



# MOVING THE NEEDLE

2012 NJ TRANSIT ANNUAL REPORT

*One Trip at a Time*

# TABLE



# OF CONTENTS

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## MESSAGES

- 02 Message from the Chairman
- 04 Message from the Executive Director
- 06 The Year in Review

## FY2012 HIGHLIGHTS

- 08 Overview of Scorecard
- 10 Improving the Customer Experience
- 16 Safety & Security
- 18 Financial Performance
- 20 Corporate Accountability
- 24 Employee Excellence

## ON-TIME PERFORMANCE

- 26 On-time Performance By Mode
- 28 On-time Performance Rail Methodology
- 30 On-time Performance Light Rail Methodology
- 32 On-time Performance Bus Methodology

## BOARD, COMMITTEES & MANAGEMENT TEAM

- 34 Board of Directors
- 36 Advisory Committees
- 37 Executive Management Team
- 39 FY2012 Financial Report



A MESSAGE 

Each workday, NJ TRANSIT provides nearly one million customer trips through the system's buses, trains, light rail lines and Access Link routes, providing a vital link to employment, education, health care and recreational opportunities. At the beginning of the fiscal year, NJ TRANSIT set course to be the best public transportation system in the nation through *Scorecard*, the agency's innovative new performance management system. Reflecting Governor Chris Christie's commitment to increased transparency in the state's government and its agencies, *Scorecard* makes key NJ TRANSIT statistics and performance data readily accessible to the public for the first time.

In just one year since its launch, *Scorecard* has shaped NJ TRANSIT into a more accountable, results-driven Corporation that is more responsive to the needs of its riders. By using performance standards and customer input to drive strategic decisions, *Scorecard* allows NJ TRANSIT to best focus its time, talent and resources on meeting the needs of our customers while remaining accountable to New Jersey taxpayers.

Over the course of FY2012, we listened closely to our riding public, who clearly prioritized their needs in their responses to NJ TRANSIT's quarterly customer surveys. With customers ranking fares among their top concerns, NJ TRANSIT was able to keep fares stable in FY2012 thanks to smart business decisions made in recent years that positioned the agency to be stronger and more financially-stable. We are committed to maintaining stable fares again in FY2013.

NJ TRANSIT continued its legacy of keeping its infrastructure and equipment in a state of good repair, with capital work ongoing and in the planning phase around the system to enhance reliability and safety. The FY2012 capital program also supported NJ TRANSIT's ongoing fleet modernization effort through the continued procurement of new full-size buses, multilevel railcars and electric locomotives, as well as the introduction of the agency's first low-floor buses and dual-power locomotives.

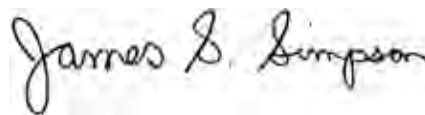
Among the highlights of the year, NJ TRANSIT sharpened an already crystal-clear focus on safety. With the help of representatives from federal and state

agencies, I convened the Railroad Crossings Leadership Oversight Committee to take a fresh look at ways to reduce accidental deaths along New Jersey's rail network. Through an approach called "E-cubed" for engineering, enforcement and education, we continue to ramp up safety across the NJ TRANSIT system through tactics that include deployment of new dynamic message signs at key locations, testing of "gate skirts" to provide a second physical barrier at grade crossings and "Another Train Coming" signs to alert people about a second train nearby. We also revamped NJ TRANSIT's successful Rail School Safety Program for students and community groups, and we launched ground-breaking public safety announcements to drive home our life-saving message for residents to stay off the tracks.

Additionally, after gathering valuable input from members of the cycling community, we worked to make common-sense changes that make NJ TRANSIT one of the most bicycle-friendly systems in the region. By establishing designated bike trains on weekends on most of our rail lines, in addition to the regular weekend trains, we now provide capacity for up to 7,200 bicycles on Saturdays and Sundays combined, encouraging an environmentally-friendly mode of travel that promotes the use of our rail service throughout the state.

Looking forward, NJ TRANSIT has built a strong foundation for future growth, improved service and increased customer satisfaction. Using *Scorecard* as the guide, and with continued support from Governor Christie, the State Legislature and our Congressional delegation, the men and women of NJ TRANSIT will continue to raise the bar for the millions of customers who rely on our service for life's daily needs.

Sincerely,



James S. Simpson  
Transportation Commissioner  
& NJ TRANSIT Board Chairman

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# FROM THE CHAIRMAN

A MESSAGE 

Marking a turning point in NJ TRANSIT history, Fiscal Year 2012 (FY2012) can rightfully be called the “Year of the Scorecard,” representing one of the agency’s most significant initiatives to date as a key driver and performance measurement tool for all areas of the Corporation. To support *Scorecard*, we committed to three major goals: enhancing the customer experience, increasing productivity and serving as responsible stewards of taxpayer funds.

As part of *Scorecard*, we have been conducting quarterly customer surveys and using the results to target specific improvements needed to boost customer satisfaction, as well as hosting regular “We Are Listening” forums at key locations to enable customers to speak directly to NJ TRANSIT general managers of operations and senior-level staff. Due in large part to the invaluable feedback we have regularly received from our customers, NJ TRANSIT has achieved measurable results, most notably, meeting the customer satisfaction goal we set for FY2012 and setting an even higher goal for FY2013.

NJ TRANSIT’s customers have clearly ranked their priorities for what they want from their public transportation system, and the top two priorities offered time and again continue to guide our efforts: keeping fares stable and ensuring that our customers reach their destinations on time. We delivered on both priorities, maintaining stable fares in FY2012 and committing to hold the line on fares for the third consecutive year in FY2013. Our operating divisions posted strong on-time performance (OTP) figures in FY2012, particularly on the rail side, which boasted record-breaking monthly OTP numbers in December (96.6 percent), April (97.6 percent) and June (96.5 percent). We also started FY2013 on a positive note, setting a July record of 96.4 percent and an August record of 97.6 percent.

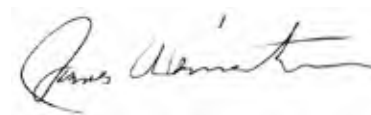
This year, NJ TRANSIT continued to tap into technology to improve the experience for customers, from the launch of our social media platform, including a revamped YouTube, Facebook and Twitter profile, to a partnership with Google Wallet that made NJ TRANSIT the first public transportation system to partner with Google on its contactless payment system. We also

completed the installation of ticket vending machines at all 164 stations on our rail system and began piloting a new technology — Bank Note Recycler (BNR) — at selected ticket vending machines to provide change to customers in dollar bills rather than dollar coins. We will continue to pave the way for further exploration of customer service innovations in the next year, including a web-ticketing option.

Our capital program supported continued investment in our infrastructure and equipment to maintain the system’s state of good repair. Other highlights included the completion of accessibility improvements at Somerville, Ridgewood and Plauderville stations, as well as the opening of the restored Hoboken Ferry Terminal, which returned ferry service to the original, historic ferry slips for the first time in more than four decades. We also continued to advance construction of the Pennsauken Transit Center and accepted delivery of new buses, railcars and locomotives as part of our ongoing fleet modernization effort.

Continued support from Governor Chris Christie, our elected leaders, the Board of Directors, our regional transportation partners, business leaders and the communities we serve helped NJ TRANSIT make great strides in FY2012. In addition, our dedicated employees have proven that every area of NJ TRANSIT — from the rail, bus, light rail and Access Link operating divisions, to customer communications, police, fare collection, capital construction and more — has a direct tie-in to the customer experience. With our renewed focus on performance standards and absolute results through *Scorecard*, we can look to the future with confidence that we are best serving our customers — one trip at a time.

Travel safely,



James Weinstein  
Executive Director

FROM THE EXECUTIVE DIRECTOR

# THE YEAR IN REVIEW

Fiscal Year 2012 can rightfully be called the “Year of Scorecard,” an innovative management tool that NJ TRANSIT uses to dramatically transform the experience of its customers — one trip at a time.

Scorecard focuses on the customer experience through a series of customer satisfaction surveys, *We Are Listening* customer forums and performance metrics that drive strategic decisions, while delivering transparency, accountability, efficiency and employee excellence. As a result, it has produced significant results.

During FY2012, NJ TRANSIT’s overall customer satisfaction rating increased from a 5.2 to a 6.0, achieving the Corporation’s goal for the fiscal year. Never satisfied to rest on its accomplishments, NJ TRANSIT has increased the Corporation’s overall satisfaction goal to 6.5 for FY2013.

One category frequently rated as important by customers is fares. NJ TRANSIT responded by keeping fares stable in FY2012, and has made the same commitment for FY2013. With a focus on the customer experience, the Corporation continues to realign its resources to better match customer demand and closely manage its budget, without sacrificing system safety or reliability.



New ALP-45 dual-mode locomotive



Somerville Station groundbreaking on the Raritan Valley Line

Other successes during the year included the introduction of social media, enhancing fare collection, continuing a modernization of the rail and bus fleet, opening new or rehabilitated facilities, and expanding rail safety initiatives. NJ TRANSIT also worked closely with the communities it serves to support the growth of local economies.

Finally, NJ TRANSIT employees rose to the challenge on several occasions during the fiscal year. A hurricane in August 2011 and a freak snowstorm in October 2011 could have crippled the system for an extended period of time if the Corporation did not implement pre-storm planning procedures and an aggressive post-storm response to get service up and running again. The commitment and dedication of the Corporation’s 11,500 employees were evident throughout FY2012.



Rail crossing “gate skirts” pilot program



New low-floor transit bus



“We are Listening” Customer Forum – Penn Station New York

## FY2012 HIGHLIGHTS

# SCORECARD

NJ TRANSIT's innovative *Scorecard* initiative is a dynamic management and reporting tool that focuses on five strategic areas: Customer Experience, Financial Performance, Corporate Accountability, Safety & Security and Employee Excellence.

Customer satisfaction is one of *Scorecard*'s highest priorities. As a result, we asked customers to rate us on a quarterly basis in FY2012 on 41 service attributes in four key areas: facilities, scheduling, communications and vehicles. Customers were then asked to identify their three most important attributes, which helped NJ TRANSIT develop a list of "key drivers" that are most important to its customers. Detailed comments from customers are also shared with operating departments within the organization to drive efficiencies and make more informed decisions.



Track maintenance improves service reliability, a key driver for *Scorecard*.



After a year of surveys, overall customer satisfaction increased from 5.2 to 6.0. Further, every attribute of service in the 4th quarter survey attained an increased score. Scores for *Payment Options* and the *NJ TRANSIT Website* consistently receive the highest rating at 7.0, and more than 75 percent — three out of four customers — told NJ TRANSIT that they were either somewhat likely or very likely to recommend NJ TRANSIT to a friend or relative.

Other positive areas from the surveys and performance metrics were stable fares, improved on-time performance, safety & security, real-time service information, reduced costs and subsidies, and exceeding a goal for Small Business Enterprise contracts.

Throughout the year, NJ TRANSIT maintained full transparency with *Scorecard* by posting [survey results](#) online for customers and taxpayers, something that will continue in FY2013. You can also view a one-year [Scorecard video](#) on our YouTube page.



NJ TRANSIT hosted 12 “We are Listening” forums in FY2012, allowing customers to speak directly with senior-level managers.

## FY2012 HIGHLIGHTS

# IMPROVING THE CUSTOMER EXPERIENCE

NJ TRANSIT rolled out a number of initiatives in FY2012 that improved the customer experience.



The NY Giants and NY Jets both surpassed one million riders on our Meadowlands rail service in FY2012.



New Jersey Lt. Gov. Kim Guadagno (at podium) helped launch the new No. 655 bus route.

## SERVICE

The new **No. 655 bus route** debuted, serving the new University Medical Center of Princeton, Princeton University, Princeton Station, Princeton Shopping Center and other regional locations with specially wrapped buses. The route is funded by a unique public-private partnership with NJ TRANSIT, the Delaware Valley Regional Planning Commission, the North Jersey Transportation Planning Authority, Princeton HealthCare Systems, Princeton University, Middlesex County and the Greater Mercer Transportation Management Association.

The success of the **Meadowlands Rail Link** grew significantly in FY2012, as NJ TRANSIT served its one-millionth customer traveling to Giants and Jets football games. Ridership will continue to grow for this valuable service to major events at MetLife Stadium, including Super Bowl XLVIII in February 2014.

The NJ TRANSIT Board of Directors led an effort to expand the Corporation's **Bike Aboard Program** to all rail stations, and designating select "bike-friendly" trains on weekends on most rail lines, in addition to many weekday trains. An NJ TRANSIT employee has also been appointed as a "Bicycle Advocate" to serve as a liaison between the Corporation and the biking community.

NJ TRANSIT's **Ambassador Program** provided support for 113 different events in FY2012. NJ TRANSIT employees volunteered for more than 1,000 different shifts to help guide customers to events served by NJ TRANSIT, including two competing concerts in May 2012 attended by tens of thousands of fans in Asbury Park and at MetLife Stadium. NJ TRANSIT is already gearing up for three major events in 2013 and 2014 — a wrestling event at MetLife Stadium, a Grand Prix race along the Hudson County waterfront and Super Bowl XLVIII at MetLife Stadium.

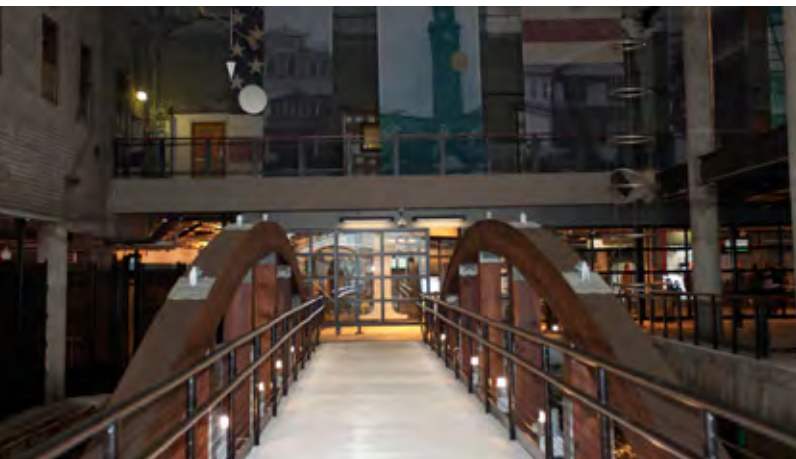
The Corporation's **Emergency Response Team (ERT)** was dispatched to nearly 30 emergency callouts in FY2012. The ERT is a group of volunteer employees trained to assist customers during major service disruptions.



New high-level platforms at Ridgewood Station on the Main Line.



Construction is underway on Pennsauken Transit Center.



The historic ferry slips have reopened after more than 45 years at Hoboken Terminal.

## FACILITIES

In December 2011, NJ TRANSIT reopened the historic ferry slips at **Hoboken Terminal** for the first time since 1967. The new slips provide a convenient, sheltered waiting area for ferry customers, many of whom connect to and from NJ TRANSIT bus, rail, light rail, or PATH service at Hoboken.

NJ TRANSIT completed Americans with Disabilities Act (ADA) accessibility improvements at **Ridgewood Station** on the Main/Bergen County Lines. The project included construction of a center-island, high-level platform; a side, high-level platform; canopies; shelters and elevators.

Work also was completed on ADA improvements at **Plauderville Station** on the Bergen County Line, which included the construction of new high-level platforms, canopies, a shelter and ramps.

