NJ TRANSIT The Way To Go.

2013 NJ TRANSIT ANNUAL REPORT

Vision Innovation Dedication

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Cover: Inspector Carlos Saavedra at Pennsauken Transit Center

HBLR expanded car

Message from the CHAIRMAN

Fiscal Year 2013 (FY2013) brought both successes and challenges for NJ TRANSIT. We had great success with Scorecard, our business management tool that measures customer satisfaction and tracks important data to help us make informed business decisions. Overall customer satisfaction rose in our quarterly surveys during the year, with nearly four out of five customers telling us they would recommend NJ TRANSIT to a friend or relative in the last quarter of FY2013. We also widened customer participation during the year by posing questions in both English and Spanish.

The success of Scorecard can be attributed to a variety of things, such as holding fares steady for four consecutive years, putting more real-time service information and mobile ticketing into the hands of customers on their smartphones, continuing to receive new buses and railcars as part of our fleet modernization effort and improving rail on-time performance.

As part of our commitment to increased transparency to customers and stakeholders, we posted more detailed agendas for our Board of Directors meetings on njtransit.com in advance of our meetings. We also began videotaping the monthly Board meetings and posting them on our website as an added convenience for those who cannot attend the meetings. A video archive of each meeting is also available.

Regarding safety, NJ TRANSIT is at the forefront of groundbreaking safety initiatives that are designed to reduce the number of accidental deaths on our rail system. These efforts, collectively known as "E-cubed" (Engineering, Enforcement and Education), have been a tremendous success. Working together, we have identified and implemented additional safety measures such as "Another Train Coming" digital signs and "gate skirts" at rail crossings, increased police patrols at high-risk trespasser locations and an expansion of our school safety program. We will not rest on our success and will continue to explore other possible enhancements to further promote safety across our system.

Our biggest challenge this fiscal year was Superstorm Sandy, which struck with such force in October 2012 that it left widespread damage in multiple states. New Jersey was among the hardest hit, with homes, businesses, beaches, boardwalks, roads, bridges, power systems and other support infrastructure damaged or destroyed. Under the leadership of Governor Chris Christie, New Jersey has risen to the rebuilding challenge. For NJ TRANSIT, it started with immediate repairs and a gradual restoration of transit services, and has transitioned to a hardening of the system to make it more resilient in future storms. On behalf of the Board, I would like to thank our state and federal partners for their assistance in this effort, and the men and women of NJ TRANSIT who have sacrificed time away from their families and — in some cases — personal home damage to work around the clock and get the state moving again.

Moving forward, we remain committed to improving the travel experience for our customers, which includes the recent opening of Pennsauken Transit Center in Fall 2013. We also look forward to serving the fans of Super Bowl 48, the first "mass transit Super Bowl" that will be held in the Meadowlands this winter at MetLife Stadium. In addition to infrastructure improvements that will support our Super Bowl operation, an army of frontline ambassadors called "Team Transit" will direct football fans and daily customers to a series of weeklong events, culminating with the big game February 2, 2014.

We hope you continue to enjoy the ride, one trip at a time.

James S. Simpson

James S. Simpson
Transportation Commissioner
& NJ TRANSIT Board Chairman

Message from the EXECUTIVE DIRECTOR

NJ TRANSIT marked a number of important milestones in Fiscal Year 2013 (FY2013), including the 30th anniversaries of NJ TRANSIT Rail Operations and the NJ TRANSIT Police Department, as well as the 20th year of Access Link paratransit service. As we continue to make meaningful changes to the overall customer experience through our ongoing Scorecard initiative, we proudly recognize the evolution that has taken place from NJ TRANSIT's challenging beginnings to the delivery of an efficient transportation system three decades later.

As part of Scorecard, we continue to tap into the latest technology to make it easier for customers to use our system. This year, we introduced MyTix, a mobile-ticketing pilot program that gives customers the ability to purchase and display one-way rail tickets and monthly passes right from their smartphones. We also advanced our drive toward systemwide real-time service information for bus customers with the rollout of MyBus Now. Other technology improvements included enhancements to the 7th Avenue Concourse at Penn Station New York, such as an improved sound system, larger monitors and a multi-color destination display.

Through surveys and outreach forums, two top customer priorities continue to guide our efforts: keeping fares stable and ensuring that customers reach their destinations on-time, and we delivered on both. First, we held fares steady in FY2013 and committed to a fourth consecutive fiscal year of stable fares for FY2014. Second, Rail Operations has made concrete, measurable improvements in its on-time performance (OTP) since Scorecard launched — jumping from a 94.7 percent OTP for the 2011 calendar year to 96.4 percent in 2012. For 2013, we are on target for another strong year on the rail side, with monthly on-time performance regularly posting between 95 and 96 percent.

This year, we continued to engage in public-private partnerships as an innovative, cost-effective solution to improve the NJ TRANSIT system for our customers. We partnered with Cablevision to offer customers wireless internet access at stations and onboard trains, in an upcoming phased rollout. Another partnership will enable us to deliver more capacity on our light rail system through an expanded light rail vehicle on our Hudson-Bergen Light Rail system. In the area of capital projects, a public-private partnership will result in a new rail station and infrastructure improvements on the Northeast Corridor (NEC) as part of the Mid-Line Loop project in North Brunswick. Mid-Line Loop will allow trains to cross from one side of the NEC to the other on a ramp above the NEC train tracks, eliminating cross-over conflicts and streamlining operations on the busiest rail line in the country.

Much of FY2013 was dedicated to recovering from Superstorm Sandy, a devastating storm that revealed the true value of public transportation during initial service outages. By restoring public transportation options as soon after the storm as possible, NJ TRANSIT helped its customers and the region gradually get back to a normal routine again after enduring the challenging effects of the storm. Moving forward, we are looking to make our system more resilient in the face of future storms, including new safe harbor yards for storage of rail equipment and the development of an innovative power system — NJ TRANSITGRID — that would allow trains to continue running in the midst of a regional power outage. I would like to thank the dedicated employees of NJ TRANSIT who worked tirelessly before, during and after Sandy.

Looking ahead, we continue to gear up for Super Bowl 48 — the first mass transit Super Bowl. Our dedicated employees are working hard to ensure that we provide a safe, world-class travel experience for both fans and regular customers during Super Bowl Week. In recent years, New Jersey has become a premier destination for sports and entertainment events, and we are proud to support them by delivering safe, efficient and reliable service, demonstrating that NJ TRANSIT is one of the premier transit agencies in the nation.

In closing, I would like to thank Governor Chris Christie for his extraordinary leadership and extend our sincere gratitude for his support of NJ TRANSIT on behalf of our customers and New Jersey taxpayers.

Travel safely,

James Weinstein
Executive Director

The Year in Review

Nighttime at Pennsauken Transit Center

Vision, Innovation, Dedication — three words that illustrate both the successes and challenges of NJ TRANSIT in Fiscal Year 2013 (FY2013).

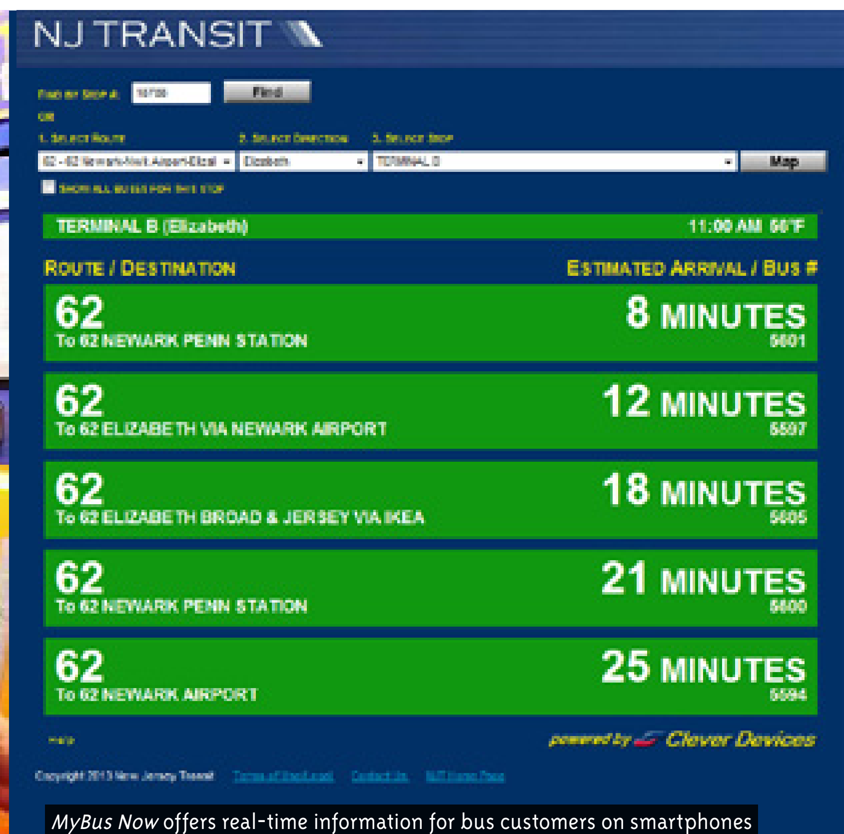
Vision was exemplified in the Corporation's continued use of its Scorecard management tool to maximize performance. During FY2013, overall customer satisfaction increased to 6.1 out of a possible 10.0 — up from 6.0 in FY2012. An added level of customer feedback gathered at "We're Listening" forums held at major stations and terminals allowed customers to engage senior management in one-on-one conversations about their travel experience. By the end of FY2013, nearly four out of five customers said they would recommend NJ TRANSIT to a friend, relative or neighbor. Vision was also demonstrated in other areas, including the rollout of new customer-focused technology, the installation of energy-saving components that deliver significant cost savings and rail safety initiatives designed to reduce accidental deaths along NJ TRANSIT lines.

Innovation marked the introduction or expansion of new travel tools for customers, including the launch of our ***MyTix*** pilot online and mobile ticketing program, expansion of ***MyBus Now*** real-time service information, increased two-way conversations via social media and the deployment of ticket vending machine technology that provides change in dollar bills instead of coins — a first for a U.S. transit agency. The Corporation also established new public/private partnerships, and identified ways to contain and reallocate costs, allowing fares to remain stable for four consecutive years. More recently, the Corporation began working with the federal government to develop a first-of-its-kind microgrid capable of providing reliable backup power for transit systems in the region, particularly during major power outages.

Dedication described the NJ TRANSIT workforce throughout the year, with the defining moment coming when Superstorm Sandy devastated the New York-New Jersey region. Homes, boardwalks and beaches were swept away or damaged by heavy rain, storm surges and tidal flooding, residents and businesses suffered through extended power outages and gas shortages, and entire neighborhoods were reshaped due to the damage.

NJ TRANSIT workers helped with pre-storm evacuations and storm prevention measures. Then, during and after the storm, workers quickly responded to the devastating effects of Sandy, which included removing boats from

Google wallet



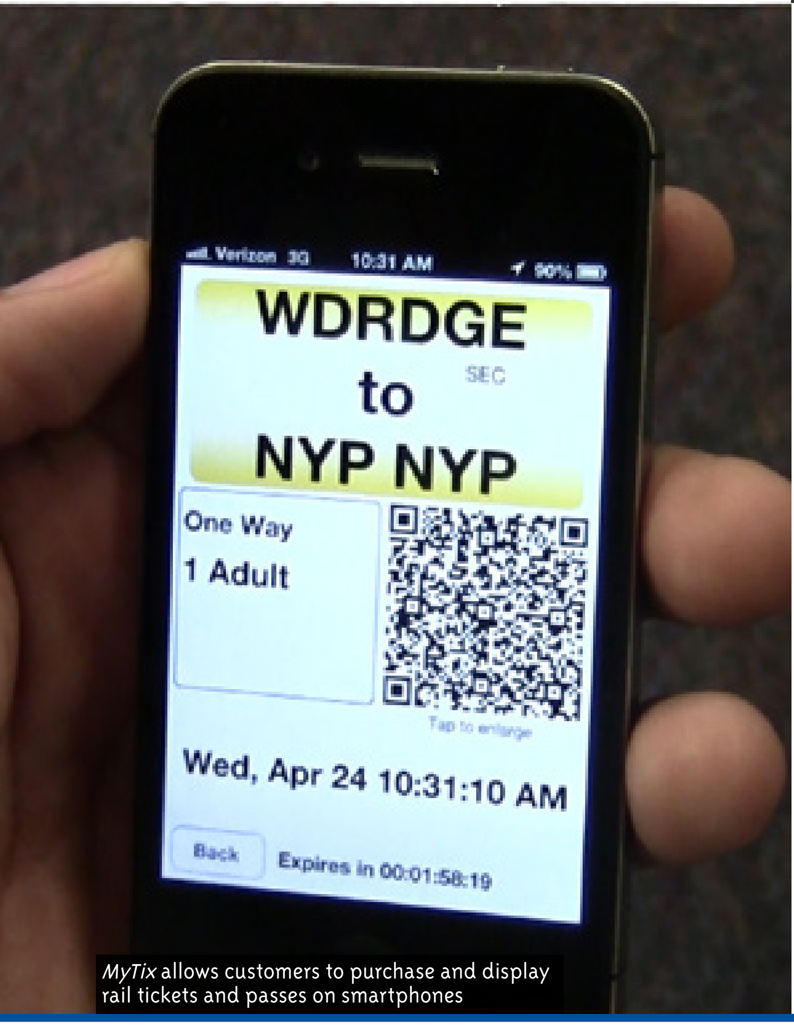
MyBus Now offers real-time information for bus customers on smartphones

The Year in Review

bridges and rights-of-way, rebuilding tracks, signals and other railroad infrastructure, repairing customer and employee facilities and working diligently to restore service. It should be noted that NJ TRANSIT buses — along with buses supplied by sister transit agencies from across the country — carried the bulk of our customers immediately after the storm, allowing rail and light rail crews to make necessary repairs and gradually restore their respective operations.

Moving forward under the leadership of Governor Chris Christie, NJ TRANSIT is working closely with the state and federal governments to complete major projects that will harden and protect the system from future storms, including identifying additional “safe havens” to store equipment, using stronger building materials during the rebuilding process, elevating critical support equipment and developing power systems that will keep customers moving during large-scale power outages.

Boats piled up on Morgan Draw Bridge - North Jersey Coast Line



MyTix allows customers to purchase and display rail tickets and passes on smartphones

During FY2013, NJ TRANSIT also continued its equipment modernization of the bus and rail fleet, reducing the average age of the fleet by several years and increasing service reliability and on-time performance. The Corporation also continued to make state-of-good-repair investments in its facilities and infrastructure, and completed construction on a new Pennsauken Transit Center that opened in the fall of 2013, providing connections between our Atlantic City Line rail service, River LINE light rail service and regional bus service — making it a true multi-modal facility.

Finally, NJ TRANSIT will play a supporting role in Super Bowl 48, which will be held February 2, 2014, at MetLife Stadium in the Meadowlands. Billed as the first “mass transit” Super Bowl, NJ TRANSIT is working closely with federal, regional and state transit agencies and law enforcement to ensure that fans get to the Super Bowl and weeklong special events safely, conveniently and reliably. The effort includes extensive transit planning, infrastructure improvements and frontline employee training.

New "safe haven" yards will protect rail equipment in future storms

FY2013 Highlights Superstorm Sandy

Superstorm Sandy — The Storm

In October 2012, Hurricane Sandy raced through the Caribbean islands before making its way up the eastern seaboard of the United States. Residents and emergency management officials in the New Jersey/New York region closely tracked the approaching hurricane and a frontal system moving in from the west. As the two storms approached, NJ TRANSIT implemented a strategic shutdown of its bus, rail, light rail and Access Link services, and delivered on a special request to provide buses for the evacuation of Atlantic City.

