increase in Federal Employee Liability Act and third-party injury and damage claims reserves related to adverse court awards and the ongoing reassessment of NJ TRANSIT's reserves for unsettled claims based on available information, as well as an increase in deferred revenues which will be utilized for future asset purchases.

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 and an escrow deposit for potential environmental cleanup activity related to the Access to the Regions Core (ARC) project.

CHANGES IN NET ASSETS

The increase in net assets in fiscal year 2010 was $283.8 million, or 5.3 percent, when compared to the fund net assets at June 30, 2009 (Table A-1). NJ TRANSIT's total operating revenues increased $9.8 million, or 1.2 percent, and total operating expenses, before depreciation, decreased $16.4 million, or 0.9 percent. Depreciation increased $12.5 million, or 2.6 percent. Non-operating revenues, net, increased $87.6 million, or 9.9 percent. Net capital contributions increased $237.0 million, or 42.0 percent.

The decrease in net assets in fiscal year 2009 was $54.5 million, or 1.0 percent, compared to the fund net assets in fiscal year 2008 (Table A-2). NJ TRANSIT's total operating revenues decreased $0.3 million and total operating expenses, before depreciation, increased $126.8 million, or 7.4 percent. Depreciation decreased $90.2 million or 15.6 percent. Non-operating revenues, net, increased $77.8 million, or 9.7 percent. Net capital contributions decreased $354.5 million, or 38.6 percent.

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

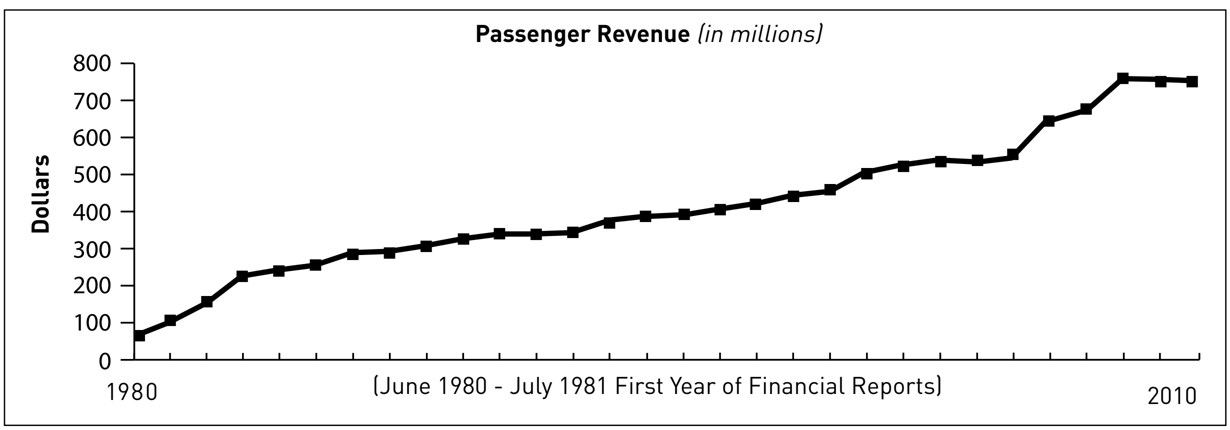
	YEARS ENDED JUNE 30,			% INC/(DEC)	
	2010	2009	2008	2010/2009	2009/2008
Operating Revenues					
Passenger Fares	$765.8	$754.4	$760.7	1.5	(0.8)
Other	72.9	74.5	68.5	(2.1)	8.8
Total Operating Revenues	838.7	828.9	829.2	**1.2**	**—**
Operating Expenses					
Total operating expenses before depreciation	1,820.3	1,836.7	1,709.9	(0.9)	7.4
Depreciation	502.2	489.7	579.9	2.6	(15.6)
Total Operating Expenses	**2,322.5**	**2,326.4**	**2,289.8**	**(0.2)**	**1.6**
Operating Loss	**(1,483.8)**	**(1,497.5)**	**(1,460.6)**	**(0.9)**	**2.5**
Non-operating revenues, net	966.2	878.6	800.8	9.9	9.7
Capital contributions, net	801.4	564.4	918.9	42.0	(38.6)
Change in Fund Net Assets	**283.8**	**(54.5)**	**259.1**	**—**	**—**
Total Fund Net Assets, Beginning	**5,379.3**	**5,433.8**	**5,174.7**	**(1.0)**	**5.0**
Total Fund Net Assets, Ending	**$5,663.1**	**$5,379.3**	**$5,433.8**	**5.3**	**(1.0)**

OPERATING REVENUES

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

PASSENGER FARE REVENUES

Passenger fare revenues consists of fares earned during the year from the sale of tickets and monthly passes and bus farebox receipts.



Total passenger revenue for fiscal year 2010 increased $11.4 million or 1.5 percent reflecting a systemwide fare increase averaging 22.0 percent effective May 1, 2010. Rail passenger revenue for fiscal year 2010 increased $6.7 million, or 1.6 percent. Ridership decreased by 1.2 million passenger trips, or 1.5 percent. Bus passenger revenue increased $1.8 million, or 0.6 percent. Ridership decreased by 4.8 million passenger trips, or 2.9 percent. Light rail passenger revenues, consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, decreased $0.2 million, or 1.2 percent, with ridership decreasing by 0.6 million passenger trips, or 2.7 percent.

Rail passenger revenue for fiscal year 2009 decreased $9.6 million, or 2.3 percent, with ridership declining by 0.9 million passenger trips, or 1.1 percent. Bus passenger revenue increased $0.2 million, or 0.1 percent, with ridership increasing by 0.3 million passenger trips, or 0.2 percent. Light rail passenger revenues, consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, increased $0.4 million, or 1.8 percent, with ridership increasing by 0.8 million passenger trips, or 3.8 percent.

TABLE A-3
RIDERSHIP *(in millions)*

				% INC/(DEC)	
	FY10	**FY09***	**FY08***	**2010/2009**	**2009/2008**
Rail Lines					
Newark Division	51.0	51.9	52.9	(1.7)	(1.9)
Hoboken Division	28.3	28.4	28.3	(0.4)	0.4
Atlantic City	1.1	1.3	1.3	(15.4)	—
Total	**80.4**	**81.6**	**82.5**	**(1.5)**	**(1.1)**
Bus Lines					
Northern Division	67.9	69.6	69.0	(2.4)	0.9
Central Division	68.9	71.1	71.2	(3.1)	(0.1)
Southern Division	24.4	25.3	25.5	(3.6)	(0.8)
Total	**161.2**	**166.0**	**165.7**	**(2.9)**	**0.2**
Light Rail Lines					
Newark Light Rail	5.9	6.1	6.2	(3.3)	(1.6)
Hudson-Bergen Light Rail	12.8	13.2	12.4	(3.0)	6.5
River LINE	2.8	2.8	2.7	—	3.7
Total	**21.5**	**22.1**	**21.3**	**(2.7)**	**3.8**
Total Ridership	**263.1**	**269.7**	**269.5**	**(2.4)**	**0.1**

*Adjusted

FISCAL YEAR 2010

OTHER OPERATING REVENUES

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The decrease in other operating revenues of $1.6 million, or 2.1 percent, was principally due to a decrease in parking lot income and permit revenue and reduced billing activity to individuals and corporations.

OPERATING EXPENSES

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

EMPLOYMENT COSTS

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

Employment costs increased by $8.9 million, or 0.8 percent. This is primarily due to labor contract increases for Rail employees covered by collective bargaining agreements while wages for Bus collective bargaining employees and NJ TRANSIT non-agreement employees were frozen at fiscal year 2009 levels. In addition, overtime costs increased associated with service disruptions and the inclement weather conditions experienced during the winter months of fiscal year 2010. This increase also includes the impact of the incremental costs for fiscal year 2010 related to GASB Statement No. 45, which requires the recording of non-pension, "other postemployment benefits (OPEB)."

OTHER OPERATING COSTS

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

Parts, materials and supplies expenses decreased $4.7 million, or 3.1 percent, due to a decrease in consumption of parts and materials during fiscal year 2010 utilized for repairs and rehabilitation of NJ TRANSIT's revenue vehicles as well as decreased material costs associated with various reimbursable project activities.

