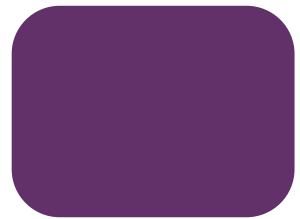


NJ TRANSIT 2007 Annual Report



Embracing Change



Delivering Choices



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Message from the Governor



This past fiscal year marked the fourth consecutive year of record ridership growth for NJ TRANSIT. New Jersey residents depend on mass transit at double the national rate, and this trend underscores the importance of providing a readily accessible mass transit network to meet growing demand from people across both our state and region.

That is why we are committing significant capital funding to transportation initiatives that will increase mobility choices, relieve congestion on our roadways and help protect our environment.

One of those initiatives is the Access to the Region's Core project. With a new trans-Hudson tunnel as its centerpiece, this critical regional project will double rail capacity between New Jersey and New York and open up new markets. It will also provide more transfer-free travel to passengers on trains from 13 counties. Over the past year, we advanced the preliminary engineering for the project and secured \$3.5 billion of local match funding.

Equally important are our efforts to improve intrastate services, with enhanced bus services and better connections between trains, buses and light rail systems across the state. Our goal is to make mass transit more accessible for both suburban and urban travelers.

We recognize that mass transit is key to preserving the state's economy and enhancing the quality of life for New Jersey residents. In the coming year we will continue to ensure that quality public transportation is available to meet the historic levels of ridership demand.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jon Corzine'.

Jon S. Corzine

Governor, State of New Jersey



Message from the Chairman

NJ TRANSIT's accomplishments this year include key initiatives that will allow us to enhance mobility in our region. We have added key personnel, completed major projects and continued to develop additional transit services for the state's citizens.

First, Susan Hayes joined our Board of Directors. Her experience in both the public and private sectors has already proved invaluable to moving our service expansion programs forward. We also welcomed aboard our new Executive Director, Richard R. Sarles, who brings a wealth of knowledge and professional expertise to his position. In his brief tenure, he has made significant strides to modernize our bus system and improve intermodal connectivity of transit services.

Second, thanks to Governor Corzine's leadership and vision, we advanced the Access to the Region's Core project and other critical capital initiatives to improve and strengthen New Jersey's transportation network. This year, we opened an extension of the Newark Light Rail system, which links Newark's Penn Station to Newark's Broad Street Station and serves as a catalyst to improve job access and economic growth. We also introduced the first of 279 new multilevel railcars and invested in 1,212 new buses to provide more capacity and improve the reliability of the fleet.

NJ TRANSIT continues to develop innovative strategies that relieve roadway congestion. One example is our close work with the Department of Transportation to leverage existing road assets and create more capacity for transit. Dedicated lanes, signalization that gives buses preference and additional park and ride locations are just a few of the initiatives in development.

Finally, we dedicated NJ TRANSIT Headquarters in Newark as the "Louis J. Gambaccini Building." Lou is a transportation visionary and was chiefly responsible for the 1979 legislation that created NJ TRANSIT. As we all stand on the shoulders of those who came before us, I am proud to continue his legacy and to move forward with more improvements and a greater expansion of vital transit services.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Kolluri", with a horizontal line underneath.

Kris Kolluri

Transportation Commissioner &
NJ TRANSIT Board Chairman

NJ TRANSIT Board of Directors



Standing, left to right: Robert Smartt, Treasurer's Representative; Myron P. Shevell, Vice Chairman; Kris Kolluri, Chairman; Flora M. Castillo

Seated, left to right: Susan L. Hayes, A. Matthew Boxer, Esq., Governor's Representative; Kenneth E. Pringle, Esq.

NJ TRANSIT Board of Directors

KRIS KOLLURI, ESQ.

Board Chairman

Kris Kolluri was sworn into office as Commissioner of the New Jersey Department of Transportation on March 13, 2006. Prior to that time, Mr. Kolluri specialized in redevelopment and transportation law as an attorney at Parker McCay. Mr. Kolluri was formerly Chief of Staff at the New Jersey Department of Transportation and, before that, was Assistant Commissioner of Intergovernmental Relations in charge of legislative relations, customer advocacy and public outreach. Prior to working in state government, Mr. Kolluri held top positions in Congressional offices, including Senior Policy Advisor to House Democratic Leader Richard A. Gephardt and special advisor to Congressman Gephardt on India and Indian-American affairs. He also served as Congressman Robert E. Andrews' Legislative Director and his principal staffer on the International Relations Subcommittee on Asia and the Pacific. Mr. Kolluri received a Bachelor of Science degree in Management and Marketing from Rutgers University, a Master's degree in International Business from Johns Hopkins University and a law degree from Georgetown University. He resides in West Windsor.

MYRON P. SHEVELL

Vice Chairman

Myron P. Shevell was appointed to the Board by Governor Christine Todd Whitman in May 1995. He is Chairman of the Board of New England Motor Freight and Chairman of the Shevell Group – real estate, trucking and logistic companies. He also is Board Chairman of New Jersey Motor Truck Association and Regional Director of the Bank of New York. Mr. Shevell has worked in the transportation industry for more than 55 years and resides in Long Branch.

BRADLEY I. ABELOW

State Treasurer

Bradley I. Abelow has served as State Treasurer since March 13, 2006. Mr. Abelow previously worked for the executive office of Goldman Sachs & Co. of New York, NY, from which he retired in 2006 following a 15-year career with the company. Mr. Abelow was head of the Operations Division for Goldman Sachs, overseeing the Global Operations, Corporate Real Estate and Corporate Services departments. Mr. Abelow earned a Master's degree in Public and Private Management from Yale University's School of Management in 1989 and a Bachelors of Arts degree from Northwestern University in 1983. In FY2008, Mr. Abelow left Treasury to become Governor Corzine's Chief of Staff. He resides in Montclair.

A. MATTHEW BOXER, ESQ.***Governor's Representative***

Matthew Boxer was named Director of the Authorities Unit in the Governor's Office in January 2006. Mr. Boxer previously served as an Assistant U.S. Attorney in the Special Prosecutions Division of the U.S. Attorney's Office, where he oversaw the investigation of public corruption in Monmouth County. Mr. Boxer has served in both the Criminal Division and the Terrorism Unit of the U.S. Attorney's Office and has worked for the law firm of Lowenstein Sandler, P.C. He also serves on the Board of the NJ Schools Construction Corporation as well as the North Jersey Transportation Planning Authority. Mr. Boxer earned a J.D. from Columbia Law School and a B.A. from Princeton University. He resides in Bridgewater.

FLORA M. CASTILLO

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

KENNETH E. PRINGLE, ESQ.

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

SUSAN L. HAYES

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

NJ TRANSIT Committees

EXECUTIVE COMMITTEE

Richard R. Sarles
Executive Director

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

Joseph C. Bober
Chief, NJ TRANSIT Police

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

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

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

Warren A. Hersh
Auditor General

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

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

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

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

Jan L. Walden
Assistant Executive Director,
Diversity

Gwen A. Watson
Board Secretary

H. Charles Wedel
Chief Financial Officer
and Treasurer

ADVISORY COMMITTEES

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

North Jersey Transit Advisory Committee

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

South Jersey Transit Advisory Committee

Anna Marie Gonnella-Rosato, *Chair*
Ruth Byard, *Vice Chair*
Jeffrey Marinoff, *2nd Vice Chair*
Robert Dazlich, *Secretary*
Richard D. Gaughan
Calvin O. Iszard Jr.
Daniel Kelly

Val Orsinmarsi
Dominick Paglione
Fred Winkler

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

The Americans with Disabilities Act Task Force

Frank Coye
John Del Colle
Doug Gilbert
Judy Goldman
Francis Grant
Dan Molloie
Lee Nash
Bill Smith
Maryanne Valls
Ina White

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

Private Carrier Advisory Committee

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

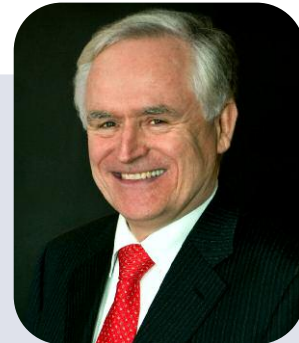
The Local Programs Citizens Advisory Committee advises NJ TRANSIT on public transit decisions regarding accessibility issues.

Local Programs Citizens Advisory Committee

Ernest Anemone, *Chairperson*
Richard Bartello, *1st Chairperson*
Ellen Brockmann, *2nd Chairperson*
David Peter Alan
Kathleen Belles
Donald Boeri (deceased)
Ann Burns
Louise Dance
David Loux
Henry Nicholson
Ruezalía Ray
Marianne Valls
Michael Vieira
William R. Wright

Letter from the Executive Director

During FY2007, we advanced many initiatives that transform the way we do business and will benefit our customers and the region for generations to come. We recognize that the world around us is changing and we are anticipating those changes to grow and improve our business practices to make transit better.



NJ TRANSIT has worked methodically during the last two decades to create an interconnected network of 11 rail lines that made train travel a relevant transportation mode. And Governor Corzine's leadership on building another trans-Hudson tunnel will enable us to double rail capacity within the next decade.

Equally important are initiatives to modernize our bus services and routes, improving connectivity and creating regional hubs to bring them into the 21st century. We are evaluating services in the greater Newark area, as well as other urban areas, to respond to demographic trends and changing ridership patterns, and have begun innovative approaches to enhance bus service in Essex, Mercer and Middlesex counties, which will be introduced in 2008 and beyond.

This past year, we extended our Newark Light Rail system to connect with Morris & Essex Lines and Montclair-Boonton Line rail services at Newark Broad Street Station, improving access to business and entertainment destinations in Downtown Newark and more interconnectivity with our services. In addition, we advanced plans to expand rail service for Pascack Valley Line and Raritan Valley Line customers and to bring new bus and rail connections at Wayne Route 23 Transit Center and Mount Arlington Station.

We strengthened our business by creating a new diversity strategy to serve as a catalyst in encouraging diversity in our corporate culture, and guide recruitment and retention activities to ensure our organization is positioned to attract and retain a diverse workforce. We also created a senior position of Customer Advocate to identify opportunities to improve responsiveness to our customers and represent them at the decision-making table.

We have positioned ourselves to respond to a changing marketplace, diverse customer base, and regional economy to meet emerging needs, embrace change and deliver choices that make NJ TRANSIT the preferred choice of travel.