Work is underway on **Pennsauken Transit Center**, an intermodal station and parking facility that will allow customers to transfer between River LINE light rail service, Atlantic City Line rail service and local bus service. The project, which consists of two high-level platforms with canopies on the Atlantic City Line, a platform and canopy on the River LINE, connecting elevators and stairs and a park & ride, is scheduled for completion in fall 2013.

Preliminary work is underway on **Bus Capacity Improvements** at the Frank R. Lautenberg Station at Secaucus Junction. A vehicular ground transportation facility will replace the current operation for buses and vans with a series of berths in an island configuration, improving bus movements and capacity. The project is scheduled for completion by the end of 2014.



New high-level platforms at Somerville Station were completed on the Raritan Valley Line.



New low-floor accessible buses are operating in Atlantic and Morris counties.

## FLEET MODERNIZATION AND EXPANSION

NJ TRANSIT purchased 76 **Compressed Natural Gas (CNG)** cruiser buses in FY2012 to replace its older CNG fleet. A prototype bus will be delivered in 2012, with final delivery of all 76 buses scheduled for summer 2013.

NJ TRANSIT received delivery of the first of 39 **low-floor transit buses** in FY2013 for use in Atlantic and Morris counties. All 39 vehicles are scheduled for delivery by late-December 2012.

An original order of 1,145 **transit and suburban buses** was increased by another 153 buses in FY2012. By the end of the fiscal year, approximately 900 of these buses were delivered; final delivery of all buses in this procurement is scheduled to be completed by spring 2014.

NJ TRANSIT purchased 100 more of its popular **multilevel railcars** in FY2012. The first cars began arriving in spring 2012; final delivery is scheduled for spring 2013.

The Corporation's new ALP-45 **dual-mode locomotives** began arriving in FY2012. The 35 locomotives represent North America's first dual-mode locomotives, powered by diesel fuel or overhead catenary power. Final delivery of all 35 locomotives is scheduled for early 2013.



New dual-mode locomotives transition between diesel fuel and electricity, providing greater operating flexibility.

Tap to pay your fare  
with your phone.



Get Google Wallet to pay at  
select NJ TRANSIT locations.  
[www.google.com/wallet](http://www.google.com/wallet)

**NJ TRANSIT**  
The Way To Go.



**Google wallet**

Google Wallet provides customers with  
another payment option.

## STUDIES

NJ TRANSIT is advancing plans for a **Route 440 Hudson-Bergen Light Rail** extension from West Side Avenue Station to the proposed Bayfront development project on Route 440 in Jersey City. Spanning approximately three-quarters-of-a-mile, the extension would provide light rail service for up to 8,000 new housing units. An environmental analysis is underway and is scheduled to be completed by spring 2013.

NJ TRANSIT is developing plans for a **South Jersey Bus Rapid Transit** system that would serve Camden and Gloucester counties. The line would run from the Atlantic City Expressway into the City of Camden and Center City Philadelphia. A "Locally Preferred Alternative" was selected in June 2012, and the environmental analysis will begin in early 2013. NJ TRANSIT has been awarded a federal grant to design and build select elements of the project.

The **Route 1 Bus Rapid Transit** project would serve the Route 1 corridor in Mercer and Middlesex counties. The project is being implemented in phases, which includes the new **No. 655 bus route** (see [Improving the Customer Experience/Service](#) section).

## TECHNOLOGY/COMMUNICATIONS

NJ TRANSIT unveiled more new technologies in FY2012 to improve the customer experience.

**Social Media** took center stage as the Corporation established [Facebook](#), [Twitter](#) and [YouTube](#) accounts to provide customers with instant, two-way communications about service, and customer-oriented videos, photos, sweepstakes and discounts.

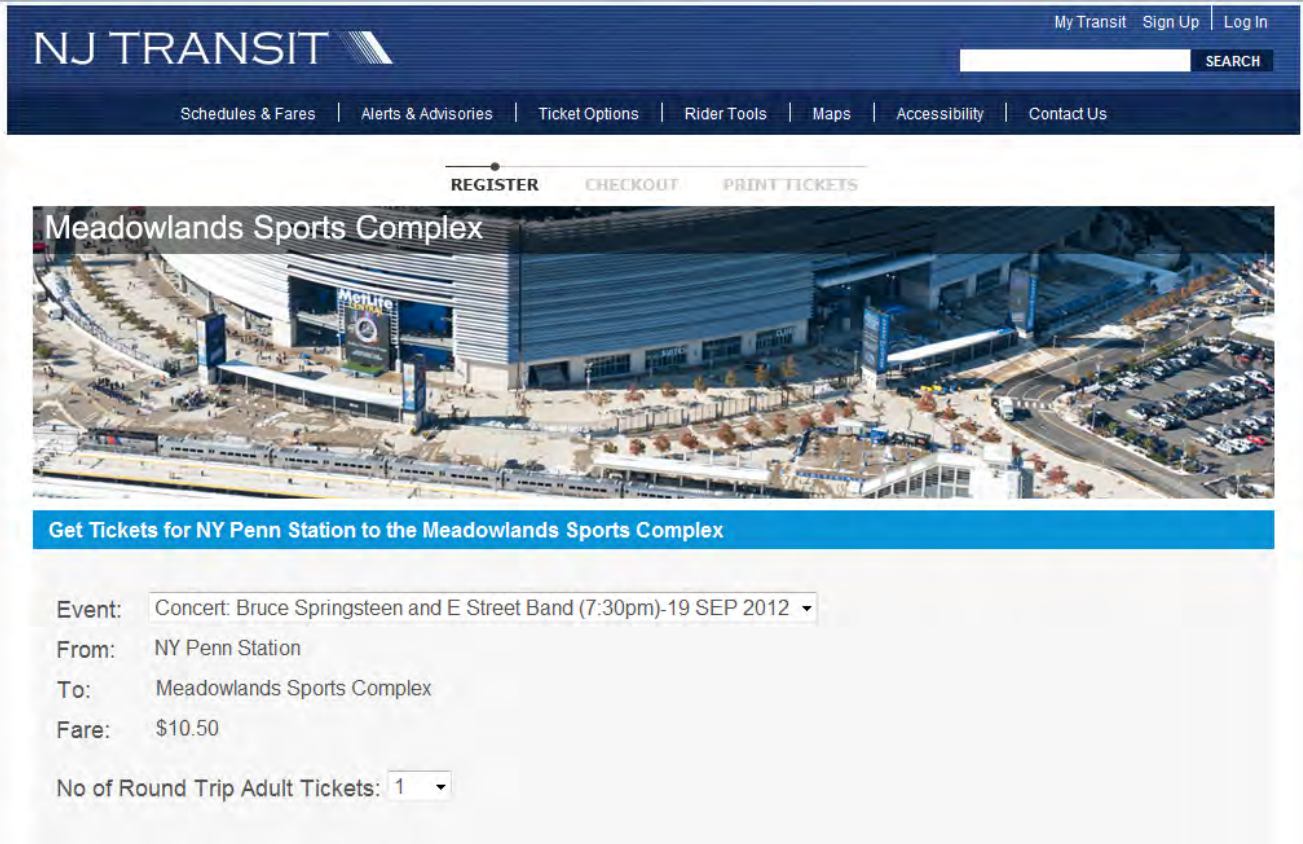
Real-time service information expanded as the Corporation's DepartureVision software began offering a real-time, train-arrival **countdown clock** for rail customers on their handheld devices and desktop computers.

NJ TRANSIT launched an **online ticket sales** pilot program in FY2012, allowing customers traveling between Penn Station New York and Meadowlands Rail Station to purchase adult round-trip tickets on [www.njtransit.com](http://www.njtransit.com), with an eye on expanding online ticket sales in FY2013.

NJ TRANSIT and Google teamed up to offer [Google Wallet](#), a first for a public transportation system. Google Wallet's contactless payment system allows rail and bus customers to use their smartphones to tap and pay for transportation tickets at select Ticket Vending Machines or on select bus routes, with an opportunity for future expansion.



NJ TRANSIT goes social with a new Facebook  
page and interactive Twitter feeds.



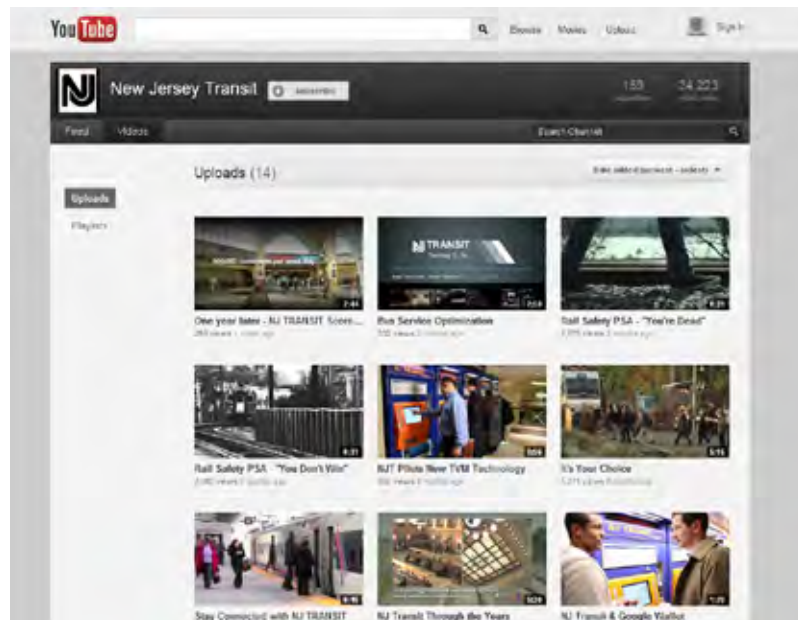
Online ticket sales debuted in FY2012 for customers traveling between New York and the Meadowlands.

NJ TRANSIT also partnered with Google to install the **Google Translate** feature on [www.njtransit.com](http://www.njtransit.com), allowing customers to translate the Corporation's website into multiple languages.

New **Bank Note Recycler** (BNR) technology was installed in a pilot program on Ticket Vending Machines (TVMs) at select locations, dispensing change in dollar bills rather than dollar coins.

**Automated public address announcements** were installed at Newark Penn Station, Summit Station and Old Bridge Park & Ride for bus and rail customers. The new system, which provides customers with clearer station announcements, is also available at Hoboken, Trenton, Newark Airport, Metropark and Secaucus, with plans to add more locations over the next year.

Coming in FY2013, a free **NJ TRANSIT App** that provides essential information for Androids or iPhones, a **mobile ticketing** option for the NJ TRANSIT App that enables customers to buy tickets directly with their smartphones and use the phone as a ticket, and MyBus **REAL TIME** bus arrival information for handheld devices.



Our YouTube page provides NJ TRANSIT customers with another social media platform.

## FY2012 HIGHLIGHTS

## SAFETY &amp; SECURITY

**RAIL SAFETY**

NJ TRANSIT, led by Board Chairman James Simpson and a host of federal and state transportation, education and law enforcement experts and organizations, developed and implemented new rail safety initiatives. Dubbed “E-cubed — engineering, enforcement and education” — the program is designed to reduce accidents and fatalities around the rail system. Among the highlights:

- Producing riveting [public service announcements](#) that feature first-hand accounts of railroad fatalities featuring family members and friends of victims, police officers and train crew members.
- Enhancing a **school safety program** where police officers and train crew members share their captivating experiences of train fatalities with high school students.
- Installing **new safety equipment at grade crossings** such as “gate skirts” and “Another Train Coming” signs to warn of approaching trains and prevent unsafe pedestrian activity.





Training exercises help NJ TRANSIT Police and emergency responders stay prepared for emergencies.

- Placing **Variable Message Signs** at targeted stations to warn people about the dangers of trespassing and potential fines.
- Conducting **high-profile police enforcement** at targeted, high-risk locations to prevent pedestrians or vehicles from ducking under or driving around crossing gates or disregarding other warning devices.

## HOMELAND SECURITY

The NJ TRANSIT Police Department received more than \$9.8 million from the **Transit Security Grant Program** in FY2012 to focus on Homeland Security, which was used for training, exercises, [public awareness campaigns](#), high-visibility police patrols and K-9 team support.

By the end of FY2012, NJ TRANSIT increased the number of its employees who received **PATRIOT Training** to approximately 5,000. The program provides in-depth anti-terror training, giving employees the ability to spot potential suspicious activity around the system.

The Police Department worked closely with other federal, state and local law enforcement and emergency responders during FY2012, sponsoring **training exercises** on the Atlantic City Rail Line, Hudson-Bergen Light Rail, Newark Light Rail, River LINE, and at several bus facilities.

NJ TRANSIT began installing **security cameras** on River LINE light rail cars, with future plans to provide security camera coverage on Hudson-Bergen Light Rail and Newark Light Rail cars.



K-9 teams, like unit leader Sgt. Cindy Garcia and her dog Sampson, patrol the NJ TRANSIT system every day.

## FY2012 HIGHLIGHTS

# FINANCIAL PERFORMANCE

NJ TRANSIT continued its focus on fiscal responsibility in FY2012, with the Board of Directors authorizing an **Operating Budget** that kept fares stable; the FY2013 Operating Budget also holds the line on fares. Prudent management of resources included implementation of a [Bus Optimization](#) plan that reduced or eliminated some routes with low ridership while reinvesting in others to better match service with demand.



Retail space at NJ TRANSIT facilities provides more customer amenities and generates additional revenue for the Corporation.



Advertising on our website (top and bottom) is another source of revenue for NJ TRANSIT.



Business partnerships with MetLife Stadium....

To protect customers and taxpayers, NJ TRANSIT continued to seek new ways to boost its non-farebox revenue. That included the introduction of **web advertising** on the Corporation's popular website and continuing to offer advertising space at facilities and onboard equipment.

NJ TRANSIT offered **new retail opportunities** that increased revenues and offered more amenities for customers. They included opening a new 3000-square-foot McDonalds/McCafe at Trenton Transit Center and refurbishing a 3,800-square-foot food court at Hoboken Terminal that will feature Tim Hortons, Manchu Wok, Sbarro and Subway.



...and Google Wallet help our bottom line and enhance the customer experience.

## FY2012 HIGHLIGHTS

# CORPORATE ACCOUNTABILITY

Demonstrating its commitment to customers and taxpayers, the Corporation launched a crackdown on the production, distribution and use of **counterfeit tickets**. In addition to increased enforcement, NJ TRANSIT has invested in new ticket stock and UV scanners to help detect fraudulent activity.

NJ TRANSIT, Rutgers University, the North Jersey Transportation Planning Authority (NJTPA) and other government and non-profit partners were awarded a three-year, \$5 million **Sustainable Communities planning grant** in FY2012 from the U.S. Department of Housing and Urban Development (HUD). The funds will be used to create a regional plan for sustainable transit-oriented development (TOD) for North Jersey, which encompasses 13 counties, Jersey City, Elizabeth, Paterson, New Brunswick and Newark. Three Local Demonstration Projects have already been launched along rail and/or bus corridors in Essex, Monmouth and Hunterdon/Somerset counties. This unique undertaking is supported by Governor Chris Christie, Lt. Governor Kim Guadagno and the Office of Planning Advocacy.



A new dual-mode locomotive enters Hoboken Terminal.



Solar power has been installed at the Meadows Maintenance Complex, our largest rail maintenance facility.