The two storms collided over New Jersey, creating what we now know as Superstorm Sandy, causing catastrophic damage, injuries and loss of life. It was the worst storm New Jersey had experienced in decades, destroying homes, roadways, bridges, beaches, boardwalks, power systems and more.

The NJ TRANSIT system experienced widespread damage to its bus, rail and light rail equipment and infrastructure. More than 300 railcars and locomotives were damaged. Passenger and operations facilities, substations, and communications and electrical distribution systems were damaged. Extensive sections of railroad rights-of-way, bridges and signal controls were significantly damaged by both wind and water, particularly along the North Jersey Coast Line.

Among the images of the storm broadcast around the world were speedboats stacked up on NJ TRANSIT railroad bridges, floodwaters surrounding Hoboken Terminal and miles of damaged overhead catenary wire and railroad tracks. Even with all of this, there were no customer or employee injuries. You can view video footage of some of the damage on the NJ TRANSIT YouTube page.

Boats, containers and other debris on Morgan Draw Bridge - North Jersey Coast Line

Storm debris along Hudson-Bergen Light Rail

FY2013 Highlights Superstorm Sandy


Governor Chris Christie and Lt. Governor Kim Guadagno led New Jersey's Superstorm Sandy recovery efforts


Flood waters adjacent to train tracks at Bay Head.


National Guard assistance at Hoboken Terminal

Many rail customers used our bus service in the first days after the storm due to track outages

Superstorm Sandy — The Recovery

Eager to get New Jersey residents moving again, NJ TRANSIT immediately started its recovery efforts, which required a comprehensive cleanup and recovery plan that delivered both immediate and long-term results. NJ TRANSIT workers were ready for the challenge, removing debris, repairing damaged tracks, switches and signal systems, repairing downed poles and overhead catenary power wires, salvaging equipment, and repairing flood-damaged customer and support facilities.

As roads were cleared of trees and other storm debris, NJ TRANSIT buses started rolling again. Additional buses were provided by transit agencies from around the country to assist with customer demand. The busing operation carried most of NJ TRANSIT's regular and temporary customers looking for a way to move around the region in the weeks after the storm. Ferry services also provided the additional trans-Hudson capacity needed until the rail system could recover.

Meanwhile, state and federal resources proved to be a lifeline, particularly in the aftermath of the storm, with assistance coming in the form of backup generators, emergency funding for the ferry services and repair work, help from the New Jersey National Guard and more.

Gradually, rail service was restored, first at reduced service levels before full service could return thanks to round-the-clock repair work. Additionally, some rail equipment was repaired onsite to accelerate restoration of service while the balance was sent to equipment manufacturers for major repairs. By December 3rd, six weeks after Sandy, all rail lines were running full or modified schedules.

Superstorm Sandy — The Resiliency

NJ TRANSIT is working closely with its state and federal partners to help strengthen its system, making it more resilient in the event of future storms like Superstorm Sandy. Several construction strategies and building materials are being employed to accomplish the storm-hardening objective. They include:

- Securing permanent additional rail storage capacity in Garwood and temporary rail storage in Linden for "safe havens" when large storms approach ***(done)***.
- Installing sand-filled "Trap Bags" around major facilities and infrastructure to protect them from floodwaters ***(underway)***.
- Using new building materials, such as "Dragonboard" walls at Hoboken Terminal, which are more resilient to flooding and mold development ***(done)***.
- Constructing additional "safe haven" rail storage capacity and inspection/maintenance capabilities at and adjacent to County Yard on the Northeast Corridor, which would replace the temporary storage facility in Linden.
- Replacing wooden catenary wire support structures on the Gladstone Branch with steel structures.
- Elevating substations and related electrical distribution systems in flood-prone areas to reduce the impact of future storms and flooding.
- Exploring additional storm-protective measures along flood-prone sections of track in Kearny and along the North Jersey Coast Line, including sea walls, sheathing, raising interlocking apparatus, and elevating other electrical and rail-line housings.
- Hardening electrical systems and supplying sustainable back-up generating and communications capabilities at emergency operations centers in Newark and Maplewood.

More recently, Governor Chris Christie announced a new partnership with the U.S. Department of Energy to develop NJ TRANSITGRID, a first-of-its-kind electrical microgrid capable of supplying highly-reliable power independent of the traditional power grid. It would be the first such transportation system application developed outside of a military application.

NJ TRANSIT has created a Sandy Progress Page on its website that provides updates on the Corporation's recovery and storm-hardening projects, providing customers and taxpayers with a transparent view of Sandy-related projects.

NJ TRANSIT profoundly thanks the many employees who worked around the clock to repair storm damage and restore service for hundreds of thousands of customers. Many sacrificed time away from their families and put their own personal storm damage repairs on hold to get the system up and running again. NJ TRANSIT also thanks its state and federal partners for their immediate and long-term assistance that is helping to make a stronger, more reliable system. Finally, NJ TRANSIT thanks New Jersey Governor Chris Christie for his leadership and strong management skills to guide the state through the storm and its ongoing recovery efforts.

Governor Chris Christie announced plans for a NJ TRANSITGRID that would keep trains moving during major power outages


New Trap Bags will temporarily protect these electrical substations in future large storms until they can be permanently raised in two or three years

FY2013 Highlights Scorecard

We're Listening Forum - Newark Penn Station

Scorecard is NJ TRANSIT's innovative management and reporting tool, focusing on five strategic areas: Customer Experience, Financial Performance, Corporate Accountability, Safety & Security and Employee Excellence. NJ TRANSIT uses the data collected in customer satisfaction surveys and internal reporting to drive its business decisions. NJ TRANSIT posts its survey results online to maintain transparency and help customers and taxpayers track Scorecard's progress.

NJ TRANSIT places a high priority on customer satisfaction. As a result, four customer satisfaction surveys with more than 40 service attributes were conducted in FY2013. Closing out the fiscal year, on a scale of 0 to 10, customers rated their overall satisfaction with NJ TRANSIT at a combined 6.1 in FY2013, above the 6.0 year-end rating for FY2012. Rail customers gave NJ TRANSIT an overall score of 6.0, a significant improvement from the 5.7 received in FY2012 and a record high for rail on all surveys to date. Bus customers rated their overall satisfaction at a 6.1, remaining stable compared to the previous year. Light Rail customers gave NJ TRANSIT an overall satisfaction rating of 7.1, up from the FY2012 year-end score of 6.9. And, Access Link paratransit service for customers with disabilities was given an overall rating of 8.3, higher than last year's score of 8.2 and another record high overall.

Regarding customer loyalty, 77 percent of NJ TRANSIT customers who took the survey in the final quarter of FY2013 said they would recommend NJ TRANSIT to a friend, relative or neighbor — nearly four out of every five customers. That's up a dramatic 10 percent from our baseline rating two years ago and is truly the "ultimate question" we are most proud of in the Scorecard surveys.

Through these Scorecard surveys and additional "We're Listening" outreach forums, customers tell us their two most important priorities are keeping fares stable and on-time performance. NJ TRANSIT successfully delivered in both of those two categories in FY2013 by keeping fares stable for the third consecutive year (and now a fourth consecutive year in FY2014). Meanwhile, rail on-time performance jumped from 94.7 percent in calendar year 2011 to 96.4 percent in calendar year 2012.

Our light rail customers have ranked capacity as a top priority, primarily on Hudson-Bergen Light Rail (HBLR). In response, NJ TRANSIT recently launched a public/private partnership pilot project by modifying a test vehicle that increases seating capacity by 50 percent, and at a fraction of the cost of purchasing a new vehicle. More recently, NJ TRANSIT added longer trains on HBLR during weekend evening peak periods to meet growing customer demand.

Customers also told us that communication and access to travel information are important to them. That's why we expanded ***MyBus Now*** real-time travel information and launched a pilot for customers to purchase tickets online through ***MyTix***. We've also introduced new station-by-station signage at Penn Station New York to give customers an added level of information at the nation's busiest rail station. You can read more about these and other innovative products in the technology section of the annual report.

Visit njtransit.com for the latest Scorecard results.

We're Listening Forum at Penn Station New York

HBLR expanded car

Service

In response to a request from a transit advocate at an NJ TRANSIT Board of Directors meeting, NJ TRANSIT began offering **free parking Saturdays and Sundays** at its Hudson-Bergen Light Rail (HBLR) stations. The pilot program was later expanded to provide free weekend parking on the Newark Light Rail system. NJ TRANSIT also **increased seating capacity** on HBLR in response to customer requests.

NJ TRANSIT partnered with NY Waterway to provide an additional **trans-Hudson ferry option** for select bus customers who travel through the Port Authority Bus Terminal (PABT). The partnership allows bus customers on three heavily-traveled bus routes in Hudson County to ride the ferry between New York and Weehawken instead of the bus from the PABT during evening peak periods, avoiding crowding and congestion at the PABT.

The **Bike Aboard** program was expanded in FY2013, with NJ TRANSIT designating select trains "bike-friendly" on weekends. Bike-friendly trains are now easily identified on rail schedules with a special bike symbol.

NJ TRANSIT and NY Waterway expanded trans-Hudson travel options for bus riders

Equipment Deliveries

NJ TRANSIT continued to take delivery of its **Multilevel Vehicles** (MLVs) in FY2013. The MLVs are popular with customers thanks to their comfort and appearance, and provide approximately 15-20 percent more seating capacity than the railcars they are replacing. Additionally, on-board displays have been upgraded to show train numbers, which will provide customers with accurate information onboard the MLVs to match station information.

NJ TRANSIT received final delivery of 35 **dual-powered locomotives** in FY2013, which can operate in both electrified and non-electrified territories. The new locomotives provide more operating flexibility around the NJ TRANSIT rail system.

NJ TRANSIT also continued to modernize its bus fleet with the delivery of nearly 300 more **NABI transit buses**. The buses, which are 40-feet long and seat up to 42 customers, include state-of-the-art, clean diesel engines and will replace older vehicles nearing the end of their service life.

NABI buses at the Frank R. Lautenberg Station at Secaucus Junction

Customers prepare to board Multilevel railcars at Hamilton Station

Free parking on weekends offered on Hudson-Bergen Light Rail

FY2013 Highlights Improving the Customer Experience

Pennsauken Transit Center connects our rail, light rail and bus services at one convenient location.

Facilities/Infrastructure

The **Pennsauken Transit Center** project involves the construction of a new intermodal station and parking facility in Pennsauken, allowing customers to transfer between the River LINE, Atlantic City Line and regional bus service. The project opened in the fall of 2013.

Improvements to the condition, appearance and functionality of **Newark Penn Station** advanced in FY2013. The work includes repair and restoration of platforms A, B, C, D and E, tile walls, windows, doors, customer waiting areas and a new roof. Additional improvements underway include enhanced pickup/drop-off capacity, exterior traffic circulation, and intersection and signal improvements at Raymond Boulevard, Market Street, Raymond Plaza East and Raymond Plaza West to improve traffic flow around the station. The project is anticipated to be completed in phases by the summer of 2015.

Frank R. Lautenberg Station at Secaucus Junction: Platform improvements: Two existing, center-island, Main Line platforms are being extended to allow for the use of 10-car trains in support of major events at MetLife Stadium and other Meadowlands venues.

Frank R. Lautenberg Station at Secaucus Junction: Ground transportation improvements: This project includes the modification and expansion of an existing access drive and parking area on the east side of the station to include a relocated access road and traffic signal, traffic circulation area, and saw-tooth and pull-through bus loading areas with canopies and/or bus shelters.

Other **2014 Secaucus Junction projects:** Upgrades are underway to enhance communications and customer flow at multiple locations, including:

- Provision of portable/private land-mobile radios, PC-based radio dispatch consoles, antennas, cabling and wall-mounted TETRA radio base stations at key transportation hubs.
- Installation of six additional TVMs at the 7th Avenue Concourse in Penn Station New York.

- Upgrades to barcode readers on faregates at Secaucus Junction to accommodate audible beep recognition, increasing customer flow through the faregates.

Plans advanced for the reconstruction of platforms and the station building at **Elizabeth Station** on the Northeast Corridor, including new elevators and stairs, ticket and operational office space and retail space. The project is anticipated to be completed by the fall of 2017.

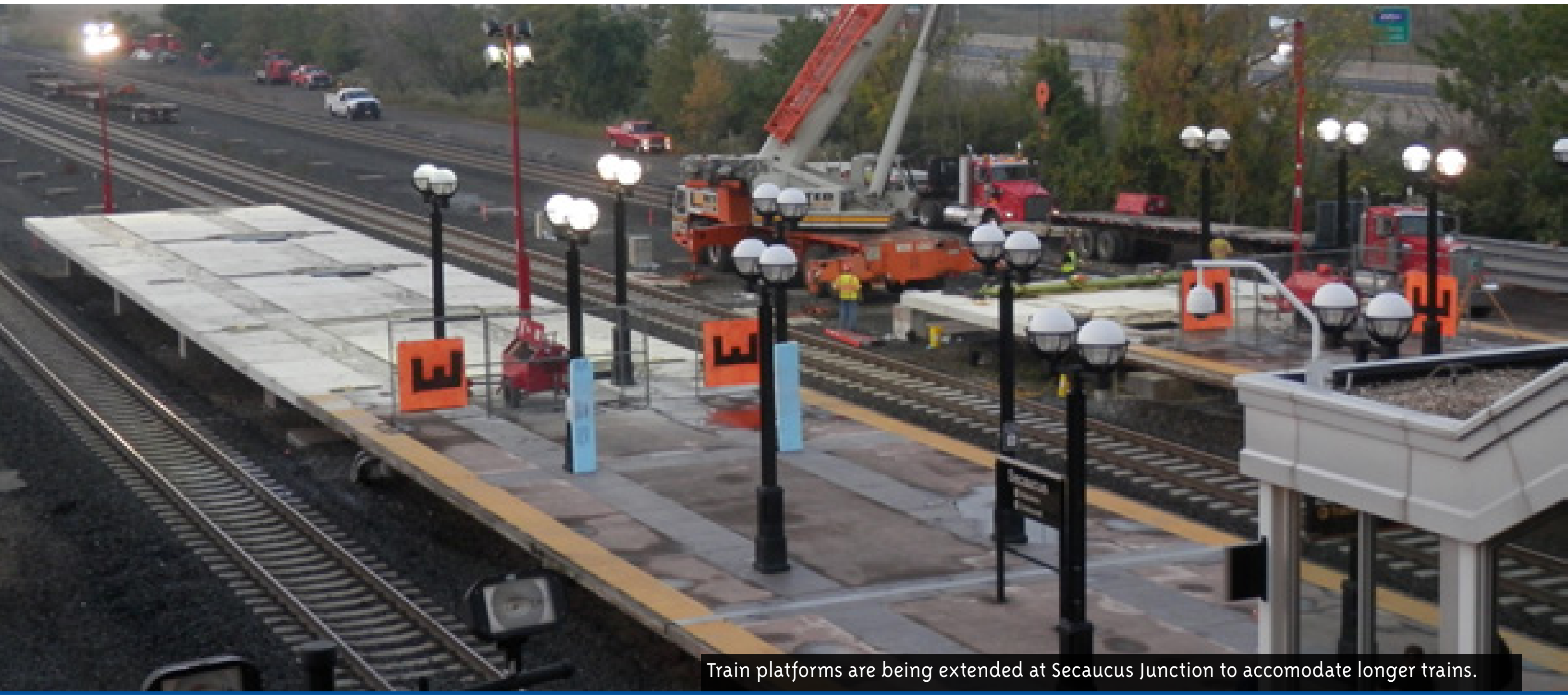
Plans advanced in FY2013 for the construction of high-level platforms at **Perth Amboy Station** on the North Jersey Coast Line to enhance customer boarding and comply with the Americans with Disabilities Act (ADA). The project is scheduled for completion in the winter of 2018.