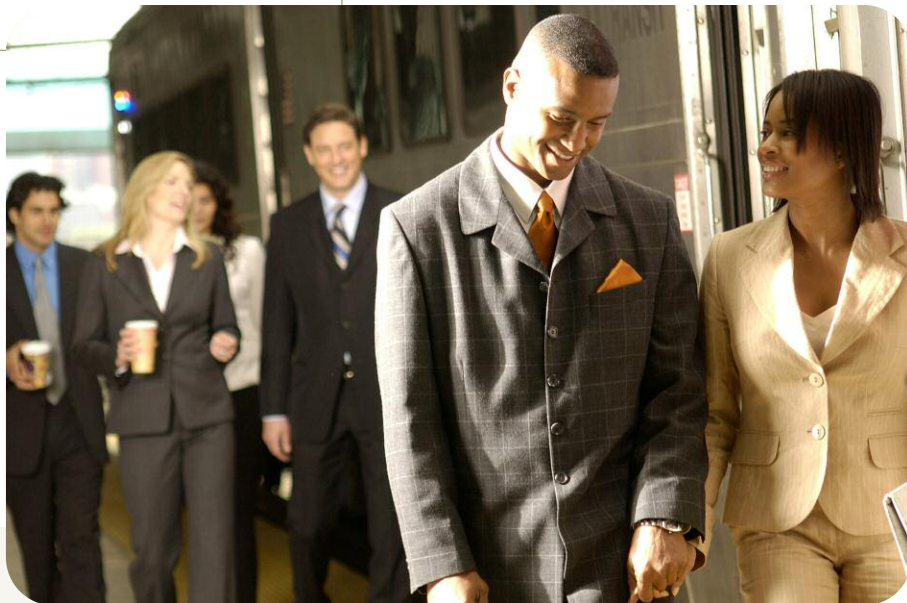
Sincerely,

A handwritten signature in black ink, appearing to read "Richard R. Sarles".

Richard R. Sarles
Executive Director



FY2007 The Year in Review



FY2007 closed with a 4.1 percent increase in ridership to a record-high 259.7 million annual trips, up from 249.5 million trips last year.



Our rail service posted gains across the board with 78.5 million passenger trips, an increase of 6.1 percent over last year's record-setting 74.0 million trips.



Light rail ridership, our fastest growing segment, increased 20.9 percent to 19.1 million passenger trips over the record 15.8 million trips recorded in FY2006.



Bus patronage reached 162.1 million, an increase of 1.5 percent compared to 159.7 million trips in FY2006.

Business Improvements

Advertising Revenues: Due to aggressive sales of advertising space on equipment and billboards and a continuing emphasis on inventory expansion and development of innovative advertising media, advertising revenue increased 20 percent, from \$11.2 million to \$13.5 million.

Parking: Parking revenue exceeded \$15 million, and includes approximately \$1 million in parking fee increases at 30 locations to help underwrite new parking facilities, expansion and/or improvement efforts.

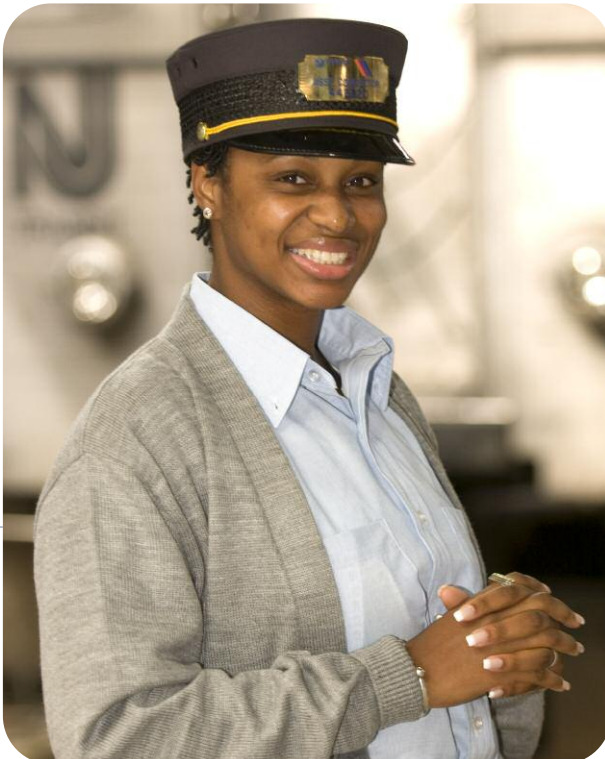
Leasing: Retail and land leases generated approximately \$5.5 million; the Automated Teller Machine (ATM) program generated non-farebox revenue of more than \$650,000 annually.

Innovative Financial Activities: Proceeds of approximately \$9 million were realized in FY2007, with cumulative proceeds in excess of \$154 million since FY1991.

Electricity Savings: Participated in the first New Jersey governmental electronic bid auction for electricity, successfully locking in electric prices for the next three years for our largest facilities and rail traction power requirements.

Retirement Plans: Offered new non-agreement employees a defined contribution pension plan in lieu of the existing defined benefit pension plan, which will positively impact cost curves over time.

Diversity Strategy: Created a corporate diversity strategy with four main components — Talent Management, Culture and Inclusion, Supplier Diversity and External Partnerships. One key initiative is training more than 1,200 managers to strengthen communication and workforce productivity, and better meet our business objectives.



Service Improvements

Bus Service

- **Capacity:** Added 994 bus trips, providing 46,718 additional seats for customers.
- **62 Bus Line:** Added 200 new bus trips weekly, connecting Newark Liberty International Airport with Newark Penn Station, and better integrating transit services to improve access to jobs for airport and airline employees.
- **552 Bus Line:** Extended service beyond Atlantic City Bus Terminal to serve the Atlantic City Rail Terminal and Convention Center and to provide an intermodal connection to southern shore points.



Rail Service

- **Capacity:** Operated more cars on trains, adding 5,000 to 6,000 seats during peak periods.
- **Pascack Valley Line and Raritan Valley Line:** Progressed installation of passing sidings and signal systems to allow bi-directional and weekend service to expand travel options for customers by October 2007.



Light Rail Service

- **Newark Light Rail:** Opened in July 2006, the new one-mile line connects Newark Penn and Newark Broad Street stations to the downtown district. Since then, NJ TRANSIT has doubled service to/from Broad Street and added weekend "through" service, allowing customers a one-seat ride between Grove Street and Broad Street stations.
- **River LINE:** Added early-morning travel options from several stations to Trenton, offering earlier connections to Northeast Corridor and SEPTA trains. Completed signal upgrades, enabling additional late-night service to Route 73/Pennsauken Park & Ride for customers traveling to work or entertainment destinations. Reduced trip times by five to six minutes through schedule and speed improvements.
- **Hudson-Bergen Light Rail:** Scheduled for completion in 2010, a one-mile extension to 8th Street in Bayonne will provide more options and connections to NJ TRANSIT trains and buses, trans-Hudson ferries and PATH trains. Late night service also was expanded from Hoboken to Bayonne.



Equipment Investments

Multilevel Railcars: Purchased an additional 45 multilevel railcars, bringing the fleet total to 279. The new cars offer 15-20 percent more seating capacity than the latest generation of single-level cars. The first multilevel train debuted in December 2006 on the Northeast Corridor. Delivery of all cars is expected by mid-2009.



Suburban and Transit Buses: Purchased 1,145 transit- and suburban-style buses, which will renew the state's bus fleet within six years and mark the first time that NJ TRANSIT buses are equipped with closed-circuit cameras. These buses, as well as the new cruiser buses, will be equipped with low-emission engine technology that meets or exceeds the latest environmental standards.



Cruiser Buses: Sixty-seven new cruiser buses will replace 20 leased cruiser buses and 47 older, suburban-style buses. Upon delivery, the number of cruiser buses in the fleet will total 1,054.

CNG Bus Rehabilitation: Seventy-six compressed natural gas (CNG) cruiser buses are undergoing an in-house, midlife overhaul.

New Wire Train: A new, state-of-the-art production wire train, which installs overhead catenary wire, entered service and will reduce operating costs and increase productivity.

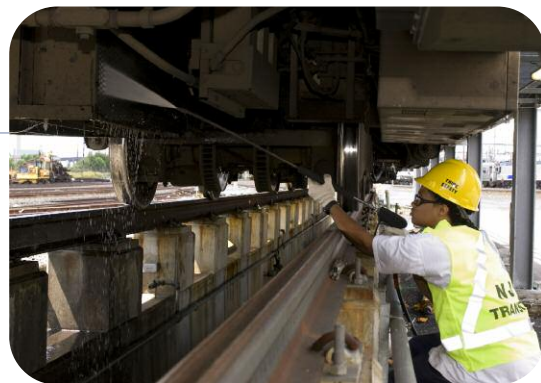
Access Link Buses: Purchased 79 Chevrolet diesel minibuses to support Access Link paratransit service.



State-of-Good Repair Initiatives

Infrastructure

- **Meadows Maintenance Complex:** Work continued on a 130,000-square-foot expansion project to increase maintenance capabilities for our growing rail fleet.
- **Bridge Repairs:** Rehabilitated four rail bridges, made steel repairs to seven bridges, painted two bridges, and installed an electrical control for one moveable bridge.
- **Track Work:** Installed 49,000 wood ties, 10.3 miles of concrete ties, electric switch heaters at 40 locations, 4,200 feet of right-of-way fences, wayside power at one railroad yard, and a new signal system on the Pascack Valley Line.
- **Morrisville Yard:** Neared completion of an expansion project to accommodate 120 rail cars on the Northeast Corridor. Began operating revenue trains from the West Yard.
- **Bus Garages:** Installed a new concrete brake testing pad and high-speed door, replaced a compressor and renovated a diesel storage tank at Market Street Garage. Also made infrastructure improvements to increase operating reliability and efficiency at several other garages, including Big Tree, Orange, Oradell, Newton Avenue, Meadowlands, Walter Rand Transportation Center and Ironbound.



Green Initiatives

■ **Energy Audit:** Initiated an energy audit at 20 of our largest facilities, which will lead to a five-year strategic plan to increase energy conservation.

■ **Sustainability:** Placed a greater emphasis on “green” technologies during design, construction and operation of facilities to minimize immediate and long-term impacts on the environment and to further improve energy conservation. Projects now include a whole building approach to design, including sustainable site development, water savings, energy efficiencies, material selection, indoor air quality, and human and environmental health, whenever possible.

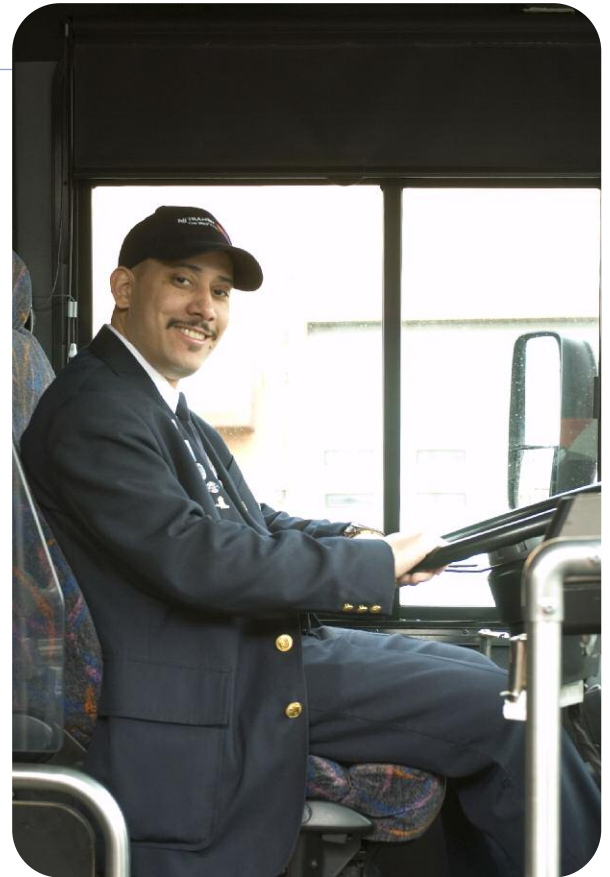
■ **Diesel Filters:** Installed diesel particulate filters on 350 cruiser buses, reducing particulate emissions on those buses by more than 80 percent.

