

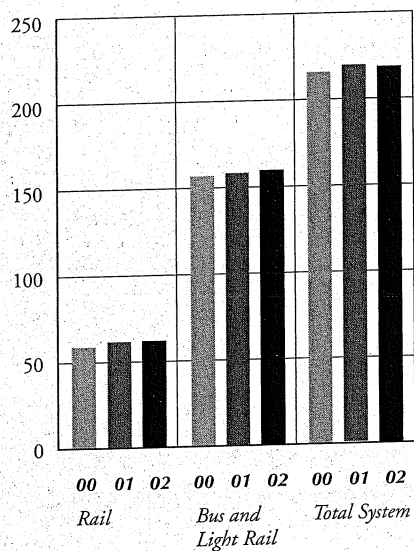
2002

A Challenging Year

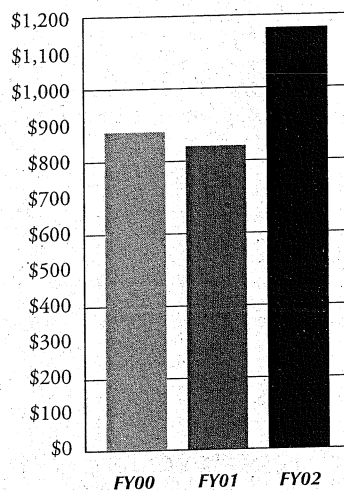


2002

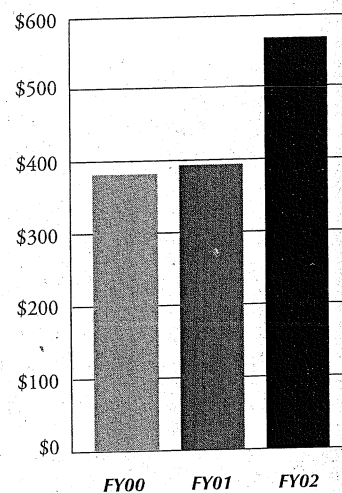
Ridership
(in millions)



Capital Program
(in millions)



Transportation Trust Fund
(in millions)



T's mission is to provide safe, reliable, and cost-effective transit services with a employees, dedicated to our customers' and committed to excellence.

AUG 1 2005



September 11, 2001

We will forever be affected by the horrific attacks on September 11, 2001.

The American people responded forcefully and as one nation.

We are proud of the response of NJ TRANSIT's employees.

Their effort was one of many that provided immediate assistance and sustained hope for the future. Pictured above is a construction wall at the

NJ TRANSIT 7th Avenue Concourse which, in the weeks after

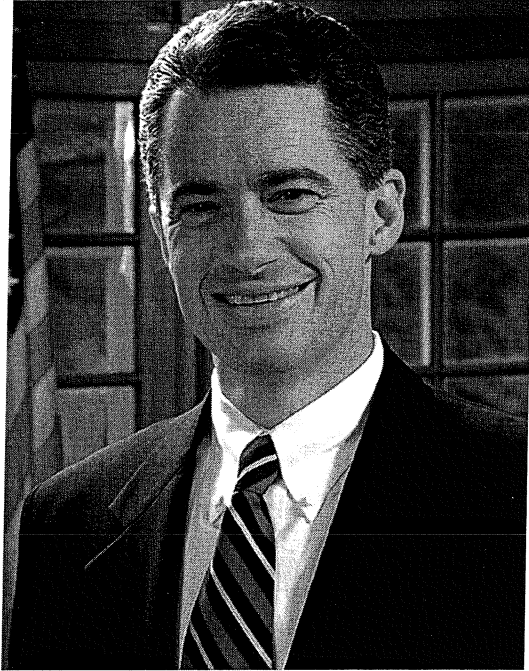
September 11, became a memorial wall. The wall is now in the

possession of the New York Historical Society.

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A Message from the Governor



James E. McGreevey, Governor, State of New Jersey

Public transportation is a vital public service that touches the lives of all who live, work and visit our great state of New Jersey. It provides critical mobility for our residents by providing travel

opportunities and alternatives to using an automobile, thus limiting traffic congestion and air pollution. Public transit also sustains our economy and promotes smart growth by providing opportunities for residential and commercial development near train stations and transportation centers.

My administration is committed to making public transportation a priority by ensuring that NJ TRANSIT is operated efficiently and uses business approaches that allocate public funds wisely. The gifted team of Transportation Commissioner and Board Chairman James P. Fox and Executive Director George D. Warrington has already demonstrated a strong ability to improve public transit. This year service has increased, standees have been reduced dramatically and capacity has increased. I am confident that our continued efforts will further improve New Jersey's public transportation network and provide a better quality of life for our residents.

A handwritten signature in black ink that reads "James E. McGreevey". The signature is stylized and fluid, with a long horizontal stroke extending to the right.

James E. McGreevey
Governor



NJ TRANSIT Board of Directors in the restored waiting room at Newark Penn Station.

Left to right: Robert Smartt, Treasurer's Representative; Paul P. Josephson, Governor's Representative; John L. McGoldrick; James P. Fox, Chairman; Myron P. Shevell, Vice Chairman; Patrick W. Parkinson; Flora M. Castillo

A Message from the Chairman



James P. Fox, Chairman

NJ TRANSIT is committed to meeting the transportation challenges of our complex region. As New Jersey's primary public transportation provider, NJ TRANSIT must provide efficient, reliable and attractive transit service for our residents.