Plans for a new station on the Main Line in Wood-Ridge advanced in FY2013. The **Wesmont project** is a public/private partnership with a commercial residential developer, Wood-Ridge Development LLC, to construct a new ADA-accessible rail station adjacent to NJ TRANSIT's Wood-Ridge Maintenance-of-Way facility. The project is anticipated to be completed by the summer of 2014.

Final design and engineering work advanced for a new fixed-span **Portal Bridge** over the Hackensack River on the Northeast Corridor, replacing a century-old bridge at the same location. This initial design and engineering work is scheduled for completion in the summer of 2015.

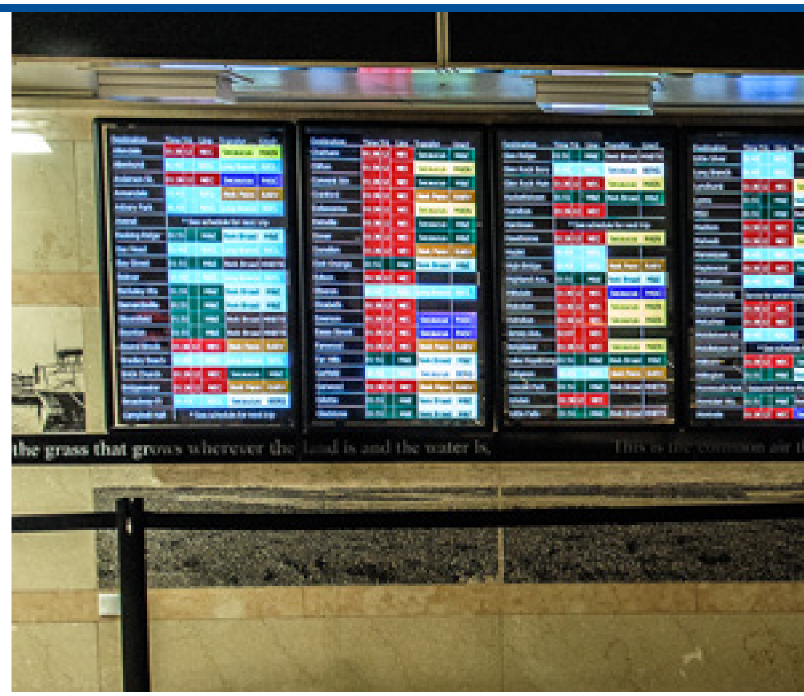
NJ TRANSIT is advancing plans to increase train storage capacity at **County Yard** on the Northeast Corridor (NEC). The existing yard has limited track space and cannot accommodate some of the longer trains now operating on the NEC. By expanding the footprint to 13 acres and constructing more and longer tracks, NJ TRANSIT will be able to accommodate 150 electrified rail passenger cars. Combining this project with the reconfiguration and improvement of an existing freight track nearby and connecting it to the Mid-Line Loop (see below) allows for the possibility to store another 260-plus railcars. The project is expected to be completed in the summer of 2019.

NJ TRANSIT is advancing designs for the **Mid-Line Loop** in North Brunswick, a new grade-separated project similar to a highway exit ramp that would allow westbound NJ TRANSIT trains to cross above the heavily traveled Northeast Corridor (NEC) for eastbound service without interfering with other NEC train traffic. The project would facilitate increased NJ TRANSIT train service on the NEC to meet ridership growth, and allow for Amtrak track expansion and upgrades. The project will also reduce operating costs by reducing non-revenue train movements. A Request for Proposals for design services was issued during FY2013 and the selection process is underway. A **new train station** is also being planned, part of a public/private partnership with the developer of the North Brunswick Town Center in the immediate vicinity of the Mid-Line Loop.



Train platforms are being extended at Secaucus Junction to accomodate longer trains.

FY2013 Highlights Improving the Customer Experience



Studies

NJ TRANSIT is evaluating an **extension of Hudson-Bergen Light Rail** (HBLR) in Jersey City to serve planned commercial and residential growth along the Hackensack River, including at least 8,000 new housing units, more than one-million-square-feet of commercial space and another campus for New Jersey City University. The first stages of this development are expected to be completed after 2015. This study evaluated alternatives for an extension of HBLR from the existing West Side Avenue Station to the new growth areas west of Route 440. Additionally, it provided an opportunity to proactively link transit with land-use planning.

The **Northern Branch Corridor project** calls for transit improvements in northeastern Hudson and southeastern Bergen counties through the restoration of rail service on an existing freight line. The Northern Branch Corridor Draft Environmental Impact Statement (DEIS) was prepared by NJ TRANSIT in cooperation with the Federal Transit Administration (FTA) to evaluate the benefits, costs and social, economic and environmental impacts of constructing and operating rail service between North Bergen in Hudson County and Tenafly or Englewood in Bergen County. The project has been modified to eliminate the Tenafly stations and terminate at Englewood Hospital. Documents advancing the study into the Final Environmental Impact Statement phase will reflect this change.

NJ TRANSIT has identified a need for a new Bus Rapid Transit (BRT) system in Camden and Gloucester counties, serving the City of Camden, Center City Philadelphia and other activity centers along the Route 55/42/676 travel corridor. The proposed **South Jersey BRT System** includes three major park & rides, shoulder-based bus lanes, new stations, real-time bus arrival information, off-board fare collection, new buses and traffic signal priority technology at key intersections. Work is underway to fulfill the requirements of the National Environmental Policy Act (NEPA) by completing an Environmental Assessment (EA) and submitting the documentation to the FTA. This would enable NJ TRANSIT to access $2.5 million in FTA funding approved for the project and potentially seek additional FTA funding. The study work is scheduled to be completed in the winter of 2014.

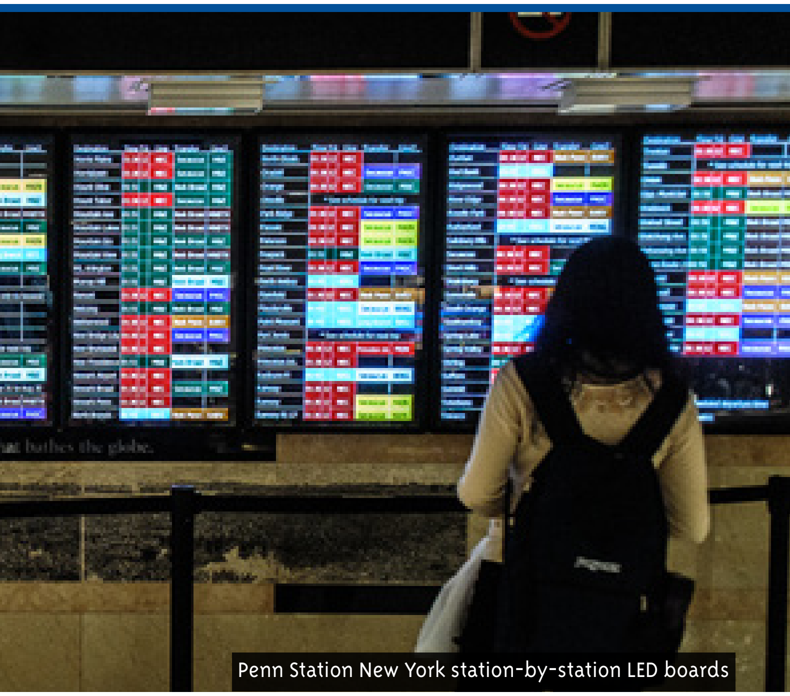
Technology

MyBus Now expanded in FY2013 to serve more New Jersey bus routes, providing real-time bus location and arrival information for customers on their web-enabled mobile device, on desktop computers or via SMS-text messaging. Customers can also receive schedule information for specific bus routes via text message on phones that do not have internet access. MyBus Now is scheduled to expand to New York bus routes in FY2014.

NJ TRANSIT introduced a ***MyTix*** pilot program on the Pascack Valley and Meadowlands rail lines. The MyTix app allows customers to purchase one-way and monthly tickets on their smartphones, allowing their phone to function as both a mobile ticket vending machine and their actual train ticket. MyTix has since expanded to the Main, Bergen County and Morris & Essex lines, with plans to provide this feature to more customers in FY2014.

The **customer communications system at Penn Station New York** was upgraded in FY2013 with a new sound system, larger monitors and multi-color destination displays in the 7th Avenue Concourse. Additional customer information displays were installed at the 31st and 32nd street entrances in New York for increased customer convenience.

NJ TRANSIT installed three **new monitors at the Walter Rand Transportation Center** in Camden, providing customers with real-time bus arrival and departure information.



Penn Station New York station-by-station LED boards

Google Wallet is a free app that transforms customers' smartphones into a digital version of their wallet, storing virtual credit cards and allowing customers to "tap and pay" at select locations. NJ TRANSIT continued this partnership in FY2013, with customers currently using "tap and pay" technology at Penn Station New York, Port Authority Bus Terminal, Newark Liberty International Airport Station and on select bus routes.

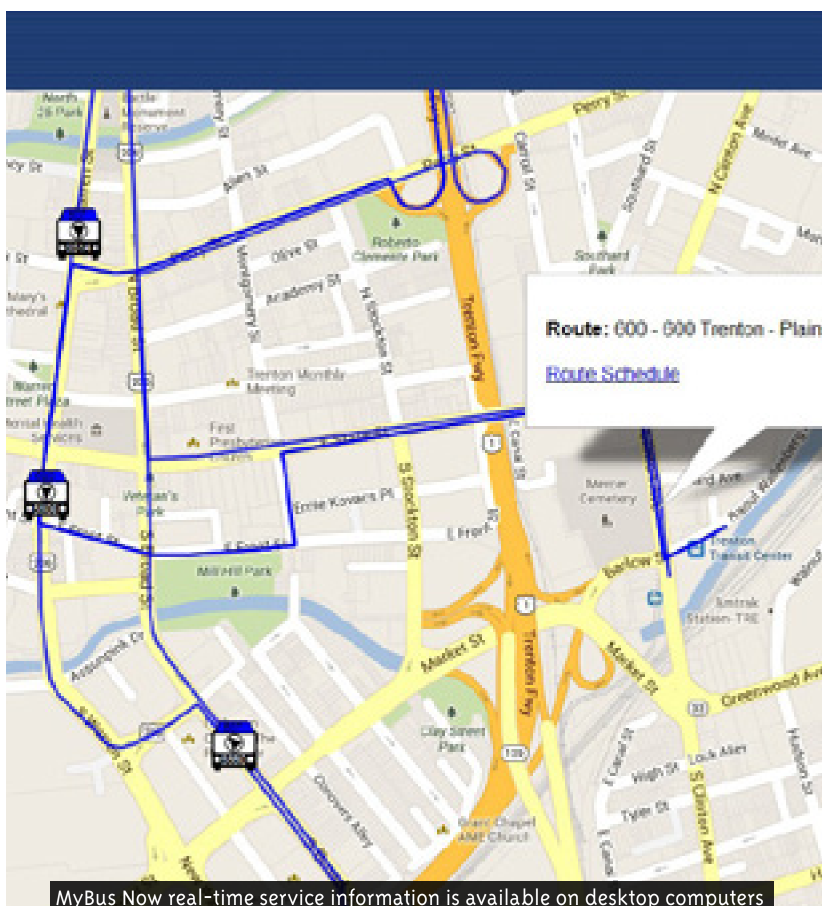
NJ TRANSIT added an option for Penn Station New York (PSNY) customers who attend concerts or sporting events at the Meadowlands Sports Complex in FY2013. PSNY customers can **purchase and print their tickets online** for the Meadowlands Rail Line from their personal computer before leaving their homes. This feature increases customer convenience and decreases waiting lines for ticket vending machines in PSNY.

NJ TRANSIT expanded the availability of ticket vending machines equipped with **Bank Note Recycling** technology in FY2013. NJ TRANSIT is the first transit agency in the country to use this technology, which provides TVM customers with change in dollar bills rather than coins and has been a big hit with NJ TRANSIT customers.

NJ TRANSIT's **social media** presence increased significantly in FY2013 via Facebook, Twitter and YouTube. NJ TRANSIT uses Facebook and Twitter to interface directly with customers during service disruptions, and uses all three social media outlets to promote marketing partnerships and other agency initiatives. NJ TRANSIT now has more than 30,000 Twitter followers, more than 25,000 Facebook fans and 400 YouTube subscribers. Customers can find handy links to any of these social media venues on the bottom of the njtransit.com homepage.

NJ TRANSIT entered into a public/private partnership with Cablevision in FY2013 to offer customers **wireless internet access** at stations and onboard trains. The technology — the first of its kind in the country — will be installed in phases, first with the outfitting of major stations, such as Penn Station New York and Hoboken Terminal by the end of 2013. That will be followed by installations at smaller stations and on railcars, with the project scheduled for substantial completion by the end of 2016.

NJ TRANSIT also began hosting video recordings of its NJ TRANSIT Board of Directors meetings on njtransit.com to help customers and taxpayers monitor the Board's progress and deliver an added level of transparency to its business decisions.



MyBus Now real-time service information is available on desktop computers

FY2013 Highlights

Another Train Coming sign

Safety & Security

Under the leadership of Board Chairman and State Transportation Commissioner James Simpson, NJ TRANSIT launched an aggressive rail safety campaign to reduce the number of accidental deaths along the NJ TRANSIT rail system. **"E-cubed"** — which stands for "Engineering, Enforcement and Education" — encompasses a series of tactics designed to accomplish the goal. Among the highlights of the program:

- Installing "Another Train Coming" signs at Plauderville Station and "gate skirts" at Aberdeen-Matawan Station in a pilot program.
- Installing bilingual "No Trespassing" signs and right-of-way fencing at key locations.
- Installing horizontal bollards at three stations to help guide pedestrians away from the tracks.
- Rotating "Be Safe, Obey the Gates" signs at 12 high-priority locations.
- Increasing NJ TRANSIT Police presence and enforcement at high-risk trespasser locations.
- Increasing the number of education programs at schools and community events throughout the state.
- Installing signs and posters at train stations that feature New Jersey's first statewide 24-hour **NJ Hopeline** suicide prevention hotline number (855-654-6735).

NJ TRANSIT installed an **on-board surveillance system** on River LINE trains in FY2013, enhancing onboard security.


Experimental pedestrian gate skirts in Matawan on NJCL


River LINE security camera

Suicide Prevention Hotline posters for station platforms

NJ TRANSIT installed new **safety shields** on its transit buses, providing an extra level of protection for bus operators without interfering with passenger interaction or fare transactions.

By the end of FY2013, NJ TRANSIT increased the number of its employees who received **PATRIOT Training** to more than 9,300. 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 agencies and emergency responders during FY2013, sponsoring **training exercises** on the Atlantic City Rail Line, Hudson-Bergen Light Rail, Newark Light Rail, River LINE and at one bus support facility. Additionally, more than 150 NJ TRANSIT Police Officers, NJ TRANSIT employees and other New Jersey first responders received **advanced emergency preparedness and response training** at the Texas A&M Engineering Extension Service (TEEX) in College Station, TX.

NJ TRANSIT widely advertised its **"Text Against Terror"** campaign, encouraging riders to text suspicious activity to "NJTPD" (65873), which directly links to the NJ TRANSIT Police Department. Text Against Terror saw a significant increase in the number of texts received in the weeks after the Boston bombing, as customers were being more vigilant about reporting suspicious activity.