Outside services expenses decreased $6.9 million, or 6.0 percent, as a result of reduced spending for professional and technical services and a reduction in costs associated with fiscal year 2010 reimbursable project activities. Increases in contracted maintenance service for revenue vehicles and snow removal costs related to the inclement weather conditions experienced during the winter months of fiscal year 2010 partially offset the aforementioned decreases.

Fuel and propulsion expenses decreased $7.9 million, or 5.8 percent. Fuel expenses decreased $4.2 million or 4.8 percent as a result of a $0.20 per gallon decrease in the cost of diesel fuel. Propulsion expenses decreased $3.7 million, or 7.7 percent, reflecting decreases in propulsion power costs on NJ TRANSIT owned electrified rail lines and the Hudson-Bergen Light Rail system, as well as a decrease in charges from the National Railroad Passenger Corporation (Amtrak) for traction power on the Northeast Corridor rail line.

Depreciation expense increased by $12.5 million, or 2.6 percent, due to the capitalization of assets from construction in progress.

NON-OPERATING REVENUES

Non-operating revenues, net, increased $87.6 million, or 9.9 percent, attributable to increased governmental reimbursements. Federal, state and local reimbursements, which represents funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities, increased $156.1 million, or 24.5 percent, compared to the prior fiscal year, substantially related to federal grants received under the American Recovery and Reinvestment Act (ARRA) of 2009. This was partially offset by a reduction in the State of New Jersey operating subsidy.

CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Further information about federal, state and local interest in assets acquired and constructed, is provided in Note 17, Net Assets. Funding of capital grant expenditures totaling $801.4 million was $237.0 million, or 42.0 percent, above fiscal year 2009. This increase includes $128.0 million of federal funds received from American Recovery and Reinvestment Act (ARRA) grants.

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

FISCAL YEAR 2009

OTHER OPERATING REVENUES

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The increase in other operating revenues of $6.0 million, or 8.8 percent, was principally due to an increase in parking lot income, revenue from Metro-North Operations and contract revenue related to the implementation of the Atlantic City Express Service (ACES) in February 2009.

OPERATING EXPENSES

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

EMPLOYMENT COSTS

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

Employment costs increased by $81.4 million, or 8.3 percent. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and overtime cost increases associated with service disruptions and the inclement weather conditions experienced during the winter months of fiscal year 2009. NJ TRANSIT's health care and pension expenses also increased, further impacting overall employment costs. This increase also includes the impact of the fiscal year 2009 incremental costs related to GASB Statement No. 45, which requires the recording of non-pension, "other postemployment benefits (OPEB)."

OTHER OPERATING COSTS

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

Parts, materials and supplies expenses increased $10.0 million, or 7.2 percent, due to an increase in consumption of parts and materials during fiscal year 2009 utilized for repairs and rehabilitation of NJ TRANSIT's revenue vehicles.

Outside services expenses increased $12.8 million, or 12.4 percent, as a result of additional costs for environmental remediation, management consultants, custodial services, contracted snow removal, electronic equipment services and security.

Claims and insurance expenses increased $25.5 million, or 79.2 percent, reflecting the effect of additional costs associated with the Federal Employee Liability Act and third-party injury and damage claims related to adverse court awards and the reassessment of reserve needs for unsettled claims. In addition, claims and insurance expenses were impacted by increased costs for workmen's compensation and employee claims settlements.

Fuel and propulsion expenses decreased $22.0 million, or 13.9 percent, as a result of a $0.59 per gallon decrease in the cost of diesel fuel, along with a reduction in diesel fuel consumption of approximately 230,000 gallons.

Trackage, tolls and fees expenses increased $3.2 million, or 7.8 percent, reflecting an increase in the charges from Amtrak for access fees to operate train service on the Northeast Corridor, as well as increases in tolls paid on highways, bridges and tunnels.

Utilities expenses increased $4.6 million, or 11.0 percent, due to increased costs for non-propulsion electricity, heating and telephones.

Purchased transportation expenses increased $8.4 million, or 4.4 percent, due to increased costs for contract carrier bus service, Access Link (ADA) services, the Senior Citizen and Rural Transportation programs, and operation of the Hudson-Bergen Light Rail and River LINE systems.

Depreciation expense decreased by $90.2 million, or 15.6 percent, compared to fiscal year 2008. The decrease is attributable to the increase in depreciation in 2008, which is the result of the capitalizating of a significant amount of assets from construction in progress. The fiscal year 2009 expense reflects a return to normal depreciation levels.

NON-OPERATING REVENUES

Non-operating revenues, net, increased $77.8 million, or 9.7 percent, attributable to increases in the state appropriation for fiscal year 2009 and increased governmental reimbursements, partially offset by an increase in interest expense. Federal, state and local reimbursements, which represents funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities, increased $43.2 million, or 7.3 percent, compared to the prior fiscal year.

CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Further information about federal, state and local interest in assets acquired and constructed is provided in Note 17, Net Assets. Funding of capital grant expenditures totaling $564.4 million was $354.5 million, or 38.6 percent, below fiscal year 2008.

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

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

	AS OF JUNE 30, 2010	2009	2008	% INC/(DEC) 2010/2009	2009/2008
Capital projects in process	$1,352.2	$965.0	$649.6	40.1	48.6
Revenue vehicles	1,618.4	1,602.1	1,572.2	1.0	1.9
Buildings and structures	3,121.5	3,094.1	3,093.6	0.9	—
Track	1,286.0	1,346.7	1,417.1	(4.5)	(5.0)
Land	340.5	340.7	340.7	(0.1)	—
Equipment	86.8	92.4	112.3	(6.1)	(17.7)
Other	16.1	17.5	14.9	(8.0)	17.5
Total Capital Assets, Net	**$7,821.5**	**$7,458.5**	**$7,200.4**	**4.9**	**3.6**

CAPITAL ASSETS

As of June 30, 2010, NJ TRANSIT had invested $13,494.7 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2010 totaled $7,821.5 million (Table A-4). This amount represents a net increase of $363.0 million, or 4.9 percent, over June 30, 2009 net capital assets.

The 40.1 percent increase in capital projects in process reflects an increase in capital project activity during fiscal year 2010 associated with the rail infrastructure program, acquisition and rehabilitation of revenue vehicles, improvements to rail passenger facilities and urban core new initiatives, most notably the ARC.

As of June 30, 2009, NJ TRANSIT had invested $12,641.6 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2009 totaled $7,458.5 million (Table A-4). This amount represents a net increase of $258.1 million, or 3.6 percent, over June 30, 2008 net capital assets.

The 48.6 percent increase in capital projects in process was the result of an increase in capital project activity in fiscal year 2009 associated with the rail infrastructure program, improvements to rail passenger and support facilities, acquisition of and rehabilitation to revenue vehicles, and new initiatives, most notably the ARC project.

The Board of Directors approved a fiscal year 2011 capital program that authorizes NJ TRANSIT to request funds totaling $1,350.0 million to provide for the continuation of the major projects currently underway, as well as new initiatives. Funds have been requested for rail, bus and light rail infrastructure improvements; rail station improvements; the overhaul and maintenance of rolling stock; advancement of the ARC project; the Portal Bridge replacement project; debt service related to the acquisition of revenue vehicles and new system expansion. Provisions also have been made to comply with all federally mandated accessibility and environmental regulations. Additional information about NJ TRANSIT's capital assets is presented in Note 5 to the financial statements.

DEBT OBLIGATIONS

Debt obligations outstanding at June 30, 2010, totaled $3,601.1 million compared with $3,820.1 million at June 30, 2009, a decrease of 5.7 percent.

Debt obligations outstanding at June 30, 2009, totaled $3,820.1 million compared with $3,791.2 million at June 30, 2008, an increase of 0.8 percent. The following table summarizes the changes in debt between fiscal years 2010, 2009 and 2008 (*in millions*):

	AS OF JUNE 30,			% INC/(DEC)	
	2010	**2009**	**2008**	**2010/2009**	**2009/2008**
Notes payable	$2,183.6	$2,367.5	$2,169.4	(7.8)	9.1
Obligations under capital leases*	1,417.5	1,452.6	1,621.8	(2.4)	(10.4)
Total	**$3,601.1**	**$3,820.1**	**$3,791.2**	**(5.7)**	**0.8**

*Includes $1,349.3 million, $1,368.1 million and $1,522.0 million of leveraged lease transactions as of fiscal years 2010, 2009 and 2008, respectively.