Following up on an earlier TOD study, NJ TRANSIT and the NJTPA worked with Union County on a pedestrian safety and “walkability” audit of **Downtown Garwood**. In addition, the Borough updated zoning on key brownfield parcels near Garwood Station so that TOD and commuter parking could be allowed and encouraged. NJ TRANSIT continues to partner with the Borough, the County and NJTPA to implement recommendations from the earlier study.

NJ TRANSIT’s Transit-Friendly Planning team provided critical input on several Federal Transportation Investment Generating Economic Recovery (TIGER) grant applications. As a result, we were successful in obtaining TIGER funds for a portion of the **Elizabeth Rail Station Rehabilitation Project** cost.

NJ TRANSIT’s Transit-Friendly Planning team is analyzing market potential and redevelopment within adjoining neighborhoods **in East Orange and Newark** that are served by NJ TRANSIT bus routes and Newark Light Rail.

NJ TRANSIT will also be working with **Dunellen** and **East Orange** in FY2013, which were both recently designated Transit Villages by the New Jersey Department of Transportation. The program provides participating towns with planning expertise and grant opportunities to redevelop land near train or other transit facilities in a way that promotes economic activity and the use of public transportation.

A **solar generating system** was installed at the Meadows Maintenance Complex in Kearny, reducing annual electric costs by an estimated \$80,000 per year.

NJ TRANSIT purchased electricity and natural gas in **competitive supply markets** during the fiscal year, saving an estimated \$3 million annually.



Keeping our system in a state-of-good-repair improves service reliability and on-time performance.

More energy-efficient **air compressor systems** were installed at the Meadows Maintenance Complex, Newark Bus Complex, Greenville Garage and Meadowlands Garage, helping to reduce energy costs.

Fleet modernization is having a positive impact on the environment. New **ALP-45 dual-mode locomotives** can flex between diesel and electric power (reducing fuel costs and emissions), **NABI transit and suburban buses** reduce NOx emissions by 90 percent and particulate matter emissions by 80 percent compared to the buses they are replacing, and new **Compressed Natural Gas (CNG) cruiser buses** that will replace older CNG buses.

NJ TRANSIT ALP-45 and ALP-46 locomotives and Newark Light Rail and Hudson-Bergen Light Rail electric light rail cars are equipped with **regenerative braking systems** that generate electric and reduce energy consumption and costs.

## STATE-OF-GOOD-REPAIR

NJ TRANSIT completed several **in-house projects**, including station repairs, repainting, roofing, flooring, lighting, landscaping and/or other upgrades at Edison, Elberon, Fanwood, Gladstone, Hamilton, High Bridge, Lebanon, Lyndhurst, Madison, Metuchen, Middletown, Mountain Avenue, North Elizabeth, Plainfield, Elizabeth, Cranford, Red Bank, Radburn, South Amboy, South Orange, Summit and Westfield rail stations and Atlantic City Bus Terminal.

NJ TRANSIT advanced its **Arrow III reliability project**, which will improve the performance of 170 Arrow III railcars built in 1973 and overhauled in 1993. The project involves the overhaul of several systems that are safety and performance critical, with the goal of extending their service life an additional 5-7 years.

The NJ TRANSIT rail and light rail systems took care of ongoing state-of-good-repair **rail maintenance work**, including replacement of rail, railroad ties, bridge work and/or other track work to maintain a high level of service reliability.

A station **replacement and modernization project** got underway to upgrade platforms, walkways, stairs and lighting at several Hudson-Bergen Light Rail stations.



Mountain Avenue Station on the Montclair-Boonton Line received a facelift...



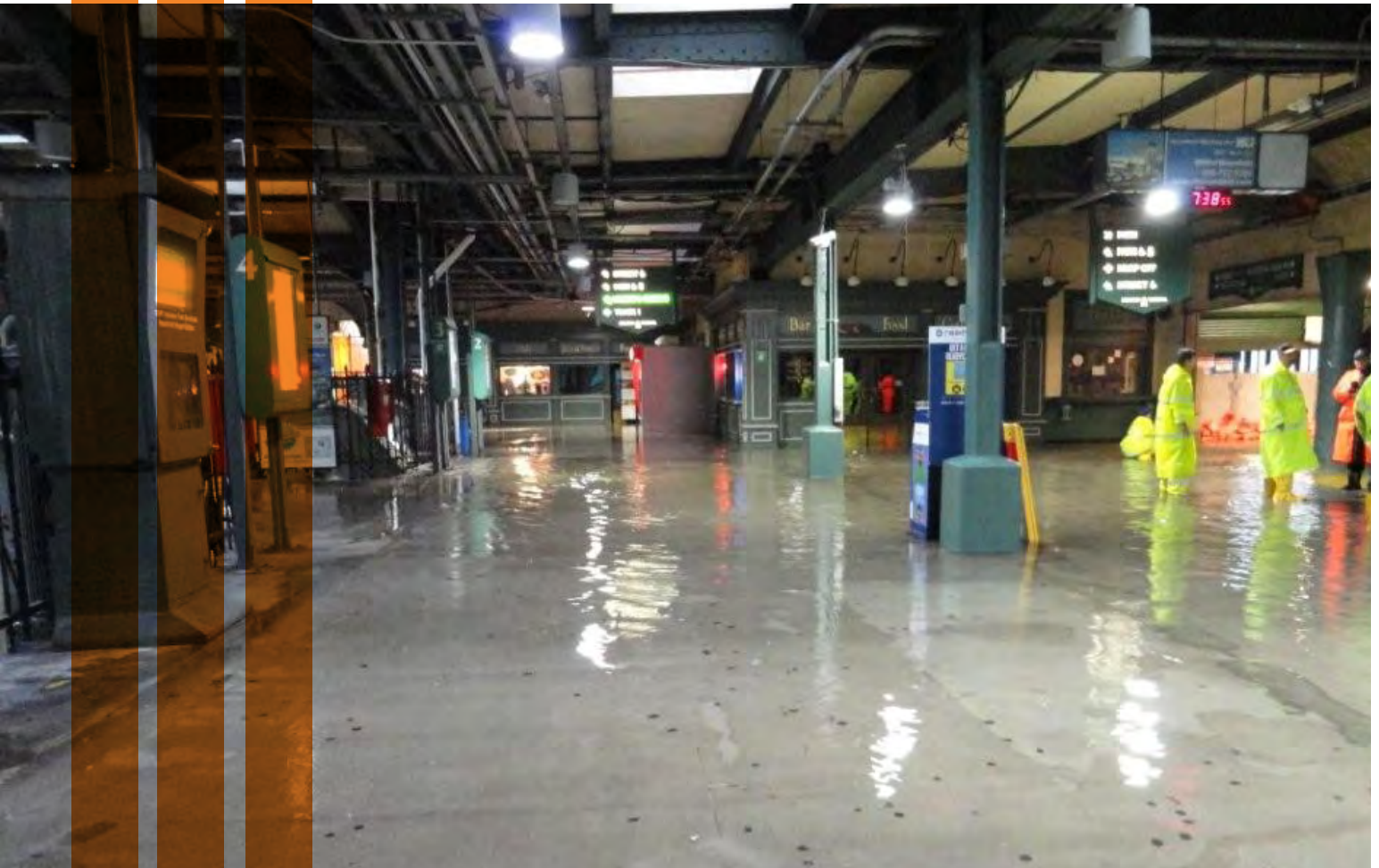
...a state-of-good-repair project led by NJ TRANSIT employees.

## FY2012 HIGHLIGHTS

# EMPLOYEE EXCELLENCE

The fiscal year had a stormy start in August and October 2011, as a **hurricane and a nor'easter** battered New Jersey, but NJ TRANSIT employees rose to the challenge.

In advance of Hurricane Irene, NJ TRANSIT worked with the New Jersey Office of Emergency Management to coordinate the state's storm response, including a planned service suspension ahead of the storm to protect customers and employees, and the movement of trains and buses from low-lying areas to higher ground. NJ TRANSIT buses and Access Link vehicles also were used to assist with the largest coastal evacuation in New Jersey history.



Employees worked around the clock to restore service following the aftermath of Hurricane Irene in August 2011. Here, Hoboken Terminal flooded during the storm.



A freak snowstorm in October 2011 caused extensive damage to more than 50 miles of railroad infrastructure, particularly on the Morris & Essex Lines.

Unrelenting rain from Hurricane Irene devastated the entire state. More than 300 trees fell across overhead power lines and railroad tracks. Floodwaters filled train stations and bus facilities, and caused major washouts of railroad beds. Thanks to a dedicated workforce, the NJ TRANSIT system was up and running again just 36 hours after the end of the hurricane.

Less than two months later, New Jersey was hit by a nor'easter snowstorm that caused massive power outages around the state. NJ TRANSIT's Morris & Essex and Montclair-Boonton Lines were hardest hit, with more than 100 trees falling across 50 miles of tracks and overhead wires. NJ TRANSIT accommodated customers on these rail lines with other rail and bus service while repairs were made. NJ TRANSIT employees successfully restored service on all lines in less than three days.



NJ TRANSIT teamed up with emergency responders and volunteer organizations to help evacuate residents ahead of Hurricane Irene.



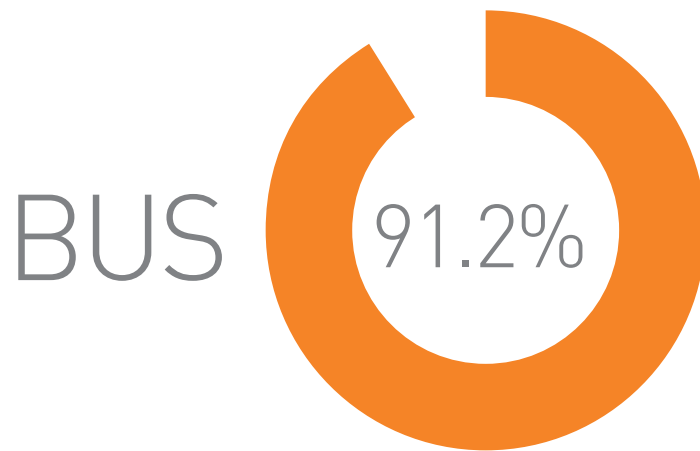
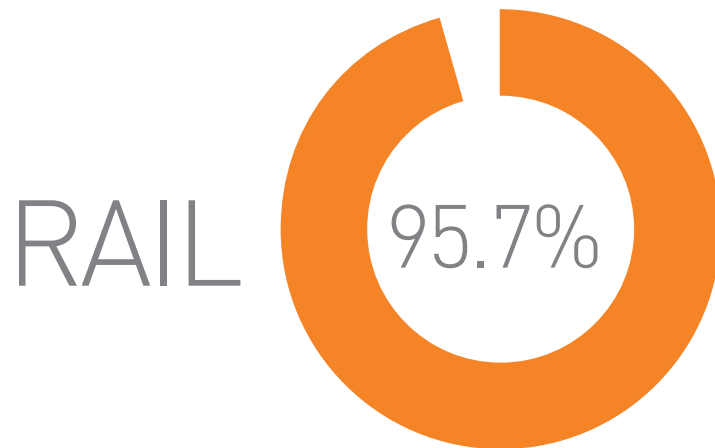
Large portions of railroad beds were washed out during Hurricane Irene.

# NJ TRANSIT **FY2012** ON-TIME



# PERFORMANCE BY MODE

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# RAIL



# METHODOLOGY

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 FY2012 On-time Performance by Rail Line

Atlantic City	96.1%
Main-Bergen County	97.8%
Montclair-Boonton	95.7%
Morris & Essex	94.5%
North Jersey Coast	95.1%
Northeast Corridor	93.1%
Pascack Valley	98.2%
Raritan Valley	97.4%

# LIGHT



# RAIL METHODOLOGY

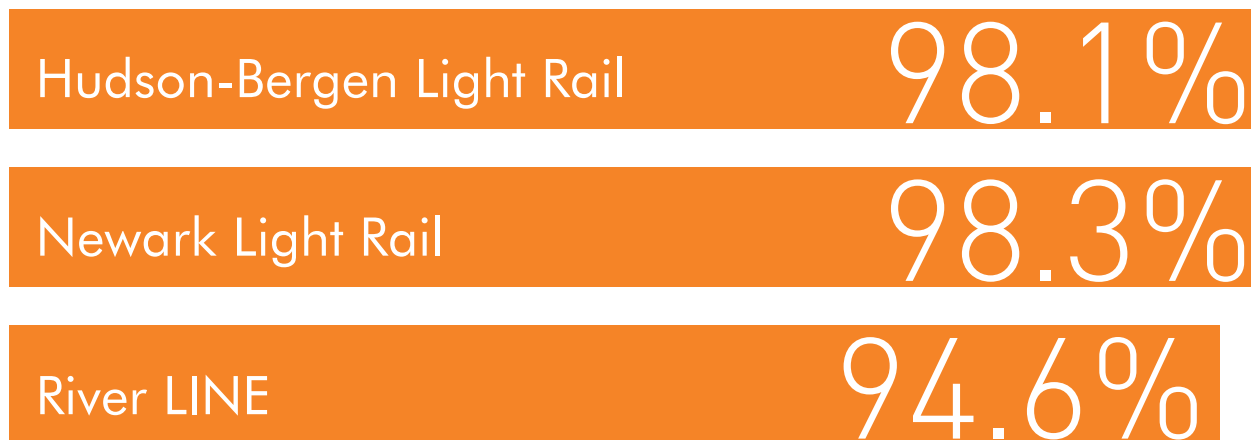
NJ TRANSIT monitors on-time performance using information management systems in its control centers. Train departure and arrival times are automatically tracked by computer systems that compare terminal departure and arrival times to the times posted in the public timetable.

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 FY2012 On-time Performance by Light Rail





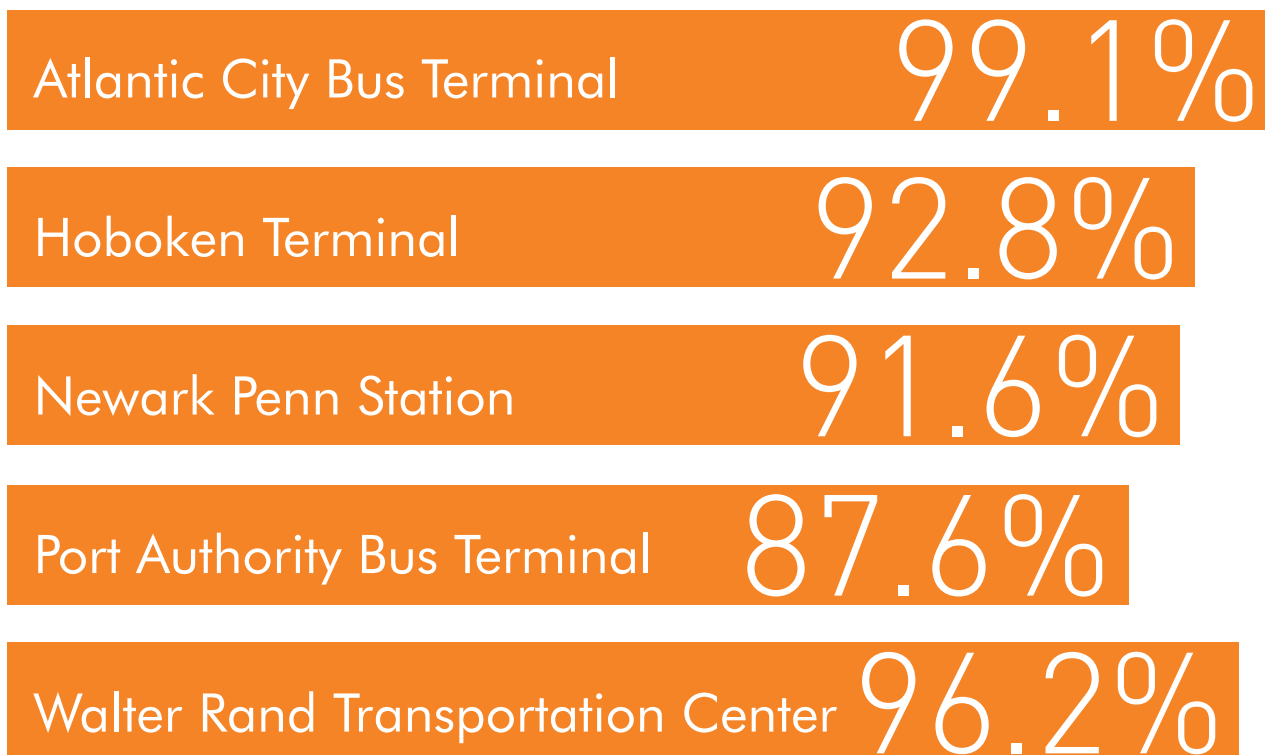
# METHODOLOGY

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 9 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 FY2012 On-time Performance by Bus



# NJ TRANSIT **FY2012**

## BOARD OF DIRECTORS



**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.



**BRUCE M. MEISEL**  
Vice Chairman

Bruce M. Meisel is President and Chief Executive Officer of Pascack Community Bank. He previously served as Chairman of the Board of Directors of Pascack Community Bank from 2002 through 2007. Prior to 2007, Bruce was a practicing

attorney concentrating in commercial, real estate and land use law.