FY2013 Highlights

A digital advertising display at Penn Station New York

Financial Performance

Thanks to smart budgeting and attentive asset management, NJ TRANSIT was able to hold fares steady for a third consecutive year in FY2013, and committed to holding fares steady for a fourth consecutive year in FY2014. NJ TRANSIT was able to accomplish that without service reductions. NJ TRANSIT used innovative approaches to gain additional revenue and hold the line on its budget costs, including the development of new marketing and business partnerships, advertising, and tightly managing labor and fuel costs. A remarkable 93 cents of every dollar is spent on service-related costs.

For a comprehensive overview of NJ TRANSIT's financial position, please see the Financial Statements section in the back of the FY2013 Annual Report.

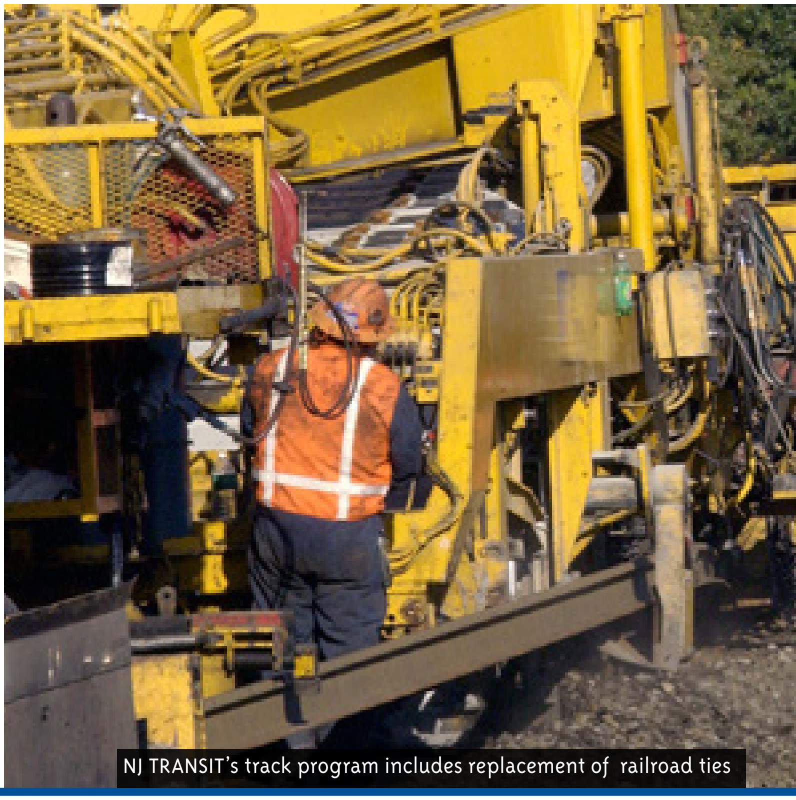
Corporate Accountability

NJ TRANSIT continued to make **state-of-good-repair investments** in FY2013 to maximize the life and reliability of its equipment and infrastructure. In addition to work performed on its railroad tracks, ties, bridges and electric traction systems, facility upgrades were accomplished at the Frank R. Lautenberg Rail Station at Secaucus Junction, Hoboken Terminal, South Orange Station, South Amboy Station, New Brunswick Station, Paterson Station, the Port Authority Bus Terminal, Howell and Oradell bus garages, and at the Ferry Street Training Complex in Newark.

Thanks to a U.S. Department of Housing and Urban Development grant, NJ TRANSIT worked on a strategic transit-friendly planning initiative called "**Together North Jersey.**" The Corporation is responsible for delivering up to 18 Local Demonstration Projects; six projects were started in FY2013 and three are finished. Another three projects will get underway in the fall of 2013. The regional planning effort covers 13 counties and is a collaborative effort with Rutgers University, the North Jersey Transportation Planning Authority, Lt. Governor Kim Guadagno's Business Action Center and the Office of Planning Advocacy.

NJ TRANSIT achieved compliance with the **Payment Card Industry (PCI) Data Security Standards** in FY2013, a requirement for all merchants who accept credit card transactions. NJ TRANSIT processes over $500 million in credit card transactions each year and is subject to annual audits to ensure that customer credit card information is secure.

Through a variety of programs funded through the Federal Transit Administration (FTA) and the Casino Revenue tax, NJ TRANSIT provided funding and technical support to local governments and private and non-profit agencies that operate more than 1,100 vehicles in New Jersey, primarily serving **low-income residents, senior citizens and people with disabilities**. Many of these services provide connections to NJ TRANSIT bus, rail and light rail


NJ TRANSIT's track program includes replacement of railroad ties

services. One example is the Meadowlink Transportation Management Association (TMA) Night Owl service, which provides late-night connections between Essex County neighborhoods and employers at Newark Liberty International Airport via Newark Penn Station. Meadowlink was named Urban Community Transit System of the Year in 2013 by the Community Transportation Association of America for its innovative employment transportation programs.

NJ TRANSIT approved the purchase of more than 200 vehicles in support of **local transportation programs**, allowing thousands of New Jersey residents to travel more easily around the state, and connect with NJ TRANSIT services. The vehicles will be distributed to organizations in 20 counties.

Since 2008, transportation funds derived from Casino Revenues have decreased by nearly 50 percent. **NJ TRANSIT has helped to fill that gap** by assisting county transportation systems to develop revenue-generating contracts — such as on-vehicle advertising — and encourage the purchase of NJ TRANSIT bus and rail tickets. These combined efforts have helped counties generate matching funds for FTA grants and made more efficient use of the NJ TRANSIT system.

NJ TRANSIT coordinated the purchase of more than 200 vehicles for county, local and non-profit programs.

NJ TRANSIT ramped up its **crackdown on ticket fraud** on its trains, buses and light rail systems in FY2013. That included providing train crews with UV scanners to inspect weekly and monthly passes, which now contain an anti-counterfeit measure that can only be detected with the scanners. The scanners are also being used by light rail employees as well as uniformed and plainclothes officers aboard buses.

NJ TRANSIT has measured its **carbon footprint** and found that the Corporation is a net reducer of emissions by nearly 3.7 million metric tons of Carbon Dioxide Equivalent (CO2e), based on vehicle miles avoided, traffic congestion mitigation effects and the positive effects of our transit-oriented development business.

In FY2013, NJ TRANSIT approved a project to upgrade interior lighting at the Meadows Maintenance Complex in Kearny with **light emitting diode (LED) fixtures** and smart controls, which will reduce lighting expenses by a quarter-million dollars a year. Seventy-five percent of the funding is provided by the NJ Board of Public Utilities Clean Energy Program, with NJ TRANSIT providing the balance of the funds.

NJ TRANSIT Bus Operations also installed **energy-efficient lighting** at Washington Township, Egg Harbor and Oradell bus garages.

NJ TRANSIT extended **electric and natural gas commodity contracts** through 2015, netting continued savings, and entered the second year of a project to replace all electric switch heaters on the railroad with more energy-efficient, long-life heaters.

Super Bowl 2014

NJ TRANSIT is playing a major role in the transportation of football fans to Super Bowl 48 at MetLife Stadium in the Meadowlands in February 2014, and to related events throughout Super Bowl Week. The next "Big Game" has been dubbed the first-ever "mass transit" Super Bowl. Additionally, special events will be held in the New Jersey/New York area during the week leading up to the Super Bowl that will be supported by NJ TRANSIT bus, rail and light rail services.

NJ TRANSIT has been working closely with the NY/NJ Super Bowl Host Committee and other regional transit systems to ensure traveling on mass transit will be as seamless as possible for customers. That includes transportation to special events throughout the region in addition to game-day service.

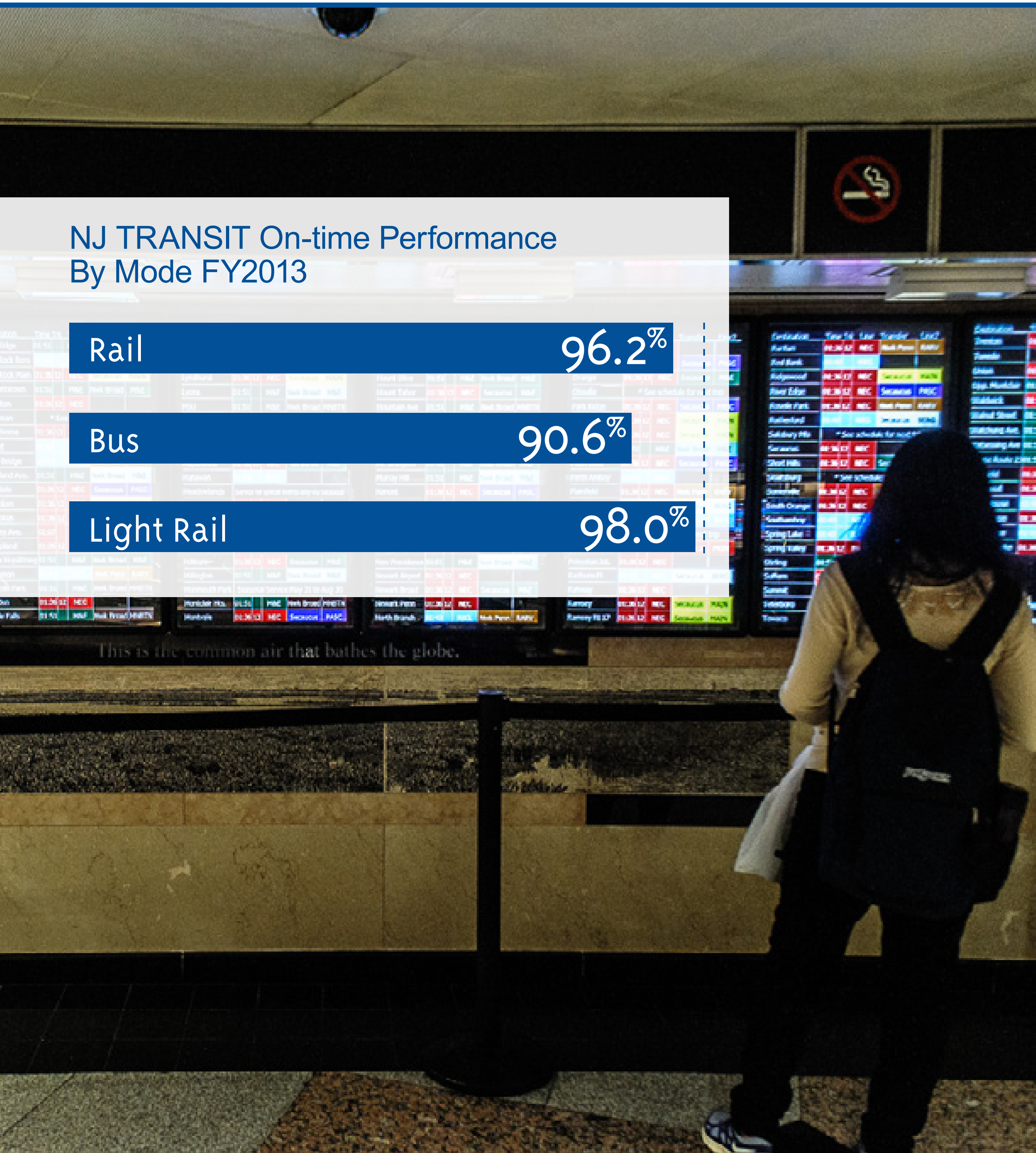
Additionally, all NJ TRANSIT employees will receive special training to ensure they are informed and prepared to assist Super Bowl Week customers throughout New Jersey. Frontline employee ambassadors will receive special gear such as radios to ensure they are equipped with the most current service-related information they can share with customers.

Meadowlands Rail Station is located adjacent to MetLife Stadium

A dedicated Super Bowl page is available on our website for current and potential customers to view, which will be updated frequently right up to Super Bowl Sunday. In addition to information on NJ TRANSIT tickets, fares and accessible services, a trip planner will make it easy for Super Bowl fans to make their travel plans during the week and to the game. It also provides handy links to other related websites, including the NY/NJ Super Bowl Host Committee website.

To help relay information quickly to both regular customers and regional visitors during the week, NJ TRANSIT is establishing a Social Media Monitoring Center that will work closely with the Host Committee to track, monitor and respond to conversations surrounding NJ TRANSIT and the Super Bowl as they unfold. Additionally, visitors will be able to view videos that demonstrate how to travel through the region via mass transit, and follow photos and videos of activities that are taking place during the week.

On-Time Performance by Mode



On-Time Performance 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 On-time Performance by Rail Line FY2013

Atlantic City	96.2%
Main-Bergen County	97.7%
Montclair-Boonton	96.4%
Morris & Essex	95.8%
North Jersey Coast	94.9%
Northeast Corridor	94.4%
Pascack Valley	97.9%
Raritan Valley	98.0%

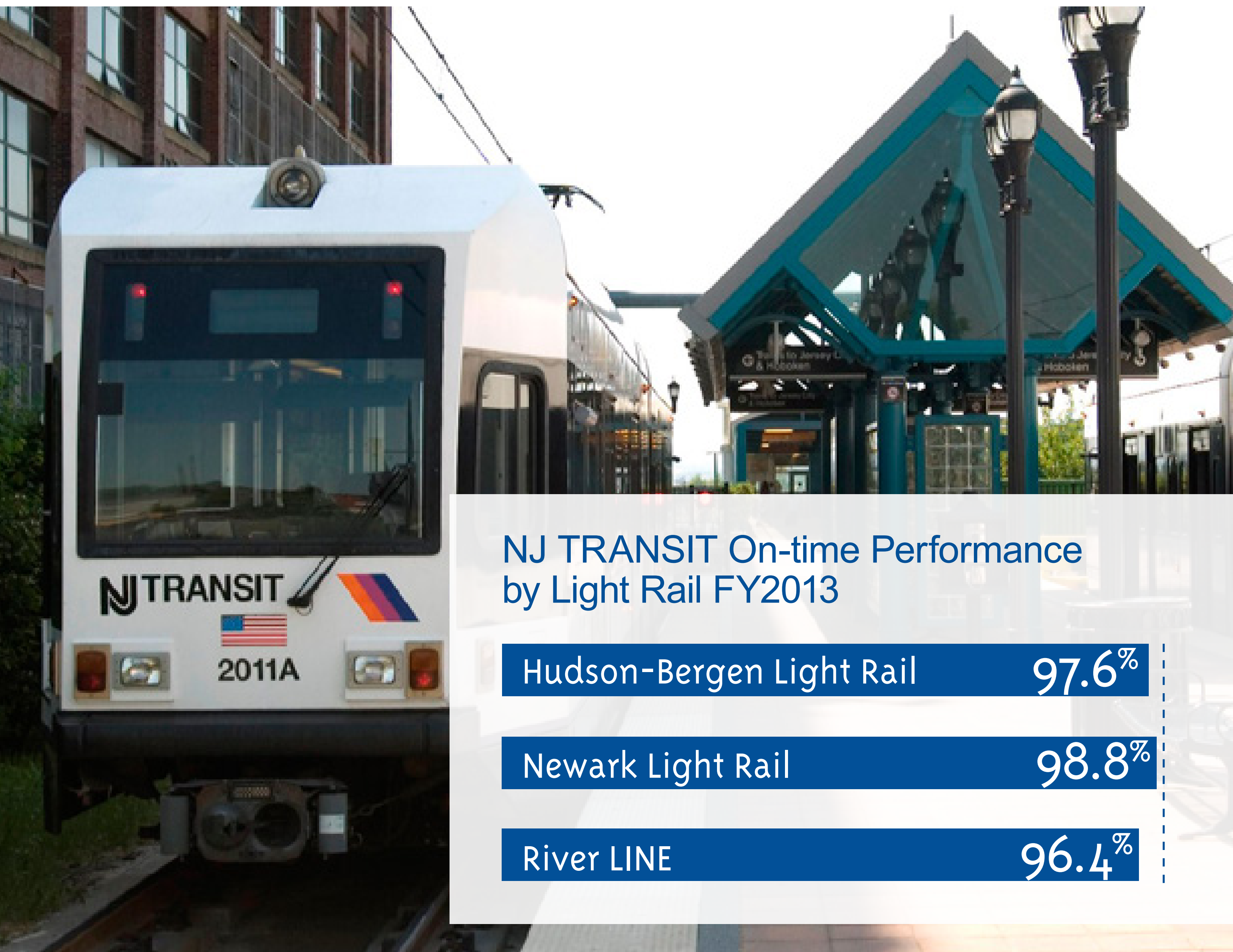
On-Time Performance Light Rail Methodology

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

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

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

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



NJ TRANSIT On-time Performance by Light Rail FY2013

Hudson-Bergen Light Rail	97.6%
Newark Light Rail	98.8%
River LINE	96.4%

On-Time Performance Bus Methodology

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 records on-time performance at the following bus terminals:

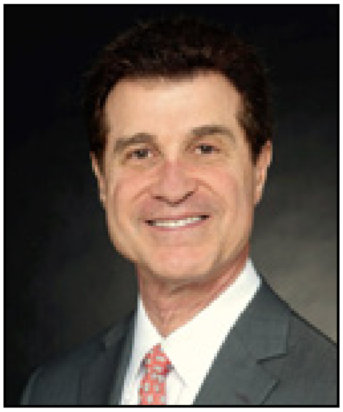
- **Atlantic City Bus Terminal** – seven days a week, 24 hours a day
- **Hoboken Terminal** – weekdays from 2:30 p.m. to 6:30 p.m.
- **Newark Penn Station** – weekdays from 2:30 p.m. to 6:30 p.m.
- **Port Authority Bus Terminal** – weekdays from 3:30 p.m. to 7 p.m.
- **Walter Rand Transportation Center** – weekdays from 6 a.m. to 9 p.m.