■ **Low-Emission Engines:** Ordered 1,212 new buses equipped with low-emission engine technology that meets or exceeds the latest environmental standards.

■ **Head-End Power System:** Expanded installation of head-end ground power systems at all diesel rail yards, allowing us to turn off locomotive engines overnight to reduce noise, emissions and fuel consumption.



■ **Bio-Diesel Fuels:** Began testing different blends of diesel fuel and processed vegetable oils to power diesel locomotive engines while reducing emissions. Eight different blends will be tested through mid-2008.



Technology/Communication Improvements

- **Automatic Rail Vehicle Inspection System:** Began installation of an Automatic Rail Vehicle Inspection System at Morrisville Yard to perform around-the-clock inspections of wheel and brake systems. The system will enable NJ TRANSIT to perform more condition-based maintenance, and allow more detailed trend analysis, make repairs in addition to routine inspections, and ensure effective compliance with standards. A two-year test period will begin in early 2008.
- **Software Improvements:** Implemented new software systems to track rail vehicle maintenance, cash fare receipts, employee performance and training, lost and found articles, customer inquiries and corporate-wide security system.
- **Website/Transit Alerts:** Server capacity was added to “My Transit” to accommodate more customers (13,600 new registrants), provide faster delivery of information, and offer a more streamlined format for mobile devices.
- **Customer Information Systems:** Upgraded information systems for customers at the Walter Rand Transportation Center and Newark Penn, Woodbridge, Madison and Red Bank stations, as well as along the Newark Light Rail extension. Began testing a system along the Raritan Valley Line that automatically makes public address announcements regarding train arrivals, delays and track changes.



Security Improvements

- Initiated a pilot video camera program on 74 buses that serve Essex, Passaic, Bergen and Union counties.
- Enhanced rail yards, communication systems and Haz-Mat detection systems, and purchased a fully-equipped response vehicle to respond to biological, chemical and radiological incidents.
- Installed fixed and mobile satellite communications systems for continuity of operations during emergencies.
- Increased the number of K-9 Explosives Detection Unit teams by 20 percent.
- Obtained 15 hand-held devices to detect, measure and identify radiological materials.
- Provided safety and transit security training to NJ State Troopers and first responders from local, county and state governments.
- Trained over 600 employee volunteers to respond to emergencies and assist customers with timely information during major service disruptions.
- Worked with other regional transportation agencies to secure an emergency radio system.



Regional Connectivity & Partnerships

Regional support for the ARC project is demonstrated by leadership from Governors Corzine and Spitzer, Port Authority of New York & New Jersey Chairman Anthony Coscia and New Jersey Transportation Commissioner Kris Kolluri.



Access to the Region's Core (ARC): To meet growing trans-Hudson ridership demand, NJ TRANSIT has partnered with the Port Authority of New York & New Jersey to advance a bi-state, regional project which will break the trans-Hudson passenger rail bottleneck by doubling rail capacity. The ARC project has already secured \$3.5 billion in financial commitments, thanks to the leadership of Governor Corzine and the Port Authority of New York & New Jersey. This is one of the largest local commitments in the nation and paves the way for federal funding. Preliminary engineering is nearing completion as we continue to advance the Supplemental Draft Environmental Impact Statement. Next steps are to complete the Final Environmental Impact Statement and obtain a Record of Decision and Full Funding Grant Agreement.

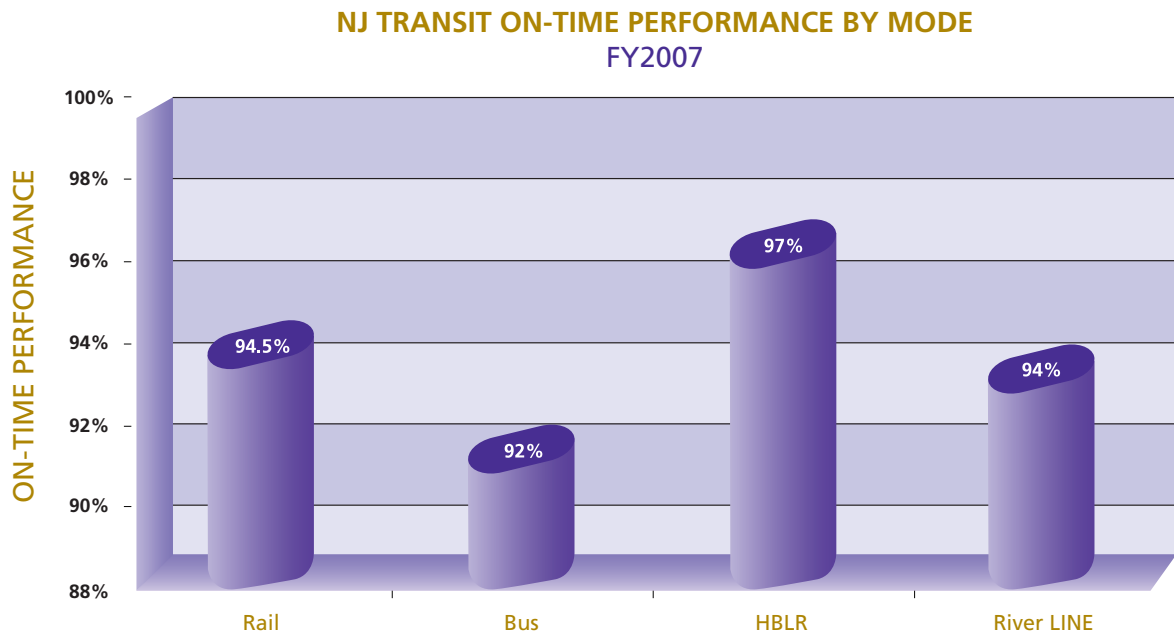


Portal Bridge: In parallel with ARC is development of a Draft Environmental Impact Statement for a new bridge next to Portal Bridge, which carries the Northeast Corridor over the Hackensack River. The nearly 100-year-old bridge operates at capacity during peak periods. NJ TRANSIT will continue to advance the project in partnership with Amtrak, the Federal Railroad Administration and the Federal Transit Administration.

Meadowlands Sports Complex: Partnered with Metro-North to plan for trains to operate from Connecticut through Penn Station New York to the Frank R. Lautenberg Rail Station at Secaucus Junction to provide service to Giants and Jets home games. This new service could operate as early as fall 2009.



On-Time Performance Methodology



NJ TRANSIT's monthly on-time performance reports are made public at its regular Board meetings.

Frank R. Lautenberg Rail Station at Secaucus Junction

Rail Methodology

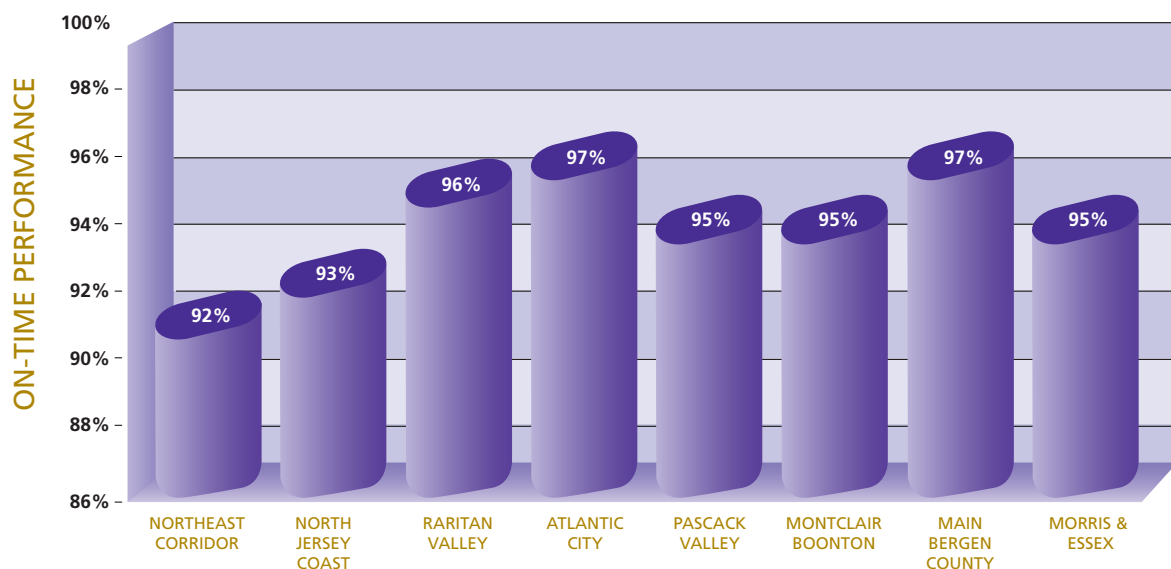
NJ TRANSIT considers a train to be on time if it arrives at its final destination within five minutes and 59 seconds of its scheduled time. This standard is used by all commuter railroads in the Northeast.

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. Spring Valley is the only location where TMAC is unable to record arrival times, requiring train crews to call in this information. The Pascack Valley Line passing siding and signal system upgrade project will add a timing point for these trains during FY2008.

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

NJ TRANSIT ON-TIME PERFORMANCE BY RAIL LINE
FY2007



Light Rail Methodology



Hudson-Bergen Light Rail and River LINE

Hudson-Bergen Light Rail on-time performance is tracked by information management systems in the Control Center. 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 train is counted as a late train if it leaves its origin terminal ahead of schedule or arrives at its final destination terminal more than five minutes late.

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

Newark Light Rail

To track on-time performance statistics for Newark Light Rail, NJ TRANSIT is implementing an on-time performance reporting system to be similar to those used on the Hudson-Bergen Light Rail and River LINE light rail lines. This new reporting system will be implemented after the FY2007 reporting period.