In these lean economic times, it is essential to prioritize transportation initiatives and determine which projects will benefit the most people. As Commissioner of Transportation, I place great emphasis on the need to improve transit service in the state as our best means of improving mobility and reducing congestion on our transportation system. Providing enough seats for existing and future riders has been one of my highest priorities since becoming the Commissioner this past February.

During 2002, NJ TRANSIT made significant progress to ensure ridership needs were addressed. New equipment arrivals and targeted equipment redeployments have already provided more seats on popular rail lines and bus routes, with more service improvements on the way. Thanks to an historic agreement with the Port Authority of New York & New Jersey, NJ TRANSIT can anticipate the purchase of bi-level rail cars that provide more seating capacity than single-level cars. These new cars will add 20,000 seats for riders. Other commitments include the completion of a new concourse at Penn Station New York and parking expansion projects to improve access to transit services.

Capital investments such as the Montclair Connection, Secaucus Transfer and Hudson-Bergen Light Rail extension to Hoboken will improve mobility and connectivity with other transit services, significantly enhancing travel options statewide. These smart growth developments not only serve our communities and environment, they also serve the economy. Residents will be able to connect to new employment and recreational centers, spurring economic growth and improving the quality of life throughout the state.

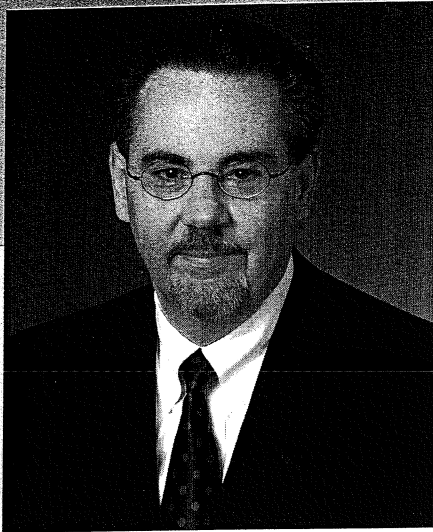
To provide an efficient public transit system, we must continue to focus on improving service reliability, expanding capacity and maintaining our transportation infrastructure. These goals cannot be accomplished without the continuation of a steady source of resources provided primarily with funding available through the New Jersey Transportation Trust Fund and the federal Transportation Equity Act for the 21st Century. These important pieces of legislation must be reauthorized over the next two years. I will continue to lead our efforts to make sure that lawmakers provide the needed resources to fund our transportation priorities.

With Governor James E. McGreevey's leadership and the efforts of the Board of Directors and Executive Director George D. Warrington, I am confident that NJ TRANSIT will continue to strengthen its core system to ensure a safe, efficient and reliable transit system. I will continue to support initiatives that connect our transportation network, stimulate economic development and revitalize New Jersey's communities.

A handwritten signature in black ink that reads "James P. Fox". The signature is written in a cursive, flowing style.

James P. Fox

Transportation Commissioner and NJ TRANSIT Board Chairman



A Message from the Executive Director

George D. Warrington, Executive Director

I began serving as NJ TRANSIT's Executive Director in May and I am honored to be back home in New Jersey where I began my career. My goal is to get NJ TRANSIT's focus back to its basic mission by moving forward with a program to address our critical short- and long-term needs. We must expand capacity and increase service for our riders, operate our business efficiently, make wise capital investments and improve customer service. In addition, we must continue to improve our business fundamentals—on-time performance, safety, communications and service quality—by maintaining our core system.

This has been a year of challenges and opportunities for NJ TRANSIT. Increased ridership to midtown Manhattan in the aftermath of the September 11 attack on the World Trade Center has posed formidable challenges. We have had to make tough strategic and financial choices and prioritize our activities to meet ever-changing customer needs.

NJ TRANSIT's goals will be accomplished by better managing our existing assets and by clearly demonstrating the value of additional public investments. We have begun to establish a cogent transit investment policy to restore the Corporation's financial foundation. By reversing the long-standing practice of using capital funds to pay for operating expenses, we will increase our ability to meet the transportation needs of our state and ensure a strong economy.