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. EGEA
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, Egea 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. "MIKE" SHEVELL

Myron "Mike" 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 served as Chair of APTA. She is also a founding member of the New Jersey chapter of the Conference of Minority Transportation Officials (COMTO) and serves as a board member. 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.

RAYMOND W. GREAVES

Raymond W. Greaves was appointed to the NJ TRANSIT Board of Directors in March 2013. He is a labor leader and Bayonne's Third Ward Council Member. He serves as State Business Agent and Chairman of the New Jersey State Council of the Amalgamated Transit Union, Vice President to the New Jersey State AFL-CIO's Executive Board and an affiliate to the Essex West-Hudson Labor Council. His previous leadership positions with the union included Recording Secretary, Legislative Director, Treasurer/Executive Officer of Division 819 Transit Employees Credit Union and Shop Steward.

Ray received steward leadership and grievance procedure training at Rutgers University, and studied contract negotiations at the George Meany Labor College. In 2013, Greaves was named the Sicilian Citizens Club Man of the Year and became a Humanitarian Award recipient of the Simpson Baber Foundation for the Autistic. He has served several years as a committeeman for the Hudson County Democratic Organization.

NICOLE CRIFO
Governor's Alternate Representative

STEVEN PETRECCA
Treasurer's Representative

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, Secretary
Richard D. Gaughan
Calvin O. Iszard Jr.
Daniel Kelly
Jeffrey Marinoff
Val Orsinmarsi
Dominick Paglione

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
Francis Grant
Mark Malone
Sally Myers
Lee Nash
Dr. Sal Pizzuro
Barbara Small
Bill Smith
Jim Theberry
Marianne Valls
Ina White

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

Local Programs Citizens Advisory Committee

Maryann Mason, Chair
Richard Bartello, 1st Vice Chair
Stephen Thorpe, 2nd Vice Chair
David Peter Alan
Don Brauckmann Sr.
Louise Dance
Robert Dazlich
Marty DeNero
Tony Hall
Gary Johnson
John McGill
Robert Panzer
Sam Podeitz
Marianne Valls
Margaret Vas
Michael Vieira
William Wright

Executive Management Team

NJ TRANSIT Executive Management Team — 2013

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

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

Kathleen Sharman
Chief Financial Officer/Treasurer

Christopher Trucillo
Chief of Police

Kenneth Worton
Deputy Attorney General

Paul Wyckoff
Chief, Government & External Affairs

Joyce Zuczek
Acting Board Secretary

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www.njtransit.com

NJ TRANSIT
The Way To Go.

NJ TRANSIT

FISCAL YEAR 2013
CONSOLIDATED FINANCIAL STATEMENTS

NJ TRANSIT
The Way To Go.

CONTENTS

Ernst & Young LLP
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www.ey.com

Report of Independent Auditors

Management and Board of Directors of
New Jersey Transit Corporation

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the consolidated changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles 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 which 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

September 30, 2013

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, 2013 and 2012 with selected comparative information for the fiscal year ended June 30, 2011. 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.

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 2013

- Total operating revenues for NJ TRANSIT were $946.0 million in fiscal year 2013, a decrease of $14.3 million, or 1.5 percent compared to the prior fiscal year. Passenger revenue decreased by $11.5 million, or 1.3 percent. Other operating revenues, net, decreased by $2.8 million, or 3.9 percent. Decreases in revenue occurred due to the suspension of service and service disruptions that occurred during and after Superstorm Sandy. It is estimated that Superstorm Sandy caused approximately $18.1 million in passenger revenue loss and approximately $1.5 million in other revenue loss. The other operating revenue loss was mainly comprised of losses of lease revenue from tenants in the flooded Hoboken Terminal and for a reduction in Metro North subsidy payments due to the disruptions in service. Ridership losses of 1.1 percent also resulted mainly from Superstorm Sandy. Employment levels in the region served by NJ TRANSIT exhibited above-average growth during fiscal year 2013, increasing by over 1.5 percent above the prior fiscal year. Passenger revenue and ridership were trending favorably until the storm.

- Total operating expenses before depreciation and other expenses were $1,922.8 million in fiscal year 2013, a decrease of $1.3 million or 0.1 percent, from the prior fiscal year. Decreases in labor, parts, materials and supplies, claims and insurance, fuel and propulsion, and other expenses were partially offset by increases in fringe benefits, services, utilities, tolls, fees and trackage, and purchased transportation. In-house labor costs and other operating expenses for the recovery and restoration efforts following Superstorm Sandy were reclassed from the natural expense accounts and presented on a separate line in the Statement of Revenue, Expenses and Changes in Net Position. Additional details are presented on page 9.
- Total net position at June 30, 2013 was $5,449.5 million, an increase of $129.1 million, or 2.4 percent above total net position at June 30, 2012.
- Total capital assets (net of depreciation) were $7,389.1 million at June 30, 2013, a net decrease of $8.6 million, or 0.1 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.

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 Region's Core (ARC) project that was canceled in 2010. See below for further discussion.

FINANCIAL ANALYSIS
NET POSITION

NJ TRANSIT's total net position at June 30, 2013, was $5,449.5 million, an increase of $129.1 million, or 2.4 percent, from June 30, 2012 (Table A-1). Total assets increased $61.0 million, or 0.7 percent, and deferred outflows of resources from unamortized debt refunding decreased by $3.9 million, or 36.4 percent. Total liabilities decreased $72.0 million, or 1.8 percent.

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.

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

	AS OF JUNE 30, 2013	2012	2011	% INC/(DEC) 2013/2012	2012/2011
Current assets	$724.6	$527.8	$709.6	37.3	(25.6)
Restricted assets	1,275.4	1,402.5	1,555.7	(9.1)	(9.8)
Capital assets, net	7,389.1	7,397.7	7,545.7	(0.1)	(2.0)
Other assets	4.5	4.6	5.9	(2.2)	(22.0)
TOTAL ASSETS	**9,393.6**	**9,332.6**	**9,816.9**	**0.7**	**(4.9)**
Refunding of debt	6.8	10.7	15.0	(36.4)	(28.7)
TOTAL DEFERRED OUTFLOW OF RESOURCES	**6.8**	**10.7**	**15.0**	**(36.4)**	**(28.7)**
Other current liabilities	868.6	691.4	832.3	25.6	(16.9)
Notes payable	1,416.8	1,631.8	1,838.9	(13.2)	(11.3)
Net OPEB obligation	340.8	294.7	247.3	15.6	19.2
Long-term debt	1,132.9	1,192.2	1,291.9	(5.0)	(7.7)
Unearned revenue and other non-current liabilities	191.8	212.8	243.9	(9.9)	(12.8)
TOTAL LIABILITIES	**3,950.9**	**4,022.9**	**4,454.3**	**(1.8)**	**(9.7)**
Net investment in capital assets	5,805.2	5,662.3	5,665.2	2.5	(0.1)
Restricted for capital projects	5.1	5.0	3.9	2.0	28.2
Unrestricted (deficit)	(360.8)	(346.9)	(291.5)	4.0	19.0
TOTAL NET POSITION	**$5,449.5**	**$5,320.4**	**$5,377.6**	**2.4**	**(1.1)**

FISCAL YEAR 2013

The 37.3 percent increase in current assets in fiscal year 2013 reflects an increase in Federal grant receivables mainly for the timing of fiscal year 2013 Preventive Maintenance as well as an increase in receivables due from the State of New Jersey. These increases in receivables were offset by a decrease in cash and cash equivalents mainly due to the timing of receipt of federal funds. Restricted assets decreased 9.1 percent as a result of payments for the acquisition of rolling stock and assets relating to service improvements and expansion. Of the $7,389.1 million in capital assets, net, $1,186.4 million represents construction in progress; $5,834.5 million represents NJ TRANSIT's investment in buildings, structures, track, equipment, locomotives, railcars and buses, net of depreciation; and $368.2 million represents land and other capital assets.

The 25.6 percent increase in current liabilities was mainly the result of accruing rail rolling stock repairs in the amount of $55 million for multilevel railcars and locomotives damaged during Superstorm Sandy. Also contributing to this increase is an advance from the State of New Jersey in response to the delay in release of Federal funds, which are expected to be received in September 2013.

The 15.6 percent increase in the obligation for postemployment benefits reflects the fiscal year 2013 incremental increase required under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The 9.9 percent decrease in unearned revenue and other non-current liabilities was the result of the payment of the second $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.

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 the 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.

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 increase in net position in fiscal year 2013 was $129.1 million (Table A-2) and was primarily the result of an increase in non-operating revenues in the form of federal and state grants, caused by the timing of grant awards. More specifically, the delay by the Federal government in awarding Fiscal Year 2012 preventative maintenance and other grants pushed prior year revenue into Fiscal Year 2013. The increase in grant revenue was offset by expenses and revenue losses resulting from Superstorm Sandy.

The decrease in net position in fiscal year 2012 was $57.2 million. 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.

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

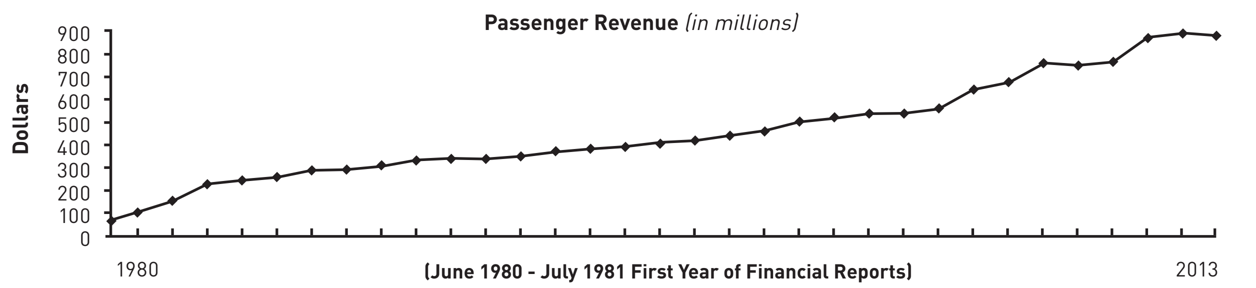
	YEARS ENDED JUNE 30,			% INC/(DEC)	
	2013	**2012**	**2011**	**2013/2012**	**2012/2011**
Operating Revenues					
Passenger fares	$877.7	$889.2	$870.6	(1.3)	2.1
Other, net	68.3	71.1	70.8	(3.9)	0.4
Total Operating Revenues	**946.0**	**960.3**	**941.4**	**(1.5)**	**2.0**
Operating Expenses					
Total operating expenses before depreciation	1,922.8	1,924.1	1,875.0	(0.1)	2.6
Superstorm Sandy expenses, net	95.3	—	—	—	—
Depreciation	501.7	512.1	525.8	(2.0)	(2.6)
Total Operating Expenses	**2,519.8**	**2,436.2**	**2,400.8**	**3.4**	**1.5**
Operating Loss	**(1,573.8)**	**(1,475.9)**	**(1,459.4)**	**6.6**	**1.1**
Non-operating revenues, net	1,105.0	950.5	991.0	16.3	(4.1)
Special items	—	(29.8)	(392.4)	—	(92.4)
Capital contributions, net	597.9	498.0	575.3	20.1	(13.4)
Change in Net Position	**129.1**	**(57.2)**	**(285.5)**	**325.7**	**(80.0)**
Total Net Position, Beginning	**5,320.4**	**5,377.6**	**5,663.1**	**(1.1)**	**(5.0)**
Total Net Position, Ending	**$5,449.5**	**$5,320.4**	**$5,377.6**	**2.4**	**(1.1)**

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. The below graphic includes special transit fares which mainly consist of revenue for ADA (Americans with Disabilities Act) services.



Total passenger revenue, excluding special transit fares, for fiscal year 2013 decreased $9.9 million or 1.1 percent as a result of service suspensions and disruptions from Superstorm Sandy. Ridership levels also experienced decreases from fiscal year 2012 as a result of the storm. Employment growth continued in 2013, softening the effects of Sandy. Rail passenger revenue for fiscal year 2013 decreased $12.6 million, or 2.5 percent, with ridership decreasing by 1.8 million passenger trips, or 2.2 percent. Bus passenger revenue increased $3.8 million, or 1.1 percent, with ridership decreasing by 0.4 million passenger trips, or 0.2 percent. Bus service was the least impacted by Sandy as almost all service was restored shortly after the storm. Passenger revenues for Light Rail, which include Newark Light Rail, Hudson-Bergen Light Rail and River LINE revenues, decreased $1.1 million, or 4.8 percent, with ridership decreasing by 0.8 million passenger trips, or 3.7 percent.

Total passenger revenue, excluding special transit fares, for fiscal year 2012 increased $21.0 million or 2.4 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 $8.1 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 $0.6 million, or 2.7 percent, with ridership increasing by 1.1 million passenger trips, or 5.3 percent.

Total passenger fares presented in the above narrative and the table below excludes special transit fares which are added to passenger revenue for financial statement presentation purposes. Revenue and Ridership figures presented here correspond to the data presented monthly to the Board.