Bus Methodology

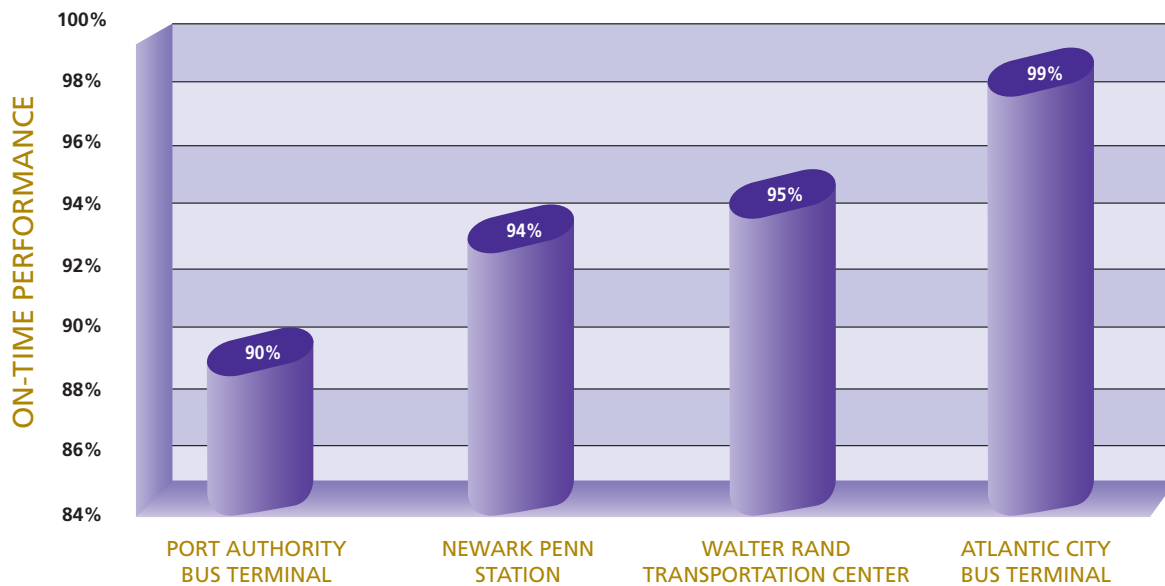
NJ TRANSIT records on-time performance at the following bus terminals:

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

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



NJ TRANSIT ON-TIME PERFORMANCE BY BUS TERMINAL
FY2007





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



NJ TRANSIT is an equal opportunity employer.



NJ TRANSIT CONSOLIDATED FINANCIAL STATEMENTS



Embracing Change



Delivering Choices



F I S C A L Y E A R 2 0 0 7

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Management's Discussion and Analysis

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial position and results of operations of the Corporation as of and for the fiscal year ended June 30, 2007. 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.

Financial Highlights – Fiscal Year 2007

- Total operating revenues for NJ TRANSIT were \$737.9 million in fiscal year 2007, an increase of \$39.9 million, or 5.7 percent, over fiscal year 2006. Passenger revenue increased \$33.8 million, or 5.3 percent, reflecting a 4.2 percent increase in ridership and the one-month impact of an average 9.6 percent fare increase implemented in June 2007. Other operating revenues increased \$6.1 million, or 11.2 percent.
- Total operating expenses before depreciation were \$1,607.2 million in fiscal year 2007, an increase of \$97.2 million, or 6.4 percent, over fiscal year 2006. This increase is principally related to increases in employment costs, parts, materials and supplies, fuel and propulsion and purchased transportation.
- Total net assets at June 30, 2007 were \$5,174.7 million, a decrease of \$11.3 million, or 0.2 percent, under total net assets at June 30, 2006.
- Total capital assets (net of depreciation) were \$7,046.6 million at June 30, 2007, a net decrease of \$112.1 million, or 1.6 percent, under the previous fiscal year. The decrease in total capital assets was primarily the result of current year depreciation and a transfer of certain capital expenditures to other entities.

Financial Highlights – Fiscal Year 2006

- Total operating revenues for NJ TRANSIT were \$698.0 million in fiscal year 2006, an increase of \$88.1 million, or 14.5 percent, over the prior fiscal year. Passenger revenue increased \$83.4 million, or 14.9 percent, reflecting a fare increase averaging approximately 10 percent implemented July 2005 and a 5.0 percent increase in ridership. Other operating revenues increased \$4.7 million, or 9.5 percent.
- Total operating expenses before depreciation were \$1,510.0 million in fiscal year 2006, an increase of \$87.0 million, or 6.1 percent, over the prior fiscal year. This increase is principally related to increases in employment costs, fuel and propulsion and trackage, tolls and fees.
- The beginning balance of total fund net assets at July 1, 2005 has been adjusted by \$329.2 million related to NJ TRANSIT's adoption of the accounting provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes guidelines for reporting costs associated with "other

postemployment benefits" (OPEB). NJ TRANSIT had previously adopted Financial Accounting Standards Board (FASB) Statement No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*. In accordance with GASB Statement No. 45, NJ TRANSIT has reduced the "Other Postemployment Benefits" by \$329.2 million, the amount previously established under FASB Statement No. 106, and recorded a current OPEB liability of \$38.3 million.

- Total net assets at June 30, 2006 were \$5,186.0 million, an increase of \$47.7 million, or 0.9 percent, over total net assets at June 30, 2005, as adjusted for the cumulative effect of accounting change related to the implementation of GASB Statement No. 45.
- Total capital assets (net of depreciation) were \$7,158.6 million at June 30, 2006, a net increase of \$14.8 million, or 0.2 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles, improvements to the right-of-way, construction of the Newark Light Rail project and the extension of the Hudson-Bergen Light Rail system.

Overview of the Financial Statements

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

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

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

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

The Consolidated Statements of Fund Net Assets report

NJ TRANSIT's net assets and the changes thereto. Net assets, the difference between NJ TRANSIT's assets and liabilities, over time, may serve as a useful indicator of NJ TRANSIT's financial position.

Financial Analysis

Net Assets

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

million (2.4 percent) and total liabilities decreased \$219.6 million (4.8 percent).

NJ TRANSIT's total net assets at June 30, 2006, were \$5,186.0 million, an increase of \$47.7 million, or 0.9 percent, over June 30, 2005, as adjusted for the cumulative effect of the accounting change related to the implementation of GASB Statement No. 45. (Table A-1). Total assets increased \$174.9 million (1.8 percent) and total liabilities decreased \$202.0 million (4.2 percent). The liability decrease included the effect of adopting GASB Statement No. 45.

Table A-1
NJ TRANSIT Fund Net Assets
(in millions)

	2007	As of June 30, 2006	2005	%Inc/(Dec)	
				2007/2006	2006/2005
Current assets	\$389.2	\$493.4	\$468.2	(21.1)	5.4
Restricted assets	2,061.1	2,075.9	1,934.0	(0.7)	7.3
Capital assets, net	7,046.6	7,158.6	7,143.8	(1.6)	0.2
Other assets	22.4	22.3	29.3	0.5	(23.9)
Total Fund Assets	9,519.3	9,750.2	9,575.3	(2.4)	1.8
Current liabilities	782.7	686.7	652.6	14.0	5.2
Notes payable	1,910.7	2,154.8	2,112.7	(11.3)	2.0
Postemployment benefits	74.9	38.3	329.2	95.6	(88.4)
Long-term debt	1,480.0	1,563.5	1,549.9	(5.3)	0.9
Other non-current liabilities	96.3	120.9	121.8	(20.4)	(0.7)
Total Liabilities	4,344.6	4,564.2	4,766.2	(4.8)	(4.2)
Fund Net Assets					
Invested in capital assets, net of related debt	5,465.8	5,279.4	5,111.4	3.5	3.3
Restricted net assets	9.1	9.1	8.3	—	9.6
Deficit in unrestricted net assets	(300.2)	(102.5)	(310.6)	192.9	(67.0)
Total Fund Net Assets	\$5,174.7	\$5,186.0	\$4,809.1	(0.2)	7.8

Fiscal Year 2007

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

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

The 95.6 percent increase in postemployment benefits reflects fiscal year 2007 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*.

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

Fiscal Year 2006

The 7.3 percent increase in restricted assets in fiscal year 2006 reflects the issuance of \$253.5 million of Certificates of Participation. The proceeds from the sale of these certificates are being used to acquire 131 multilevel rail cars. Of the \$7,158.6 million in capital assets, net, \$1,246.1 million represents construction in progress; \$5,553.0 million represents NJ TRANSIT's investment in locomotives, rail cars, buses, buildings, structures and track, net of depreciation; and \$359.6 million represents other capital assets.

The 88.4 percent decrease in other postemployment benefits was the result of adopting GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which had the effect of reducing prior years' postemployment benefits liability by \$329.2 million, which had been established under FASB Statement No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions* and established an OPEB liability under GASB Statement No. 45 of \$38.3 million.

Changes in Net Assets

The change in net assets in fiscal year 2007 of \$11.3 million was 123.7 percent below the change in net assets for fiscal year 2006, as adjusted for the accounting change in fiscal year 2005 (Table A-2). NJ TRANSIT's total operating revenues increased \$39.9 million, or 5.7 percent, and total operating expenses, before depreciation, increased \$97.2 million, or 6.4 percent. Depreciation decreased \$13.0 million, or 2.6 percent. Net capital contributions decreased \$70.4 million, or 11.6 percent.

The increase in net assets in fiscal year 2006 was \$47.7 million, or 0.9 percent, compared to the fund net assets, as adjusted for the accounting change, in fiscal year 2005 (Table A-2). NJ TRANSIT's total operating revenues increased \$88.1 million, or 14.5 percent, and total operating expenses, before depreciation,

increased \$87.0 million, or 6.1 percent. The depreciation increase of \$107.1 million, or 26.8 percent, reflects the capitalization of assets, which had previously been recorded as "in process" and consequently had not yet been depreciated. Net capital contributions increased \$82.5 million or 15.7 percent.

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

Table A-2
Changes in NJ TRANSIT Fund Net Assets
(in millions)

	Years Ended June 30,			%Inc/(Dec)	
	2007	2006	2005	2007/2006	2006/2005
Operating Revenues					
Passenger fares	\$677.5	\$643.7	\$560.3	5.3	14.9
Other	60.4	54.3	49.6	11.2	9.5
Total Operating Revenues	737.9	698.0	609.9	5.7	14.5
Operating Expenses					
Total operating expenses					
before depreciation	1,607.2	1,510.0	1,423.0	6.4	6.1
Depreciation	493.5	506.5	399.4	(2.6)	26.8
Total Operating Expenses including Depreciation	2,100.7	2,016.5	1,822.4	4.2	10.7
Operating loss	(1,362.8)	(1,318.5)	(1,212.5)	3.4	8.7
Non-operating revenues, net	813.6	757.9	758.8	7.3	(0.1)
Capital contributions, net	537.9	608.3	525.8	(11.6)	15.7
Change in Fund Net Assets	(11.3)	47.7	72.1	(123.7)	(33.8)
Total Fund Net Assets, Beginning, as Previously Reported	5,186.0	4,809.1	4,737.0	7.8	1.5
Cumulative Effect of Accounting Change	—	329.2	—	—	—
Total Fund Net Assets, Beginning, Adjusted for Accounting Change	5,186.0	5,138.3	4,737.0	0.9	8.5
Total Fund Net Assets, Ending	\$5,174.7	\$5,186.0	\$4,809.1	(0.2)	7.8

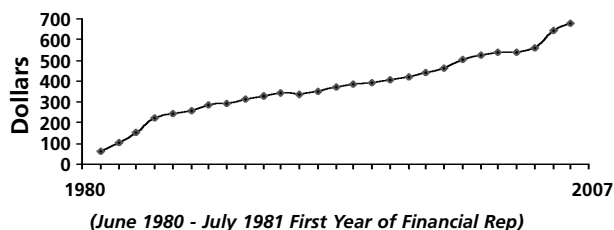
Operating Revenues

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

Passenger Fare Revenue

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

receipts. Passenger fare revenues for fiscal years 2007 and 2006 reflect the impact of an average 9.6 percent fare increase and a 10 percent fare increase, respectively, implemented in June 2007 and July 2005.