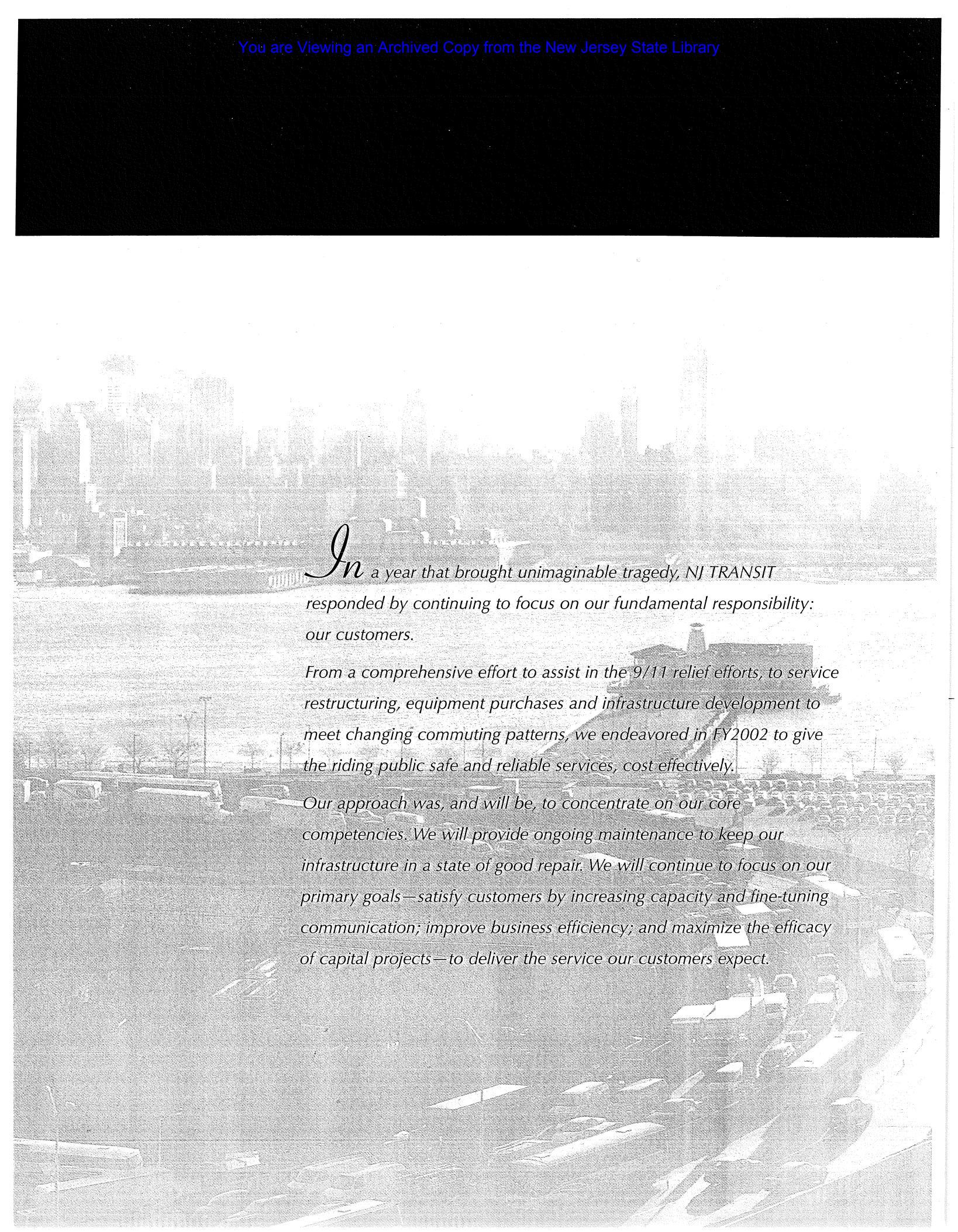
Working with the congressional delegation and state legislature, we have made substantial progress to improve mobility by making critical connections to the regional transportation network. We also are reducing standees by increasing seating capacity through the purchase of new equipment and redeployment of existing resources. In September 2002, we completed construction of three critical projects—the Montclair Connection, the NJ TRANSIT 7th Avenue Concourse in Penn Station New York and a new light rail station at Hoboken Terminal. These major transportation investments interconnect our system and expand travel options, fuel the state's economy and enhance the quality of life for our citizens.

The opening of Secaucus Transfer in 2003 will further unify NJ TRANSIT's transportation system. Secaucus Transfer will significantly enhance our objective to provide a seamless, cohesive transportation system that encourages smart growth investments within communities, stimulates job growth and generates economic development. Equally important, Secaucus Transfer lays the foundation for NJ TRANSIT's next generation of transportation services with bi-level rail cars, expanded parking, and ultimately, the construction of new rail tunnels beneath the Hudson River to New York.

I thank Governor James E. McGreevey and Transportation Commissioner and NJ TRANSIT Board Chairman James P. Fox for giving me the opportunity to serve as Executive Director and for their strong support as NJ TRANSIT continues its pursuit of delivering a safe, cost-efficient and reliable public transportation system. Thanks also to the members of the NJ TRANSIT Board of Directors and our employees, who are committed to providing quality services for our customers not only now but also for the next generation of New Jersey residents.

A handwritten signature in black ink, appearing to read "G. Warrington". The signature is stylized and written in a cursive-like font.

George D. Warrington
Executive Director



In a year that brought unimaginable tragedy, NJ TRANSIT responded by continuing to focus on our fundamental responsibility: our customers.

From a comprehensive effort to assist in the 9/11 relief efforts, to service restructuring, equipment purchases and infrastructure development to meet changing commuting patterns, we endeavored in FY2002 to give the riding public safe and reliable services, cost effectively.

Our approach was, and will be, to concentrate on our core competencies. We will provide ongoing maintenance to keep our infrastructure in a state of good repair. We will continue to focus on our primary goals—satisfy customers by increasing capacity and fine-tuning communication; improve business efficiency; and maximize the efficacy of capital projects—to deliver the service our customers expect.

A Challenging Year

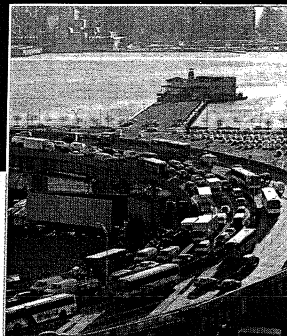


NJ TRANSIT 7th Avenue Concourse, Penn Station New York, under construction in 2001



NJ TRANSIT Police Department K-9 unit

*Lincoln Tunnel helix
HBLR at Essex Street Station
Rail operations substation maintainer*



Responding to unprecedented challenges while maintaining a clear focus on the future, NJ TRANSIT took action, on a number of fronts, that reflected our dedication to increasing capacity and improving service to meet customer needs.

SEPTEMBER 11 RESPONSE

NJ TRANSIT's response to 9/11 was swift and comprehensive, including immediate actions to help with evacuations and emergencies, and long-term measures to address changes in customer travel patterns.