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

CONTACTING NJ TRANSIT FINANCIAL MANAGEMENT

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

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUND NET ASSETS *(in thousands)*

	AS OF JUNE 30, 2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$66,526	$73,693
Due from federal government	202,847	221,060
Due from State of New Jersey	38,761	64,831
Inventories, net	117,079	110,446
Other	48,554	37,648
Total Current Assets	**473,767**	**507,678**
Non-Current Assets		
Restricted cash and cash equivalents	2,736	2,030
Restricted investments	380,049	649,603
Restricted leveraged lease deposits	1,334,453	1,351,540
Other	6,188	5,988
Capital assets not being depreciated	1,706,922	1,319,930
Capital assets, net of accumulated depreciation	6,114,581	6,138,581
Total Non-Current Assets	**9,544,929**	**9,467,672**
Total Assets	**10,018,696**	**9,975,350**
LIABILITIES		
Current Liabilities		
Accounts payable	183,072	165,196
Accrued payroll and benefits	125,906	149,866
Current installments under capital leases	81,409	70,473
Short-term notes payable	165,061	175,507
Other current liabilities	89,182	164,126
Total Current Liabilities	**644,630**	**725,168**
Non-Current Liabilities		
Notes payable	2,018,539	2,192,041
Accrued injury and damage claims	75,181	66,715
Obligations under capital leases	1,336,073	1,382,103
Other postemployment benefits	200,318	153,603
Deferred revenue and other non-current liabilities	80,854	76,435
Total Non-Current Liabilities	**3,710,965**	**3,870,897**
Total Liabilities	**4,355,595**	**4,596,065**
NET ASSETS		
Invested in capital assets, net of related debt	5,923,558	5,615,514
Restricted for capital projects	2,736	2,030
Deficit in unrestricted net assets	(263,193)	(238,259)
Total Net Assets	**$5,663,101**	**$5,379,285**

See Notes to Consolidated Financial Statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS *(in thousands)*

	YEARS ENDED JUNE 30, 2010	2009
Operating Revenues		
Passenger fares	$765,753	$754,402
Other	72,962	74,486
Total Operating Revenues	**838,715**	**828,888**
Operating Expenses		
Labor	604,773	600,381
Fringe benefits	462,619	457,667
Parts, materials and supplies	144,829	149,482
Services	109,293	116,240
Claims and insurance	57,624	57,704
Fuel and propulsion	127,983	135,911
Trackage, tolls and fees	45,656	44,245
Utilities	45,699	46,245
Purchased transportation	195,495	198,325
Other	26,340	30,469
Total Operating Expenses, Before Depreciation	**1,820,311**	**1,836,669**
Loss Before Depreciation	**(981,596)**	**(1,007,781)**
Depreciation	(502,177)	(489,725)
Operating Loss	**(1,483,773)**	**(1,497,506)**
Non-Operating Revenues (Expenses)		
State appropriation	261,500	348,200
Federal, state and local reimbursements	792,947	636,854
Investment income	3,864	3,127
Other non-operating revenues	7,343	6,362
Interest expense	(99,415)	(115,944)
Total Non-Operating Revenues (Expenses)	**966,239**	**878,599**
Loss Before Capital Contributions	**(517,534)**	**(618,907)**
Capital contributions, net	801,350	564,432
Change in net assets	283,816	(54,475)
Total Net Assets, Beginning	**5,379,285**	**5,433,760**
Total Net Assets, Ending	**$5,663,101**	**$5,379,285**

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30, 2010	2009
Cash Flows from Operating Activities		
Cash receipts from fares	$769,729	$752,809
Other cash receipts	82,869	98,463
Payments for claims	(47,783)	(39,122)
Payments to employees	(1,044,637)	(1,005,110)
Payments to suppliers	(691,288)	(703,815)
Net Cash Used by Operating Activities	**(931,110)**	**(896,775)**
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants and appropriations	971,183	1,063,067
Net Cash Provided by Non-Capital Financing Activities	**971,183**	**1,063,067**
Cash Flow from Capital and Related Financing Activities		
Proceeds from issuance of notes	—	755,842
Payment of obligations under capital leases	(17,110)	(16,202)
Interest payments	(99,415)	(115,944)
Repayment of note obligations	(183,948)	(557,706)
Purchase of capital assets	(944,706)	(819,943)
Capital grants	926,124	404,754
Net Cash Used by Capital and Related Financing Activities	**(319,055)**	**(349,199)**
Cash Flows from Investing Activities		
Purchase of investments	—	(755,842)
Sales and maturities of investments	268,657	774,326
Interest on Investments	3,864	3,127
Net Cash Provided by Investing Activities	**272,521**	**21,611**
Net Decrease in Cash and Cash Equivalents	**(6,461)**	**(161,296)**
Cash and Cash Equivalents		
Beginning of Year	**75,723**	**237,019**
End of Year	**$69,262**	**$75,723**
Non-Cash Investing Activities		
Decrease in fair value of investments	(535)	(3,802)
Non-Cash Investing Activities	**$(535)**	**$(3,802)**

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30, 2010	2009
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	**$(1,483,773)**	**$(1,497,506)**
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation	502,177	489,725
Changes in Assets and Liabilities		
Inventories	(6,632)	(12,753)
Other current assets	(2,017)	(134)
Other non-current assets	(200)	(3,801)
Accounts payable	17,876	24,800
Accrued payroll and benefits	(23,960)	11,799
Other current liabilities	(1,523)	15,872
Accrued injury and damage claims	8,466	13,546
Other postemployment benefits	46,714	41,140
Deferred revenue and other non-current liabilities	11,762	20,537
Net Cash Used by Operating Activities	**$(931,110)**	**$(896,775)**

See Notes to Consolidated Financial Statements.

1. ORGANIZATIONS AND BUSINESS PURPOSE

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

NJ TRANSIT receives operating assistance and capital funds from the State of New Jersey by legislative appropriation; the federal government by defined formula; and discretionary grants under the federal Urban Mass Transportation Act of 1964 as amended by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, the Transportation Equity Act for the 21st Century (TEA-21) of 1998, the Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2005 (SAFETEA-LU), the American Recovery and Reinvestment Act of 2009, and local sources. The federal grants are administered by the Federal Transit Administration (FTA). These grants are used to support construction, acquisition and operation of public transportation facilities, equipment and services.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

New Accounting Pronouncement. In fiscal year 2010, NJ TRANSIT adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

The guidance specific to intangible assets referred to above includes guidance on recognition. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This Statement also establishes guidance specific to intangible assets related to amortization.

The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets and to reduce inconsistencies, thereby enhancing the comparability of accounting and financial reporting for such assets (see Note 5).

In fiscal year 2009, NJ TRANSIT adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This standard addresses accounting and financial reporting standards for pollution remediation obligations (including contamination), which are obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessment and cleanups. This statement is intended to enhance comparability of financial statements among governments by requiring all governments to account for pollution remediation obligations in the same manner. This statement will also enhance the users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable (see Note 12).

Accounting Standards Issued But Not Yet Adopted. GASB Statement No. 59, *Financial Instruments Omnibus*, was issued in June 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Applying the reporting provisions of Statement 31 for interest-earning investment contracts to unallocated insurance contracts improves consistency of investment measurements that are reported by pension and other postemployment benefit plans. Emphasizing the applicability of SEC requirements to money market funds in external investment pools provides practitioners with improved guidance. Limiting interest rate risk disclosures for investments in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate risk disclosures. Finally, addressing the applicability of Statement 53 to certain financial instruments refines which financial instruments are within the scope of that Statement.

This Statement is effective for NJ TRANSIT's 2011 year end. NJ TRANSIT is in the process of evaluating the impact of the adoption of GASB No. 59 on its financial statements.

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

NJ TRANSIT's primary source of nonexchange revenue relates to grants, subsidies and capital contributions. Grants subsidies and capital contribution revenue is recognized at the time eligible program expenditures occur and/or NJ TRANSIT has complied with the grant and subsidy requirements, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* Non-capital grants and subsidies are reported as non-operating revenue and capital grants are reported as a separate item on the Statements of Changes in Net Assets as capital contributions.