TABLE A-3
PASSENGER REVENUE *(in millions)*

	YEARS ENDED JUNE 30,			% INC/(DEC)	
	2013	**2012**	**2011**	**2013/2012**	**2012/2011**
Rail Operations	$491.4	$504.0	$491.7	(2.5)	2.5
Bus Operations	361.6	357.8	349.7	1.1	2.3
Light Rail Operations	21.9	23.0	22.4	(4.8)	2.7
Total	**$874.9**	**$884.8**	**$863.8**	**(1.1)**	**2.4**

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

	YEARS ENDED JUNE 30, 2013	2012	2011	% INC/(DEC) 2013/2012	2012/2011
Rail Lines					
Newark Division	49.4	50.0	48.6	(1.2)	2.9
Hoboken Division	28.2	29.4	28.2	(4.1)	4.3
Atlantic City	1.0	1.0	1.0	—	—
Total	**78.6**	**80.4**	**77.8**	**(2.2)**	**3.3**
Bus Lines					
Northern Division	69.1	68.7	65.8	0.6	4.4
Central Division	68.4	68.5	66.0	(0.1)	3.8
Southern Division	23.5	24.2	23.5	(2.9)	3.0
Total	**161.0**	**161.4**	**155.3**	**(0.2)**	**3.9**
Light Rail Lines					
Newark Light Rail	5.3	5.7	5.5	(7.0)	3.6
Hudson-Bergen Light Rail	12.9	13.3	12.4	(3.0)	7.3
River LINE	2.8	2.8	2.8	—	—
Total	**21.0**	**21.8**	**20.7**	**(3.7)**	**5.3**
Total Ridership	**260.6**	**263.6**	**253.8**	**(1.1)**	**3.9**

FISCAL YEAR 2013

OTHER OPERATING REVENUES

Other operating revenues, net of the allowance for bad debt, consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and revenue received from operating service on behalf of Metro-North. There was a decrease in other operating revenues of $2.8 million, or 3.9 percent due to several factors, mostly resulting from Superstorm Sandy: concession revenue was not realized for several tenants of the Hoboken Terminal where flooding occurred and spaces were uninhabitable; a small number of tenants were provided rent relief; and, adjustments were made to reduce the subsidy provided by Metro-North for service interruptions.

OPERATING EXPENSES

Operating expenses consist of employment costs, depreciation and other operating costs. Due to the significance of Superstorm Sandy, in-house labor costs and other operating expenses for the recovery and restoration efforts were reclassed from the natural expense accounts and presented on a separate line in the Statement of Revenue, Expenses and Changes in Net Position. The below table provides the details by major expense category of Storm costs.

DETAIL OF SUPERSTORM SANDY OPERATING EXPENSES/RECOVERABLES

Major expense category	*(in millions)*
Labor	$16.9
Fringe benefits	13.8
Parts, materials and supplies	20.6
Services	78.6
Utilities	0.1
Purchased transportation	7.7
Other	7.6
Total Operating Expenses from Superstorm Sandy	**145.3**
Insurance Recovery	**(50.0)**
Net Expenses/(Recoverables) from Superstorm Sandy	**$95.3**

EMPLOYMENT COSTS

Employment costs consisting of labor and related fringe benefit expenses represent over 58.0 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 2013, labor costs decreased $7.6 million, or 1.2 percent, while fringe benefits increased $25.8 million, or 5.3 percent from fiscal year 2012. The decrease in labor costs results from the reclass of Superstorm Sandy expenses to a separate line item in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position. When storm costs are included, labor increased by $9.2 million, or 1.5% from fiscal year 2012. In-house labor costs for the storm recovery and repair effort totaled $16.9 million for labor and $13.8 million for fringe benefits. All contracts pertaining to agreement employees are currently expired. Wages for non-agreement employees continue to be frozen. The increase in fringe benefits expense for fiscal year 2013 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 decreased $16.7 million or 9.5 percent after the exclusion of Superstorm Sandy expenses. When such expenses are included, this expense category increased by $4.0 million.

Services expense increased $7.1 million, or 6.2 percent, reflecting increased contracted service costs associated with various reimbursable project activities. Including Sandy costs, services increased by $85.7 million. Included in services are the estimated costs to repair rail equipment including multilevel rail cars and dual powered locomotives which is estimated to cost approximately $55 million.

Fuel and propulsion expenses decreased $10.8 million, or 6.7 percent. Fuel expenses decreased $6.7 million, or 5.6 percent, and propulsion expenses decreased $4.1 million, or 9.5 percent, mainly due to lower consumption as a result of service suspensions and interruptions during and after Superstorm Sandy.

Trackage, toll and fee expenses increased $1.5 million, or 2.7 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.

Depreciation expense decreased by $10.4 million, or 2.0 percent, due to certain assets reaching their estimated useful lives and being fully depreciated.

NON-OPERATING REVENUES (EXPENSES)

Non-operating revenues increased $154.5 million, or 16.3 percent, primarily attributable to an increase in federal and state grant revenue, due to the timing of grant awards. More specifically, the delay by the Federal government in awarding Fiscal Year 2012 preventive maintenance and other grants, pushed prior year revenue into Fiscal Year 2013. The State appropriation was decreased from $285.0 million in fiscal year 2012 to $68.2 million in 2013. State operating assistance was supplemented with funds from the New Jersey Turnpike Authority as part of an agreement between the Turnpike Authority and the State Treasurer.

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 $597.9 million was $99.9 million, or 20.1 percent, above fiscal year 2012.

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 2012

OTHER OPERATING REVENUE

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.

CAPITAL ASSETS

As of June 30, 2013, NJ TRANSIT had invested $14,394.6 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2013 totaled $7,389.1 million (Table A-4). This amount represents a net decrease of $8.6 million, or 0.1 percent, below June 30, 2012 net 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.

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.

Looking forward to fiscal year 2014, NJ TRANSIT's Board of Directors approved a $1.23 billion capital program that focuses on similar initiatives as fiscal year 2013 and also calls for additional programs to augment the customer service experience and security. The program continues to invest in upgrades to the efficiency and state of good repair of the Northeast Corridor (NEC) with a $60 million installment in Fiscal Year 2014, part of NJ TRANSIT's 5-year $600 million NEC investment program.

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

	AS OF JUNE 30,			% INC/(DEC)	
	2013	**2012**	**2011**	**2013/2012**	**2012/2011**
Capital projects in process	$1,186.4	$1,003.4	$1,004.5	18.2	(0.1)
Revenue vehicles	1,746.4	1,800.7	1,874.9	(3.0)	(4.0)
Buildings and structures	2,888.5	2,961.4	2,957.2	(2.5)	0.1
Track	1,114.3	1,167.2	1,231.8	(4.5)	(5.2)
Land	353.8	352.4	342.7	0.4	2.8
Equipment	84.6	95.8	115.3	(11.7)	(16.9)
Other	15.1	16.8	19.3	(10.1)	(13.0)
Total Capital Assets, Net	**$7,389.1**	**$7,397.7**	**$7,545.7**	**(0.1)**	**(2.0)**

DEBT OBLIGATIONS

Debt obligations outstanding at June 30, 2013, totaled $2,835.2 million compared with $3,107.0 million at June 30, 2012, a decrease of 8.7 percent.

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. The following table summarizes the changes in debt between fiscal years 2013, 2012 and 2011 *(in millions)*:

		AS OF JUNE 30,		% INC/(DEC)	
	2013	2012	2011	2013/2012	2012/2011
Notes payable	$1,621.7	$1,827.6	$2,025.7	(11.3)	(9.8)
Obligations under capital leases*	1,213.5	1,279.4	1,368.5	(5.2)	(6.5)
Total	**$2,835.2**	**$3,107.0**	**$3,394.2**	**(8.7)**	**(8.5)**

*Includes $1,179.1 million, $1,226.5 million and $1,317.7 million of leveraged lease transactions as of fiscal years 2013, 2012 and 2011, respectively.

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

ECONOMIC CONDITIONS AND TRENDS

As the largest statewide transit system in the U.S., NJ TRANSIT serves several primary market areas, including northern New Jersey, southern New Jersey, New York City and Philadelphia. Economic conditions and trends in each of these areas play a major role in the demand for NJ TRANSIT services.

Employment levels in the region served by NJ TRANSIT exhibited above-average growth during fiscal year 2013, increasing by 1.5% from the prior fiscal year. This was the highest annual rate of job growth in the region in over a decade, and was more than twice the annual average growth rate of the past 20 fiscal years. Little change in employment trends was evident following Superstorm Sandy.

Regional employment had peaked during September 2008 (fiscal year 2009), then declined for 19 consecutive months before bottoming out in April 2010 (fiscal year 2010), with a net employment decline of almost 4.0% in the region. Regional employment by the end of fiscal year 2013 had recovered to within 0.3% of the fiscal year 2009 peak.

The various markets served by NJ TRANSIT have experienced differing levels of employment and economic recovery. New York City employment exhibited a 3.0% decline lasting a total of 16 months before its recovery started, and by the end of fiscal year 2013 had not only recovered jobs totaling those lost during fiscal 2009-10 but had added another 3.0% on top of that. Philadelphia lost just 1.9% of its employment during a 14 month period, and has since recovered to within 0.1% of its fiscal year 2009 peak.

New Jersey's economy, on the other hand, fared significantly worse than its neighbors. NJ employment dropped almost 6.0% over a 40 month period, lasting from April 2008 (fiscal year 2008) to August 2011 (fiscal year 2012). At the end of fiscal year 2013 New Jersey had recovered only about 1 of every 3 jobs lost during this period, with employment still standing 3.9% below its peak.

NJ TRANSIT ridership trends mirror those of the employment markets. Ridership trends in New York City services such as Rail passengers ticketed to/from New York Penn Station and Bus passengers on New York Interstate Routes have exhibited significantly stronger trends than those in New Jersey services, such as Rail passengers ticketed locally between NJ points and Bus passengers on North Jersey Intrastate Routes and South Jersey Intrastate Routes.

NJ TRANSIT continuously monitors economic trends to gain insight on how the economy will impact operations and finances.

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, 2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$38,775	$114,810
Investments	32,394	30,477
Due from federal government	359,431	124,258
Due from State of New Jersey	125,068	93,743
Inventories, net	122,919	114,531
Other	46,009	49,999
Total Current Assets	**724,596**	**527,818**
Non-Current Assets		
Restricted cash and cash equivalents	19,402	19,101
Restricted investments	76,932	156,969
Restricted leveraged lease deposits	1,178,986	1,226,465
Other	4,496	4,505
Capital assets not being depreciated	1,554,601	1,370,085
Capital assets, net of accumulated depreciation	5,834,543	6,027,642
Total Non-Current Assets	**8,668,960**	**8,804,767**
Total Assets	**9,393,556**	**9,332,585**
DEFERRED OUTFLOWS OF RESOURCES		
Refunding of Debt	6,842	10,750
Total Deferred Outflows of Resources	**6,842**	**10,750**
LIABILITIES		
Current Liabilities		
Accounts payable	241,685	140,130
Accrued payroll and benefits	121,202	112,566
Current installments under capital leases	80,556	87,206
Short-term notes payable	204,955	195,705
FTA ARC settlement	19,000	19,000
Other current liabilities	201,233	136,752
Total Current Liabilities	**868,631**	**691,359**
Non-Current Liabilities		
Notes payable	1,416,794	1,631,846
Accrued injury and damage claims	64,096	73,360
Obligations under capital leases	1,132,913	1,192,209
Net OPEB obligation	340,782	294,739
FTA ARC settlement	38,000	57,000
Unearned revenue and other non-current liabilities	89,722	82,441
Total Non-Current Liabilities	**3,082,307**	**3,331,595**
Total Liabilities	**3,950,938**	**4,022,954**
NET POSITION		
Net investment in capital assets	5,805,179	5,662,257
Restricted for capital projects	5,148	4,971
Unrestricted (deficit)	(360,867)	(346,847)
Total Net Position	**$5,449,460**	**$5,320,381**

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, 2013	2012
Operating Revenues		
Passenger fares	$877,671	$889,136
Other, net	68,342	71,146
Total Operating Revenues	**946,013**	**960,282**
Operating Expenses		
Labor	602,870	610,482
Fringe benefits	511,439	485,672
Parts, materials and supplies	158,825	175,553
Services	121,417	114,321
Claims and insurance	47,275	49,691
Fuel and propulsion	151,253	162,031
Trackage, tolls and fees	56,263	54,806
Utilities	41,066	38,669
Purchased transportation	204,369	197,231
Other	28,059	35,705
Total Operating Expenses, Before Depreciation	**1,922,836**	**1,924,161**
Loss Before Depreciation and Other Expenses	**(976,823)**	**(963,879)**
Superstorm Sandy expenses (net of recoverables of $50 million)	(95,305)	—
Depreciation	(501,723)	(512,101)
Operating Loss	**(1,573,851)**	**(1,475,980)**
Non-Operating Revenues (Expenses)		
State appropriation	68,173	285,027
Federal, state and local reimbursements	1,112,551	737,649
Investment income	2,174	4,304
Other non-operating revenues	7,223	16,566
Interest expense	(85,098)	(93,008)
Total Non-Operating Revenues (Expenses)	**1,105,023**	**950,538**
Special Items		
Loss on impairment of ARC assets	—	(29,840)
Total Special Items	**—**	**(29,840)**
Loss Before Capital Contributions	**(468,828)**	**(555,282)**
Capital contributions, net	597,907	498,028
Change in Net Position	**129,079**	**(57,254)**
Total Net Position, Beginning	**5,320,381**	**5,377,635**
Total Net Position, Ending	**$5,449,460**	**$5,320,381**

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30, 2013	2012
Cash Flows from Operating Activities		
Cash receipts from fares	$877,904	$887,915
Other cash receipts	84,597	88,250
Payments for claims	(55,429)	(59,853)
Payments to employees	(1,059,629)	(1,080,377)
Payments to suppliers	(769,332)	(822,724)
Net Cash Used by Operating Activities	**(921,889)**	**(986,789)**
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants and appropriations	1,199,371	917,813
Net Cash Provided by Non-Capital Financing Activities	**1,199,371**	**917,813**
Cash Flow from Capital and Related Financing Activities		
Payment of obligations under capital leases	(18,468)	(15,478)
Interest payments	(91,287)	(100,064)
Repayment of note obligations	(195,705)	(186,846)
Purchase of capital assets	(535,721)	(398,679)
Capital grants	407,672	594,625
Net Cash Used by Capital and Related Financing Activities	**(433,509)**	**(106,442)**
Cash Flows from Investing Activities		
Sales and maturities of investments	88,540	90,066
Purchases of investments	(10,247)	(14,835)
Interest on investments	2,000	3,370
Net Cash Provided by Investing Activities	**80,293**	**78,601**
Net Decrease in Cash and Cash Equivalents	**(75,734)**	**(96,817)**
Cash and Cash Equivalents		
Beginning of Year	**133,911**	**230,728**
End of Year	**$58,177**	**$133,911**
Non-Cash Investing Activities		
Increase in fair value of investments	174	934
Non-Cash Investing Activities	**$174**	**$934**

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30, 2013	2012
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	**$(1,573,851)**	**$(1,475,980)**
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation	501,723	512,101
Changes in Assets and Liabilities		
Inventories	(8,388)	3,321
Other current assets	2,505	(5,098)
Other non-current assets	9	1,426
Accounts payable	101,555	(42,069)
Accrued payroll and benefits	8,636	(31,661)
Other current liabilities	(5,362)	(730)
Accrued injury and damage claims	(9,264)	(9,532)
Net OPEB obligation	46,043	47,438
Unearned revenue and other non-current liabilities	14,505	13,995
Net Cash Used by Operating Activities	**$(921,889)**	**$(986,789)**

See Notes to Consolidated Financial Statements.

1. ORGANIZATIONS AND BUSINESS PURPOSE

Reporting Entity. The New Jersey Transit Corporation (NJ TRANSIT) is a component unit of the State of New Jersey created by the New Jersey Public Transportation Act of 1979. NJ TRANSIT is empowered with the authority to acquire, own, operate and contract for the operation of public passenger transportation services. NJ TRANSIT provides these services through bus operations (NJ TRANSIT Bus Operations, Inc., NJ TRANSIT Mercer, Inc. and NJ TRANSIT Morris, Inc.), and commuter rail operations (NJ TRANSIT Rail Operations Inc.). ARH III Insurance Company, Inc., a non-profit special purpose captive insurance company, is a blended component unit of NJ TRANSIT. 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; discretionary grants under the Federal Urban Mass Transportation Act of 1964 as most recently amended by the Moving Ahead for Progress Act in the 21st Century Act (MAP-21) of 2012; and, local sources. Most federal grants are administered by the Federal Transit Administration (FTA). These grants are used to support construction, acquisition and operation of public transportation facilities, equipment and services.