Evacuation and Recovery Assistance

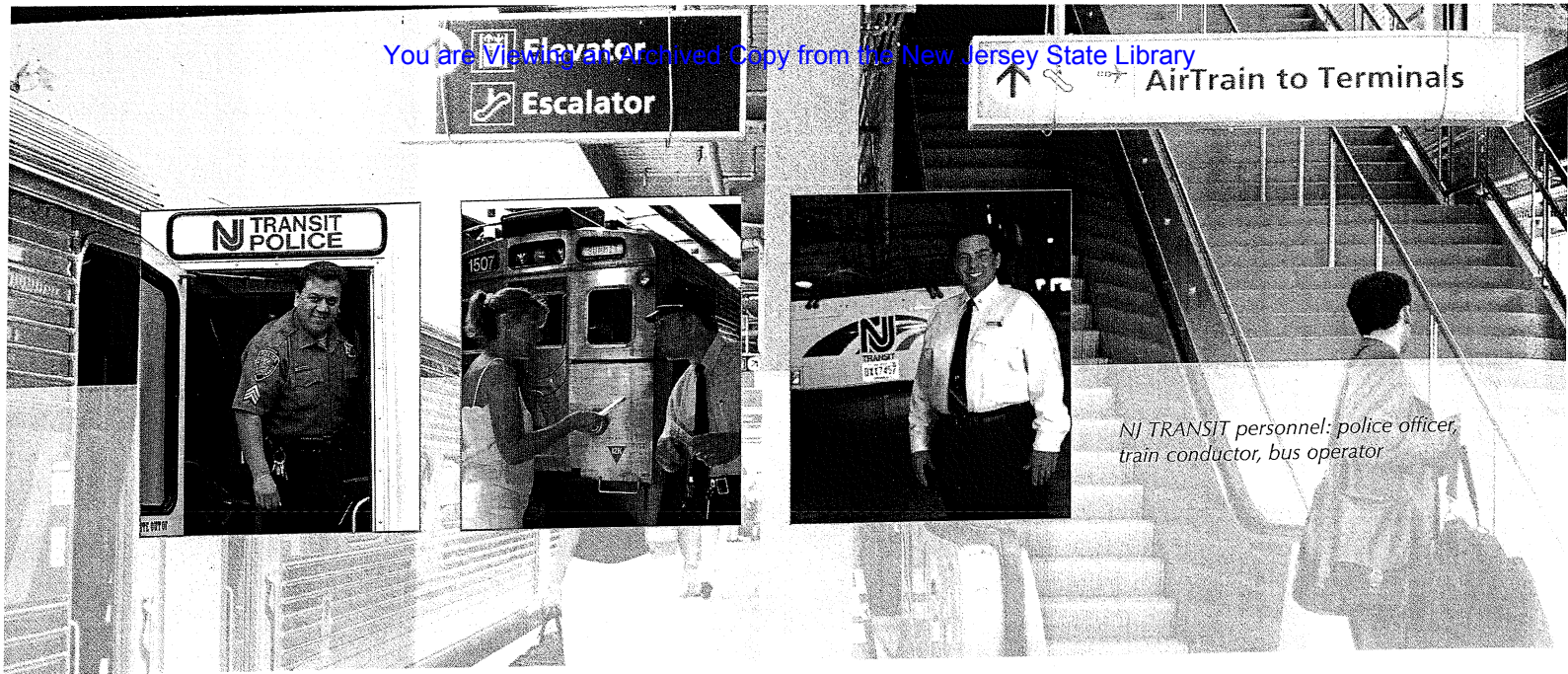
Concerted actions included, among others, assistance to the injured arriving at Hoboken Terminal, Newark Penn Station and Liberty State Park; shuttle bus service for emergency responders and volunteer organizations; and the dedication of two Hudson-Bergen Light Rail (HBLR) cars to transport personnel and equipment. NJ TRANSIT employees also contributed several thousand dollars to special relief funds.

Contingency Service Plans

Providing as much transportation as quickly as possible between New Jersey and Manhattan, NJ TRANSIT resumed regularly scheduled weekday rail service on September 12, added extra bus service to the heavy Route 9 corridor and created a bus-ferry shuttle service at Liberty State Park to accommodate commuters. In response to the ban on single-occupancy cars in the Lincoln Tunnel, we created additional park-and-ride locations, designated carpooling locations between New York and New Jersey, and added two MidTOWN DIRECT trains and 16 rail cars to several existing trains.

Due to the loss of the Exchange Place PATH station and the relocation of many downtown New York financial firms to offices along the New Jersey waterfront, ridership on Hudson-Bergen Light Rail temporarily spiked and increased approximately 40 percent. NJ TRANSIT provided free transfers from PATH trains and added two-car trains for the first two months after the attacks until further relocations stabilized the level of demand.

NJ TRANSIT also improved pedestrian flow at Penn Station New York when it opened five new escalators and one new stairway ahead of schedule to accommodate more than 30 morning trains.



Long-range Scheduling

The 9/11 attacks radically changed commuting patterns for New Jersey residents, swelling daily ridership between New York and New Jersey to 43,000 from 33,000 during the morning peak period. To meet the new demands, we dramatically increased our commuting options to New York City. These included, among others, eight additional midtown Manhattan trains, increasing peak period capacity by more than 6,200 seats; revised schedules; agreements with Amtrak to cross-honor tickets on some trains; and a planned increase, over five years, of NJ TRANSIT peak period trains.