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

- Invested in Capital Assets, Net of Related Debt – This reflects the net assets of NJ TRANSIT that are invested in capital assets, net of related debt. This indicates that these net assets are not accessible for other purposes.
- Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
- Deficit in Unrestricted Net Assets – This relates to net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted," as discussed above, such as the recognition of the liability for postretirement benefits other than pensions that exceed the net assets for general use.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension Plans. In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* which was amended by GASB Statement No. 50, *Pension Disclosures,* which established standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, as applicable. NJ TRANSIT has adopted these standards for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (ARC) to the pension plan, calculated in accordance with certain parameters (see Note 6).

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

Compensated Absences. It is NJ TRANSIT's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulation and payment of vacation and sick leave is based on the collective bargaining agreements with the various unions. As required under GASB Statement No. 16, *Accounting for Compensated Absences*, the compensated absences should be accrued as a liability when earned and the liability should be measured using the pay rates in effect at the balance sheet date.

Reclassifications. Certain reclassifications have been reflected in the fiscal year 2009 Consolidated Financial Statements to conform to the current year's presentation.

3. DEPOSITS AND INVESTMENTS

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

	AS OF JUNE 30, 2010	2009
Current		
Cash on hand	$13.8	$16.0
Short-term investments	52.8	57.7
Total current cash and investments	**66.6**	**73.7**
Non-current		
Restricted cash on hand	2.7	2.0
Restricted investments	380.0	649.6
Restricted total non-current	**382.7**	**651.6**
Total Deposits and Investments	**$449.3**	**$725.3**

NJ TRANSIT's cash on deposit with various entities as of June 30, 2010 and 2009 totaled $18.1 million and $19.8 million, respectively.

ACCOUNT TYPE	BALANCE (in millions) 2010	2009
Insured	$1.1	$1.4
Insured held at NJ TRANSIT's locations	3.4	3.9
Uncollateralized held by health care providers	4.3	3.8
Uninsured held by banks	9.3	10.7
Total	**$18.1**	**$19.8**

Custodial Credit Risk. Custodial credit risk is the risk that a bank failure would result in the forfeiture of NJ TRANSIT deposits. NJ TRANSIT does not have a policy for custodial credit risk. As of June 30, 2010 and 2009, $13.6 million and $14.5 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2010 and 2009 totaled $432.8 million and $707.3 million, respectively.

Investments	Fair Value (in millions) 2010	2009	Weighted Average Maturity in Years 2010	2009
State of NJ Cash Management Fund	$3.1	$38.2	—	.03
Repurchase Agreements	396.1	648.8	1.15	.89
U.S. Treasury/Securities	10.5	10.5	0.01	—
Cash Equivalents	4.3	3.8	—	—
Other	18.8	6.0	—	—
Total	**$432.8**	**$707.3**		
Portfolio weighted average maturity (inclusive of proceeds from debt issuance)			1.12	.88

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

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

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

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

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

4. RESTRICTED ASSETS

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

Since April 1997, certain proceeds, primarily from the issuance of Grant Anticipation Notes, Certificates of Participation and New Jersey Economic Development Authority Bonds, financed portions of NJ TRANSIT's capital projects. These proceeds are restricted by applicable agreement covenants. As of June 30, 2010 and 2009, the balance of restricted investments related to these proceeds was $370.1 million and $626.6 million, respectively.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas lessors. Restricted leveraged lease deposits as of June 30, 2010 and 2009, were $1,334.5 million and $1,351.5 million, respectively, for these lease agreements that represent investment agreements made to meet NJ TRANSIT's payment obligations throughout the term of the leases. As these transactions do not meet the definition of an "in-substance defeasance," NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Fund Net Assets.

Other restricted amounts are made up primarily of deposit requirements for NJ TRANSIT health insurance plans, stocks held by ARH III Insurance and debt and interest requirements for Metropark parking deck. The proceeds of other restricted amounts totaled $12.7 million and $25.1 million as of June 30, 2010 and 2009, respectively.

5. CAPITAL ASSETS

Effective in fiscal year 2010, NJ TRANSIT adopted the provisions of GASB 51, *Accounting and Financial Reporting for Intangible Assets.* This standard requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

An intangible asset is an asset with an initial life that extends beyond a single reporting period, lacks physical substance, and is nonfinancial in nature. Intangible assets include easements, water rights, patents, trademarks, and computer software which can be purchased or licensed or internally generated. GASB 51 requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, the statement establishes a specific-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not be capitalized until certain criteria are met.

Intangible assets are amortized over their useful lives. The useful life of an intangible asset that arises from contractual or legal rights should not exceed the legal term of the rights. An intangible asset is not amortized if the asset has an indefinite useful life. An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset.

As a result of the adoption of GASB 51, intangible assets with indefinite useful lives are no longer amortized. For fiscal year 2009, $17.5 million of intangible assets were reclassified on the Consolidated Statements of Fund Net Assets from "Other" to "Capital Assets."

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

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets not being Depreciated				
Land	$340.7	$—	$0.2	$340.5
Capital projects in process	965.0	959.8	572.6	1,352.2
Operating Rights	14.2	—	—	14.2
Total	**1,319.9**	**959.8**	**572.8**	**1,706.9**
Capital Assets being Depreciated				
Buildings and structures	5,095.5	220.4	—	5,315.9
Track	2,152.8	26.2	—	2,179.0
Railcars and locomotives	2,062.0	94.5	0.7	2,155.8
Buses, vans and light railcars	1,462.2	101.4	5.1	1,558.5
Furniture, fixtures and equipment	535.0	40.3	11.3	564.0
Computer Software & Licenses	14.2	0.4	—	14.6
Total	**11,321.7**	**483.2**	**17.1**	**11,787.8**
Less Accumulated Depreciation				
Buildings and structures	2,001.4	193.0	—	2,194.4
Track	806.1	86.9	—	893.0
Railcars and locomotives	1,039.1	70.1	0.4	1,108.8
Buses, vans and light railcars	883.0	109.1	5.0	987.1
Furniture, fixtures and equipment	442.6	42.0	7.4	477.2
Computer Software & Licenses	10.9	1.8	—	12.7
Total	**5,183.1**	**502.9**	**12.8**	**5,673.2**
Total Capital Assets, Net of Depreciation	**6,138.6**	**(19.7)**	**4.3**	**6,114.6**
Total Net Capital Assets	**$7,458.5**	**$940.1**	**$577.1**	**$7,821.5**

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets not being Depreciated				
Land	$340.7	$18.9	$18.9	$340.7
Capital projects in process	649.6	830.0	514.6	965.0
Operating Rights	14.2	—	—	14.2
Total	**1,004.5**	**848.9**	**533.5**	**1,319.9**
Capital Assets being Depreciated				
Buildings and structures	4,901.1	207.7	13.3	5,095.5
Track	2,136.9	15.9	—	2,152.8
Railcars and locomotives	1,911.6	310.8	160.4	2,062.0
Buses, vans and light railcars	1,421.8	47.9	7.5	1,462.2
Furniture, fixtures and equipment	522.3	16.4	3.7	535.0
Computer Software & Licenses	9.9	4.3	—	14.2
Total	**10,903.6**	**603.0**	**184.9**	**11,321.7**
Less Accumulated Depreciation				
Buildings and structures	1,807.4	194.0	—	2,001.4
Track	719.7	86.4	—	806.1
Railcars and locomotives	973.2	72.4	6.5	1,039.1
Buses, vans and light railcars	788.1	102.1	7.2	883.0
Furniture, fixtures and equipment	410.1	34.0	1.5	442.6
Computer Software & Licenses	9.2	3.8	2.1	10.9
Total	**4,707.7**	**492.7**	**17.3**	**5,183.1**
Total Capital Assets, Net of Depreciation	**6,195.9**	**110.3**	**167.6**	**6,138.6**
Total Net Capital Assets	**$7,200.4**	**$959.2**	**$701.1**	**$7,458.5**

For the years ended June 30, 2010 and 2009, capital assets include capitalized interest costs of $476.0 million and $456.0 million, respectively, net of interest income of $353.9 million and $351.8 million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Note 10).