NJ TRANSIT is governed by an eight-member Board of Directors. Seven of the members have voting authority and include the Commissioner of Transportation, who serves as Chairman, the State Treasurer and another member of the Executive Branch selected by the Governor, who serve ex officio, and four other public members appointed by the governor with the consent of the State Senate. The eighth non-voting member is appointed by the Governor on the recommendation of the labor organization representing the plurality of the employees of NJ TRANSIT, that organization being the Amalgamated Transit Union. Five transit advisory committees regularly advise the Board of Directors on a number of topics. The North and South Jersey Transit Advisory Committees regularly advise the Board on customers' opinions, the Private Carrier Advisory Committee monitors the concerns of New Jersey's private bus carriers, the ADA Task Force assists NJ TRANSIT in the implementation of its ADA improvements plan, and the Local Programs Citizens Advisory Committee advises NJ TRANSIT on public decisions regarding accessibility issues. 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 Recently Adopted. In fiscal year 2013, NJ TRANSIT adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61). 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.

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.

ARH III Insurance Company, Inc., a non-profit special purpose captive insurance company, is a blended component unit of NJ TRANSIT. As a result of GASB No. 61 implementation, ARH's condensed financial information is included in the notes to the financial statements (see Note 17). ARH III is considered a component unit as it has substantively the same governing body as NJ TRANSIT, and there is a financial benefit or burden relationship with the Corporation. This relationship exists as the purpose of ARH III is to limit risk exposure and thus manage insurance costs of the Corporation. Separate financial statements for ARH can be obtained by contacting NJ TRANSIT Corporation, Chief Financial Officer and Treasurer, One Penn Plaza East, Newark, New Jersey, 07105-2246.

Accounting Standards Issued But Not Yet Adopted. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, was issued in June, 2012. The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The requirements of GASB 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet certain criteria and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement requires governments providing defined pension benefits to recognize their long-term obligation for benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

This Statement is effective for fiscal years beginning after June 15, 2014. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, was issued in

January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements and management believes this will not have a significant impact on our financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was issued in April 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate, but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements. This will not have a significant impact on the 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 position of NJ TRANSIT that is invested in capital assets, net of related debt. This indicates that this net position is not accessible for other purposes.
- Restricted for Capital Projects – This represents the net position that is not accessible for general use because their use is subject to restrictions enforceable by third parties.
- Unrestricted (Deficit) – This relates to net position that does 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 position for general use.

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
Purchased transportation	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 Company, 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. Accumulation and payment of vacation and sick leave for agreement employees is based on the collective bargaining agreements with the various unions. Non-agreement employees are permitted to carryover one year's worth of vacation days. Sick days earned for non-agreement employees after January 1, 2012 are not eligible for cash-in upon retirement. 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 statement of net position date.

3. DEPOSITS AND INVESTMENTS

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

	AS OF JUNE 30, 2013	2012
Current		
Cash on hand	$14.9	$18.6
Cash equivalents	23.9	96.2
Investments	32.4	30.5
Total current cash and investments	**71.2**	**145.3**
Non-current		
Restricted cash on hand	9.0	8.7
Restricted cash equivalents	10.4	10.4
Restricted investments	76.9	157.0
Restricted total non-current	**96.3**	**176.1**
Total Deposits and Investments	**$167.5**	**$321.4**

NJ TRANSIT's cash on deposit with various entities as of June 30, 2013 and 2012 totaled $18.9 million and $22.3 million, respectively.

ACCOUNT TYPE	BALANCE (in millions) 2013	2012
Insured	$1.6	$1.3
Insured held at NJ TRANSIT's locations	5.0	3.2
Uncollateralized held by health care providers	3.9	3.7
Uninsured held by banks	8.4	14.1
Total	**$18.9**	**$22.3**

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, 2013 and 2012, $12.3 million and $17.8 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2013 and 2012 totaled $143.6 million and $294.1 million, respectively.

	Fair Value (*in millions*)		Weighted Average Maturity in Years	
Investments	**2013**	**2012**	**2013**	**2012**
State of NJ Cash Management Fund	$1.7	$4.2	—	—
Repurchase Agreements	99.1	248.9	2.19	1.29
U.S. Treasury/Securities	10.4	10.4	0.02	0.01
Bonds	13.9	13.8	0.70	0.39
Common Stocks	16.8	12.7	—	—
Other	1.7	4.1	—	—
Total	**$143.6**	**$294.1**		
Portfolio weighted average maturity (inclusive of proceeds from debt issuance)			1.81	1.20

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 uncollaterized and uninsured and are limited to investment-grade paper. The State of New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of Treasury, Division of Investment and is an unrated investment.

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, 2013, 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, 2013 and 2012, the balance of restricted assets related to these proceeds was $83.3 million and $157.7 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, 2013 and 2012, were $1,179.0 million and $1,226.4 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 Net Position.

Other restricted amounts are made up primarily of deposit requirements for NJ TRANSIT health insurance plans, sale of fixed asset reserves and reserve requirements for Metropark parking deck. The proceeds of other restricted amounts totaled $13.0 million and $18.4 million as of June 30, 2013 and 2012, respectively.

5. CAPITAL ASSETS

A summary of all capital assets of NJ TRANSIT as of June 30, 2013 follows *(in millions)*:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets not being Depreciated				
Land	$352.4	$ 2.2	$0.8	$353.8
Capital projects in process	1,003.4	496.3	313.3	1,186.4
Operating rights	14.2	0.2	—	14.4
Total	**1,370.0**	**498.7**	**314.1**	**1,554.6**
Capital Assets being Depreciated				
Buildings and structures	5,563.2	130.7	—	5,693.9
Track	2,225.3	26.1	—	2,251.4
Railcars and locomotives	2,479.3	—	15.7	2,463.6
Buses, vans and light railcars	1,681.7	140.8	57.7	1,764.8
Furniture, fixtures and equipment	630.5	15.7	0.1	646.1
Computer software & licenses	20.2	—	—	20.2
Total	**12,600.2**	**313.3**	**73.5**	**12,840.0**
Less Accumulated Depreciation				
Buildings and structures	2,601.8	203.6	—	2,805.4
Track	1,058.1	79.0	—	1,137.1
Railcars and locomotives	1,244.4	72.7	13.4	1,303.7
Buses, vans and light railcars	1,115.9	117.7	55.3	1,178.3
Furniture, fixtures and equipment	534.7	26.8	—	561.5
Computer software & licenses	17.6	1.9	—	19.5
Total	**6,572.5**	**501.7**	**68.7**	**7,005.5**
Total Capital Assets, Net of Depreciation	**6,027.7**	**(188.4)**	**4.8**	**5,834.5**
Total Net Capital Assets	**$7,397.7**	**$310.3**	**$318.9**	**$7,389.1**

A summary of all capital assets of NJ TRANSIT as of June 30, 2012 follows *(in millions)*:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets not being Depreciated				
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
Total	**1,361.4**	**376.3**	**367.7**	**1,370.0**
Capital Assets being Depreciated				
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
Total	**12,301.1**	**363.6**	**64.5**	**12,600.2**
Less Accumulated Depreciation				
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
Total	**6,116.8**	**512.1**	**56.4**	**6,572.5**
Total Capital Assets, Net of Depreciation	**6,184.3**	**(148.5)**	**8.1**	**6,027.7**
Total Net Capital Assets	**$7,545.7**	**$227.8**	**$375.8**	**$7,397.7**

For the years ended June 30, 2013 and 2012, capital assets include capitalized interest costs of $486.1 million and $485.1 million, respectively, net of interest income of $358.1 million and $356.9 million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Note 10).

During fiscal years 2013 and 2012, NJ TRANSIT received capital contributions of $637.3 million and $530.3 million, respectively, of which $39.4 million and $32.3 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 2013, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor Rail Line and 69th Street Bridge Renovation.

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 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, 2013, 2012 and 2011 were $5.3 million, $5.0 million and $4.6 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 21.8 percent of annual covered payroll. NJ TRANSIT's annual pension cost was $79.8 million for fiscal year 2013.

THREE-YEAR TREND INFORMATION *(in millions)*

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Non-Agreement Employees Retirement Plan			
06/30/2013	$35.1	100%	$0
06/30/2012	34.0	100	0
06/30/2011	34.6	100	0
Amalgamated Transit Union Employees Retirement Plan			
06/30/2013	$41.5	100%	$0
06/30/2012	43.4	100	0
06/30/2011	42.8	100	0
Transport Workers Union Employees Retirement Plan			
06/30/2013	$1.1	100%	$0
06/30/2012	0.9	100	0
06/30/2011	1.4	100	0
Utility Workers' Union of America Employees Retirement Plan			
06/30/2013	$0.2	100%	$0
06/30/2012	0.2	100	0
06/30/2011	0.2	100	0
Mercer Employees Retirement Plan			
06/30/2013	$1.9	100%	$0
06/30/2012	1.9	100	0
06/30/2011	2.6	100	0

Actuarial Methods and Assumptions. In the July 1, 2012, 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 2013 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2012. 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, 2012, ranged from 1 to 27 years.

Funded Status and Funding Progress. As of July 1, 2012, the most recent actuarial valuation date, the plans were 78.3 percent funded. The actuarial accrued liability for benefits was $1,610.3 million, and the actuarial value of assets was $1,261.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $349.3 million. The annual payroll of active employees covered by the plans was $390.0 million, and the ratio of the UAAL to the covered payroll was 89.6 percent.

The following is the funded status information for each plan as of July 1, 2012, 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 AAL over Assets) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of AAL over Assets) as a Percentage of Covered Payroll ((b-a)/c)
Non-Agreement Employees Retirement Plan	$432.3	$577.8	$145.5	74.8%	$102.9	141.4%
Amalgamated Transit Union Employees Retirement Plan	761.5	946.7	185.2	80.4	266.2	69.6
Transport Workers Union Employees Retirement Plan	36.4	42.0	5.6	86.7	10.8	51.9
Utility Workers' Union of America Employees Retirement Plan	6.1	7.1	1.0	85.9	1.0	100.0
Mercer Employees Retirement Plan	24.7	36.6	11.9	67.5	9.1	130.8

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 $17,500 annually on a pre-tax basis.

NJ TRANSIT also provides money purchase pension plans 401(a) and employee savings/deferred compensation plans (457) for eligible agreement and non-agreement employees. NJ TRANSIT contributed 3 to 6 percent of annual compensation to certain employees' accounts in the 401(a) plan. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed $17,500 annually on a pre-tax basis.

Beginning in 2002, a pre-tax contribution was added for participants of the 401(k) and 457 plans. The Economic Growth and Tax Relief Act of 2001 permits individuals who are age 50 (or older) by the end of the calendar year to elect to make additional "catch up" contributions to the plan. This is in addition to the pre-tax employee contribution limit. 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 $17,500 limit.

NJ TRANSIT's expense for the defined contribution plans totaled $19.9 million and $19.5 million in fiscal years 2013 and 2012, respectively.

Recorded expenses for all plans (including PERS and PFRS) amount to $104.9 million and $103.0 million for the fiscal years ended June 30, 2013 and 2012, respectively.

7. OTHER POSTEMPLOYMENT BENEFITS

NJ TRANSIT sponsors a single-employer defined benefit health care plan that provides postemployment 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 $36.9 million for fiscal year 2013. Plan members receiving benefits contributed $5.0 million or approximately 13.6% 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 2013 and 2012 *(in millions)*:

	YEARS ENDED JUNE 30, 2013	2012
Annual required contribution	$90.5	$85.3
Interest on net OPEB obligation	13.3	11.1
Adjustment to annual required contribution	(20.8)	(17.1)
Annual OPEB cost	83.0	79.3
Contributions made	(36.9)	(31.9)
Increase in net OPEB obligation	46.1	47.4
Net OPEB Obligation, Beginning of Year	**294.7**	**247.3**
Net OPEB Obligation, End of Year	**$340.8**	**$294.7**

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2012 and 2011 are as follows *(in millions)*:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$83.0	44.5%	$340.8
2012	79.3	40.2	294.7
2011	76.2	38.3	247.3

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 $201.2 million and $136.8 million at June 30, 2013 and 2012, respectively and are comprised of the following *(in millions)*:

	AS OF JUNE 30,	
	2013	**2012**
Advance funds-State/Port Authority	$120.8	$50.9
Injury and damage claims (Note 14)	35.5	34.3
Retainage on construction projects	8.0	15.0
Pollution remediation obligations	9.9	4.0
ARC insurance refunds payable	1.1	1.1
Other	25.9	31.5
Total	**$201.2**	**$136.8**

The Advanced funds represent funds received for capital projects for which expenditures have not yet been incurred and/or will be subsequently reimbursed by federal grants. Other current liabilities includes unearned passenger revenue for bulk ticket and monthly sales related to future periods.

9. UNEARNED REVENUE AND OTHER NON-CURRENT LIABILITIES

Unearned revenue and other non-current liabilities totaled $89.7 million and $82.4 million as of June 30, 2013 and 2012, 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,	
	2013	**2012**
Inventory – capital spare parts	$15.4	$15.3
Leases and permits	20.1	20.2
Federal interest on capital assets	17.4	8.1
Non-Federal interest on capital assets	10.2	12.0
Other	3.2	3.4
Total unearned revenue	**66.3**	**59.0**
Sick leave	5.5	5.8
Pollution remediation obligations	17.9	17.6
Total other non-current liabilities	**23.4**	**23.4**
Total	**$89.7**	**$82.4**

10. LONG-TERM DEBT AND OTHER OBLIGATIONS

In April 2009, the State of New Jersey issued $394.3 million of Series 2009A Certificates of Participation (COPs) bearing interest between 3.00 to 5.375 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, 2013, $146.5 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, 2013, $19.9 million of defeased notes remain outstanding.

In June 2002, NJ TRANSIT issued $162.8 million of Series 2002A Refunding COPs bearing interest between 3.0

percent and 5.5 percent with a final maturity in 2015. The proceeds from the sale of these certificates provided advance refunding of $158.7 million of certain maturities of NJ TRANSIT's Series 2000A COPs. The proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide for the debt service on certain Series 2000A notes. The refunding transaction was consummated to provide a structural modification to the original agreement. As of June 30, 2013, $101.9 million of defeased COPs remain outstanding.

In June 2002, NJ TRANSIT issued $94.7 million of Series 2002B COPs bearing interest between 4.0 percent and 5.75 percent with a final maturity in 2015. The proceeds of these 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 a result of the implementation of GASB No. 65, certain reclassifications for FY 2013 and FY 2012 have been made to comply with the new concepts of deferred inflows and outflows. Specifically, $6.8 million and $10.8 million of unamortized deferral on refinancing has been reported as deferred outflows of resources as of June 30, 2013 and 2012, respectively.