Customer Security Program

Working closely with regional law enforcement and transportation agencies to address post-9/11 safety and security issues, NJ TRANSIT took several steps, including:

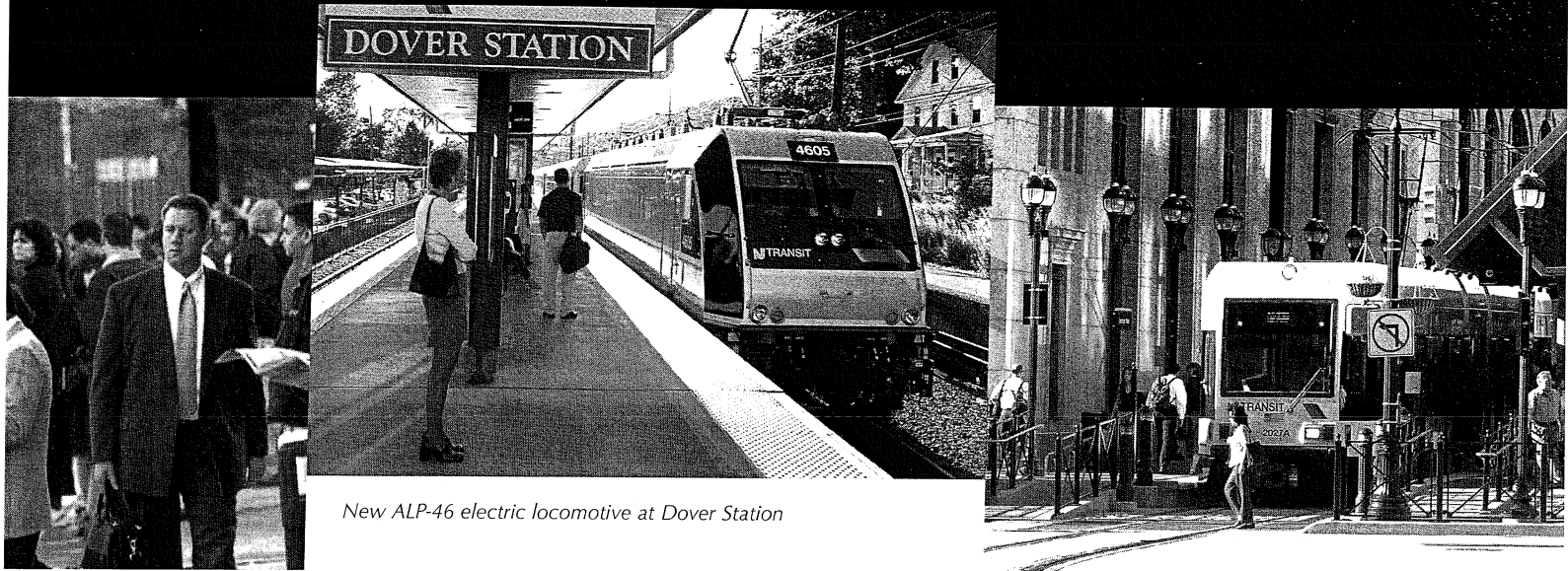
- Increasing police presence at major terminals and at critical infrastructure sites
- Enlisting increased support from municipal, county and other police departments
- Restricting deliveries and automobile access at major rail stations and terminals
- Launching a public awareness campaign to encourage riders to avoid perceived threats or suspicious actions, such as leaving packages unattended, that might cause alarm and temporarily shut down service

Rail Station Memorials

Ten towns with stations along the Morris & Essex Lines held simultaneous services in memory of commuters who died in the 9/11 attacks. Each town planted a tree and installed a commemorative plaque bearing the names of the victims. During FY2003, memorials are planned for several stations along other rail lines to commemorate all who died in the disaster from those communities.

Police Initiatives

In response to 9/11, NJ TRANSIT acquired three dogs, donated by the Seeing Eye Organization of Morristown, that have been trained to detect firearms and explosive chemicals. We also worked with the State Attorney General's Office to arrange for municipal police to patrol local stations and some NJ TRANSIT properties, such as park-and-ride lots, allowing NJ TRANSIT's police force to focus on the main stations and terminals.



New ALP-46 electric locomotive at Dover Station

HBLR pulls into Exchange Place Station

Passengers at Metropark Station

Anti-terrorism Training

In April 2002, NJ TRANSIT initiated a comprehensive course to teach employees the skills necessary to react safely and effectively in the event of a terrorist incident. Front-line and administrative employees, as well as new hires, are participating in the sessions, which will continue through 2002.

Awards for Service

NJ TRANSIT was recognized with three awards for its response to 9/11: The American Red Cross of Metropolitan New Jersey's Certificate of Appreciation for NJ TRANSIT employees' generous support through the Employee Disaster Relief Fund; the Community Transportation Association of America's 2002 Excellence Award for 9/11 support as well as for community service in general; and an award from the New Jersey Regional Business Partnership for the Corporation's efforts in responding to 9/11.

BUILDING CAPACITY

In FY2002, responding to changing service demands, NJ TRANSIT moved ahead with a comprehensive fleet modernization and expansion plan, which will provide seating for 33,000 additional passengers.

Expanding and Renovating the Rail Fleet

Electric Locomotives. Eight of 29 ALP-46 electric locomotives were delivered in FY2002; the powerful new locomotives can operate with 12 single-level or 10 bi-level cars. These complement the ALP-44s, which can operate with up to nine single-level or

five bi-level cars. Delivery of the remaining 21 ALP-46s will continue through the end of 2002.