Bruce was the founding attorney of the Westwood Parking Authority, and the founding managing member of First Westwood Realty, LLC and Jefferson Realty Group, LLC, both of which own, develop and manage commercial real estate in northern New Jersey. He received a B.A. from American University and a juris doctor degree from Cornell Law School. He served a judicial clerkship with the New Jersey Supreme Court in 1973-1974.



**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.



**REGINA M. EGEE**  
Governor's Representative

Regina M. Egea serves as the Director of the Authorities Unit under Governor Chris Christie. Prior to that, Regina was Chief of Staff to the State Treasurer. Her responsibilities included general management of all Treasury operations, including playing a lead role in developing and implementing the historic pension and benefit reforms that Governor Christie signed into law in June 2011. Before joining state government in February 2010, Regina was a Senior Vice President at AT&T where she led its global sales segment marketing team. Regina also led other AT&T teams, including business strategy development, product management, core Network Operations, Human Resources leadership and executive succession planning. In local government, Regina served as a Harding Township Committee member — including two years as Deputy Mayor — and as a Harding Board of Education member.

Regina earned an M.B.A. in Marketing from Fordham University and a B.A. from Montclair State University. She also completed the International Executive Program at the International Institute for Management Development in Lausanne, Switzerland.



**MYRON P. SHEVELL**

Myron P. Shevell was appointed to the Board of Directors in May 1995. He is Chairman of the Board and Chief Executive Officer 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.

Myron "Mike" Shevell earned an Associate's Degree from George Washington University and a Bachelor's Degree from New York University.



**FLORA M. CASTILLO**

Flora M. Castillo has served on the Board since 1999. She is Vice President of Corporate Public Relations at AmeriHealth Mercy, one of the nation's leaders in healthcare solutions for the underserved. The company is among the largest organizations of Medicaid managed care plans and related businesses in the United States headquartered in Philadelphia.

She serves on the boards of the American Public Transportation Association (APTA), American Public Transportation Foundation, and the Alan M. Voorhees Transportation Center Advisory Board at Rutgers University. Flora is a founding member of the New Jersey chapter of COMTO and serves as a board member. She is the incoming Chair of (APTA). Flora also is a member of the board for the National Urban Fellows, Greater Philadelphia Health Action and Latinas United for Political Empowerment.



**JAMES C. "JAMIE" FINKLE**

James C. "Jamie" Finkle is a New Jersey attorney, currently serving as General Counsel for several New Jersey corporations. Jamie clerked for the Honorable Richard M. Freid J.S.C. in both Essex County and Passaic County, New Jersey. After completing his clerkship, Jamie joined CBF Trucking Inc., in Ocean, New Jersey, as General Counsel. He has handled a variety of logistics-related matters for CBF Trucking Inc., including, but not limited to, government contracts, compliance with State and Federal regulations and all employee-related matters.

Jamie also serves as General Counsel for Jamie's Cigar Bar, Allwood Realty and Transport Leasing. Mr. Finkle graduated from Gettysburg College with a B.A. in Political Science, and obtained his juris doctor degree from Seton Hall University School of Law.

**NICOLE CRIFO**  
Governor's Alternate Representative

**STEVEN PETRECCA**  
Treasurer's Representative

**NJ TRANSIT****ADVISORY COMMITTEES**

To assure citizen representation, two transit advisory committees — one serving North Jersey and another South Jersey — regularly advise the Board of Directors on customers' 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**  
**ROBERT DAZLICH**  
**RICHARD D. GAUGHAN**  
**CALVIN O. ISZARD JR.**  
**DANIEL KELLY**  
**JEFFREY MARINOFF**  
**VAL ORSINMARSI**  
**DOMINICK PAGLIONE**

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

**PRIVATE CARRIER ADVISORY  
COMMITTEE**

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

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. SAL PIZZURO**  
**BARBARA SMALL**  
**BILL SMITH**  
**JIM THEBERRY**  
**MARIANNE VALLS**  
**INA WHITE**

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

**LOCAL PROGRAMS CITIZENS  
ADVISORY COMMITTEE**

**SAM PODEITZ, CHAIR**  
**MARYANN MATTHEWS-MASON, 1ST VICE CHAIR**  
**LOUISE DANCE, 2ND VICE CHAIR**  
**DAVID PETER ALAN**  
**RICHARD BARTELLO**  
**DON BRAUCKMANN SR.**  
**TONY HALL**  
**GARY JOHNSON**  
**JOHN MCGILL**  
**STEPHEN THORPE**  
**MARIANNE VALLS**  
**MARGARET VAS**  
**MICHAEL VIEIRA**  
**WILLIAM R. WRIGHT**

## NJ TRANSIT

# EXECUTIVE MANAGEMENT TEAM

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**PENNY BASSETT HACKETT**

ACTING ASSISTANT EXECUTIVE DIRECTOR,  
COMMUNICATIONS & CUSTOMER SERVICE

**JOYCE GALLAGHER**

VICE PRESIDENT/GENERAL MANAGER,  
BUS OPERATIONS

**JACQUELINE HALLDOW**

CHIEF OF STAFF

**WARREN HERSH**

AUDITOR GENERAL

**MICHAEL LIHVARCIK**

ACTING CHIEF FINANCIAL OFFICER/  
TREASURER

**KEVIN O'CONNOR**

VICE PRESIDENT/GENERAL MANAGER,  
RAIL OPERATIONS

**CARLOS RAMIREZ**

ASSISTANT EXECUTIVE DIRECTOR,  
CORPORATE AFFAIRS

**LEOTIS SANDERS**

VICE PRESIDENT, CIVIL RIGHTS  
& DIVERSITY PROGRAMS

**STEVEN SANTORO**

ASSISTANT EXECUTIVE DIRECTOR,  
CAPITAL PLANNING & PROGRAMS

**ALMA SCOTT-BUCZAK**

ASSISTANT EXECUTIVE DIRECTOR,  
HUMAN RESOURCES

**CHRISTOPHER TRUCILLO**

CHIEF OF POLICE

**KENNETH WORTON**

DEPUTY ATTORNEY GENERAL

**PAUL WYCKOFF**

CHIEF, GOVERNMENT  
& EXTERNAL AFFAIRS

**JOYCE ZUCZEK**

ACTING BOARD SECRETARY



One Penn Plaza East  
Newark, New Jersey 07105-2246  
[www.njtransit.com](http://www.njtransit.com)





**NJ TRANSIT**  
FISCAL YEAR 2012  
CONSOLIDATED FINANCIAL STATEMENTS



**1 REPORT OF INDEPENDENT AUDITORS**

**2 MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL STATEMENTS:**

- 11** Consolidated Statements of Net Position as of June 30, 2012 and 2011
- 12** Consolidated Statements of Revenues, Expenses and Changes in Net Position for the Years Ended June 30, 2012 and 2011
- 13** Consolidated Statements of Cash Flows for the Years Ended June 30, 2012 and 2011
- 15** Notes to Consolidated Financial Statements
- 38** **REQUIRED SUPPLEMENTARY INFORMATION**



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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, 2012 and 2011, 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, 2012 and 2011, 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, the Corporation adopted Government Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities* as of July 1, 2011.

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis and the Schedule of Funding Progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Ernst + Young LLP*

October 3, 2012

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 years ended June 30, 2012 and 2011 with selected comparative information 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.

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.

In fiscal year 2012, NJ TRANSIT adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63). As a result of GASB No. 63 implementation, the statement of net assets has been replaced by the statement of net position in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. Net position is displayed in three components – net investment in capital assets, restricted, and unrestricted. In addition, the term "net assets" is changed to "net position" throughout the financial statements.

In fiscal year 2012, NJ TRANSIT also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain

items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of GASB No. 65 implementation, certain reclassifications have been made to comply with the new concepts of deferred inflows and outflows. Specifically, a portion of Notes Payable was reclassified to deferred outflows of resources for the amount of unamortized cost resulting from refunding of debt (see Note 10 and 16).

A further discussion of these new pronouncements is located in the Notes to the Financial Statements.

The **Consolidated Statements of Net Position** report NJ TRANSIT's net position and the changes thereto. Net position, the difference between NJ TRANSIT's assets, deferred outflows or inflows of resources 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 Net Position** show NJ TRANSIT's operating results and how its net position changed during the fiscal year. All revenues, expenses and changes in net position 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 2012

- Total operating revenues for NJ TRANSIT were \$960.3 million in fiscal year 2012, an increase of \$18.9 million, or 2.0 percent compared to the prior fiscal year. Passenger revenue increased \$18.6 million, or 2.1 percent. Ridership gains of 3.9 percent resulted mainly from employment growth in the region. As of June 2012, the regional economy saw twenty-two months of employment gains, at a growth rate of 1.3 percent. The effect of toll increases also positively impacted ridership as toll hikes for the Port Authority, NJ Turnpike and Garden State Parkway encouraged some drivers to switch to mass transit. Other operating revenues, net increased \$0.3 million, or 0.4 percent.
- Total operating expenses before depreciation were \$1,924.1 million in fiscal year 2012, an increase of \$49.1 million or 2.6 percent, above the prior fiscal year. Increases in labor, parts, materials and supplies, fuel and propulsion, trackage, tolls and fees and other expenses were partially offset by a decrease in fringe benefits expenses, utilities, and purchased transportation.
- Total net position at June 30, 2012 was \$5,320.4 million, a decrease of \$57.2 million, or 1.1 percent below total net position at June 30, 2011.
- Total capital assets (net of depreciation) were \$7,397.7 million at June 30, 2012, a net decrease of \$148.0 million, or 2.0 percent, below the previous fiscal year. The decrease in total capital assets is primarily the result of current year's depreciation more than offsetting the additions to capital assets.
- NJ TRANSIT incurred \$29.8 million in costs in fiscal year 2012 for construction projects that were completed in order to close out the Access to the Regions Core (ARC) project that was canceled in 2010. See below for further discussion.

## FINANCIAL HIGHLIGHTS – FISCAL YEAR 2011

- Total operating revenues for NJ TRANSIT were \$941.4 million in fiscal year 2011, an increase of \$103.4 million, or 12.3 percent compared to the prior fiscal year. Passenger revenue increased \$104.8 million, or 13.7 percent, reflecting a system-wide fare increase averaging 22.0 percent which was implemented May 1, 2010. Other operating revenues, net decreased \$1.4 million, or 1.9 percent.
- Total operating expenses before depreciation were \$1,875.0 million in fiscal year 2011, an increase of \$56.1 million or 3.1 percent, above the prior fiscal year. This increase was principally related to increases in fringe benefit expenses and higher costs for fuel and propulsion.
- Total net position at June 30, 2011 was \$5,377.6 million, a decrease of \$285.5 million, or 5.0 percent below total net position at June 30, 2010.
- Total capital assets (net of depreciation) were \$7,545.7 million at June 30, 2011, a net decrease of \$275.8 million, or 3.5 percent, below the previous fiscal year. The decrease in total capital assets is primarily the result of a decrease in capital projects in process, directly related to the write-down of assets previously capitalized for the ARC project (Table A-4).
- The ARC project was cancelled in October 2010 due to concerns over projected cost overruns. Upon cancellation of the ARC project, the Federal Transit Administration (FTA), which had funded a portion of the cost of this project, demanded repayment of \$271.1 million of Federal funds that had been expended as of October 2010. On September 30, 2011, a settlement was agreed upon whereby NJ TRANSIT is liable to repay \$95 million in five annual payments of \$19 million. NJ TRANSIT has recorded this liability as of June 30, 2011. In accordance with GAAP, NJ TRANSIT has also recorded a "Special Item" in the Consolidated Statement of Revenues, Expenses and Changes in Net Position, in the amount of \$297.4 million, which represents the write-down of certain assets that were previously capitalized related to the ARC project. These assets are considered to be impaired due to the discontinuance of this project, under the provision of construction stoppage.

## FINANCIAL ANALYSIS NET POSITION

NJ TRANSIT's total net position at June 30, 2012, was \$5,320.4 million, a decrease of \$57.2 million, or 1.1 percent, from June 30, 2011 (Table A-1). Total assets decreased \$484.3 million, or 4.9 percent, and deferred

outflows of resources from unamortized debt refunding decreased by \$4.3 million, or 28.7 percent. Total liabilities decreased \$431.4 million, or 9.7 percent.

NJ TRANSIT's total net position at June 30, 2011, was \$5,377.6 million, a decrease of \$285.5 million, or 5.0 percent, from June 30, 2010 (Table A-1). Total assets decreased \$201.8 million, or 2.0 percent, and deferred outflows of resources from unamortized debt refunding decreased by \$4.5 million, or 23.1 percent. Total liabilities increased \$79.2 million, or 1.8 percent.