Passenger Revenue (in millions)

Rail passenger revenue for fiscal year 2007 increased \$22.0 million, or 6.3 percent, with ridership increasing by 4.5 million passenger trips. Bus passenger revenue increased \$8.6 million, or 3.1 percent,

with ridership increasing 2.4 million passenger trips. Light rail passenger revenues consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, increased \$3.5 million, or 24.8 percent, with ridership increasing by 3.3 million passenger trips.

Rail passenger revenue for fiscal year 2006 increased \$53.8 million, or 18.1 percent, with ridership increasing by 4.7 million passenger trips. Bus passenger revenue increased \$27.4 million, or 11.1 percent, with ridership increasing by 4.0 million passenger trips. Light rail passenger revenues consisting of Newark Light Rail, Hudson-Bergen Light Rail and River LINE, increased \$2.2 million, or 19.0 percent, with ridership increasing by 3.4 million passenger trips.

Table A-3
Ridership (in millions)

	FY07	FY06	FY05*	%Inc/(Dec)	
				2007/2006	2006/2005
Rail Lines					
Newark Division	50.3	47.4	44.9	6.1	5.6
Hoboken Division	26.9	25.3	23.2	6.3	9.1
Atlantic City	1.3	1.3	1.2	—	8.3
Total	78.5	74.0	69.3	6.1	6.8
Bus Lines					
Northern Division	65.4	63.4	61.1	3.2	3.8
Central Division	71.0	70.8	69.6	0.3	1.7
Southern Division	25.7	25.5	25.0	0.8	2.0
Total	162.1	159.7	155.7	1.5	2.6
Light Rail Lines					
Newark Light Rail	6.0	5.5	5.6	9.1	(1.8)
Hudson-Bergen Light Rail	10.7	7.9	5.3	35.4	49.1
River LINE	2.4	2.4	1.5	—	60.0
Total	19.1	15.8	12.4	20.9	27.4
Total Ridership	259.7	249.5	237.4	4.1	5.1

*Adjusted

Other Operating Revenues

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. The increase in other operating revenues of \$6.1 million, or 11.2 percent, was principally due to an increase in parking lot income, advertising revenue and proceeds from the sale of property.

Operating Expenses

Operating expenses consist of employment costs and other operating costs.

Employment Costs

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

retirement costs and other fringe benefits.

Employment costs increased by \$43.8 million, or 4.9 percent. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and overtime cost increases associated with service expansion and disruptions. NJ TRANSIT's health-care and pension expenses also increased, further impacting overall employment costs. This increase also includes the impact of the incremental costs for fiscal year 2007 related to GASB Statement No. 45, which requires the recording of non-pension, "other postemployment benefits" (OPEB).

Other Operating Costs

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

Parts, materials and supplies increased \$16.1 million, or 12.6 percent due to an increase in the consumption of parts and materials during fiscal year 2007 utilized for repairs and rehabilitation of NJ TRANSIT's revenue vehicles.

Fuel and propulsion power expenses increased \$7.8 million, or 7.0 percent, due to increased costs for traction power on NJ TRANSIT's electrified rail lines and increased charges from the National Railroad Passenger Corporation (Amtrak) for traction power on the Northeast Corridor.

Trackage, tolls and fees expenses increased \$5.5 million, or 13.9 percent, reflecting an increase in access fees for Amtrak's Northeast Corridor as a result of NJ TRANSIT's assumption of Amtrak's clocker service in October 2005.

Purchased transportation expenses increased \$16.4 million, or 11.2 percent, as a result of increased costs for operation of the Hudson-Bergen Light Rail system and the River LINE system. This line item also includes increased costs for Bus Contract Carrier and Access Link (ADA) services as well as additional charges from counties and municipalities under the Senior Citizen and People with Disabilities program.

Non-Operating Revenues

Non-operating revenues, net, increased \$55.7 million, or 7.3 percent, attributable to increased governmental reimbursements and income from financing arrangements partially offset by increased interest expense. Total state and federal operating assistance and reimbursements increased \$40.8 million, or 4.9 percent, compared to the prior fiscal year. 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, increased \$21.5 million, or 3.9 percent, while the state of New Jersey general fund appropriation increased \$19.5 million, or 7.0 percent.

Capital Contributions, Net

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. The federal, state and local interest in assets acquired and constructed is provided in Note 16, Net Assets. Funding of capital grant expenditures totaling \$537.9 million was \$70.4 million, or 11.6 percent, below fiscal year 2006.

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

Capital Assets

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

As of June 30, 2006, NJ TRANSIT had invested \$10,822.4 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2006, totaled \$7,158.6 million (Table A-4). This amount represents a net increase of \$14.8 million, or 0.2 percent, over June 30, 2005.

Table A-4

NJ TRANSIT Capital Assets *(net of depreciation)*

(in millions)

	2007	As of June 30, 2006	2005	%Inc/(Dec)	
				2007/2006	2006/2005
Capital projects in process	\$767.5	\$1,246.1	\$1,313.9	(38.4)	(5.2)
Revenue vehicles	1,447.3	1,537.4	1,452.4	(5.9)	5.9
Buildings and structures	3,003.1	2,702.7	2,788.6	11.1	(3.1)
Track	1,444.3	1,312.9	1,257.4	10.0	4.4
Land	291.5	281.5	242.2	3.6	16.3
Equipment	92.9	78.0	89.3	19.1	(12.7)
Total Capital Assets, Net	<u>\$7,046.6</u>	<u>\$7,158.6</u>	<u>\$7,143.8</u>	(1.6)	0.2

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

A 5.2 percent decrease in capital projects in process in fiscal year 2006 reflects the transfer of Hudson-Bergen Light Rail, Secaucus Transfer and Port Imperial Ferry Terminal capital project

costs to track, land and revenue vehicles as evidenced by the 4.4 percent, 16.3 percent and 5.9 percent increases in these categories, respectively.

The Board of Directors approved a fiscal year 2008 capital program that authorizes NJ TRANSIT to request funds totaling \$1,291.9 million to provide for the continuation of the major projects currently underway, as well as new initiatives. Funds have been requested for rail, bus and light rail infrastructure improvements; the overhaul and maintenance of rolling stock; debt service related to the acquisition of revenue vehicles and the

construction of light rail projects; and new system expansion. Provisions also have been made to comply with all federally mandated accessibility and environmental regulations. Additional information about NJ TRANSIT's capital assets is presented in Note 8 to the financial statements.

Debt Obligations

Debt obligations outstanding at June 30, 2007, totaled \$3,778.2 million compared with \$4,026.7 million at June 30, 2006, a decrease of 6.1 percent. Debt obligations outstanding at June 30, 2006, totaled \$4,026.7 million compared to \$3,946.8 million at June 30, 2005, an increase of 2.0 percent. The following table summarizes the changes in debt between fiscal years 2007, 2006 and 2005 (in millions):

	As of June 30,			% Inc/(Dec)	
	2007	2006	2005	07/06	06/05
Notes payable	\$2,115.2	\$2,349.2	\$2,280.2	(10.0)	3.0
Obligations under capital leases*	<u>1,663.0</u>	<u>1,677.5</u>	<u>1,666.6</u>	(0.9)	0.7
Total	<u>\$3,778.2</u>	<u>\$4,026.7</u>	<u>\$3,946.8</u>	(6.1)	2.0

*Includes \$1,548.6 million, \$1,549.4 million and \$1,525.8 million of leveraged lease transactions as of fiscal years 2007, 2006 and 2005, respectively.

Additional information about NJ TRANSIT's debt is presented in Notes 13 and 14 to the financial statements.

Other Matters

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

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

Contacting NJ TRANSIT Financial Management

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

New Jersey Transit Corporation and Subsidiaries**Consolidated Statements of Fund Net Assets**

(in thousands)	As of June 30,	
	2007	2006
Assets		
Current Assets		
Cash and cash equivalents	\$84,715	\$171,823
Due from federal government	130,439	78,620
Due from state of New Jersey	34,899	119,997
Inventories, net	89,678	81,893
Other	49,492	41,080
Total Current Assets	389,223	493,413
Non-Current Assets		
Restricted cash and cash equivalents	9,076	9,101
Restricted investments	503,388	517,365
Restricted leveraged lease deposits	1,548,569	1,549,423
Other	22,384	22,238
Capital assets not being depreciated	1,059,091	1,527,616
Capital assets, net of accumulated depreciation	5,987,535	5,631,088
Total Non-Current Assets	9,130,043	9,256,831
Total Assets	9,519,266	9,750,244
Liabilities		
Current Liabilities		
Accounts payable	155,220	185,080
Accrued payroll and benefits	158,154	132,397
Current installments under capital leases	182,976	113,965
Short-term notes payable	204,574	194,365
Other current liabilities	81,738	60,862
Total Current Liabilities	782,662	686,669
Non-Current Liabilities		
Notes payable	1,910,660	2,154,820
Accrued injury and damage claims	43,307	63,340
Obligations under capital leases	1,479,980	1,563,541
Other postemployment benefits	74,996	38,271
Deferred revenue and other non-current liabilities	52,963	57,620
Total Non-Current Liabilities	3,561,906	3,877,592
Total Liabilities	4,344,568	4,564,261
Net Assets		
Invested in capital assets, net of related debt	5,465,828	5,279,430
Restricted for capital projects	9,076	9,101
Deficit in unrestricted net assets	(300,206)	(102,548)
Total Net Assets	\$5,174,698	\$5,185,983

See Notes to Consolidated Financial Statements.

New Jersey Transit Corporation and Subsidiaries**Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets**

(in thousands)	Years Ended June 30,	
	2007	2006
Operating Revenues		
Passenger fares	\$677,472	\$643,699
Other	60,440	54,346
Total Operating Revenues	737,912	698,045
Operating Expenses		
Labor	552,370	526,797
Fringe benefits	391,616	373,350
Parts, materials and supplies	143,898	127,761
Services	88,974	91,247
Claims and insurance	38,409	36,284
Fuel and propulsion	118,359	110,576
Trackage, tolls and fees	44,908	39,424
Utilities	40,474	33,415
Purchased transportation	162,281	145,892
Other	25,943	25,281
Total Operating Expenses, Before Depreciation	1,607,232	1,510,027
Loss Before Depreciation	(869,320)	(811,982)
Depreciation	(493,468)	(506,562)
Operating Loss	(1,362,788)	(1,318,544)
Non-Operating Revenues (Expenses)		
State appropriation	298,200	278,700
Federal appropriation	—	201
Federal, state and local reimbursements	571,016	549,549
Investment income	13,202	8,548
Income from financing arrangements	23,920	12,660
Other non-operating revenues	8,313	3,300
Interest expense	(101,057)	(95,054)
Total Non-Operating Revenues (Expenses)	813,594	757,904
Loss Before Capital Contributions	(549,194)	(560,640)
Capital contributions, net	537,909	608,307
Change in net assets	(11,285)	47,667
Total Net Assets, Beginning, as Previously Reported	5,185,983	4,809,109
Cumulative Effect of Accounting Change	—	329,207
Total Net Assets, Beginning, As Adjusted for Accounting Change	5,185,983	5,138,316
Total Net Assets, Ending	\$5,174,698	\$5,185,983

See Notes to Consolidated Financial Statements.