Comet V Coach Cars. In FY2002, NJ TRANSIT took delivery of two prototype Comet V rail cars. Between fall 2002 and winter 2003, NJ TRANSIT will accept delivery of 200 new Comet V single-level rail cars. The order includes cab cars that allow operation from the front of the vehicle and seat 109 passengers, trailer cars seating 117 and trailer cars seating 111, each with a fully accessible restroom. The 85-foot-long cars feature automated doors, public address systems and LED information displays.

Diesel Locomotives. NJ TRANSIT ordered 33 new PL-42 diesel locomotives to replace the GP40 locomotives currently in use. Twenty-eight of the 33 locomotives will replace the oldest of the GP40s, with the remaining five slated for service in Secaucus. Capable of operating with 10 single-level or eight bi-level cars, the new locomotives feature added power for heating, air conditioning and other customer amenities, and incorporate the revised federal safety standards. Delivery is expected at the end of 2004.

Overhaul of Comet II and IIB Cars. NJ TRANSIT continued its overhaul of 116 Comet IIs. Once the Comet II overhaul is completed in fall 2003, work will begin on the overhaul of 44 Comet IIB rail cars—including replacement of major components and subsystems, modernization of heating and air-conditioning systems, addition of disc brakes and additional work to meet revised federal safety requirements.



Community Shuttle



New MCI cruiser in Rutherford



Newark Liberty International Airport Station

New Purchases to Enlarge Bus Fleet

Cruisers. During FY2002, NJ TRANSIT added 397 more cruiser buses to its fleet. Combined with the 445 cruisers purchased in FY2001 and the four cruisers to be purchased in FY2003, the new cruisers will total 846. A total of 1,371 cruisers will be built by FY2003, of which 525 will be allocated to private carriers.

ACCESS LINK Minibuses. Also in FY2002, the Board approved the purchase of 41 accessible minibuses and 22 sedans to transport customers with disabilities under the ACCESS LINK paratransit program. Delivery is scheduled for the fall of 2003.

Free Minibuses to More Communities. In the first phase of NJ TRANSIT's Community Shuttle Program, for which the Board authorized the purchase of 20 vehicles, 18 communities are the recipients of free minibuses. The second phase provides 19 communities with 22 vehicles. The buses are used to shuttle commuters to train and bus service during peak hours, and to access other community-based transportation services at other times. Each community also receives up to \$60,000 in start-up funds for the program over a three-year period. Services in 18 of the 37 communities are operational. In FY2002, 37 vehicles were delivered to communities.

Redeployment of Equipment for More Seating

To provide seating for approximately 4,000 rush-hour standees on NJ TRANSIT trains and buses, the following changes were initiated in FY2002:

- Three additional weekday trains, plus more cars on several afternoon and evening trains, generating approximately 2,500 new seats
- Four cars added to Amtrak Clocker 628 and evening Clocker trains, providing 300 more seats
- The honoring of NJ TRANSIT monthly and weekly tickets on three additional morning Amtrak trains
- Up to eight more trains on Northeast Corridor Saturday service added in August 2002, and four more trains in September
- Significant orders of rail cars and locomotives, and overhauls of others



ACCESS LINK



Paterson Station viaduct



Newark City Subway
Orange Street Station

Main Line Double-tracking

The Main Line double-tracking project consists of double-tracking approximately one mile of track between Paterson and Clifton stations and making improvements to interlocking tracks, or areas where trains move from one track to another. The additional track and higher speed interlockings allow NJ TRANSIT to improve service levels on the Main and Bergen County lines in preparation for the opening of Secaucus Transfer. The work was completed in FY2002.

NEW SERVICES

In FY2002, new and improved stations and vehicles enhanced the NJ TRANSIT passenger experience.

Newark City Subway Extension

The upgrade of the catenary system and track, to accommodate the new light rail vehicle fleet for the renovated Newark City Subway, was completed in FY2002. Other recent improvements to the subway include a one-mile extension—the first since 1940—and the opening of two new stations, Silver Lake Station in Belleville and Grove Street Station in Bloomfield.

Newark Liberty International Airport Station

Newark Liberty International Airport can now be accessed by rail as a result of the opening of this new intermodal station in October 2001. Most NJ TRANSIT trains operating on the nation's busiest rail corridor, the Northeast Corridor, now stop at the station, which links NJ TRANSIT and Amtrak trains with Newark Liberty International Airport's AirTrain system. The Americans with Disabilities Act-compli-

ant station, owned and operated by the Port Authority of New York & New Jersey, features escalators, elevators and two center-island, high-level platforms connected by an overhead pedestrian bridge.