The following schedule summarizes notes payable obligations, by issue, as of June 30, 2013 *(in millions)*:

	Inception Date	Balance June 30, 2012	Additions	Payments/ Reductions	Balance June 30, 2013	Due Within One Year
COPs 2000B	10/00	$79.3	$—	$67.6	$11.7	$2.9
COPs 2002A	06/02	132.5	—	30.6	101.9	32.2
COPs 2002B	06/02	80.0	—	2.7	77.3	24.4
COPs 2003	02/03	25.4	—	5.5	19.9	5.8
COPs 2003A	10/03	146.7	—	0.2	146.5	47.1
COPs 2004A	03/04	134.0	—	18.7	115.3	19.3
COPs 2005A	09/05	253.5	—	—	253.5	—
COPs 2008A	04/08	259.3	—	18.3	241.0	19.2
NJEDA 2008A	10/09	291.7	—	38.5	253.2	39.8
COPs 2009A	04/09	381.3	—	13.7	367.6	14.3
Total		**1,783.7**	**—**	**195.8**	**1,587.9**	**$205.0**
Unearned Bond Premium		43.9	—	10.1	33.8	
Total Notes Payable		**$1,827.6**	**$—**	**$205.9**	**$1,621.7**	

The following schedule summarizes notes payable obligations, by issue, 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
Total		**1,970.5**	**—**	**186.8**	**1,783.7**	**$195.7**
Unearned Bond Premium		55.2	—	11.3	43.9	
Total Notes Payable		**$2,025.7**	**$—**	**$198.1**	**$1,827.6**	

Long-term notes payable maturities as of June 30, 2013 *(in millions)*:

Fiscal Years	Principal	Interest	Total
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	147.1	39.4	186.5
2019-2023	467.7	107.0	574.7
2024-2028	128.3	37.1	165.4
2029-2033	61.2	4.9	66.1
Total	**$1,587.9**	**$435.8**	**$2,023.7**

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 Standard & Poor's lowered the credit rating for AIG, the parent of AIG Financial Products, to A- from AA. At June 30, 2013 Standard and Poor's credit rating for AIG remained at A- with a Negative Outlook on its Senior Debt. In December 2012 the federal government ended its investment in AIG with its sixth sale of AIG stock. 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 $120 million.

Capital Leases

NJ TRANSIT did not enter into any new capital leases in Fiscal Year 2013. A summary of each capital lease follows. All other leases represent leveraged leases.

In 2012 NJ TRANSIT entered into a five-year capital lease with Bank of America for 53 MCI Cruiser Buses. The balance of this lease obligation is $13.2 million at June 30, 2013.

In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light railcars for the Hudson-Bergen Light Rail and Newark Light Rail systems. These cars were financed through a sale of COPs by the State of New Jersey in May 1998. The cars were subleased by the New

Jersey Department of Transportation to NJ TRANSIT pursuant to an equipment sublease purchase agreement. NJ TRANSIT will repay the financed amount of $156.2 million over 15 years through June 2014. The balance of this lease obligation is $14.6 million as of June 30, 2013.

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 balance of this lease obligation is $6.6 million as of June 30, 2013.

In total, NJ TRANSIT has recorded obligations under capital leases of $1,213.5 million and $1,279.4 million as of June 30, 2013 and 2012, respectively, of which $80.6 million and $87.2 million represent current installments under capital leases as of June 30, 2013 and 2012, 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, 2013	2012
Land	$25.1	$25.1
Buildings	431.3	431.3
Railcars and Locomotives	551.0	551.0
Buses and Light Railcars	727.3	727.3
Capital Assets Under Capital Leases (at cost)	**1,734.7**	**1,734.7**
Less Accumulated Depreciation	(1,314.9)	(1,228.5)
Net Capital Assets Under Capital Leases	**$419.8**	**$506.2**

The following schedule summarizes the capital lease obligations, including leveraged lease obligations, as of June 30, 2013 *(in millions)*:

	Inception Date	Balance June 30, 2012	Additions	Payments/ Reductions	Balance June 30, 2013	Due Within One Year
Metropark Parking Facility	03/94	$7.7	$—	$1.1	$6.6	$1.2
MMC, Locos. & Railcars	01/97	82.6	—	24.8	57.8	19.2
ALP-44 Locomotives	06/97	7.2	—	—	7.2	—
Comet IV Coaches	07/97	13.5	—	1.8	11.7	1.7
Bus Garages	07/97	45.0	—	3.8	41.2	3.5
Light Railcars	06/98	28.7	—	14.1	14.6	14.7
Bus Garages	09/98	102.3	—	1.7	100.6	7.2
HBLR	12/00	181.4	14.4	11.2	184.6	12.4
MCI Buses	12/01	106.9	—	7.2	99.7	5.3
MCI Buses	10/02	326.4	—	—	326.4	—
Comet IV Coaches	09/03	26.6	—	—	26.6	—
Light Railcars	09/03, 10/03	56.0	—	2.4	53.6	2.5
Articulated Buses	07/04	22.8	—	2.5	20.3	2.5
Diesel Locomotives	12/05	97.4	—	3.6	93.8	3.9
Multilevel Railcars	12/06	18.3	—	0.3	18.0	0.3
Multilevel Railcars	06/07	34.0	—	0.3	33.7	0.4
Multilevel Railcars	12/07	60.8	—	0.8	60.0	1.0
Multilevel Railcars	01/08	45.3	—	1.4	43.9	1.5
MCI Cruiser Buses	06/12	16.5	—	3.3	13.2	3.3
Total Capital Lease Obligations		**$1,279.4**	**$14.4**	**$80.3**	**$1,213.5**	**$80.6**

Minimum capital lease maturities as of June 30, 2013 *(in millions)*:

Fiscal Years	Principal	Interest	Total
2014	$80.6	$36.6	$117.2
2015	166.4	54.8	221.2
2016	156.3	134.3	290.6
2017	108.6	103.1	211.7
2018	85.5	39.9	125.4
2019-2023	419.4	81.8	501.2
2024-2028	171.4	57.6	229.0
2029-2033	25.3	—	25.3
Total Capital Lease Obligations	**$1,213.5**	**$508.1**	**$1,721.6**

The following schedule summarizes the capital lease obligations, including leveraged 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
Total Capital Lease Obligations		**$1,368.5**	**$60.0**	**$149.1**	**$1,279.4**	**$87.2**

As of June 30, 2013, 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)*:

Bus & Light Rail Infrastructure Improvements	$12.0
69th Street Bridge Renovation	17.8
Casino Revenue Transportation Program	26.6
Rail Infrastructure	29.6
Bus AVL Radio System Replacement	31.4
Rail Passenger and Support Facilities & Equipment	33.7
Superstorm Sandy Reconstruction	42.9
Bus Rolling Stock	115.0
Positive Train Stop Stage 2	130.3
Rail Rolling Stock	196.5
Other, for commitments less than $10 million	102.8
Total Capital Projects and Special Service Commitments	**$738.6**

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 2013, 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 $27.8 million, measured at its current value utilizing the expected cash flow method, was recognized in fiscal year 2013. The total liability of $29.8 million was reduced by $2.0 million for expected recoveries from other responsible parties, potentially responsible parties (PRPs) and insurers. The cumulative liability increased by $6.2 million in fiscal year 2013, attributable primarily to the costs for Bergen County Line Row Remediation.

The following table summarizes the changes in NJ TRANSIT's liability for pollution remediation for the years ended June 30, 2013 and 2012 *(in millions)*:

	AS OF JUNE 30, 2013	2012
Balance, Beginning of Year	**$21.6**	**$23.6**
Current year costs	8.9	0.5
Payment made during the year	(2.7)	(2.5)
Balance, End of Year	**$27.8**	**$21.6**

The pollution remediation liability of $27.8 million at June 30, 2013, 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, $9.9 million represents the current portion of the liability, which is included in other current liabilities, and $17.9 million represents the noncurrent obligation, which is included in unearned revenue and other noncurrent liabilities.

The estimated outlays include costs of: (a) $3.9 million associated with pre-cleanup activities including engineering studies, site investigation, corrective measures feasibility study, and the design of a remediation plan; (b) $19.9 million related to cleanup activities, such as neutralization, containment, removal and disposal of pollutants, and restoration; (c) $1.1 million for the external government oversight and enforcement-related activities; and, (d) $2.9 million for the post-remediation monitoring.

13. OTHER OPERATING REVENUES

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

	YEARS ENDED JUNE 30, 2013	2012
Lease and rental	$27.5	$27.3
Advertising	17.7	15.7
Metro-North operations	11.7	11.3
Other	14.2	18.1
Total	**$71.1**	**$72.4**
Less Bad Debt Expense	2.8	1.3
Net Other Operating Revenues	**$68.3**	**$71.1**

14. INJURY AND DAMAGE CLAIMS

As of June 30, 2013, 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 Company, 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, nuclear, biological and chemical terrorism claims ranging from $2.5 million to $125 million in excess of retentions ranging from $50 million to $275 million, consequently reducing NJ TRANSIT's self-insured retention in these areas.

NJ TRANSIT has recorded an estimated liability of $99.6 million and $107.6 million as of June 30, 2013 and 2012, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, $35.5 million and $34.3 million are included in other current liabilities as of June 30, 2013 and 2012, 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, 2013 and 2012 was as follows (in millions):

	AS OF JUNE 30, 2013	2012
Balance, Beginning of Year	**$107.6**	**$117.9**
Claims expense	40.8	32.9
Payment of claims	(48.8)	(43.2)
Balance, End of Year	**$99.6**	**$107.6**

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. BLENDED COMPONENT UNIT – ARH III INSURANCE COMPANY, INC.

ARH III Insurance Company, Inc. (the Company), a non-profit special purpose captive insurance company domiciled in the State of South Carolina, was established to limit certain risk exposures of NJ TRANSIT Corporation. ARH has entered into insurance contracts with NJ TRANSIT which insures NJ TRANSIT for the following coverages: Federal Employee Liability Act and Third Party Rail and Property, Certified Terrorism Risk Insurance Act

(TRIA) casualty exposures, property exposures, workers compensation, stand-alone terrorism, nuclear biological and chemical terrorism (NBC).

In a prior year, the Company entered into a loss portfolio transfer with Liberty Mutual Insurance Company (Liberty) assuming reserves related to claims for NJ TRANSIT's workers compensation policy with Liberty for policy years 2007 and prior. This transfer of liability included certain open claims, which remain open, from prior to the beginning of the policy period although no claims have entered the Company's layer. The Company's limits under the contract are $2.5 million excess $5 million per employee.

The Company has entered into facultative reinsurance agreements with various reinsurers since 2006 for "all risk" property coverage. The terms of the agreements stipulate that the Company cede a proportional share of annual premiums ranging from 40% to 100% to the assuming reinsurers. Under the agreements, reinsurance coverage is limited to a quota-share with an ultimate net loss layer ranging from $50 million to $125 million in excess of retentions ranging from $50 million to $275 million. Amounts are subject to certain sub-limits as outlined by the issued policies and reinsurance agreements. Subsequent to year end, a similar reinsurance agreement with PartnerRe was not extended as the Company ceased providing property coverage effective July 1, 2013.

The Company has entered into reinsurance agreements with Lexington Insurance Company and Hiscox, Inc. since 2009 for Certified Acts of Terrorism coverage. The terms of the agreements stipulate that the Company cedes 15% of the stand-alone terrorism related coverages to Lexington and Hiscox. Subsequent to year end, a similar reinsurance agreement was secured with Hiscox to extend coverage through June 30, 2014.

The financial results for ARH III Insurance Company, Inc. for the years ended June 30, 2013 and 2012 are set forth below. Since the Company prepares the financial statements under FASB guidance, the amounts and format of financial statements have been adjusted to reflect GASB requirements. The condensed statements of net position and the statements of revenues, expenses, and changes in net position as of and for the years ended June 30, 2013 and 2012 are as follows *(in millions)*:

STATEMENTS OF NET POSITION

	AS OF JUNE 30, 2013	2012
Current assets	$2.7	$3.0
Non-current assets	32.4	28.4
Total Assets	**35.1**	**31.4**
Non-current liabilities	3.9	3.6
Total Liabilities	**3.9**	**3.6**
Total Net Position	**$31.2**	**$27.8**

STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN NET POSITION

	YEARS ENDED JUNE 30, 2013	2012
Operating revenues	$1.5	$2.6
Operating expenses	0.1	0.1
Operating income	1.4	2.5
Non-operating revenues	2.0	1.7
Change in Net Position	**3.4**	**4.2**
Total Net Position Beginning of Year	**27.8**	**23.6**
End of Year	**$31.2**	**$27.8**

STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30, 2013	2012
Cash Flows from Operating Activities		
Operating Income	$1.4	$2.5
Changes in assets and liabilities	0.3	(0.3)
Net Cash Provided by Operating Activities	**1.7**	**2.2**
Cash Flows from Investing Activities		
Sales and maturities of investments	6.5	12.3
Purchases of investments	(10.2)	(14.8)
Interest on investments	1.8	0.8
Net Cash Used by Investing Activities	**(1.9)**	**(1.7)**
Net Increase in Cash and Cash Equivalents	**(0.2)**	**0.5**
Cash and Cash Equivalents Beginning of Year	**2.8**	**2.3**
End of Year	**$2.6**	**$2.8**

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 and second installments were paid on the first of November in 2011 and 2012, leaving a balance of $57 million as of June 30, 2013 ($19 million recorded as a current liability for the third installment due November 1, 2013, and the remaining $38 million is recorded as a non-current liability).

NJ TRANSIT recorded a "Special Item" in the Consolidated Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2011 and 2012 in the amounts of $297.4 million and $29.8 million, respectively. In fiscal year 2011, the $297.4 million represented ARC-related assets that were previously capitalized and were written off. These assets were considered to be impaired due to the discontinuance of this project, under the provision of construction stoppage. In fiscal year 2012, the $29.8 million included costs pertaining to construction projects that were completed to facilitate the close-out the ARC project. During Fiscal Year 2013, $8.4 million in additional close-out costs related to ARC were written-off. These costs are no longer considered a Special Item in the financial statements. 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. SUPERSTORM SANDY

On October 29, 2012, Superstorm Sandy made landfall near Atlantic City and caused significant damage in New Jersey as well as other states and cities along the eastern seaboard. NJ TRANSIT sustained significant damage to its assets including washed-out track, flooded rail stations and terminals, downed catenary, and damaged rail equipment. As of June 30, 2013, NJ TRANSIT recognized expenses related to Superstorm Sandy in the amount of $145.3 million. These expenses included initial response activities and ongoing repair costs and were comprised of in-house labor costs, materials and supplies, purchased transportation (for running supplemental transportation services), and outside services. Included in expenses for outside services is $55 million for rail rolling stock repairs recorded as a contingent liability based on contracts and estimates to repair damaged multilevel rail cars and locomotives. While it is anticipated that significant additional expenses will be incurred to complete repairs system-wide, these expenses cannot be reasonably estimated at this time. Expenses will be recognized when costs can be reasonably estimated. Substantially all costs related to Superstorm Sandy are expected to be reimbursed by insurance recoveries or through the Federal Transit Administration's Public Transportation Emergency Relief Program. The FTA has allocated $448.2 million to date to NJ TRANSIT for recovery, restoration and resiliency projects. As of June 30, 2013 NJ TRANSIT realized revenue in the amount of $102.9 million consisting of an insurance advance of $50 million and $52.9 million in revenue received or accrued from grants. Additional insurance recoveries will be recognized as claims are acknowledged and confirmed by the carriers.

SUPERSTORM SANDY RELATED LOSSES

	(in millions)
Repair & response expenses	$145.3
Less insurance recoveries	(50.0)
Loss, net of insurance recoveries	**$95.3**

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

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
7/1/2012	$432.3	$577.8	$145.5	74.8%	$102.9	141.4%
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

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
7/1/2012	$761.5	$946.7	$185.2	80.4%	$266.2	69.6%
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

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
7/1/2012	$36.4	$42.0	$5.6	86.7%	$10.8	51.9%
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

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
7/1/2012	$6.1	$7.1	$1.0	85.9%	$1.0	100.0%
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

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
7/1/2012	$24.7	$36.6	$11.9	67.5%	$9.1	130.8%
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

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