During fiscal years 2010 and 2009, NJ TRANSIT received capital contributions of $880.9 million and $641.8 million, respectively, of which $79.4 million and $76.0 million were passed through to other entities, respectively. The transferred amounts represented assets for which NJ TRANSIT has transferred ownership upon completion of the project. For fiscal year 2010, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line, 69th Street Bridge Renovation, the Meadowlands Rail Spur, the modernization of the Newark Penn Station Hudson & Dock interlockings, and Atlantic City Express Service Multilevel Railcars.

6. PENSION AND EMPLOYEE BENEFIT PLANS

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

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

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

Funding Policy and Annual Pension Cost. For the cost-sharing PERS and PFRS plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the State legislature. Plan members are required to contribute 5.5 and 8.5 percent of their covered salary to the PERS and PFRS, respectively. NJ TRANSIT is required to contribute an amount based on a fixed percentage of applicable compensation as determined by the respective plan sponsors. NJ TRANSIT's contributions to these plans for the years ended June 30, 2010, 2009 and 2008 were $5.3 million, $6.0 million and $4.5 million, respectively, equal to the required contributions for each year.

Under the provisions of five single-employer pension plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the Retirement Plan Committee of NJ TRANSIT as a result of bargaining agreements between the unions and NJ TRANSIT, except the TERP plan. Plan members are required to contribute 2 to 4 percent of their annual covered salary. NJ TRANSIT is required to contribute at an actuarially determined rate; the current rate is 20.8 percent of annual covered payroll. NJ TRANSIT's annual pension cost was $67.3 million for fiscal year 2010.

THREE-YEAR TREND INFORMATION *(in millions)*

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Non-Agreement Employees Retirement Plan			
06/30/2010	$29.5	100%	$0
06/30/2009	27.7	100	0
06/30/2008	26.0	100	0
Amalgamated Transit Union Employees Retirement Plan			
06/30/2010	$34.5	100%	$0
06/30/2009	36.2	100	0
06/30/2008	30.8	100	0
Transport Workers Union Employees Retirement Plan			
06/30/2010	$1.1	100%	$0
06/30/2009	0.9	100	0
06/30/2008	1.2	100	0
Utility Workers' Union of America Employees Retirement Plan			
06/30/2010	$0.2	100%	$0
06/30/2009	0.2	100	0
06/30/2008	0.3	100	0
Mercer Employees Retirement Plan			
06/30/2010	$2.0	100%	$0
06/30/2009	1.9	100	0
06/30/2008	2.5	100	0

Actuarial Methods and Assumptions. In the July 1, 2009, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included (a) 8 percent investment rate of return and (b) projected salary increase ranging from 3.5 percent to 5.3 percent per year. Both (a) and (b) included an inflation component of 3.5 percent. The assumptions did not include postretirement benefit increases. Contributions to sponsored plans during fiscal year 2010 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2009. The Plan assets are held in a variety of investment instruments including common stock, fixed-income securities and corporate bonds, all of which are reported at fair value. The actuarial value of assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liabilities are being amortized as a level-dollar amount over various periods on a closed basis. The remaining amortization periods at July 1, 2009, ranged from 1 to 30 years.

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the plans were 77.4 percent funded. The actuarial accrued liability for benefits was $1,396.6 million, and the actuarial value of assets was $1,080.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $316.2 million. The annual payroll of active employees covered by the plans was $392.4 million, and the ratio of the UAAL to the covered payroll was 80.6 percent.

The following is the funded status information for each plans as of July 1, 2009, the most recent actuarial valuation date (*in millions*):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (Excess of Assets over AAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c)
Non-Agreement Employees Retirement Plan	$355.0	$505.4	$150.4	70.2%	$115.8	129.9%
Amalgamated Transit Union Employees Retirement Plan	664.4	814.2	149.8	81.6	254.6	58.8
Transport Workers Union Employees Retirement Plan	34.4	37.8	3.4	91.0	10.9	31.2
Utility Workers' Union of America Employees Retirement Plan	5.7	6.4	0.7	89.1	1.5	46.7
Mercer Employees Retirement Plan	20.9	32.8	11.9	63.7	9.6	124.0

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

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan 401(k) for all eligible non-agreement employees. NJ TRANSIT provides a maximum 50 percent matching contribution on the first six percent contributed by the employees. This plan permits employees to contribute up to 50 percent of their salary not to exceed $16,500 annually on a pre-tax basis.

NJ TRANSIT also provides money purchase pension plans (401(a)) and employee savings/deferred compensation plans (457) for eligible agreement and non-agreement employees. NJ TRANSIT contributed 3 to 6 percent of annual compensation to certain employees' accounts in the 401(a) plan. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed $16,500 annually on a pre-tax basis.

Beginning in 2002, a pre-tax contribution was added for participants of the 401(k) and 457 plans. The Economic Growth and Tax Relief Act of 2001 permits individuals who are age 50 (or older) by the end of the calendar year to elect to make additional "catch up" contributions to the plan. This is in addition to the pre-tax employee contribution limit. NJ TRANSIT retirement plan participants can only "catch up" in one plan. Pursuant to the act, participants in the 401(k) and 457 plans who are over 50 years of age can contribute an additional $5,500 above the $16,500 limit.

NJ TRANSIT's expense for the defined contribution plans totaled $18.8 million and $19.1 million in fiscal years 2010 and 2009, respectively.

Recorded expenses for all plans (including PERS and PFRS) amount to $91.4 million and $92.0 million for the fiscal years ended June 30, 2010 and 2009, respectively.

7. OTHER POSTEMPLOYMENT BENEFITS

NJ TRANSIT sponsors a single-employer defined benefit health care plan that provides postretirement medical, dental and life insurance benefits for eligible retirees and their spouses. NJ TRANSIT does not issue a financial report for this plan. Contribution requirements are negotiated between NJ TRANSIT and union representatives for Rail and Bus agreement employees. NJ TRANSIT establishes and may amend the contribution requirements and benefit provisions for non-agreement employees. NJ TRANSIT's required contribution is based on projected pay-as-you-go financing requirements. NJ TRANSIT's payments under the plan were $25.9 million for fiscal year 2010. Plan members receiving benefits contributed $4.0 million or approximately 15.4% of total premiums.

NJ TRANSIT's annual Other Postemployment Benefit (OPEB) cost is calculated based on the employer Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the components of the annual OPEB cost for the year, the amount contributed to the plan, and changes in NJ TRANSIT's net OPEB obligation for fiscal years 2010 and 2009 (*in millions*):

	YEARS ENDED JUNE 30,	
	2010	**2009**
Annual required contribution	$75.8	$67.9
Interest on net OPEB obligation	6.9	5.1
Adjustment to annual required contribution	(10.1)	(7.2)
Annual OPEB cost	72.6	65.8
Contributions made	(25.9)	(24.6)
Increase in net OPEB obligation	46.7	41.2
Net OPEB Obligation, Beginning of Year	**153.6**	**112.4**
Net OPEB Obligation, End of Year	**$200.3**	**$153.6**

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010, 2009 and 2008 are as follows (*in millions*):

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
2010	$72.6	35.7%	$200.3
2009	65.8	37.4	153.6
2008	62.2	39.7	112.4

As of July 1, 2009, the Actuarial Accrued Liability (AAL) for benefits was $649.1 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $392.4 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 165.4 percent.

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

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

As of July 1, 2009, the actuarial valuation utilized the projected unit-credit method. The actuarial assumptions included a 4.5 percent discount rate and an annual health care cost trend rate of 8.5 percent. The unfunded actuarial accrued liability is being amortized on a level-dollar amount over a thirty-year period on a closed basis. The remaining amortization period at July 1, 2009 was 26 years.

8. OTHER CURRENT LIABILITIES

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

	AS OF JUNE 30,	
	2010	**2009**
Advance Funds-State	$—	$73.4
Injury and damage claims (Note 14)	34.9	33.4
Retainage on construction projects	22.5	26.1
Pollution Remediation Obligations	2.2	3.1
Other	29.6	28.1
Total Other Current Liabilities	**$89.2**	**$164.1**

9. DEFERRED REVENUE AND OTHER NON-CURRENT LIABILITIES

Deferred revenue and other non-current liabilities totaled $80.9 million and $76.4 million as of June 30, 2010 and 2009, respectively. These amounts relate to unearned lease and permit revenues, reserves for future environmental clean-up costs and funds designated for future asset purchases (*in millions*).