Newark City Subway PCC Cars Retired, New Vehicles Debuted

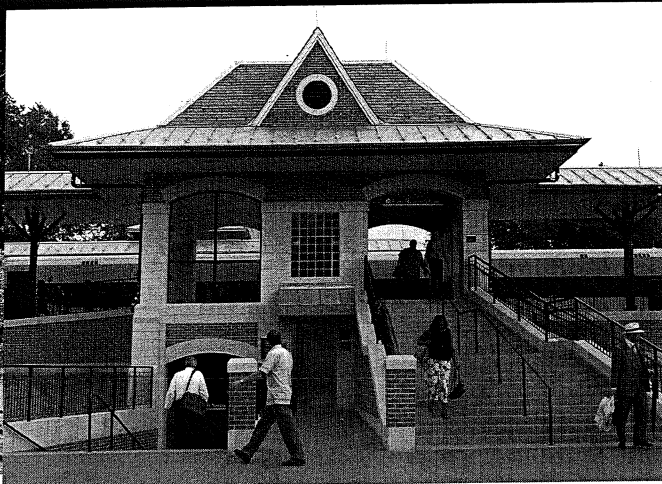
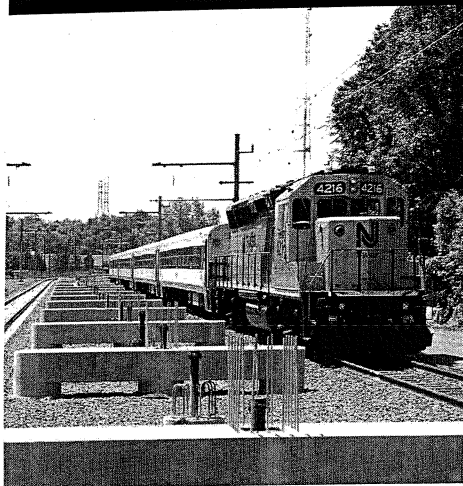
After 47 years of service, the Newark City Subway's Presidents' Conference Committee (PCC) cars made their last run in August 2001. Three of the cars are slated to be donated to the New Jersey Transportation Heritage Center in Phillipsburg, three are scheduled for use at the Military Ocean Terminal in Bayonne, one car remains in the City of Newark at Military Park, some are being restored, and others were sent to San Francisco and placed into service. They were replaced by new, state-of-the-art light rail vehicles that can accommodate 188 riders, more than twice the PCC capacity.

STATION IMPROVEMENTS

An ongoing goal for NJ TRANSIT is rehabilitating stations, making them more user friendly and providing accessibility for people with disabilities, often while maintaining their historic character. In FY2002, important work was completed and other significant improvements started on several stations.

Paterson Station

A designated Key Station under the Americans with Disabilities Act (ADA), the refurbished Paterson Station was reopened in September 2001. Concrete/structural repairs were made to the viaduct, which is listed in the National and State



Plainfield Station

Raymond Plaza Improvements/
Market Street Bus Lane, Newark
Penn Station



Future site of Montclair State University Station
and Park & Ride

Historic registers. The station is now fully accessible and structurally sound, featuring accessibility upgrades; a new center-island, high-level platform; stairs; an elevator; and new plaza/pedestrian circulation spaces. The viaduct restoration and accessibility upgrade at Paterson Station won a 2002 Concrete in Transit Award from the Portland Cement Association.

Plainfield Station

After historic renovation as well as installation of features for ADA compliance, the upgraded station reopened in April 2002. Extensive improvements included a rehabilitated inbound building and the replacement of the outbound building with an accessible pavilion.

Raymond Plaza Improvements/Market Street Bus Lane, Newark Penn Station

Opened in May 2002, the new plaza features circulation improvements that facilitate the flow of bus, automobile and pedestrian traffic in the area of Newark Penn Station, and reflects the station's status as a national and state historic property. New features include an off-street bus loading area, a new shelter and plaza area, new lighting, improved pedestrian access and Market Street drainage improvements.

Weehawken Ferry Terminal

In FY2002, progress was made on several fronts: NJ TRANSIT finalized terms of its agreement with Romulus Corp. and Port Imperial South, LLC for construction and operation of a new ferry terminal in Weehawken. Design was advanced on the new three-story, 26,000-square-foot building that will replace the existing undersized and aging terminal, and all environmental permit applications were submitted to federal and state agencies. When completed, the ferry terminal will allow for expanded trans-Hudson ferry service, thereby relieving significant traffic congestion. It will also allow Hudson-Bergen Light Rail riders from Bergen and Hudson counties to transfer to ferries to New York.

Montclair State University Station and Park & Ride

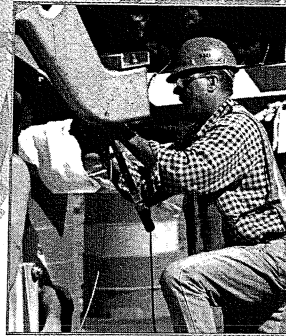
Anticipating increased ridership generated by the Montclair-Boonton Line and to provide the university and surrounding communities with MidTOWN DIRECT service to Manhattan, the Board authorized the award of a design/build contract for construction of this 1,500-space, park-and-ride station and transfer facility. The station, which is expected to be completed by 2004, will serve as a key transfer point for NJ TRANSIT's expanded MidTOWN DIRECT service.



Maintenance at Egg Harbor bus garage



Transit art at Newark City Subway Grove Street Station



Signal maintainer



Keeping Nova buses clean

Route 17 Regional Station and Park & Ride

The Board approved a contract in FY2002 to design and build a new regional train station on the Main Line at Route 17. The new facility, located in the Borough of Ramsey, will provide much-needed rail access in support of Secaucus Transfer. The Route 17 Regional Station and Park & Ride will include ADA-compliant high-level platforms with heated shelters, an elevated enclosed pedestrian walkway, a 1,300-space parking garage, a passenger drop-off/pick-up area and local roadway improvements.

Transit-friendly Award

Downtown New Jersey, a statewide organization seeking to revitalize New Jersey's downtowns, honored NJ TRANSIT's Transit-Friendly Communities (TFC) program with its "Best of the Best" award in the "Stimulating/Creating Public-Private Partnerships" category. Created in response to a call for action by the Federal Highway Administration, TFC is a unique program in which NJ TRANSIT and its partners work with local communities to develop transit-friendly improvement strategies for the area within walking distance of the transit facility. This community-developed "vision" is used to guide local improvements and economic development around each transit station and to improve the quality of life in downtown areas. Eleven New Jersey communities are now part of the program.