New Jersey Transit Corporation and Subsidiaries**Consolidated Statements of Cash Flows**

(in thousands)	Years Ended June 30,	
	2007	2006
Cash Flows from Operating Activities		
Cash receipts from fares	\$679,841	\$641,547
Other cash receipts	66,344	58,759
Payments for claims	(46,288)	(33,039)
Payments to employees	(881,504)	(849,775)
Payments to suppliers	<u>(664,677)</u>	<u>(591,524)</u>
Net Cash Used by Operating Activities	<u>(846,284)</u>	<u>(774,032)</u>
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants and appropriations	<u>873,605</u>	<u>831,003</u>
Net Cash Provided by Non-Capital Financing Activities	<u>873,605</u>	<u>831,003</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of notes	—	253,470
Payment of obligations under capital leases	(13,696)	(12,767)
Interest payments	(101,057)	(95,054)
Repayment of note obligations	(233,952)	(184,455)
Purchase of capital assets	(425,241)	(575,309)
Capital grants	<u>608,394</u>	<u>700,821</u>
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>(165,552)</u>	<u>86,706</u>
Cash Flows from Investing Activities		
Purchase of investments	—	(253,470)
Sales and maturities of investments	13,977	141,455
Interest on investments	13,202	8,548
Leveraged lease proceeds	2,589	4,071
Income from other financing activities	<u>21,330</u>	<u>8,588</u>
Net Cash (Used) Provided by Investing Activities	<u>51,098</u>	<u>(90,808)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(87,133)	52,869
Cash and Cash Equivalents		
Beginning of Year	<u>180,924</u>	<u>128,055</u>
End of Year	<u>\$93,791</u>	<u>\$180,924</u>
Non-Cash Investing Activities		
Increase in fair value of investments	<u>\$4,879</u>	<u>\$118</u>

See Notes to Consolidated Financial Statements.

New Jersey Transit Corporation and Subsidiaries**Reconciliation of Operating Loss to Net Cash Used by Operating Activities**

(in thousands)	Years Ended June 30,	
	2007	2006
Operating Loss	\$(1,362,788)	\$(1,318,544)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation	493,468	506,562
Changes in Assets and Liabilities		
Inventories	(7,785)	(10,344)
Other current assets	(867)	(3,925)
Other non-current assets	(4,615)	2,396
Accounts payable	(29,860)	8,387
Accrued payroll and benefits	25,757	12,101
Other current liabilities	18,376	(10,526)
Accrued injury and damage claims	(20,033)	1,604
Other postemployment benefits	36,725	38,271
Deferred revenue and other non-current liabilities	5,338	(14)
Net Cash Used by Operating Activities	<u>\$(846,284)</u>	<u>\$(774,032)</u>

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

1. Organization and Business Purpose

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

New Accounting Pronouncement. In fiscal year 2006, NJ TRANSIT early adopted the accounting provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes guidelines for reporting costs associated with "other postemployment benefits" (OPEB). OPEB costs are actuarially calculated based on benefits (other than pensions), which current and retired employees have accrued as a result of their respective employment contracts. NJ TRANSIT had previously implemented FASB Statement No. 106, *Employer's Accounting for Postretirement Benefits Other than Pensions*. In accordance with GASB Statement No. 45, NJ TRANSIT has reduced fiscal year 2006 non-current liabilities by \$329.2 million, the balance previously established under FASB Statement No. 106.

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 principal ongoing operations. The principal operating revenues are generated from passenger fares. NJ TRANSIT's operating expenses include employment costs, materials, services, claims and insurance, purchased transportation and other expenses related to the delivery of transportation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

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

Investments. All investments, except for investment agreements, are stated at fair value based on quoted market prices, as available (see Note 6). Investment agreements are collateralized, non-participating guaranteed investment contracts, which are carried at cost.

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 and are reported as capital contributions in the Statement of Revenue, Expenses and Changes in Fund Net 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
Rail cars and locomotives	22-25
Buses, vans and light rail cars	5-15
Furniture, fixtures and equipment	3-10

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

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

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

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

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

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

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

Reclassifications. Certain reclassifications have been reflected in the fiscal year 2006 Consolidated Financial Statements to conform to the current year's presentation.

3. Other Operating Revenues

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

	Years Ended June 30,	
	2007	2006
Lease and rental	\$20.8	\$20.4
Advertising	13.5	11.2
Metro-North operations	10.9	10.3
Other	15.2	12.4
Total	\$60.4	\$54.3

4. Injury and Damage Claims

As of June 30, 2007, 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. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment practice claims exceeding \$500,000 up to \$10 million are covered by insurance. On October 14, 2004, the ARH III Insurance Co., Inc., a wholly owned subsidiary of NJ TRANSIT, was formed. This captive insurance company

provides coverage for FELA and rail third-party claims in excess of \$5 million up to \$10 million, consequently reducing NJ TRANSIT's self-insured retention in these two areas. As of June 30, 2007 and June 30, 2006, the ARH III Insurance Co., Inc., incurred no losses for covered claims.

NJ TRANSIT has recorded an estimated liability of \$80.9 million and \$88.8 million as of June 30, 2007 and 2006, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, \$37.6 million and \$25.4 million are included in other current liabilities as of June 30, 2007 and June 30, 2006, respectively (see Note 11).

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

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

	Years Ended June 30,	
	2007	2006
Balance, Beginning of Year	\$88.8	\$85.5
Claims expense	37.3	31.7
Payment of claims	(45.2)	(28.4)
Balance, End of Year	<u>\$80.9</u>	<u>\$88.8</u>

5. Federal Grants

The Urban Mass Transportation Act of 1964, as amended by ISTEA, TEA-21 and SAFETEA-LU, provides for the funding of a portion of NJ TRANSIT's operating costs and capital needs based upon a defined formula grant program. Generally, such funds may be utilized for no more than 80 percent of 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.

6. Cash, Cash Equivalents and Investments

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

	As of June 30,	
	2007	2006
Current		
Cash on hand	\$9.9	\$10.1
Short-term investments	<u>74.8</u>	<u>161.7</u>
Total current cash on hand	<u>84.7</u>	<u>171.8</u>
Non-current		
Restricted cash on hand	9.1	9.1
Restricted investments	<u>503.4</u>	<u>517.3</u>
Restricted total non-current	<u>512.5</u>	<u>526.4</u>
Total Cash, Cash Equivalents and Investments	<u>\$597.2</u>	<u>\$698.2</u>

NJ TRANSIT's cash on deposit with various entities as of June 30, 2007 and June 30, 2006, totaled \$14.6 million and \$15.0 million, respectively.

Account Type	Balance (<i>in millions</i>)	
	2007	2006
Insured	\$0.6	\$0.7
Insured held at		
NJ TRANSIT's locations	3.2	2.9
Uncollateralized:		
Held by bank trustees	1.4	1.0
Held by health care providers	3.3	3.9
Uninsured held by banks	<u>6.1</u>	<u>6.5</u>
Total	<u>\$14.6</u>	<u>\$15.0</u>

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, 2007 and June 30, 2006, \$10.8 million and \$11.4 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2007 and June 30, 2006, totaled \$578.2 million and \$679.0 million, respectively.

Investments	Fair Value (in millions)		Weighted Average Maturity in Years	
	2007	2006	2007	2006
State of NJ Cash				
Management Fund	\$127.8	\$61.8	.57	.75
Repurchase Agreements	324.8	442.4	.62	.71
U.S. Treasury/Securities	99.4	158.2	.09	.04
Cash Equivalents	4.7	—	—	—
Other	21.5	16.6	—	—
Total	<u>\$578.2</u>	<u>\$679.0</u>		
Portfolio weighted average maturity (inclusive of proceeds from debt issuance)			0.52	0.56

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

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

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

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

such criteria as minimum capital, credit ratings and other evaluation factors.

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

7. 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, 2007 and 2006, the balance of restricted cash related to these proceeds was \$471.4 million and \$480.9 million, respectively.

In October 1997, NJ TRANSIT entered into a funding agreement with Metro-North Commuter Railroad Company for Secaucus Junction and the right-of-way modifications to the Main/Bergen and Northeast Corridor rail lines. This agreement provided for an initial cash payment to NJ TRANSIT. In fiscal year 2006, all funds in this account were drawn down.

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, 2007 and 2006 were \$1,548.6 million and \$1,549.4 million, respectively, for these lease agreements that represent investment arrangements made to meet NJ TRANSIT's payment obligations throughout the term of the leases. These investments are managed by an external investment manager. Under the lease agreement NJ TRANSIT does not have any obligation to make further contributions to the lessors. NJ TRANSIT's responsibility will not exceed the amount on deposit. Therefore, NJ TRANSIT's obligation is not affected by various risks, which include credit risks, interest rate risks and concentration of credit risk. In addition, these restricted investments are not required to be administered in accordance with NJ TRANSIT's investment guidelines.

In May 1984, NJ TRANSIT purchased the land under and adjacent to Newark Penn Station along with air rights above the land and acquired operational control of the station. This arrangement also provides cash proceeds to NJ TRANSIT, which management projects will assist in the funding of net station operating expenses. In January 2007, NJ TRANSIT drew down the balance of proceeds in this account.

Smaller amounts relative to reserve funds, health plan deposits and residual grant proceeds total \$19.6 million and \$19.5 million as of June 30, 2007 and June 30, 2006, respectively.

8. Capital AssetsA summary of capital assets follows (*in millions*):

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

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets not being Depreciated				
Land	\$242.2	\$47.6	\$8.3	\$281.5
Capital projects in process	1,313.9	601.5	669.3	1,246.1
Total	1,556.1	649.1	677.6	1,527.6
Capital Assets being Depreciated				
Buildings and structures	3,978.9	259.6	124.7	4,113.8
Track	1,729.3	176.6	40.5	1,865.4
Rail cars and locomotives	1,454.4	182.7	37.4	1,599.7
Buses, vans and light rail cars	1,259.0	104.8	7.2	1,356.6
Furniture, fixtures and equipment	347.2	14.6	2.5	359.3
Total	8,768.8	738.3	212.3	9,294.8
Less Accumulated Depreciation				
Buildings and structures	1,190.3	221.3	0.5	1,411.1
Track	471.9	80.6	—	552.5
Rail cars and locomotives	761.7	76.7	19.8	818.6
Buses, vans and light rail cars	499.3	103.8	2.8	600.3
Furniture, fixtures and equipment	257.9	24.6	1.2	281.3
Total	3,181.1	507.0	24.3	3,663.8
Total Capital Assets, Net of Depreciation	5,587.7	231.3	188.0	5,631.0
Total Net Capital Assets	\$7,143.8	\$880.4	\$865.6	\$7,158.6

For the year-ended June 30, 2007 and 2006, capital assets include net capitalized interest costs of \$426.0 million and \$400.0 million, respectively, and interest income of \$325.8 million and \$307.7 million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Note 13).

During fiscal years 2007 and 2006, NJ TRANSIT received capital contributions of \$585.6 million and \$654.7 million, respectively, of which \$47.7 million and \$45.3 million were passed through to other entities, respectively. The transferred amounts represented assets for which NJ TRANSIT has transferred ownership upon completion of the project. For fiscal year 2007, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line, the acquisition of Metro-North rail cars, the Meadowlands Rail Spur and the Woodbine Yard expansion.