	AS OF JUNE 30,	
	2010	**2009**
Balance, Beginning of Year	**$76.4**	**$62.3**
Additions	38.5	43.9
Reductions	(34.0)	(29.8)
Balance, End of Year	**$80.9**	**$76.4**

10. LONG-TERM DEBT AND OTHER OBLIGATIONS

In April 2009, the State of New Jersey issued $394.3 million of Series 2009A Certificates of Participation (COPs) accruing interest between 3.00 to 5.25 percent with a maturity of 2030. Under the COPs, NJ TRANSIT entered into a sublease with the State to acquire 181 multilevel railcars, 4 dual-power locomotives and spare parts.

In September 2008, NJ TRANSIT entered into an eleven year refinancing agreement to defease the New Jersey Economic Development Authority (NJEDA) 2003A & B SWAP deals by issuing $342.1 million of NJEDA Series 2008A Sublease Revenue Bonds. The refunding transaction, which was consummated in order to eliminate the exposure to interest rate swings on the SWAPS, will result in additional cash outflows of approximately $28.4 million over the life of the debt. The NJEDA Series 2008A bond will accrue interest between 4.00 to 5.25 percent interest rate with a maturity date of 2019.

In April 2008, the State of New Jersey issued $309.2 million of Series 2008A Certificates of Participation, accruing interest at 5.0 percent with maturity in 2023. Under the COPs, NJ TRANSIT entered into a sublease with the State to acquire 27 electric locomotives and 37 multilevel railcars.

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

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

In September 2003, NJ TRANSIT issued $149.8 million of Series 2003A COPs, accruing interest between 1.0 percent and 4.1 percent. The proceeds were used to refinance the Series 2000B COPs. The bond proceeds were placed in an irrevocable trust and will satisfy designated debt servicing. The debt matures in 2015. As of June 30, 2009, $147.4 million of defeased COPs remain outstanding.

In February 2003, NJ TRANSIT issued $61.5 million of Refunding COPs bearing interest between 2.0 percent and 5.5 percent with final maturity in 2016. The proceeds from the sale of these certificates were deposited into an irrevocable trust with an escrow agent to provide debt service on the 1991 COPs notes. The refunding transaction, which was consummated to take advantage of low interest rates, decreased the aggregate debt service payments and resulted in an economic benefit of approximately $2.0 million over the life of the transaction with a $10.8 million deferral of refunding costs. As of June 30, 2010, $35.2 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, 2010, $158.9 million of defeased COPs remain outstanding.

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

In November 2000, NJ TRANSIT issued $562.2 million of Capital Grant Anticipation Notes (GANs), consisting of $452.2 million of Series 2000B and $110.0 million of Series 2000C, bearing interest between 4.5 percent and 5.75 percent. The Series 2000B notes were to mature in 2011 but were paid off in FY09. The proceeds of these notes were used to fund the cost of constructing the second segment of Hudson-Bergen Light Rail (MOS-2). The proceeds of the Series 2000C notes were used to fund the Newark Light Rail Extension and these notes matured in 2005. As security for these GANs, NJ TRANSIT received a federal full-funding grant agreement dedicated to the repayment of these debts.

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

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

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

In March 1999, NJ TRANSIT issued $151.5 million of COPs bearing interest between 3.625 percent and 5.0 percent with a final maturity in 2008. The proceeds of the certificates were used to purchase 500 transit buses. This deal matured in FY09.

The following schedule summarizes notes payable obligations as of June 30, 2010 (*in millions*):

	Inception Date	Balance June 30, 2009	Additions	Payments/ Reductions	Balance June 30, 2010	Due Within One Year
NJEDA 1999 A&B	08/99	$78.5	$—	$47.6	$30.9	$30.9
COPs 2000A	01/00	56.0	—	25.8	30.2	27.2
COPs 2000B	10/00	261.1	—	57.3	203.8	60.6
COPs 2002A	06/02	159.1	—	0.3	158.8	0.3
COPs 2002B	06/02	88.0	—	2.6	85.4	2.7
COPs 2003	02/03	39.6	—	4.4	35.2	4.6
COPs 2003A	10/03	147.7	—	0.3	147.4	0.3
COPs 2004A	03/04	186.2	—	16.9	169.3	17.4
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	309.2	—	15.9	293.3	16.6
NJEDA 2008A	10/09	337.8	—	4.4	333.4	4.5
COPS 2009A	04/09	394.3	—	—	394.3	—
Total		**2,311.0**	**—**	**175.5**	**2,135.5**	**$165.1**
Unearned Bond Premium		80.5	—	13.0	67.5	
Unamortized Deferral on Refunding		(24.0)	—	(4.6)	(19.4)	
Total Notes Payable		**$2,367.5**	**$—**	**$183.9**	**$2,183.6**	

The following schedule summarizes notes payable obligations as of June 30, 2009 (*in millions*):

	Inception Date	Balance June 30, 2008	Additions	Payments/ Reductions	Balance June 30, 2009	Due Within One Year
COPs 1999	03/99	$15.5	$—	$15.5	$—	$—
NJEDA 1999 A&B	08/99	123.6	—	45.1	78.5	47.6
COPs 2000A	01/00	65.1	—	9.1	56.0	25.8
COPs 2000B	10/00	315.4	—	54.3	261.1	57.3
GANs 2000B	11/00	73.4	—	73.4	—	—
COPs 2002A	06/02	159.4	—	0.3	159.1	0.3
COPs 2002B	06/02	90.6	—	2.6	88.0	2.6
COPs 2003	02/03	43.9	—	4.3	39.6	4.4
COPs 2003A	09/03	147.9	—	0.2	147.7	0.3
NJEDA 2003A	10/03	310.7	—	310.7	—	—
NJEDA 2003B	10/03	35.0	—	35.0	—	—
COPs 2004A	03/04	202.7	—	16.5	186.2	16.9
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	309.2	—	—	309.2	15.9
NJEDA 2008A	09/08	—	342.1	4.3	337.8	4.4
COPS 2009A	04/09	—	394.3	—	394.3	—
Total		**2,145.9**	**736.4**	**571.3**	**2,311.0**	**$175.5**
Unearned Bond Premium		69.2	24.4	13.1	80.5	
Unamortized Deferral on Refunding		(45.7)	(4.8)	(26.5)	(24.0)	
Total Notes Payable		**$2,169.4**	**$756.0**	**$557.9**	**$2,367.5**	

Long-term notes payable maturities as of June 30, 2010 (*in millions):*

Fiscal Years	Principal	Interest	Total
2011	$165.0	$106.7	$271.7
2012	186.8	97.9	284.7
2013	195.7	88.2	283.9
2014	205.0	78.0	283.0
2015	214.0	67.2	281.2
2016-2020	739.3	198.8	938.1
2021-2025	287.6	68.4	356.0
2026-2030	142.1	23.3	165.4
Total	**$2,135.5**	**$728.5**	**$2,864.0**

11. LEASES AND OTHER COMMITMENTS

Leveraged Lease Transactions

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

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

Statements of Fund Net Assets (see Note 4).

Defeased Leveraged Lease Obligations
From 1991 through 1996, NJ TRANSIT entered into a number of leveraged leasing arrangements with overseas investors for the purchase of transit operating equipment. NJ TRANSIT has made investment arrangements to meet all of its payment obligations throughout the term of the leases for all of these agreements and, in some instances, has been released as the primary obligator. Accordingly, recording of these obligations is not required in the Consolidated Statements of Fund Net Assets. The only remaining leveraged lease as of June 30, 2009 covered 32 Arrow III cars, which was entered into in 1995 with a maturity of 15 years. This lease was terminated at the end of December 2009. As of June 30, 2010, none of these lease obligations remain outstanding.

In connection with these lease agreements, NJ TRANSIT had made certain indemnification provisions and must comply with certain covenants. NJ TRANSIT was in compliance with such covenants through the lease terms.

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

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

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

In September 2008, the credit rating for AIG Financial Products Corporation (AIG) was changed from AA– to A- with additional credit watch by Standard & Poor's, where the rating remains as of June 30, 2010. Subsequent to the downgrade, AIG began receiving liquidity support from the US Government. That support is anticipated to continue until 2013. AIG is both the third party lender and payment undertaker in several of these transactions. Under the applicable transaction documents, the lessor may require NJ TRANSIT to replace AIG in these transactions.