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

	AS OF JUNE 30,			% INC/(DEC)	
	2012	2011	2010	2012/2011	2011/2010
Current assets	\$527.8	\$709.6	\$473.8	(25.6)	49.8
Restricted assets	1,402.5	1,555.7	1,717.2	(9.8)	(9.4)
Capital assets, net	7,397.7	7,545.7	7,821.5	(2.0)	(3.5)
Other assets	4.6	5.9	6.2	(22.0)	(4.8)
<b>TOTAL ASSETS</b>	<b><u>9,332.6</u></b>	<b><u>9,816.9</u></b>	<b><u>10,018.7</u></b>	<b><u>(4.9)</u></b>	<b><u>(2.0)</u></b>
Refunding of debt	10.7	15.0	19.5	(28.7)	(23.1)
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>	<b><u>10.7</u></b>	<b><u>15.0</u></b>	<b><u>19.5</u></b>	<b><u>(28.7)</u></b>	<b><u>(23.1)</u></b>
Other current liabilities	691.4	832.3	644.6	(16.9)	29.1
Notes payable	1,631.8	1,838.9	2,038.0	(11.3)	(9.8)
Net OPEB obligation	294.7	247.3	200.3	19.2	23.5
Long-term debt	1,192.2	1,291.9	1,336.1	(7.7)	(3.3)
Unearned revenue and other non-current liabilities	212.8	243.9	156.1	(12.8)	56.2
<b>TOTAL LIABILITIES</b>	<b><u>4,022.9</u></b>	<b><u>4,454.3</u></b>	<b><u>4,375.1</u></b>	<b><u>(9.7)</u></b>	<b><u>1.8</u></b>
Net investment in capital assets	5,662.3	5,665.2	5,923.6	(0.1)	(4.4)
Restricted for capital projects	5.0	3.9	2.7	28.2	44.4
Unrestricted (deficit)	(346.9)	(291.5)	(263.2)	19.0	10.8
<b>TOTAL NET POSITION</b>	<b><u>\$5,320.4</u></b>	<b><u>\$5,377.6</u></b>	<b><u>\$5,663.1</u></b>	<b><u>(1.1)</u></b>	<b><u>(5.0)</u></b>

**FISCAL YEAR 2012**

The 25.6 percent decrease in current assets in fiscal year 2012 reflects a decrease in cash and cash equivalents, as well as decreases in accounts receivables due from the Federal Government and the State of New Jersey. The decrease in cash and cash equivalents results from the associated decrease in liabilities, as payments for obligations were made. Accounts receivable decreased mainly as the result of timing of receipt of federal funds. Restricted assets decreased 9.8 percent as a result of payments for the acquisition of rolling stock and service improvements and expansion. Of the \$7,397.7 million in capital assets, net, \$1,003.4 million represents construction in progress; \$6,027.7 million represents NJ TRANSIT's investment in buildings, structures, track, locomotives, railcars and buses, net of depreciation; and \$366.6 million represents land and other capital assets.

The 16.9 percent decrease in other current liabilities was the result of repayments of insurance premiums recovered related to the ARC project as well as a decrease in advances on capital projects. Accounts payable and accrued payroll and benefits also decreased from last year.

The 19.2 percent increase in postemployment benefits reflects the fiscal year 2012 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The 12.8 percent decrease in unearned revenue and other non-current liabilities was the result of payment of the first \$19 million installment under the FTA ARC settlement agreement, as well as decreases in

Federal Employee Liability Act and third-party claim reserves reflecting NJ TRANSIT's safety record and claims experience.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

## FISCAL YEAR 2011

The 49.8 percent increase in current assets in fiscal year 2011 reflects an increase in cash and cash equivalents, as well as increases in accounts receivables due from the State of New Jersey and the Federal Government. Restricted assets decreased 9.4 percent as a result of payments for the acquisition of rolling stock and service improvements and expansion. Of the \$7,545.7 million in capital assets, net, \$1,004.5 million represents construction in progress; \$6,179.2 million represents NJ TRANSIT's investment in buildings, structures, track, locomotives, railcars and buses, net of depreciation; and \$362.0 million represents land and other capital assets.

The 29.1 percent increase in other current liabilities was the result of recording a payable due to the FTA for repayment of federal funds expended by NJ TRANSIT for the ARC project, as well as funds that were advanced by the State for other capital projects. Expenditures for these projects have not yet been incurred.

The 23.5 percent increase in postemployment benefits reflects the fiscal year 2011 incremental increase under

The 56.2 percent increase in unearned revenue and other non-current liabilities was the result of recording a payable due to the FTA over the next four years for repayment of federal funds expended by NJ TRANSIT for the ARC tunnel project per the September 30, 2011 good-faith settlement agreement with the FTA.

## CHANGES IN NET POSITION

Changes in net position reflect the current year's results of operations combined with non-operating revenue and expenses, capital contributions and special items. The decrease in net position in fiscal year 2012 was \$57.2 million (Table A-2). For fiscal year 2012, expenses, inclusive of special items, outpaced revenues. This is primarily the result of the incremental cost of other postemployment benefits and the special item for costs related to the ARC close out.

The decrease in net position in fiscal year 2011 was \$285.5 million and was primarily due to the special items recorded for the cancelation of the ARC project, including the recording of the FTA settlement expense as well as the loss on impairment of ARC assets.

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

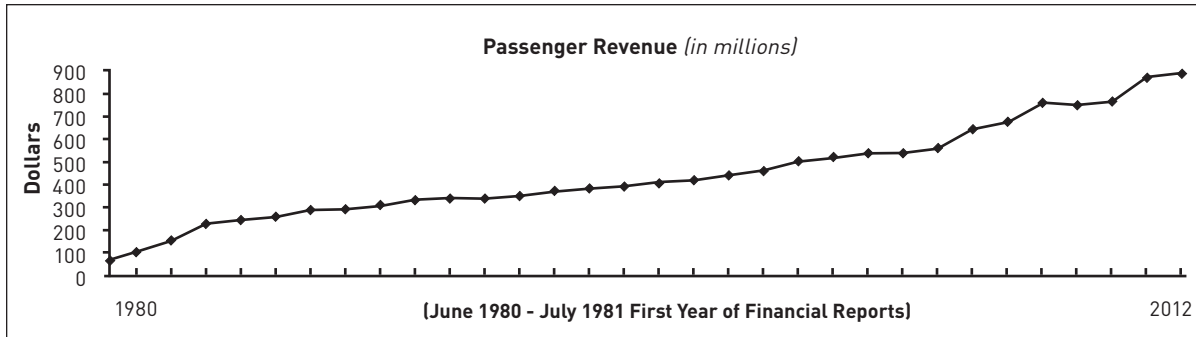
	YEARS ENDED JUNE 30,			% INC/(DEC)	
	2012	2011	2010	2012/2011	2011/2010
<b>Operating Revenues</b>					
Passenger fares	\$889.2	\$870.6	\$765.8	2.1	13.7
Other, net	71.1	70.8	72.2	0.4	(1.9)
<b>Total Operating Revenues</b>	<b>960.3</b>	<b>941.4</b>	<b>838.0</b>	<b>2.0</b>	<b>12.3</b>
<b>Operating Expenses</b>					
Total operating expenses before depreciation	1,924.1	1,875.0	1,818.9	2.6	3.1
Depreciation	512.1	525.8	502.9	(2.6)	4.6
<b>Total Operating Expenses</b>	<b>2,436.2</b>	<b>2,400.8</b>	<b>2,321.8</b>	<b>1.5</b>	<b>3.4</b>
<b>Operating Loss</b>	<b>(1,475.9)</b>	<b>(1,459.4)</b>	<b>(1,483.8)</b>	<b>1.1</b>	<b>(1.6)</b>
Non-operating revenues, net	950.5	991.0	966.2	(4.1)	2.6
Special items	(29.8)	(392.4)	—	(92.4)	—
Capital contributions, net	498.0	575.3	801.4	(13.4)	(28.2)
<b>Change in Net Position</b>	<b>(57.2)</b>	<b>(285.5)</b>	<b>283.8</b>	<b>(80.0)</b>	<b>—</b>
<b>Total Net Position, Beginning</b>	<b>5,377.6</b>	<b>5,663.1</b>	<b>5,379.3</b>	<b>(5.0)</b>	<b>5.3</b>
<b>Total Net Position, Ending</b>	<b>\$5,320.4</b>	<b>\$5,377.6</b>	<b>\$5,663.1</b>	<b>(1.1)</b>	<b>(5.0)</b>

## OPERATING REVENUES

Operating revenues are composed of passenger fares and other operating revenues, net of a bad debt allowance.

## PASSENGER FARE REVENUES

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



Total passenger revenue for fiscal year 2012 increased \$18.6 million or 2.1 percent reflecting a system-wide increase in ridership of 3.9 percent. Ridership increased from fiscal year 2011 to fiscal 2012 due mainly to employment growth in the region. Port Authority, NJ Turnpike and Garden State Parkway toll increases also positively impacted ridership. Rail passenger revenue for fiscal year 2012 increased \$12.3 million, or 2.5 percent, with ridership increasing by 2.6 million passenger trips, or 3.3 percent. Bus passenger revenue increased \$8.2 million, or 2.3 percent, with ridership increasing by 6.1 million passenger trips, or 3.9 percent. Passenger revenues for Light Rail, which include Newark Light Rail, Hudson-Bergen Light Rail and River LINE revenues, increased \$0.5 million, or 2.4 percent, with ridership increasing by 1.1 million passenger trips, or 5.3 percent.

Total passenger revenue for fiscal year 2011 increased \$104.8 million or 13.7 percent reflecting a system-wide fare increase averaging 22.0 percent which went into effect on May 1, 2010. Rail passenger revenue for fiscal year 2011 increased \$70.2 million, or 16.7 percent, while ridership decreased by 2.6 million passenger trips, or 3.2 percent. Bus passenger revenue increased \$34.7 million, or 11.0 percent, while ridership decreased by 5.9 million passenger trips, or 3.7 percent. Passenger revenues for Light Rail, which include Newark Light Rail, Hudson-Bergen Light Rail and River LINE revenues, increased \$1.5 million, or 6.9 percent, while ridership decreased by 0.6 million passenger trips, or 2.8 percent.

**TABLE A-3**  
**RIDERSHIP** (in millions)

	FY12	FY11	FY10	% INC/(DEC)	
				2012/2011	2011/2010
<b>Rail Lines</b>					
Newark Division	50.0	48.6	51.0	2.9	(4.7)
Hoboken Division	29.4	28.2	28.3	4.3	(0.4)
Atlantic City	1.0	1.0	1.1	—	(9.1)
<b>Total</b>	<b>80.4</b>	<b>77.8</b>	<b>80.4</b>	<b>3.3</b>	<b>(3.2)</b>
<b>Bus Lines</b>					
Northern Division	68.7	65.8	67.9	4.4	(3.1)
Central Division	68.5	66.0	68.9	3.8	(4.2)
Southern Division	24.2	23.5	24.4	3.0	(3.7)
<b>Total</b>	<b>161.4</b>	<b>155.3</b>	<b>161.2</b>	<b>3.9</b>	<b>(3.7)</b>
<b>Light Rail Lines</b>					
Newark Light Rail	5.7	5.5	5.7	3.6	(3.5)
Hudson-Bergen Light Rail	13.3	12.4	12.8	7.3	(3.1)
River LINE	2.8	2.8	2.8	—	—
<b>Total</b>	<b>21.8</b>	<b>20.7</b>	<b>21.3</b>	<b>5.3</b>	<b>(2.8)</b>
<b>Total Ridership</b>	<b>263.6</b>	<b>253.8</b>	<b>262.9</b>	<b>3.9</b>	<b>(3.5)</b>

## FISCAL YEAR 2012

### OTHER OPERATING REVENUES

Other operating revenues, net consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue and are net of a bad debt allowance. There was a slight increase in other operating revenues of \$0.3 million, or 0.4 percent.

### OPERATING EXPENSES

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

### EMPLOYMENT COSTS

Employment costs consisting of labor and related fringe benefit expenses represent over 57.0 percent of NJ TRANSIT's total operating costs. These costs include 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.

During fiscal year 2012, labor costs increased \$7.0 million, or 1.2 percent, while fringe benefits decreased \$18.3 million, or 3.6 percent from fiscal year 2011. All contracts pertaining to agreement employees are currently expired. Wages for non-agreement employees continue to be frozen. The increase in labor costs was primarily attributed to filling vacancies that were open in fiscal year 2011. The decrease in fringe benefits was associated with an adjustment for pension costs. Fringe benefits expense for fiscal year 2012 includes the incremental costs for 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 \$24.5 million, or 16.2 percent, due to an increase in the consumption of parts and materials during fiscal year 2012 utilized for repairs and rehabilitation of NJ TRANSIT's revenue vehicles, as well as an adjustment for obsolete inventory. There was also an increase in materials charged to various reimbursable project activities.

Services expense increased \$6.7 million, or 6.2 percent, reflecting increased contracted service costs associated with various reimbursable project activities.

Fuel and propulsion expenses increased \$15.5 million, or 10.6 percent. Fuel expenses increased \$19.2 million, or 19.3 percent, as a result of a \$0.56 per gallon increase in the cost of diesel fuel while propulsion expenses decreased \$3.7 million, or 7.9 percent, reflecting a decrease in charges from the National Railroad Passenger Corporation (AMTRAK) for traction power on the Northeast Corridor Rail Line.

Trackage, toll and fee expenses increased \$9.1 million, or 20.0 percent, as a result of increased AMTRAK charges for access fees on the Northeast Corridor Rail Line, as well as increases in tolls and departure fees.

Other expenses increased \$9.3 million, or 35.1 percent, attributable to increased costs for leases and rentals associated with the Newark Bus Complex facility and miscellaneous expense charges to various reimbursable project activities.

Depreciation expense decreased by \$13.7 million, or 2.6 percent, due to certain assets reaching their estimated useful lives and being fully depreciated.

### NON-OPERATING REVENUES (EXPENSES)

Non-operating revenues decreased \$40.5 million, or 4.1 percent, principally attributable to a decrease in governmental reimbursements consisting of federal, state and local reimbursements, which represent funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities.

### CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Funding of capital grant expenditures totaling \$498.0 million was \$77.3 million, or 13.4 percent, below fiscal year 2011.

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

## FISCAL YEAR 2011 OTHER OPERATING REVENUE

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 and are net of a bad debt allowance. There was a decrease in other operating revenues of \$1.4 million, or 1.9 percent.

## OPERATING EXPENSES

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

## EMPLOYMENT COSTS

Employment costs consisting of labor and related fringe benefit expenses represent over 59.1 percent of NJ TRANSIT's total operating costs. These costs include 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.

During fiscal year 2011, labor costs decreased by \$1.3 million, or 0.2 percent, while related fringe benefits costs increased \$41.4 million, or 8.9 percent, from fiscal year 2010. All contracts pertaining to agreement employees had expired as of June 30, 2010. Wages for non-agreement employees were frozen at fiscal year 2010 levels. The increase in fringe benefits expenses was due to increased costs for pensions, health insurance and prescription drug plans, and vacation and sick time taken and accrued. Also contributing to this increase was the impact of the incremental costs for fiscal year 2011 for 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 \$6.2 million, or 4.3 percent, due to an increase in parts and materials charged to various reimbursable project activities.

Claims and insurance expenses decreased \$7.6 million, or 13.3 percent, reflecting the effect of reduced costs associated with the Federal Employee

Liability Act (FELA), worker's compensation and third-party injury and damage claims as a result of improved claims management and safety record.

Fuel and propulsion expenses increased \$18.6 million, or 14.5 percent. Fuel expenses increased \$16.2 million, or 19.4 percent, as a result of a \$0.52 per gallon increase in the cost of diesel fuel. Propulsion expenses increased \$2.4 million, or 5.4 percent, reflecting an increase in charges from the National Railroad Passenger Corporation (AMTRAK) for traction power on the Northeast Corridor Rail Line.

Utilities expenses decreased \$5.7 million, or 12.4 percent, as a result of reduced expenses for non-propulsion electricity, heating gas and telecommunications.

Purchased transportation expense increased \$4.7 million, or 2.4 percent. This increase was attributable to increased costs for Access Link (ADA) services and the Senior Citizen and Rural Transportation program, partially offset by reduced expenses for Contract Carrier bus service.

Depreciation expense increased by \$22.9 million, or 4.6 percent, due to the capitalization of assets from construction in progress.