9. Pension and Employee Benefit Plans

Certain employees of NJ TRANSIT and its subsidiaries participate in the New Jersey Public Employee Retirement System (PERS), the Police and Firemen's Retirement System (PFRS) and the Railroad Retirement Fund. NJ TRANSIT contributes to the PERS plan, the PFRS plan and Railroad Retirement Fund based upon a fixed percentage of applicable compensation as determined by the respective plan sponsors. The PERS, PFRS and Railroad Retirement plans are cost-sharing, multiple employers' defined benefit pension plans and require employee contributions. NJ TRANSIT's contributions to these plans for the years ended June 30, 2007, 2006 and 2005 were \$36.7 million, \$33.8 million and \$32.9 million, respectively. The State of New Jersey issues separate, stand alone financial reports for the PERS and PFRS plans that can be obtained through the Division of Pensions, State of New Jersey.

NJ TRANSIT employees not participating in PERS, PFRS or the Railroad Retirement Fund as defined above are covered by five defined benefit, single-employer pension plans. Total payroll used for benefits and cost calculations for employees covered by the five NJ TRANSIT-sponsored plans was \$372.5 million, \$368.3 million and \$359.5 million for the 2007, 2006 and 2005 plan years, respectively. Under the provisions of the five pension plans, pension benefits vest after 10 years of full-time employment. Certain employees who begin their employment at age 50 are 100 percent vested beginning at age 55 after five years of full-time employment. As of June 30, 2007, an employee who retires at age 65 with 10 years of credited service is entitled to an annual retirement benefit equal to 2.125 percent for each year of service multiplied by the average of the highest three years' earnings (excluding overtime for non-agreement employees) in the last 10 years of service. The sponsored pension plans also provide early retirement programs and death benefits. As of July 1, 2006, all non-agreement employees hired on or after July 1, 2006 are not eligible to enroll in the defined benefit Transit Employees Retirement Plan (TERP). All employees hired on or after July 1, 2006 are enrolled in a new 401(a) Defined Contribution Plan.

A variety of significant actuarial assumptions are used to determine the valuation of the pension benefit obligation at the pension plan valuation dates. The current assumptions include (a) a weighted average assumed rate of return of 8.0 percent for all

plans, (b) annual salary increases ranging from 3.5 percent to 5.3 percent, and (c) no postretirement benefit increases. For fiscal year 2007, there were no changes in actuarial assumptions or funding method.

Periodic employer contributions to the pension plans are also determined on an actuarial basis using the projected unit credit actuarial method. Normal costs are accrued on a current basis. The prior service costs are amortized over a 30-year period. Contributions to sponsored plans during fiscal year 2007 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2006.

The plan assets are held in a variety of investment instruments including common stock, fixed income securities and corporate bonds, all of which are reported at fair value.

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

Pension Benefit Obligation

	Years Ended June 30,				
(in millions)	2006	2005	2004	2003	2002
Accrued Benefit Obligation					
Participants currently receiving payments	\$439.9	\$403.9	\$389.3	\$363.4	\$279.6
Employer-financed vested benefits	406.7	359.3	310.8	282.7	307.8
Employer-financed nonvested benefits	118.9	121.5	106.2	98.2	97.4
Total Accrued Benefit Obligation	\$965.5	\$884.7	\$806.3	\$744.3	\$684.8
Pension Funding					
Pension benefit obligation	\$1,089.5	\$1,016.6	\$953.9	\$869.3	\$813.4
Fair value of net assets available for plan benefits	914.6	845.2	766.5	678.6	628.9
Unfunded Pension Benefit Obligation					
	\$(174.9)	\$(171.4)	\$(187.4)	\$(190.7)	\$(184.5)

Pension expense for defined benefit plans (excluding PERS, PFRS and the Railroad Retirement Fund) totaled \$59.4 million, \$60.9 million and \$61.0 million for fiscal years 2007, 2006 and 2005, respectively.

For the three plan years ended June 30, 2006, 2005 and 2004, available assets were sufficient to fund 83.9, 83.1 and 80.4 percent, respectively, of the pension benefit obligation. The unfunded pension benefit obligation represented 45.5, 46.5, and 52.1 percent of the annual payroll for employees covered by NJ TRANSIT pension plans for fiscal years 2006, 2005 and 2004, respectively. Disclosing the unfunded pension benefit obligation as a percentage

of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. NJ TRANSIT's contributions to the plans for the three plan years ended June 30, 2006, 2005 and 2004, all made in accordance with actuarially determined requirements, were 17.0, 16.5 and 20.0 percent, respectively, of applicable fiscal year covered payroll.

Of the five single-employer defined benefit pension plans, four cover bus agreement employees, and one plan covers all non-agreement employees. The four agreement plans are the Amalgamated Transit Union Employees Retirement Plan, the Transport Union Employees Retirement Plan, the Utility Co-Workers Association Employees Retirement Plan and the Mercer Employees Retirement Plan. The plan covering all non-agreement employees, hired prior to July 1, 2006, is the Transit Employees Retirement Plan (TERP).

Each plan provides retirement, disability and death benefits to plan members and beneficiaries with the exception of the TERP plan, which has no disability provision. 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.

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 employee. This plan permits employees to contribute up to 50 percent of their salary not to exceed \$15,500 annually on a pre-tax basis.

NJ TRANSIT also provides a money purchase pension plan 401(a) and an employee savings/deferred compensation plan (457) for eligible agreement employees. NJ TRANSIT contributed 3 to 5 percent of annual compensation to certain employees' accounts in the 401(a) plan. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed \$15,500 annually on a pre-tax basis.

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

NJ TRANSIT's expense for the defined contribution plans totaled \$16.1 million and \$15.0 million in fiscal years 2007 and 2006, respectively.

Recorded expenses for all plans (including PERS, PFRS and the Railroad Retirement Fund) amount to \$112.5 million and \$109.7 million for the fiscal years ended June 30, 2007 and 2006, respectively.

10. Other Postemployment Benefits

NJ TRANSIT sponsors a single employer health-care plan that provides postretirement medical, dental and life insurance benefits for eligible retirees and their spouses. NJ TRANSIT does not issue a financial report for this plan. Contribution requirements are negotiated between NJ TRANSIT and union representatives for Rail and Bus agreement employees. NJ TRANSIT establishes and may amend the contribution requirements for non-agreement employees. NJ TRANSIT's required contribution is based on projected pay-as-you-go financing requirements. Payments under the plan were \$18.7 million and \$16.6 million for fiscal years 2007 and 2006, respectively.

NJ TRANSIT's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (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 2007 and 2006 (*in millions*):

	Years Ended June 30,	
	2007	2006
Annual required contribution	\$56.0	\$54.8
Interest on net OPEB obligation	1.7	—
Adjustment to annual required contribution	(2.3)	—
Annual OPEB cost	55.4	54.8
Contributions made	(18.7)	(16.6)
Increase in net OPEB obligation	36.7	38.2
Net OPEB Obligation,		
Beginning of Year	38.2	—
Net OPEB Obligation, End of Year	<u>\$74.9</u>	<u>\$ 38.2</u>

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

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

As of June 30, 2005, the actuarial accrued liability (AAL) for benefits was \$499.8 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$368.3 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 135.7 percent.

The projection of future benefit 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 subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress provided as required supplemental information following the notes to the financial statements presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

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

As of June 30, 2005, the actuarial valuation utilized the projected unit credit method. The actuarial assumptions included a 4.5 percent discount rate and an annual health care cost trend rate of 4.5 percent. The unfunded actuarial accrued liability is being amortized on a level dollar amortization basis. The remaining amortization period at June 30, 2005 was 30 years.

11. Other Current Liabilities

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

	As of June 30,	
	2007	2006
Injury and damage claims (Note 4)	\$37.6	\$25.4
Retainage on construction projects	17.5	13.5
Other	26.6	22.0
Total Other Current Liabilities	\$81.7	\$60.9

12. Deferred Revenue and Other Current Liabilities

Deferred revenue and other non-current liabilities totaled \$53.0 million and \$57.6 million as of June 30, 2007 and June 30, 2006, respectively. These amounts are primarily comprised of deferred revenues which are designated for the future purchase of fixed assets. The following schedule summarizes deferred and other non-current liabilities balances.

	As of June 30,	
	2007	2006
Balance, Beginning of Year	\$57.6	\$60.1
Additions	7.1	4.3
Reductions	(11.7)	(6.8)
Balance, End of Year	\$53.0	\$57.6

13. Long-Term Debt and Other Obligations

In September 2005, NJ TRANSIT issued \$253.5 million of series

2005A Certificates of Participation (COPS), accruing interest at 5.0 percent with a final maturity in 2021. The funds will be used to acquire 131 multilevel rail cars.

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

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

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

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

Terms. The notional amounts of these swap agreements are equal to the face value of the bond issuance. Based upon the swap agreements, NJ TRANSIT pays interest at a fixed rate of 3.32 percent for Series 2003A Bonds and 3.45 percent for series 2003B Bonds to the counterparties. In return, the counterparties pay interest to NJ TRANSIT based upon 62 percent of the one-month LIBOR rate plus 20 basis points. This rate is designed to offset the market rate paid on the underlying bonds, which are periodically auctioned. As the bonds are redeemed, the notional amounts of the respective swap agreement will decrease proportionately.

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

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

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

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

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 cost. As of June 30, 2007, \$48.0 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.

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

In November 2000, NJ TRANSIT issued \$562.2 million of Capital Grant Anticipation Notes (GANs), consisting of \$452.2 million of Series 2000B and \$110.0 million of Series 2000C, bearing interest between 4.5 percent and 5.75 percent. The Series 2000B note matures in 2011. The proceeds of this note were used to fund the cost of constructing the next segment of Hudson-Bergen Light Rail (MOS-2). The proceeds of the series 2000C notes were used to fund the Newark Light Rail Extension and this note matured in 2005.