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

Termination Risk. A leveraged lease agreement could be terminated if one party does not fulfill the obligations set forth in the contract. When an Event of Default or a Termination Event has occurred, either NJ TRANSIT or the counterparties could be required to make a termination payment according to the contract terms. Events of Default include non-payment, false or misleading representations, or the bankruptcy of NJ TRANSIT or the counterparties. Termination Events include a downgrade of the counterparty's credit rating to below that stated in the agreement. For example, under a current Equity Payment Undertaking Agreement, with respect to ratings of the equity payment undertaker, the counterparty, which may be a bank or other financial institution, must have a

Credit Rating of at least AA by Standard & Poor's and of at least Aa2 by Moody's at all times before the final maturity of a leveraged lease. A party has the right to terminate the lease agreement earlier when there is a downgrading of the counterparty's credit ratings.

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

The American International Group, Inc. (AIG) is a primary guarantor in a number of leases. Due to the downgrading of AIG by the rating agencies in the fall of 2008, NJ TRANSIT is required under the lease agreement to replace AIG as the financial guarantor. Such replacement is not economically practicable and NJ TRANSIT remains in technical default for not replacing AIG.

Despite the existence of the technical defaults, AIG has made all of the required payments under all of the leases. With AIG's continuing ability to access US Government funds for the next four years, it is anticipated that AIG will continue to make all scheduled payments. Under these circumstances, NJ TRANSIT believes the risk of an AIG bankruptcy is low. However, should AIG fail, NJ TRANSIT management estimates that its termination liability before negotiation could amount to $150 million.

In FY 2009, NJ TRANSIT terminated the majority of its March 1998 lease transaction at minimal cost. The balance of that lease expired in December 2009. NJ TRANSIT will continue to actively pursue all avenues to terminate its remaining lease transactions.

Capital Leases

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

In 1994, NJ TRANSIT entered into a 23-year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an aboveground parking facility. A portion of the financing for this facility was provided by the NJEDA through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the NJEDA bond obligations. The remaining rental payments have a present value of approximately $9.7 million as of June 30, 2010.

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 agreement contains an option to extend the lease for an additional 25 years.

In total, NJ TRANSIT has recorded obligations under capital leases of $1,417.5 million and $1,452.6 million as of June 30, 2010 and 2009, respectively, of which $81.4 million and $70.5 million represent current installments under capital leases as of June 30, 2010 and 2009, respectively.

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

	AS OF JUNE 30,	
	2010	**2009**
Land	$27.5	$27.5
Buildings	536.8	536.8
Railcars and Locomotives	686.0	736.4
Buses and Light Railcars	709.5	699.0
Furniture, Fixtures and Equipment	66.9	63.2
Capital Assets Under Capital Leases (at cost)	**2,026.7**	**2,062.9**
Less Accumulated Depreciation	(1,192.8)	(1,122.4)
Net Capital Assets Under Capital Leases	**$833.9**	**$940.5**

The following schedule summarizes the capital lease obligations as of June 30, 2010 (*in millions*):

	Inception Date	Balance June 30, 2009	Additions	Payments/ Reductions	Balance June 30, 2010	Due Within One Year
NBC Facility	07/86	$7.0	$—	$3.3	$3.7	$3.7
Metropark Parking Facility	03/94	10.6	—	0.9	9.7	1.0
MMC, Locos. & Railcars	01/97	103.7	—	7.7	96.0	6.9
ALP-44 Locomotives	06/97	7.2	—	--	7.2	—
Comet IV Coaches	07/97	19.9	—	2.3	17.6	2.1
Bus Garages	07/97	58.2	—	4.7	53.5	4.4
Arrow Coaches & ALP-44s	03/98	7.0	—	7.0	—	—
Light Railcars	06/98	66.8	—	12.0	54.8	12.7
Bus Garages	09/98	107.3	1.8	3.5	105.6	1.6
HBLR	12/00	190.0	7.7	10.4	187.3	10.7
MCI Buses	12/01	87.9	11.9	6.0	93.8	6.4
MCI Buses	10/02	265.9	14.1	—	280.0	—
Qualified Technical Equipment	08/03, 9/03	84.6	—	1.6	83.0	2.5
ALP-46 Locomotives	09/03	28.0	—	1.9	26.1	1.9
Comet IV Coaches	09/03	26.6	—	—	26.6	—
Light Railcars	09/03, 10/03	62.7	—	2.2	60.5	2.2
Articulated Buses	07/04	29.8	—	2.3	27.5	2.3
Diesel Locomotives	12/05	107.0	—	3.0	104.0	3.2
MCI Buses	11/06	17.6	—	—	17.6	17.6
Multilevel Railcars	12/06	18.8	—	0.1	18.7	0.2
Multilevel Railcars	06/07	34.3	—	—	34.3	0.1
Multilevel Railcars	12/07	62.5	—	0.4	62.1	0.6
Multilevel Railcars	01/08	49.2	—	1.3	47.9	1.3
Total Capital Lease Obligations		**$1,452.6**	**$35.5**	**$70.6**	**$1,417.5**	**$81.4**

Minimum capital lease maturities as of June 30, 2010 (*in millions*):

Fiscal Years	Principal	Interest	Total
2011	$81.4	$53.8	$135.2
2012	118.8	52.7	171.5
2013	148.0	118.3	266.3
2014	141.8	64.9	206.7
2015	94.0	61.3	155.3
2016-2020	475.9	342.1	818.0
2021-2025	210.8	105.6	316.4
2026-2030	128.2	59.4	187.6
2031-2035	18.6	10.2	28.8
Total Capital Lease Obligations	**$1,417.5**	**$868.3**	**$2,285.8**

The following schedule summarizes the capital lease obligations as of June 30, 2009 (*in millions*):

	Inception Date	Balance June 30, 2009	Additions	Payments/ Reductions	Balance June 30, 2010	Due Within One Year
NBC Facility	07/86	$10.0	$—	$3.0	$7.0	$3.4
Metropark Parking Facility	03/94	11.5	—	0.9	10.6	0.9
MMC, Locos. & Railcars	01/97	111.8	—	8.1	103.7	7.8
ALP-44 Locomotives	06/97	7.2	—	—	7.2	--
Comet IV Coaches	07/97	22.4	—	2.5	19.9	2.3
Bus Garages	07/97	63.2	—	5.0	58.2	4.7
Arrow Coaches & ALP-44s	03/98	131.1	—	124.1	7.0	7.0
Light Railcars	06/98	78.3	—	11.5	66.8	12.1
Bus Garages	09/98	108.5	—	1.2	107.3	3.3
HBLR	12/00	184.8	5.2	—	190.0	10.4
MCI Buses	12/01	83.9	4.0	—	87.9	5.9
MCI Buses	10/02	252.7	13.2	—	265.9	—
Qualified Technical Equipment	08/03, 9/03	93.6	—	9.0	84.6	1.6
ALP-46 Locomotives	09/03	38.6	—	10.6	28.0	1.9
Comet IV Coaches	09/03	33.6	—	7.0	26.6	—
Light Railcars	09/03, 10/03	64.7	—	2.0	62.7	2.1
Articulated Buses	07/04	32.0	—	2.2	29.8	2.2
Diesel Locomotives	12/05	109.9	—	2.9	107.0	3.1
MCI Buses	11/06	17.6	—	—	17.6	—
Multilevel Railcars	12/06	18.9	—	0.1	18.8	0.1
Multilevel Railcars	06/07	34.3	—	—	34.3	—
Multilevel Railcars	12/07	62.9	—	0.4	62.5	0.5
Multilevel Railcars	01/08	50.3	—	1.1	49.2	1.2
Total Capital Lease Obligations		**$1,621.8**	**$22.4**	**$191.6**	**$1,452.6**	**$70.5**

As of June 30, 2010, NJ TRANSIT was committed for future purchases under the following capital projects and special services which will be funded from federal, state, local or other capital sources (*in millions*):