## NON-OPERATING REVENUES

Non-operating revenues, net, increased \$24.8 million, or 2.6 percent, principally attributable to an increase in the State of New Jersey operating subsidy and governmental reimbursements consisting of federal, state and local reimbursements, which represent funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities.

## CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Funding of capital grant expenditures totaling \$575.4 million was \$226.1 million, or 28.2 percent, below fiscal year 2010. This reduction is a direct result of the write-down, or impairment, of assets related to the cancelled ARC project.

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

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

	2012	AS OF JUNE 30,		% INC/(DEC)	
		2011	2010	2012/2011	2011/2010
Capital projects in process	\$1,003.4	\$1,004.5	\$1,352.2	(0.1)	(25.7)
Revenue vehicles	1,800.7	1,874.9	1,618.4	(4.0)	15.8
Buildings and structures	2,961.4	2,957.2	3,121.5	0.1	(5.3)
Track	1,167.2	1,231.8	1,286.0	(5.2)	(4.2)
Land	352.4	342.7	340.5	2.8	0.6
Equipment	95.8	115.3	86.8	(16.9)	32.8
Other	16.8	19.3	16.1	(13.0)	19.9
<b>Total Capital Assets, Net</b>	<b><u>\$7,397.7</u></b>	<b><u>\$7,545.7</u></b>	<b><u>\$7,821.5</u></b>	<b>(2.0)</b>	<b>(3.5)</b>

### CAPITAL ASSETS

As of June 30, 2012, NJ TRANSIT had invested \$13,970.3 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2012 totaled \$7,397.7 million (Table A-4). This amount represents a net decrease of \$148.0 million, or 2.0 percent, below June 30, 2011 net capital assets.

As of June 30, 2011, NJ TRANSIT had invested \$13,662.5 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2011 totaled \$7,545.7 million (Table A-4). This amount represents a net decrease of \$275.8 million, or 3.5 percent, below June 30, 2010 net capital assets.

NJ TRANSIT's Board of Directors approved a \$1.15 billion fiscal year 2013 capital program that calls for

continued investment in the State of New Jersey's transit infrastructure in order to improve the overall state-of-good-repair of the system, improve reliability and safety and support future expansions. Foremost, among these efforts is NJ TRANSIT's rolling stock modernization program which includes the procurement of over 1,400 new buses, over 400 multilevel railcars and more than 50 electric and dual power locomotives. The program also invests in railroad bridge rehabilitation, track replacement, signal and security upgrades, repairs to overhead power lines and electric substations, improvements to rail stations and bus shelter upgrades and upgrades to improve the reliability and efficiency of the Northeast Corridor Rail Line. Provisions also have been made for debt service and federally mandated accessibility and environmental regulations.

## DEBT OBLIGATIONS

Debt obligations outstanding at June 30, 2012, totaled \$3,107.0 million compared with \$3,394.2 million at June 30, 2011, a decrease of 8.5 percent.

Debt obligations outstanding at June 30, 2011, totaled \$3,394.2 million compared with \$3,620.5 million at June 30, 2010, a decrease of 6.3 percent. The following table summarizes the changes in debt between fiscal years 2012, 2011 and 2010 (*in millions*):

	AS OF JUNE 30,			% INC/(DEC)	
	2012	2011	2010	2012/2011	2011/2010
Notes payable	\$1,827.6	\$2,025.7	\$2,203.0	(9.8)	(8.0)
Obligations under capital leases*	1,279.4	1,368.5	1,417.5	(6.5)	(3.5)
<b>Total</b>	<b><u>\$3,107.0</u></b>	<b><u>\$3,394.2</u></b>	<b><u>\$3,620.5</u></b>	<b>(8.5)</b>	<b>(6.3)</b>

\*Includes \$1,226.5 million, \$1,317.7 million and \$1,349.3 million of leveraged lease transactions as of fiscal years 2012, 2011 and 2010, 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 NET POSITION *(in thousands)*

	AS OF JUNE 30,	
	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$114,810	\$211,870
Investments	30,477	24,968
Due from federal government	124,258	216,408
Due from State of New Jersey	93,743	97,381
Inventories, net	114,531	117,852
Other	49,999	41,084
<b>Total Current Assets</b>	<b><u>527,818</u></b>	<b><u>709,563</u></b>
<b>Non-Current Assets</b>		
Restricted cash and cash equivalents	19,101	18,858
Restricted investments	156,969	233,850
Restricted leveraged lease deposits	1,226,465	1,303,035
Other	4,505	5,930
Capital assets not being depreciated	1,370,085	1,361,459
Capital assets, net of accumulated depreciation	6,027,642	6,184,235
<b>Total Non-Current Assets</b>	<b><u>8,804,767</u></b>	<b><u>9,107,367</u></b>
<b>Total Assets</b>	<b><u>9,332,585</u></b>	<b><u>9,816,930</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Refunding of Debt	10,750	15,022
<b>Total Deferred Outflows of Resources</b>	<b><u>10,750</u></b>	<b><u>15,022</u></b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	140,130	182,199
Accrued payroll and benefits	112,566	144,227
Current installments under capital leases	87,206	76,584
Short-term notes payable	195,705	186,846
FTA ARC settlement	19,000	19,000
Other current liabilities	136,752	223,421
<b>Total Current Liabilities</b>	<b><u>691,359</u></b>	<b><u>832,277</u></b>
<b>Non-Current Liabilities</b>		
Notes payable	1,631,846	1,838,879
Accrued injury and damage claims	73,360	82,892
Obligations under capital leases	1,192,209	1,291,956
Net OPEB obligation	294,739	247,301
FTA ARC settlement	57,000	76,000
Unearned revenue and other non-current liabilities	82,441	85,012
<b>Total Non-Current Liabilities</b>	<b><u>3,331,595</u></b>	<b><u>3,622,040</u></b>
<b>Total Liabilities</b>	<b><u>4,022,954</u></b>	<b><u>4,454,317</u></b>
<b>NET POSITION</b>		
Net investment in capital assets	5,662,257	5,665,211
Restricted for capital projects	4,971	3,955
Unrestricted (deficit)	(346,847)	(291,531)
<b>Total Net Position</b>	<b><u>\$5,320,381</u></b>	<b><u>\$5,377,635</u></b>

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30,	
	2012	2011
<b>Operating Revenues</b>		
Passenger fares	\$889,136	\$870,575
Other, net	71,146	70,854
<b>Total Operating Revenues</b>	<b><u>960,282</u></b>	<b><u>941,429</u></b>
<b>Operating Expenses</b>		
Labor	610,482	603,482
Fringe benefits	485,672	503,978
Parts, materials and supplies	175,553	151,071
Services	114,321	107,641
Claims and insurance	49,691	49,986
Fuel and propulsion	162,031	146,538
Trackage, tolls and fees	54,806	45,675
Utilities	38,669	40,013
Purchased transportation	197,231	200,226
Other	35,705	26,421
<b>Total Operating Expenses, Before Depreciation</b>	<b><u>1,924,161</u></b>	<b><u>1,875,031</u></b>
<b>Loss Before Depreciation</b>	<b><u>(963,879)</u></b>	<b><u>(933,602)</u></b>
Depreciation	(512,101)	(525,828)
<b>Operating Loss</b>	<b><u>(1,475,980)</u></b>	<b><u>(1,459,430)</u></b>
<b>Non-Operating Revenues (Expenses)</b>		
State appropriation	285,027	276,200
Federal, state and local reimbursements	737,649	799,548
Investment income	4,304	4,024
Other non-operating revenues	16,566	11,852
Interest expense	(93,008)	(100,606)
<b>Total Non-Operating Revenues (Expenses)</b>	<b><u>950,538</u></b>	<b><u>991,018</u></b>
<b>Special Items</b>		
FTA ARC settlement	—	(95,000)
Loss on impairment of ARC assets	(29,840)	(297,415)
<b>Total Special Items</b>	<b><u>(29,840)</u></b>	<b><u>(392,415)</u></b>
<b>Loss Before Capital Contributions</b>	<b><u>(555,282)</u></b>	<b><u>(860,827)</u></b>
Capital contributions, net	498,028	575,361
<b>Change in Net Position</b>	<b><u>(57,254)</u></b>	<b><u>(285,466)</u></b>
<b>Total Net Position, Beginning</b>	<b><u>5,377,635</u></b>	<b><u>5,663,101</u></b>
<b>Total Net Position, Ending</b>	<b><u>\$5,320,381</u></b>	<b><u>\$5,377,635</u></b>

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

	YEARS ENDED JUNE 30,	
	2012	2011
<b>Cash Flows from Operating Activities</b>		
Cash receipts from fares	\$887,915	\$869,195
Other cash receipts	88,250	83,463
Payments for claims	(59,853)	(42,019)
Payments to employees	(1,080,377)	(1,042,156)
Payments to suppliers	(822,724)	(718,351)
<b>Net Cash Used by Operating Activities</b>	<b><u>(986,789)</u></b>	<b><u>(849,868)</u></b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Cash receipts from federal, state and local grants and appropriations	917,813	1,203,075
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b><u>917,813</u></b>	<b><u>1,203,075</u></b>
<b>Cash Flow from Capital and Related Financing Activities</b>		
Payment of obligations under capital leases	(15,478)	(17,346)
Interest payments	(100,064)	(108,441)
Repayment of note obligations	(186,846)	(165,061)
Purchase of capital assets	(398,679)	(577,338)
Capital grants	594,625	551,370
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b><u>(106,442)</u></b>	<b><u>(316,816)</u></b>
<b>Cash Flows from Investing Activities</b>		
Sales and maturities of investments	90,066	152,662
Purchases of investments	(14,835)	(10,805)
Interest on investments	3,370	2,063
<b>Net Cash Provided by Investing Activities</b>	<b><u>78,601</u></b>	<b><u>143,920</u></b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b><u>(96,817)</u></b>	<b><u>180,311</u></b>
<b>Cash and Cash Equivalents</b>		
<b>Beginning of Year</b>	<b><u>230,728</u></b>	<b><u>50,417</u></b>
<b>End of Year</b>	<b><u>\$133,911</u></b>	<b><u>\$230,728</u></b>
<b>Non-Cash Investing Activities</b>		
Increase in fair value of investments	934	1,781
<b>Non-Cash Investing Activities</b>	<b><u>\$934</u></b>	<b><u>\$1,781</u></b>

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

	YEARS ENDED JUNE 30,	
	2012	2011
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
<b>Operating Loss</b>	<b>\$(1,475,980)</b>	<b>\$(1,459,430)</b>
<b>Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities</b>		
Depreciation	512,101	525,828
<b>Changes in Assets and Liabilities</b>		
Inventories	3,321	(773)
Other current assets	(5,098)	(183)
Other non-current assets	1,426	258
Accounts payable	(42,069)	(873)
Accrued payroll and benefits	(31,661)	18,321
Other current liabilities	(730)	(3,721)
Accrued injury and damage claims	(9,532)	7,711
Net OPEB obligation	47,438	46,983
Unearned revenue and other non-current liabilities	13,995	16,011
<b>Net Cash Used by Operating Activities</b>	<b><u>\$(986,789)</u></b>	<b><u>\$(849,868)</u></b>

**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., NJ TRANSIT Mercer, Inc. and NJ TRANSIT Morris, 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, the Moving Ahead for Progress Act for the 21st Century (MAP-21) of 2012, 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 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 and accordingly follow all applicable Governmental Accounting Standards Board (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 Net Position and depreciation of capital assets is recognized in the Consolidated Statement of Revenues, Expenses and Changes in Net Position. 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 Pronouncements.** In fiscal year 2012, NJ TRANSIT adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (GASB No. 60)*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. It alleviates the confusion that arises when determining what guidance should be applied in complex circumstances that are not specifically addressed by existing standards.

This Statement contributes to the assessment of interperiod equity by reporting up-front payments or the present value of installment payments primarily as deferred inflows of resources, reflecting the acquisition of resources that are applicable to a future reporting period. The provisions of this Statement result in a faithful representation of a governmental operator's rights under SCAs by reporting rights to access SCA facilities as intangible assets. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

There was no impact on NJ TRANSIT's financial statements as a result of the implementation of GASB No. 60.

In fiscal year 2012, NJ TRANSIT completed the process of evaluating GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62). This Standard improves financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and the American Institute of Certified Public Accountants ("AICPA") pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 superseded Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*.

There was no impact on NJ TRANSIT's financial statements as a result of the implementation of GASB No. 62.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of the Statement are effective for financial statements for periods beginning after December 31, 2011; however, NJ TRANSIT elected to early-adopt the Statement for the 2012 fiscal year. GASB 63 was implemented retroactively.

As a result of GASB No. 63 implementation, the statement of net assets has been replaced by the statement of net position in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. Net position is displayed in three components – net investment in capital assets, restricted, and unrestricted. In addition, the term "net assets" is changed to "net position" throughout the financial statements.

In fiscal year 2012, NJ TRANSIT adopted the provisions of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53* (GASB No. 64). The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

There was no impact on NJ TRANSIT's financial statements as a result of the implementation of GASB No. 64.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as limiting the use of the term *deferred* in financial statement presentations.

The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2012; however, NJ TRANSIT elected to early-adopt the Statement for the 2012 fiscal year. GASB 65 was implemented retroactively.

As a result of GASB No. 65 implementation, certain reclassifications have been made to comply with the new concepts of deferred inflows and outflows. Specifically, a portion of Notes Payable was reclassified to deferred outflows of resources for the amount of unamortized cost resulting from refunding of debt (see Note 10 and 16).

In fiscal year 2012, NJ TRANSIT adopted the provisions of GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* (GASB No. 66). The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

There was no impact on NJ TRANSIT's financial statements as a result of the implementation of GASB No. 66.

#### **Accounting Standards Issued But Not Yet Adopted.**

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61), was issued in November, 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.

The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

The amendments to the criteria for blending improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

For primary governments that are business-type activities reporting in a single column, the guidance for reporting blended component units allows users to better distinguish between the primary government and its component units by requiring condensed combining information to be included in the notes to the financial statements.

Lastly, the requirements for reporting equity interests in component units help ensure that primary government financial statements do not understate their financial position and provide for more consistent and understandable display of those equity interests.

The requirements of GASB No. 61 are effective for financial statements for periods beginning after June 15, 2012. NJ TRANSIT is in the process of evaluating the impact of the adoption of GASB No. 61 on its financial statements and will be adopting this GASB for the fiscal year ending June 30, 2013. This will not have a significant impact in our 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 non-operating revenue relates to grants, subsidies and capital contributions. Grants, subsidies and capital contribution revenue is recognized at the time eligible expenses 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 Non-exchange 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 Revenues, Expenses and Changes in Net Position as capital contributions.

**Net Position.** Net position equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources and are classified into three categories:

- Net Investment in Capital Assets - 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 for Capital Projects - This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
- Unrestricted (Deficit) - This relates to net assets that do not meet the definition of "net investment in capital assets" 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.

**Pollution Remediation Obligations.** Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution*

*Remediation Obligations.* An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations. Pollution remediation obligations occur when any one of the obligating events takes place (see Note 12).

**Note Premiums and Discounts.** Premiums and discounts, which are recorded net with Notes Payable, are 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. The annual OPEB cost is equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters (see Note 7).