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

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

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

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

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

	Inception Date	Balance June 30, 2006	Additions	Payments/ Reductions	Balance June 30, 2007	Due Within One Year
COPs 1999	03/99	\$58.8	\$—	\$21.2	\$37.6	\$22.1
NJEDA 1999A&B	08/99	207.2	—	40.7	166.5	42.9
COPs 2000A	01/00	68.8	—	1.8	67.0	1.9
COPs 2000B	10/00	415.4	—	48.6	366.8	51.4
GANs 2000B	11/00	262.3	—	90.9	171.4	59.5
COPs 2002A	06/02	160.0	—	0.4	159.6	0.2
COPs 2002B	06/02	94.7	—	2.1	92.6	2.0
COPs 2003	02/03	51.8	—	3.8	48.0	4.1
COPs 2003A	09/03	148.5	—	0.3	148.2	0.3
NJEDA 2003A	10/03	318.6	—	3.8	314.8	4.2
NJEDA 2003B	10/03	35.0	—	—	35.0	—
COPs 2004A	03/04	253.2	—	15.6	237.6	16.0
COPs 2005A	09/05	253.5	—	—	253.5	—
Total		2,327.8	—	229.2	2,098.6	\$204.6
Unearned Bond Premium		82.0	—	12.4	69.6	
Unamortized Deferral on Refunding		(60.6)	—	(7.6)	(53.0)	
Total Notes Payable		\$2,349.2	\$—	\$234.0	\$2,115.2	

The following schedule summarizes notes payable obligations as of June 30, 2006 (*in millions*):

	Inception Date	Balance June 30, 2005	Additions	Payments/ Reductions	Balance June 30, 2006	Due Within One Year
COPs 1999	03/99	\$79.0	\$—	\$20.2	\$58.8	\$21.2
NJEDA 1999A&B	08/99	245.8	—	38.6	207.2	40.7
COPs 2000A	01/00	70.6	—	1.8	68.8	1.8
COPs 2000B	10/00	461.5	—	46.1	415.4	48.7
GANs 2000B	11/00	347.1	—	84.8	262.3	56.2
COPs 2002A	06/02	160.2	—	0.2	160.0	0.2
COPs 2002B	06/02	94.7	—	—	94.7	2.1
COPs 2003	02/03	55.2	—	3.4	51.8	3.8
COPs 2003A	09/03	148.8	—	0.3	148.5	0.3
NJEDA 2003A	10/03	322.3	—	3.7	318.6	3.8
NJEDA 2003B	10/03	35.0	—	—	35.0	—
COPs 2004A	03/04	253.2	—	—	253.2	15.6
COPs 2005A	09/05	—	253.5	—	253.5	—
Total		2,273.4	253.5	199.1	2,327.8	\$194.4
Unearned Bond Premium		75.2	23.0	16.2	82.0	
Unamortized Deferral on Refunding		(68.5)	—	(7.9)	(60.6)	
Total Notes Payable		\$2,280.1	\$276.5	\$207.4	\$2,349.2	

Long-term notes payable maturities as of June 30, 2007
(in millions):

Fiscal Years	Principal	Interest	Total
2008	\$204.6	\$101.7	\$306.3
2009	215.0	91.0	306.0
2010	208.9	78.0	286.9
2011	148.6	68.0	216.6
2012	156.6	59.9	216.5
2013-2017	811.4	178.1	989.5
2018-2022	353.5	35.2	388.7
Total	2,098.6	\$611.9	\$2,710.5
Unamortized Premium	69.6		
Unamortized Deferral on Refunding	(53.0)		
Total Notes Payable	\$2,115.2		

14. Leases and Other Commitments

Leveraged Lease Transactions

NJ TRANSIT has entered into a number of leveraged lease agreements with certain domestic and foreign lessors. In connection with these agreements, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the term of the respective leases. Effective January 1, 1997, NJ TRANSIT changed its method of accounting for the extinguishment of leveraged leased obligations and no longer records "in-substance" defeasance of its leveraged lease obligations as extinguished. Accordingly, NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leverage Lease Deposits in the Consolidated Statements of Fund Net Assets (see Note 7).

In fiscal year 2007, NJ TRANSIT received a total of \$2.6 million in benefits from leveraged lease transactions related to cross border leases of 23 multilevel rail cars and 53 transit buses with net present value lease obligations of \$70.9 million with lease terms ranging from 4 years to 21 years. In connection with the agreement, NJ TRANSIT has made certain indemnification provisions and must comply with certain lease covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2007.

Extinguished Leveraged Lease Obligations

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

Extinguished leveraged lease obligations as of June 30, 2007 follows
(in millions):

Fiscal Years	Lease Years	Equipment	Amount
1995	15 Years	32 Arrow III cars	\$49.1
1994	15 Years	24 Arrow III cars	\$39.5
1994	15 Years	26 Arrow III cars	\$50.3
1993	15 Years	43 Arrow III cars	\$47.3

In connection with these lease agreements, NJ TRANSIT has made certain indemnification provisions and must comply with certain lease covenants. NJ TRANSIT is in compliance with such covenants through June 30, 2007.

Capital Leases

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

In 1994, NJ TRANSIT entered into a 23-year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an aboveground parking facility. A portion of the financing for this facility was provided by the NJEDA through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the NJEDA bond obligations. The remaining rental payments have a present value of approximately \$12.3 million as of June 30, 2007.

In 1986, NJ TRANSIT entered into a \$35.9 million lease agreement for land and building facilities to be utilized for bus maintenance and storage. The initial lease term is 25 years, and the lease contains options for an additional 25 years.

In total, NJ TRANSIT has recorded obligations under capital leases of \$1,663.0 million and \$1,677.5 million as of June 30, 2007 and June 30, 2006, respectively, of which \$183.0 million and \$114.0 million represent current installments under capital leases as of June 30, 2007 and June 30, 2006, respectively.

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

	As of June 30,	
	2007	2006
Land	\$27.5	\$27.5
Buildings	531.3	516.1
Rail cars and locomotives	867.2	814.7
Buses and light rail cars	691.8	729.1
Furniture, fixtures and equipment	63.4	63.4
Capital assets under capital leases (at cost)	2,181.2	2,150.8
Less accumulated depreciation	(1,062.7)	(995.5)
Net Capital Assets Under Capital Leases	\$1,118.5	\$1,155.3

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

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

The following schedules summarize the capital lease obligations as of June 30, 2006 (*in millions*):

	Inception Date	Balance June 30, 2005	Additions	Payments/ Reductions	Balance June 30, 2006	Due Within One Year
NBC facility	07/86	\$17.6	\$—	\$2.3	\$15.3	\$2.5
Metropark parking facility	03/94	14.0	—	0.9	13.1	0.8
MMC, locos. & rail cars	01/97	139.2	—	9.2	130.0	9.2
ALP-44 locomotives	06/97	7.2	—	—	7.2	—
Comet IV coaches	07/97	30.2	5.8	8.4	27.6	2.5
Bus garages	07/97	79.4	—	5.3	74.1	5.5
Arrows coaches & ALP-44s	03/98	254.4	—	38.0	216.4	32.7
Light rail cars	06/98	109.3	—	9.8	99.5	10.3
Bus garages	09/98	107.1	1.1	—	108.2	0.6
HBLR	12/00	171.2	4.3	—	175.5	7.7
MCI buses	12/01	90.6	—	15.5	75.1	5.0
MCI buses	10/02	266.9	8.7	2.2	273.4	11.1
Qualified technical equipment	08/03, 09/03	120.5	—	9.0	111.5	9.0
ALP-46 locomotives	09/03	70.4	—	10.6	59.8	10.6
Comet IV coaches	09/03	80.2	—	9.5	70.7	—
Light rail cars	09/03, 10/03	70.5	—	1.8	68.7	1.9
Articulated buses	07/04	37.9	—	2.0	35.9	2.0
Diesel locomotives	12/05	—	115.7	0.4	115.3	2.5
Other	02/05	—	0.3	0.1	0.2	0.1
Total Capital Lease Obligations		<u>\$1,666.6</u>	<u>\$135.9</u>	<u>\$125.0</u>	<u>\$1,677.5</u>	<u>\$114.0</u>

Minimum capital lease maturities as of June 30, 2007 (*in millions*):

Fiscal Years	Principal	Interest	Total
2008	\$183.0	\$58.7	\$241.7
2009	157.6	51.0	208.6
2010	133.8	49.7	183.5
2011	137.7	48.9	186.6
2012	110.2	47.9	158.1
2013-2017	475.7	473.2	948.9
2018-2022	281.5	117.3	398.8
2023-2027	143.9	104.5	248.4
2028-2032	21.1	23.0	44.1
2033-2037	18.5	0.3	18.8
Total Capital Lease Obligations	<u>\$1,663.0</u>	<u>\$974.5</u>	<u>\$2,637.5</u>

As of June 30, 2007, NJ TRANSIT was committed for future purchases under the following capital projects and special services which will be funded from federal, state, local or other capital sources (*in millions*):

Raritan Valley bridge rehabilitation	\$11.5
NY Penn Station 31st Street entrance	12.8
Overhead catenary	12.9
Metropark platform replacement	38.5
Positive Train Stop program	10.1
Atlantic City track rehabilitation	21.6
Rolling stock improvements	21.9
Rail passenger facilities	18.5
MMC facility expansion	12.6
Rail infrastructure	16.3
Broad Street Newark-ADA improvements	19.2
Design and engineering – Hoboken ferry slips	20.3
Trenton Station building improvements	35.0
Morrisville Yard improvements	25.7
Access to the Regions Core	69.1
Bus rolling stock	69.4
Other, for commitments less than \$10 million	153.6
Total Capital Projects and Special Service Commitments	<u>\$569.0</u>

15. Contingencies

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

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

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

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

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

16. Net Assets

Changes in Net Assets for fiscal years 2006 and 2007 (in thousands):

	Deficit in Unrestricted Net Assets	Restricted Net Assets	Invested in Capital Assets Net of Related Debt		Total
			Federal	State/Local/Other	
Balance, June 30, 2005	<u>\$(310,594)</u>	<u>\$8,260</u>	<u>\$2,476,303</u>	<u>\$2,635,140</u>	<u>\$4,809,109</u>
Loss before capital contributions	(561,481)	841	—	—	(560,640)
Capital grants	—	—	270,800	391,786	662,586
Transfers	(51,229)	—	—	51,229	—
Capital grants pass-throughs	—	—	(53)	(45,269)	(45,322)
Adjustment primarily related to GASB Statement No. 45 implementation	328,099	—	—	—	328,099
Capital assets removed from service	—	—	—	(7,849)	(7,849)
Depreciation of capital funded assets	<u>492,657</u>	<u>—</u>	<u>(304,926)</u>	<u>(187,731)</u>	<u>—</u>
Balance, June 30, 2006	<u>(102,548)</u>	<u>9,101</u>	<u>2,442,124</u>	<u>2,837,306</u>	<u>5,185,983</u>
Loss before capital contributions	(549,169)	(25)	—	—	(549,194)
Capital grants	—	—	214,065	372,141	586,206
Transfers	(126,260)	—	—	126,260	—
Capital grants pass-throughs	—	—	(848)	(46,806)	(47,654)
Capital assets removed from service	—	—	—	(643)	(643)
Depreciation of capital funded assets	<u>477,771</u>	<u>—</u>	<u>(247,235)</u>	<u>(230,536)</u>	<u>—</u>
Balance, June 30, 2007	<u>\$(300,206)</u>	<u>\$9,076</u>	<u>\$2,408,106</u>	<u>\$3,057,722</u>	<u>\$5,174,698</u>

Required Supplementary Information

New Jersey Transit Corporation
FY2007 GASB Statement No. 45
Required Supplementary Information
Schedule of Funding Progress
For Retiree Health-Care Plan (in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL* Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
June 30, 2005	\$—	<u>\$499.8</u>	<u>\$499.8</u>	\$—	<u>\$368.3</u>	135.7%

*Actuarial Accrued Liability



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Report of Independent Auditors

Board of Directors of
New Jersey Transit Corporation

We have audited the accompanying consolidated financial statements of the New Jersey Transit Corporation and subsidiaries (the "Corporation"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and subsidiaries as of June 30, 2007 and 2006, and the consolidated changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, effective July 1, 2005 the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

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

September 28, 2007

A stylized, handwritten-style signature of 'Ernst & Young LLP' in black ink.



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