Rail Support Facilities & Equipment	$10.1
Atlantic City Rail Line Track Rehabilitation	11.7
Ridgewood ADA Station Accessibility	13.7
Lower Hack Bridge Rehabilitation	16.6
Hudson-Bergen Light Rail System	20.6
Hoboken Ferry Slips	21.5
Rail Passenger Facilities	28.4
Casino Revenue Transportation Program	32.1
Rail Infrastructure	50.4
Rail Rolling Stock	56.6
Portal Bridge	94.6
Bus Rolling Stock	160.2
ARC Project	391.0
Other, for commitments less than $10 million	78.3
Total Capital Projects and Special Service Commitments	**$985.8**

12. POLLUTION REMEDIATION OBLIGATIONS

NJ TRANSIT has implemented GASB Statement No. 49, Accounting and Financial Reporting for pollution remediation obligations. The statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. In 2010, an operating expense and corresponding liability, measured at their current value using the expected cash flow method, have been recognized for certain pollution remediation obligations. Pollution remediation obligations, which are estimates and subject to changes in price, technology, or applicable laws and regulations, occur when any one of the following obligating events takes place:

- NJ TRANSIT is compelled to take pollution remediation action because of an imminent endangerment.
- NJ TRANSIT is in violation of a pollution prevention-related permit or license.
- NJ TRANSIT is named by a regulator as a responsible or potentially responsible party to participate in remediation.
- NJ TRANSIT is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.
- NJ TRANSIT commences, or legally obligates itself to commence remediation efforts.

In accordance with GASB Statement No. 49, a net pollution remediation provision totaling $20.3 million, measured at its current value utilizing the expected cash flow method, was recognized in fiscal year 2010. The total liability of $25.4 million was reduced by $5.1 million for expected recoveries from other responsible parties, potentially responsible parties (PRPs) and insurers. The cumulative liability decreased by $2.9 million in fiscal year 2010, attributable primarily to the remediation costs for two locations shared by Amtrak and other payments made during the fiscal year.

The following table summarizes the changes in NJ TRANSIT's liability for pollution remediation for the years ended June 30, 2010 and 2009 (in millions):

	AS OF JUNE 30, 2010	2009
Balance, Beginning of Year	**$23.2**	**$17.1**
Current year costs	(0.6)	7.6
Payment made during the year	(2.3)	(1.5)
Balance, End of Year	**$20.3**	**$23.2**

The pollution remediation liability of $20.3 million at June 30, 2010, essentially consists of future remediation activities associated with asbestos removal, cleanup of contamination, and wastewater treatment at NJ TRANSIT stations, garages and other facilities. Of this amount, $2.2 million represents the current portion of the liability, which is included in other current liabilities, and $18.1 million represents the noncurrent obligation, which is included in deferred revenue and other noncurrent liabilities.

The estimated outlays include costs of a) $3.7 million associated with pre-cleanup activities including engineering studies, site investigation, corrective measures feasibility study, and the design of a remediation plan; b) $8.5 million related to cleanup activities, such as neutralization, containment, removal and disposal of pollutants, and restoration; c) $4.6 million for the external government oversight and enforcement-related activities; and d) $3.5 million for the post-remediation monitoring.

13. OTHER OPERATING REVENUES

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

	YEARS ENDED JUNE 30, 2010	2009
Lease and rental	$25.5	$25.9
Advertising	13.5	13.3
Metro-North operations	12.5	12.5
Other	21.5	22.8
Total	**$73.0**	**$74.5**

14. INJURY AND DAMAGE CLAIMS

As of June 30, 2010, NJ TRANSIT's self-insurance retention was $10 million per occurrence with commercial excess liability insurance coverage for the amounts above $10 million up to $250 million. Settlements have not exceeded this insurance coverage for each of the past three years. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment-practice claims exceeding $500,000 up to $10 million are covered by insurance. On October 14, 2004, the ARH III Insurance Co., Inc., a wholly owned subsidiary of NJ TRANSIT, was formed. This captive insurance company provides coverage for FELA and rail third-party claims in excess of $5 million up to $10 million, consequently reducing NJ TRANSIT's self-insured retention in these two areas. As of June 30, 2010 and 2009, the ARH III Insurance Co., Inc. incurred no losses for covered claims.

NJ TRANSIT has recorded an estimated liability of $110.1 million and $100.1 million as of June 30, 2010 and 2009, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, $34.9 million and $33.4 million are included in other current liabilities as of June 30, 2010 and 2009, respectively (see Note 8).

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

The total claims liability activity for the years ended June 30, 2010 and 2009 was as follows (*in millions*):

	AS OF JUNE 30, 2010	2009
Balance, Beginning of Year	**$100.1**	**$81.6**
Claims expense	54.1	52.1
Payment of claims	(44.1)	(33.6)
Balance, End of Year	**$110.1**	**$100.1**

15. FEDERAL GRANTS

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

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

16. CONTINGENCIES

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

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

NJ TRANSIT is addressing environmental issues at several locations within the state where by virtue of ownership or use, NJ TRANSIT has a remediation responsibility. Management has analyzed all of these matters and has provided for amounts, which it currently believes are adequate. In management's opinion, the ultimate liability, if any, will have no material effect on the results of operations or the consolidated financial position of NJ TRANSIT (see Note 12).

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

17. NET ASSETS

Changes in net assets for fiscal years 2009 and 2010 (*in thousands*)

	Deficit in Unrestricted Net Assets	Restricted Net Assets	Invested in Capital Assets Net of Related Debt		Total
			Federal	State/Local/Other	
Balance, June 30, 2008	**$(127,024)**	**$1,550**	**$2,462,518**	**$3,096,716**	**$5,433,760**
Loss before capital contributions	(619,387)	480	—	—	(618,907)
Capital grants	—	—	226,640	415,186	641,826
Transfers	34,586	—	—	(34,586)	—
Capital grants pass-throughs	—	—	(21)	(75,969)	(75,990)
Capital assets removed from service	—	—	—	(1,404)	(1,404)
Depreciation of capital funded assets	473,566	—	(248,594)	(224,972)	—
Balance, June 30, 2009	**(238,259)**	**2,030**	**2,440,543**	**3,174,971**	**5,379,285**
Loss before capital contributions	(518,240)	706	—	—	(517,534)
Capital grants	—	—	323,320	557,568	880,888
Transfers	7,416	—	—	(7,416)	—
Capital grants pass-throughs	—	—	—	(79,388)	(79,388)
Capital assets removed from service	—	—	—	(150)	(150)
Depreciation of capital funded assets	485,890	—	(242,595)	(243,295)	—
Balance, June 30, 2010	**$(263,193)**	**$2,736**	**$2,521,268**	**$3,402,290**	**$5,663,101**

REQUIRED SUPPLEMENTARY INFORMATION

GASB STATEMENT NO. 45 SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH CARE PLAN *(in millions)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2009	$—	$649.1	$649.1	—	$392.4	165.4%
7/1/2007	—	550.9	550.9	—	381.2	144.5
7/1/2005	—	499.8	499.8	—	368.3	135.7

GASB STATEMENT NO. 50 SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT PENSION PLANS *(in millions)*

Non-Agreement Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2009	$355.0	$505.4	$150.4	70.2%	$115.8	129.9%
7/1/2008	339.4	458.2	118.8	74.1	122.5	97.0
7/1/2007	307.9	424.2	116.3	72.6	122.3	95.1

Amalgamated Transit Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2009	$664.4	$814.2	$149.8	81.6%	$254.6	58.8%
7/1/2008	679.5	778.8	99.3	87.2	245.6	40.4
7/1/2007	638.8	757.6	118.8	84.3	240.1	49.5

Transport Workers Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2009	$34.4	$37.8	$3.4	91.0%	$10.9	31.2%
7/1/2008	35.5	36.7	1.2	96.7	10.8	11.1
7/1/2007	34.1	34.4	0.3	99.1	9.7	3.1

Utility Workers Union of America Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2009	$5.7	$6.4	$0.7	89.1%	$1.5	46.7%
7/1/2008	5.9	6.5	0.6	90.8	1.6	37.5
7/1/2007	5.6	5.9	0.3	94.9	1.6	18.8

Mercer Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2009	$20.9	$32.8	$11.9	63.7%	$9.6	124.0%
7/1/2008	19.9	28.9	9.0	68.9	7.7	116.9
7/1/2007	17.9	26.4	8.5	67.8	7.5	113.3

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