**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 for agreement employees 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 2011 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,	
	2012	2011
<b>Current</b>		
Cash on hand	\$18.6	\$14.3
Cash equivalents	96.2	197.5
Investments	30.5	25.0
<b>Total current cash and investments</b>	<b><u>145.3</u></b>	<b><u>236.8</u></b>
<b>Non-current</b>		
Restricted cash on hand	8.7	8.5
Restricted cash equivalents	10.4	10.4
Restricted investments	157.0	233.9
<b>Restricted total non-current</b>	<b><u>176.1</u></b>	<b><u>252.8</u></b>
<b>Total Deposits and Investments</b>	<b><u>\$321.4</u></b>	<b><u>\$489.6</u></b>

NJ TRANSIT's cash on deposit with various entities as of June 30, 2012 and 2011 totaled \$22.3 million and \$18.9 million, respectively.

ACCOUNT TYPE	BALANCE (in millions)	
	2012	2011
Insured	\$1.3	\$1.4
Insured held at NJ TRANSIT's locations	3.2	3.5
Uncollateralized held by health care providers	3.7	4.5
Uninsured held by banks	14.1	9.5
<b>Total</b>	<b><u>\$22.3</u></b>	<b><u>\$18.9</u></b>

**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, 2012 and 2011, \$17.8 million and \$14.0 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2012 and 2011 totaled \$294.1 million and \$466.8 million, respectively.

Investments	Fair Value (in millions)		Weighted Average Maturity in Years	
	2012	2011	2012	2011
State of NJ Cash Management Fund	\$4.2	\$133.9	—	0.07
Repurchase Agreements	248.9	299.6	1.29	0.86
U.S. Treasury/Securities	10.4	10.4	0.01	0.01
Bonds	13.8	9.8	0.39	0.13
Common Stocks	12.7	13.1	—	—
Other	4.1	—	—	—
<b>Total</b>	<b><u>\$294.1</u></b>	<b><u>\$466.8</u></b>		
Portfolio weighted average maturity (inclusive of proceeds from debt issuance)			1.20	0.81

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

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. As of June 30, 2012, no exposure of the concentration of credit risk existed since the Corporation did not hold any investments in any one issuer that would represent five percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this regulation.

#### 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, 2012 and 2011, the balance of restricted investments related to these proceeds was \$157.7 million and \$236.8 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, 2012 and 2011, were \$1,226.4 million and \$1,303.0 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, sale of fixed asset reserves and interest requirements for Metropark parking deck. The proceeds of other restricted amounts totaled \$18.4 million and \$15.9 million as of June 30, 2012 and 2011, respectively.

## 5. CAPITAL ASSETS

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

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
<b>Capital Assets not being Depreciated</b>				
Land	\$342.7	\$13.7	\$4.0	\$352.4
Capital projects in process	1,004.5	362.6	363.7	1,003.4
Operating rights	14.2	—	—	14.2
<b>Total</b>	<b><u>1,361.4</u></b>	<b><u>376.3</u></b>	<b><u>367.7</u></b>	<b><u>1,370.0</u></b>
<b>Capital Assets being Depreciated</b>				
Buildings and structures	5,356.0	210.6	3.4	5,563.2
Track	2,212.5	12.8	—	2,225.3
Railcars and locomotives	2,480.1	15.2	16.0	2,479.3
Buses, vans and light railcars	1,606.7	117.0	42.0	1,681.7
Furniture, fixtures and equipment	625.8	7.8	3.1	630.5
Computer software & licenses	20.0	0.2	—	20.2
<b>Total</b>	<b><u>12,301.1</u></b>	<b><u>363.6</u></b>	<b><u>64.5</u></b>	<b><u>12,600.2</u></b>
<b>Less Accumulated Depreciation</b>				
Buildings and structures	2,398.9	202.9	—	2,601.8
Track	980.7	77.4	—	1,058.1
Railcars and locomotives	1,171.5	84.4	11.5	1,244.4
Buses, vans and light railcars	1,040.4	117.4	41.9	1,115.9
Furniture, fixtures and equipment	510.4	27.3	3.0	534.7
Computer software & licenses	14.9	2.7	—	17.6
<b>Total</b>	<b><u>6,116.8</u></b>	<b><u>512.1</u></b>	<b><u>56.4</u></b>	<b><u>6,572.5</u></b>
<b>Total Capital Assets, Net of Depreciation</b>	<b><u>6,184.3</u></b>	<b><u>(148.5)</u></b>	<b><u>8.1</u></b>	<b><u>6,027.7</u></b>
<b>Total Net Capital Assets</b>	<b><u>\$7,545.7</u></b>	<b><u>\$227.8</u></b>	<b><u>\$375.8</u></b>	<b><u>\$7,397.7</u></b>

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

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
<b>Capital Assets not being Depreciated</b>				
Land	\$340.5	\$2.5	\$0.3	\$342.7
Capital projects in process	1,352.2	549.4	897.1	1,004.5
Operating rights	14.2	—	—	14.2
<b>Total</b>	<b><u>1,706.9</u></b>	<b><u>551.9</u></b>	<b><u>897.4</u></b>	<b><u>1,361.4</u></b>
<b>Capital Assets being Depreciated</b>				
Buildings and structures	5,315.9	40.2	0.1	5,356.0
Track	2,179.0	33.5	—	2,212.5
Railcars and locomotives	2,155.8	342.3	18.0	2,480.1
Buses, vans and light railcars	1,558.5	116.3	68.1	1,606.7
Furniture, fixtures and equipment	564.0	62.0	0.2	625.8
Computer software & licenses	14.6	5.4	—	20.0
<b>Total</b>	<b><u>11,787.8</u></b>	<b><u>599.7</u></b>	<b><u>86.4</u></b>	<b><u>12,301.1</u></b>
<b>Less Accumulated Depreciation</b>				
Buildings and structures	2,194.4	204.5	—	2,398.9
Track	893.0	87.7	—	980.7
Railcars and locomotives	1,108.8	78.8	16.1	1,171.5
Buses, vans and light railcars	987.1	119.3	66.0	1,040.4
Furniture, fixtures and equipment	477.2	33.3	0.1	510.4
Computer software & licenses	12.7	2.2	—	14.9
<b>Total</b>	<b><u>5,673.2</u></b>	<b><u>525.8</u></b>	<b><u>82.2</u></b>	<b><u>6,116.8</u></b>
<b>Total Capital Assets, Net of Depreciation</b>	<b><u>6,114.6</u></b>	<b><u>73.9</u></b>	<b><u>4.2</u></b>	<b><u>6,184.3</u></b>
<b>Total Net Capital Assets</b>	<b><u>\$7,821.5</u></b>	<b><u>\$625.8</u></b>	<b><u>\$901.6</u></b>	<b><u>\$7,545.7</u></b>

For the years ended June 30, 2012 and 2011, capital assets include capitalized interest costs of \$485.1 million and \$481.6 million, respectively, net of interest income of \$356.9 million and \$355.5 million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Note 10).

During fiscal years 2012 and 2011, NJ TRANSIT received capital contributions of \$530.3 million and \$600.8 million, respectively, of which \$32.3 million and \$25.4 million were passed through to other entities, respectively. These amounts are considered to be passed through since NJ TRANSIT transferred ownership of the assets upon completion of the projects. For fiscal year 2012, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor Rail Line, 69th Street Bridge Renovation and Atlantic City Jitney buses.

## 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 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. Prior to 2011, plan members were required to contribute 5.5 and 8.5 percent of their covered salary to the PERS and PFRS, respectively.

Chapter 78, P.L. 2011, the Pension and Health Benefit Reform Law, increased the PERS and PFRS member contribution rate. The contribution rate increased to 6.5% of base salary for PERS and 10% of base salary for PFRS effective with the first payroll to be paid on or after October 1, 2011. Subsequent increases for PERS will then be phased in over 7 years (each July 1st) to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. 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, 2012, 2011 and 2010 were \$5.0 million, \$4.6 million and \$4.0 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 20.6 percent of annual covered payroll. NJ TRANSIT's annual pension cost was \$80.4 million for fiscal year 2012.

### THREE-YEAR TREND INFORMATION *(in millions)*

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<b>Non-Agreement Employees Retirement Plan</b>			
06/30/2012	\$34.0	100%	\$0
06/30/2011	34.6	100	0
06/30/2010	29.5	100	0
<b>Amalgamated Transit Union Employees Retirement Plan</b>			
06/30/2012	\$43.4	100%	\$0
06/30/2011	42.8	100	0
06/30/2010	34.5	100	0
<b>Transport Workers Union Employees Retirement Plan</b>			
06/30/2012	\$0.9	100%	\$0
06/30/2011	1.4	100	0
06/30/2010	1.1	100	0
<b>Utility Workers' Union of America Employees Retirement Plan</b>			
06/30/2012	\$0.2	100%	\$0
06/30/2011	0.2	100	0
06/30/2010	0.2	100	0
<b>Mercer Employees Retirement Plan</b>			
06/30/2012	\$1.9	100%	\$0
06/30/2011	2.6	100	0
06/30/2010	2.0	100	0

**Actuarial Methods and Assumptions.** In the July 1, 2011, 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 2012 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2011. 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, 2011, ranged from 1 to 28 years.

**Funded Status and Funding Progress.** As of July 1, 2011, the most recent actuarial valuation date, the plans were 79.5 percent funded. The actuarial accrued liability for benefits was \$1,533.5 million, and the actuarial value of assets was \$1,219.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$314.1 million. The annual payroll of active employees covered by the plans was \$387.3 million, and the ratio of the UAAL to the covered payroll was 81.1 percent.

The following is the funded status information for each plan as of July 1, 2011, 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	\$410.6	\$555.6	\$145.0	73.9%	\$106.9	135.6%
Amalgamated Transit Union Employees Retirement Plan	742.2	896.2	154.0	82.8	259.9	59.3
Transport Workers Union Employees Retirement Plan	36.7	40.5	3.8	90.6	10.5	36.2
Utility Workers' Union of America Employees Retirement Plan	6.1	6.8	0.7	89.7	1.0	70.0
Mercer Employees Retirement Plan	23.8	34.4	10.6	69.2	9.0	117.8

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 \$17,000 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 \$17,000 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. 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 \$17,000 limit.

NJ TRANSIT's expense for the defined contribution plans totaled \$19.5 million and \$18.9 million in fiscal years 2012 and 2011, respectively.

Recorded expenses for all plans (including PERS and PFRS) amount to \$103.0 million and \$110.3 million for the fiscal years ended June 30, 2012 and 2011, 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 \$31.9 million for fiscal year 2012. Plan members receiving benefits contributed \$4.9 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 2012 and 2011 *(in millions)*:

	YEARS ENDED JUNE 30,	
	2012	2011
Annual required contribution	\$85.3	\$80.7
Interest on net OPEB obligation	11.1	9.0
Adjustment to annual required contribution	<u>(17.1)</u>	<u>(13.5)</u>
Annual OPEB cost	79.3	76.2
Contributions made	<u>(31.9)</u>	<u>(29.2)</u>
Increase in net OPEB obligation	47.4	47.0
<b>Net OPEB Obligation, Beginning of Year</b>	<b><u>247.3</u></b>	<b><u>200.3</u></b>
<b>Net OPEB Obligation, End of Year</b>	<b><u>\$294.7</u></b>	<b><u>\$247.3</u></b>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011 and 2010 are as follows (in millions):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$79.3	40.2%	\$294.7
2011	76.2	38.3	247.3
2010	72.6	35.7	200.3

As of July 1, 2011, the most recent actuarial valuation date, the Actuarial Accrued Liability (AAL) for benefits was \$753.8 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$402.9 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 187.1 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 include 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.

The July 1, 2011, 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. This assumed trend rate starts at 8.5% and trends down to 5% by 2018. 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, 2011 was 24 years.

## 8. OTHER CURRENT LIABILITIES

Other current liabilities totaled \$136.8 million and \$223.4 million at June 30, 2012 and 2011, respectively and are comprised of the following (*in millions*):

	AS OF JUNE 30,	
	2012	2011
ARC insurance refunds payable	\$1.1	\$88.1
Advance funds-State/Port Authority	50.9	49.9
Injury and damage claims (Note 14)	34.3	35.0
Retainage on construction projects	15.0	20.2
Pollution remediation obligations	4.0	2.8
Other	31.5	27.4
<b>Total</b>	<b><u>\$136.8</u></b>	<b><u>\$223.4</u></b>

The ARC insurance refunds payable represent the State and Port Authority's share of refunds received related to the termination of the ARC project. The insurance refunds were allocated to the funding sources from which expenditures were originally made. The Advanced funds represent funds received for capital projects for which expenditures have not yet been incurred.

## 9. UNEARNED REVENUE AND OTHER NON-CURRENT LIABILITIES

Unearned revenue and other non-current liabilities totaled \$82.4 million and \$85.0 million as of June 30, 2012 and 2011, 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,	
	2012	2011
Inventory – capital spare parts	\$15.3	\$17.2
Leases and permits	20.2	21.3
Federal interest on capital assets	8.1	7.6
Non-Federal interest on capital assets	12.0	8.3
Other	3.4	3.3
<b>Total unearned revenue</b>	<b><u>59.0</u></b>	<b><u>57.7</u></b>
Sick leave	5.8	6.6
Pollution remediation obligations	17.6	20.7
<b>Total other non-current liabilities</b>	<b><u>23.4</u></b>	<b><u>27.3</u></b>
<b>Total</b>	<b><u>\$82.4</u></b>	<b><u>\$85.0</u></b>

## 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 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, 2012, \$146.7 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, 2012, \$25.4 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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2012, \$132.5 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 certificates were used to purchase 28 light railcars.

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 2016. The proceeds of these certificates were used to fund the purchase of 24 ALP-46 electric locomotives and 1,244 cruiser buses.

As previously discussed in Note 2, NJ TRANSIT adopted the provisions of GASB No. 65. As a result of the implementation of GASB No. 65, certain reclassifications for FY 2012 and FY 2011 have been made to comply with the new concepts of deferred inflows and outflows. Specifically, \$10.8 million and \$15.0 million of notes payable has been reclassified to deferred outflows of resources, which represents the amount of unamortized refunding deferral on refunding as of June 30, 2012 and 2011, respectively [see Note 16].

The following schedule summarizes notes payable obligations as of June 30, 2012 (*in millions*):

	Inception Date	Balance June 30, 2011	Additions	Payments/ Reductions	Balance June 30, 2012	Due Within One Year
COPs 2000A	01/00	\$3.0	\$—	\$3.0	\$—	\$—
COPs 2000B	10/00	143.2	—	63.9	79.3	67.6
COPs 2002A	06/02	158.5	—	26.0	132.5	30.6
COPs 2002B	06/02	82.7	—	2.7	80.0	2.7
COPs 2003	02/03	30.6	—	5.2	25.4	5.5
COPs 2003A	10/03	147.1	—	0.4	146.7	0.3
COPs 2004A	03/04	152.0	—	18.0	134.0	18.6
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	276.7	—	17.4	259.3	18.3
NJEDA 2008A	10/09	328.9	—	37.2	291.7	38.5
COPS 2009A	04/09	394.3	—	13.0	381.3	13.6
<b>Total</b>		<b>1,970.5</b>	<b>—</b>	<b>186.8</b>	<b>1,783.7</b>	<b>\$195.7</b>
Unearned Bond Premium		55.2	—	11.3	43.9	
<b>Total Notes Payable</b>		<b><u>\$2,025.7</u></b>	<b><u>\$—</u></b>	<b><u>\$198.1</u></b>	<b><u>\$1,827.6</u></b>	

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following schedule summarizes notes payable obligations as of June 30, 2011 (*in millions*):

	Inception Date	Balance June 30, 2010	Additions	Payments/Reductions	Balance June 30, 2011	Due Within One Year
NJEDA 1999	08/99	\$30.9	\$—	\$30.9	\$—	\$—
COPs 2000A	01/00	30.2	—	27.2	3.0	3.1
COPs 2000B	10/00	203.8	—	60.6	143.2	64.0
COPs 2002A	06/02	158.8	—	0.3	158.5	26.1
COPs 2002B	06/02	85.4	—	2.7	82.7	2.7
COPs 2003	02/03	35.2	—	4.6	30.6	5.2
COPs 2003A	10/03	147.4	—	0.3	147.1	0.3
COPs 2004A	03/04	169.3	—	17.3	152.0	18.0
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	293.3	—	16.6	276.7	17.4
NJEDA 2008A	10/09	333.4	—	4.5	328.9	37.2
COPS 2009A	04/09	394.3	—	—	394.3	13.0
<b>Total</b>		<b>2,135.5</b>	<b>—</b>	<b>165.0</b>	<b>1,970.5</b>	<b>\$187.0</b>
Unearned Bond Premium		67.5	—	12.3	55.2	
<b>Total Notes Payable</b>		<b>\$2,203.0</b>	<b>\$—</b>	<b>\$177.3</b>	<b>\$2,025.7</b>	

Long-term notes payable maturities as of June 30, 2012 (*in millions*):

Fiscal Years	Principal	Interest	Total
2013	\$195.7	\$88.2	\$283.9
2014	205.0	78.0	283.0
2015	214.0	67.2	281.2
2016	225.2	55.8	281.0
2017	139.4	46.4	185.8
2018-2022	563.1	133.8	696.9
2023-2027	151.7	44.9	196.6
2028-2032	89.6	9.6	99.2
<b>Total</b>	<b>\$1,783.7</b>	<b>\$523.9</b>	<b>\$2,307.6</b>

## 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 Net Position (see Note 4).

**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, 2012. 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 is 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 two 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.

### **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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$7.7 million as of June 30, 2012.

In total, NJ TRANSIT has recorded obligations under capital leases of \$1,279.4 million and \$1,368.5 million as of June 30, 2012 and 2011, respectively, of which

\$87.2 million and \$76.6 million represent current installments under capital leases as of June 30, 2012 and 2011, 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,	
	2012	2011
Land	\$25.1	\$25.1
Buildings	431.3	431.3
Railcars and Locomotives	551.0	683.3
Buses and Light Railcars	727.3	727.3
Furniture, Fixtures and Equipment	—	34.0
<b>Capital Assets Under Capital Leases (at cost)</b>	<b>1,734.7</b>	<b>1,901.0</b>
Less Accumulated Depreciation	(1,228.5)	(1,218.7)
<b>Net Capital Assets Under Capital Leases</b>	<b><u>\$506.2</u></b>	<b><u>\$682.3</u></b>

The following schedule summarizes the capital lease obligations as of June 30, 2012 *(in millions)*:

	Inception Date	Balance June 30, 2011	Additions	Payments/Reductions	Balance June 30, 2012	Due Within One Year
Metropark Parking Facility	03/94	\$8.7	\$—	\$1.0	\$7.7	\$1.1
MMC, Locos. & Railcars	01/97	89.1	—	6.5	82.6	31.7
ALP-44 Locomotives	06/97	7.2	—	—	7.2	—
Comet IV Coaches	07/97	15.5	—	2.0	13.5	1.8
Bus Garages	07/97	49.1	—	4.1	45.0	3.8
Light Railcars	06/98	42.1	—	13.4	28.7	14.1
Bus Garages	09/98	104.0	—	1.7	102.3	1.7
HBLR	12/00	178.0	13.6	10.2	181.4	11.2
MCI Buses	12/01	100.1	13.6	6.8	106.9	7.2
MCI Buses	10/02	310.1	16.3	—	326.4	—
Qualified Technical Equipment	08/03, 09/03	51.1	—	51.1	—	—
ALP-46 Locomotives	09/03	24.2	—	24.2	—	—
Comet IV Coaches	09/03	26.6	—	—	26.6	—
Light Railcars	09/03, 10/03	58.3	—	2.3	56.0	2.4
Articulated Buses	07/04	25.2	—	2.4	22.8	2.5
Diesel Locomotives	12/05	100.8	—	3.4	97.4	3.6
MCI Buses	11/06	17.6	—	17.6	—	—
Multilevel Railcars	12/06	18.5	—	0.2	18.3	0.3
Multilevel Railcars	06/07	34.2	—	0.2	34.0	0.3
Multilevel Railcars	12/07	61.5	—	0.7	60.8	0.8
Multilevel Railcars	01/08	46.6	—	1.3	45.3	1.4
MCI Cruiser Buses	06/12	—	16.5	—	16.5	3.3
<b>Total Capital Lease Obligations</b>		<b><u>\$1,368.5</u></b>	<b><u>\$60.0</u></b>	<b><u>\$149.1</u></b>	<b><u>\$1,279.4</u></b>	<b><u>\$87.2</u></b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Minimum capital lease maturities as of June 30, 2012 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2013	\$87.2	\$111.4	\$198.6
2014	179.8	57.9	237.7
2015	127.4	54.8	182.2
2016	132.3	134.3	266.6
2017	97.4	103.1	200.5
2018-2022	405.7	92.4	498.1
2023-2027	208.5	86.7	295.2
2028-2032	41.1	0.2	41.3
<b>Total Capital Lease Obligations</b>	<b><u>\$1,279.4</u></b>	<b><u>\$640.8</u></b>	<b><u>\$1,920.2</u></b>

The following schedule summarizes the capital lease obligations as of June 30, 2011 *(in millions)*:

	Inception Date	Balance June 30, 2010	Additions	Payments/Reductions	Balance June 30, 2011	Due Within One Year
NBC Facility	07/86	\$3.7	\$—	\$3.7	\$—	\$—
Metropark Parking Facility	03/94	9.7	—	1.0	8.7	1.0
MMC, Locos. & Railcars	01/97	96.0	—	6.9	89.1	6.5
ALP-44 Locomotives	06/97	7.2	—	—	7.2	—
Comet IV Coaches	07/97	17.6	—	2.1	15.5	2.0
Bus Garages	07/97	53.5	—	4.4	49.1	4.1
Light Railcars	06/98	54.8	—	12.7	42.1	13.4
Bus Garages	09/98	105.6	—	1.6	104.0	1.7
HBLR	12/00	187.3	1.4	10.7	178.0	10.2
MCI Buses	12/01	93.8	12.7	6.4	100.1	6.8
MCI Buses	10/02	280.0	30.1	—	310.1	—
Qualified Technical Equipment	08/03, 09/03	83.0	—	31.9	51.1	0.9
ALP-46 Locomotives	09/03	26.1	—	1.9	24.2	1.9
Comet IV Coaches	09/03	26.6	—	—	26.6	—
Light Railcars	09/03, 10/03	60.5	—	2.2	58.3	2.3
Articulated Buses	07/04	27.5	—	2.3	25.2	2.4
Diesel Locomotives	12/05	104.0	—	3.2	100.8	3.4
MCI Buses	11/06	17.6	—	—	17.6	17.6
Multilevel Railcars	12/06	18.7	—	0.2	18.5	0.2
Multilevel Railcars	06/07	34.3	—	0.1	34.2	0.2
Multilevel Railcars	12/07	62.1	—	0.6	61.5	0.7
Multilevel Railcars	01/08	47.9	—	1.3	46.6	1.3
<b>Total Capital Lease Obligations</b>		<b><u>\$1,417.5</u></b>	<b><u>\$44.2</u></b>	<b><u>\$93.2</u></b>	<b><u>\$1,368.5</u></b>	<b><u>\$76.6</u></b>

As of June 30, 2012, NJ TRANSIT was committed to 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	\$10.0
Hudson-Bergen Light Rail System	15.0
Rail Infrastructure	26.6
Casino Revenue Transportation Program	27.6
Rail Passenger Facilities	23.9
Bus and Light Rail Infrastructure	27.3
Bus Rolling Stock	238.5
Positive Train Stop Stage 2	143.5
Rail Rolling Stock	262.5
Bus AVL Radio System Replacement	32.5
Other, for commitments less than \$10 million	<u>55.9</u>
<b>Total Capital Projects and Special Service Commitments</b>	<b><u>\$863.3</u></b>

## 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 2012, 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 \$21.6 million, measured at its current value utilizing the expected cash flow method, was recognized in fiscal year 2012. The total liability of \$23.7 million was reduced by \$2.1 million for expected recoveries from other responsible parties, potentially responsible parties (PRPs) and insurers. The cumulative liability decreased by \$2.0 million in fiscal year 2012, attributable primarily to the remediation costs for properties acquired for the ARC project.

The following table summarizes the changes in NJ TRANSIT's liability for pollution remediation for the years ended June 30, 2012 and 2011 *(in millions)*:

	<b>AS OF JUNE 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Balance, Beginning of Year</b>	<b>\$23.6</b>	<b>\$20.3</b>
Current year costs	0.5	8.6
Payment made during the year	<u>(2.5)</u>	<u>(5.3)</u>
<b>Balance, End of Year</b>	<b><u>\$21.6</u></b>	<b><u>\$23.6</u></b>

The pollution remediation liability of \$21.6 million at June 30, 2012, 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, \$4.0 million represents the current portion of the liability, which is included in other current liabilities, and \$17.6 million represents the noncurrent obligation, which is included in unearned revenue and other noncurrent liabilities.

The estimated outlays include costs of: a) \$3.4 million associated with pre-cleanup activities including engineering studies, site investigation, corrective measures feasibility study, and the design of a remediation plan; b) \$14.2 million related to cleanup activities, such as neutralization, containment, removal and disposal of pollutants, and restoration; c) \$0.9 million for the external government oversight and enforcement-related activities; and, d) \$3.1 million for the post-remediation monitoring.

### 13. OTHER OPERATING REVENUES

Other operating revenues comprise the following (in millions):

	YEARS ENDED JUNE 30,	
	2012	2011
Lease and rental	\$27.3	\$26.9
Advertising	15.7	14.2
Metro-North operations	11.3	13.2
Other	18.1	17.9
<b>Total</b>	<b>\$72.4</b>	<b>\$72.2</b>
Less Bad Debt Expense	1.3	1.4
<b>Net Other Operating Revenues</b>	<b>\$71.1</b>	<b>\$70.8</b>

### 14. INJURY AND DAMAGE CLAIMS

As of June 30, 2012, 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 Third Party Rail and Property, Certified Terrorism Risk Insurance Act casualty exposures, property exposures, workers compensation, stand-alone terrorism claims ranging from \$2.5 million to \$300 million in excess of retentions ranging from \$1 million to \$275 million, consequently reducing NJ TRANSIT's self-insured retention in these areas.

NJ TRANSIT has recorded an estimated liability of \$107.6 million and \$117.9 million as of June 30, 2012 and 2011, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, \$34.3 million and \$35.0 million are included in other current liabilities as of June 30, 2012 and 2011, 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, 2012 and 2011 was as follows (in millions):

	AS OF JUNE 30,	
	2012	2011
<b>Balance, Beginning of Year</b>	<b>\$117.9</b>	<b>\$110.0</b>
Claims expense	32.9	34.7
Payment of claims	(43.2)	(26.8)
<b>Balance, End of Year</b>	<b>\$107.6</b>	<b>\$117.9</b>

### 15. FEDERAL GRANTS

The Urban Mass Transportation Act of 1964, as amended by MAP-21, 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. DEFERRED OUTFLOWS OF RESOURCES

NJ TRANSIT has issued various bonds and notes to fund capital projects. Previously, the amount recorded as Notes Payable included the unamortized deferral on refunding of debt. As a result of the implementation of GASB No. 65, the amount of unamortized deferral on refunding of debt was reclassified to deferred outflows of resources. When the value of the resources required to refund the old bonds exceeds the net carrying amount of the old bonds, the resulting debt amount does not represent an increase in service capacity and the resources do not meet the definition of an asset. It should be reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

For the fiscal years ended June 30, 2012 and 2011, \$10.7 million and \$15.0 million of unamortized deferral on debt refunding was reclassified to deferred outflows of resources from note payable on the statement of net position, respectively (see Note 10).

## 17. ACCESS TO REGION'S CORE (ARC) PROJECT

The ARC project was cancelled in October 2010 due to concerns over projected cost overruns. Upon cancelation of the ARC project, the Federal Transit Administration (FTA), which had funded a portion of the cost of this project, demanded repayment of \$271.1 million of federal funds that had been expended as of October 2010. The FTA cited a provision of Title 49 of the U.S. Code which requires the repayment of federal funds made available under Early System Work Agreements (ESWAs). The FTA claimed that if the ESWA was not carried out for reasons within the recipient's control, the recipient would be liable for the repayment of those funds. The State and NJ TRANSIT management vigorously defended this matter.

On September 30, 2011, a settlement was agreed upon whereby NJ TRANSIT was liable to repay \$95 million in five annual payments of \$19 million. NJ TRANSIT recorded this liability as of June 30, 2011, in the Consolidated Statements of Net Position and a corresponding "Special Item" in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. The first installment was paid November 1, 2011, leaving a balance of \$76 million as of June 30, 2012 (\$19 million recorded as a current liability for the second

installment due November 1, 2012, and the remaining \$57 million is recorded as a non-current liability).

In accordance with Generally Accepted Accounting Principles (GAAP), NJ TRANSIT also recorded a "Special Item" in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, in the amount of \$29.8 million for costs pertaining to construction projects that were completed in order to close out the ARC project. In fiscal year 2011, \$297.4 million of certain assets that were previously capitalized related to the ARC project were written off. These assets were considered to be impaired due to the discontinuance of this project, under the provision of construction stoppage. Although certain contingent costs associated with the final closeout of the ARC project contracts are not yet fully determinable, it is management's opinion that the overall costs of these contingencies will be insignificant and will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

## 18. 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 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.



## **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
7/1/2011	\$—	\$753.8	\$753.8	—	\$402.9	187.1%
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
7/1/2011	\$410.6	\$555.6	\$145.0	73.9%	\$106.9	135.6%
7/1/2010	382.2	527.9	145.7	72.4	111.6	130.6
7/1/2009	355.0	505.4	150.4	70.2	115.8	129.9

**Amalgamated Transit Union Employees Retirement Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2011	\$742.2	\$896.2	\$154.0	82.8%	\$259.9	59.3%
7/1/2010	707.2	869.8	162.6	81.3	269.9	60.2
7/1/2009	664.4	814.2	149.8	81.6	254.6	58.8

**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
7/1/2011	\$36.7	\$40.5	\$3.8	90.6%	\$10.5	36.2%
7/1/2010	36.1	38.2	2.1	94.5	11.1	18.9
7/1/2009	34.4	37.8	3.4	91.0	10.9	31.2

**Utility Workers' Union of America Employees Retirement Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2011	\$6.1	\$6.8	\$0.7	89.7%	\$1.0	70.0%
7/1/2010	6.0	6.7	0.7	89.6	1.1	63.6
7/1/2009	5.7	6.4	0.7	89.1	1.5	46.7

**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
7/1/2011	\$23.8	\$34.4	\$10.6	69.2%	\$9.0	117.8%
7/1/2010	22.6	33.4	10.8	67.7	9.2	117.4
7/1/2009	20.9	32.8	11.9	63.7	9.6	124.0