Transit Art Enhances NJ TRANSIT Stations

Sculpture, leaded glass, tile murals, paving stones and other artwork beautify NJ TRANSIT stations throughout the state, as a result of NJ TRANSIT's Transit Arts Program. Designed to make art an integral element of transit design, the program was implemented in the

following projects during FY2002: Raymond Plaza, Plainfield Station, Branch Brook Park Station, Grove Street Station, Paterson Station, Penn Station New York, Hudson-Bergen Light Rail and Southern New Jersey Light Rail.

STATE OF GOOD REPAIR

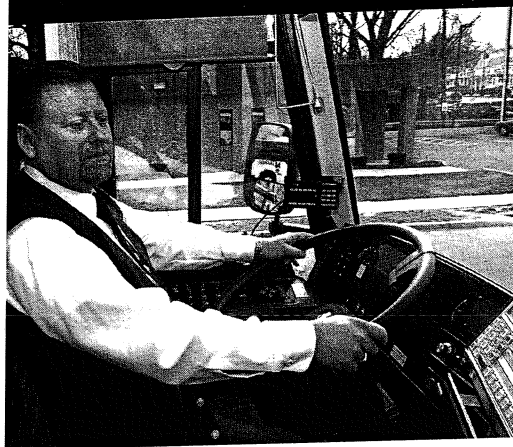
A well-maintained, efficient system is essential to maximizing safety and service for passengers. In FY2002, NJ TRANSIT moved ahead on several important fronts.

Final Phase of Positive Train Stop

The Board approved award of the final contract to complete installation of the Positive Train Stop (PTS) advanced braking system, part of a rail safety initiative NJ TRANSIT launched in August 1997. NJ TRANSIT is the first passenger railroad in North America to merge two railroad safety technologies—Automatic Train Control and PTS—into a combined technology now known as the Advanced Speed Enforcement System. The system will transmit to engineers real-time information on track conditions and continuously enforce speed and signal restrictions.

Parts Supply Warehouse for Cruiser Buses

Marking the first time a public transportation agency will participate in a parts procurement program similar to those used in the airline and trucking industries, NJ TRANSIT signed a five-year, \$45.5 million contract with Motor Coach Industries Service Parts, Inc. (MCISP), of Des Plaines, IL, to stock and deliver parts for the agency's new cruiser bus fleet from a New Jersey-based warehouse. MCISP will stock parts in East Brunswick and provide them to NJ TRANSIT's bus



MCI bus operator



TVM at Hoboken Terminal



Comet IV conductor

garages, usually within 24 hours. In addition to providing NJ TRANSIT an up-front, one-time savings of \$11 million on parts, the arrangement will result in more space in our central parts storage facility as well as significant savings on parts disposal.

CUSTOMER SERVICE

NJ TRANSIT reached out to customers in a number of innovative ways in FY2002, all with the goal of adding more ease and comfort to the travel experience.

Ticket Vending Machines

In FY2002, NJ TRANSIT installed 57 ticket vending machines (TVMs) at various station locations and eight fare gates at the Newark Liberty International Airport Station. Software enhancements for magnetic ticketing and for the April 2002 fare increase were also successfully completed.

Award-winning Website

We improved our website, www.njtransit.com, offering a variety of new services, including:

- *Travel Alerts*, providing news about late-breaking, peak-period service disruptions and other travel advisories
- *My Transit*, allowing riders to register for free, personalized NJ TRANSIT information, including customized transit schedules and weekday peak-period real-time travel alerts; the information is sent via e-mail, as well as to pagers, cell phones and other electronic devices
- *Trip Planner*, allowing riders to find the easiest NJ TRANSIT travel option from point of origin to destination

- *Other features*, including Schedules and Fares, Accessible Services, News and Events, Business Opportunities, About NJ TRANSIT, Customer Services and Frequently Asked Questions

The website garnered several honors in FY2002, including the Jersey Shore Public Relations and Advertising Association's Gold Jasper Award, the 2001 Galaxy International Competition Bronze Award for Excellence and the 2001 BIZI Special Honors Award for Interactivity, presented by Business News New Jersey.

Eastern Paralyzed Veterans Association Awards

NJ TRANSIT and the Eastern Paralyzed Veterans Association honored 15 NJ TRANSIT bus operators for exceptional courtesy and professionalism to senior citizens and persons with disabilities. The outstanding service of the drivers, who were nominated by their passengers, reflects NJ TRANSIT's operator sensitivity training, in effect since 1988 and upgraded in 1997 with an ADA bus operators certification program.

ENVIRONMENTAL UPGRADES

In a continuing effort to help improve air quality, NJ TRANSIT entered into agreements, made purchases and expanded environmentally friendly programs in FY2002.

Ultra-low-sulfur Diesel Fuel for Buses

At its May 2002 meeting, the Board authorized the purchase of 31 million gallons of diesel fuel at an annual cost of \$24 million. This includes 20 million gallons of ultra-low-sulfur diesel fuel for NJ TRANSIT buses for use beginning July 2002—four years ahead



HBLR at Richard Street portal

Bus operator gives assistance

MCI bus offers amenities

Bus mechanic checks air-conditioning unit

of the federal Environmental Protection Agency mandate requiring buses to use this fuel. NJ TRANSIT will purchase an additional 11 million gallons of low-sulfur diesel fuel for its rail operations.

Hybrid Bus Procurement

NJ TRANSIT's Board approved the purchase of four hybrid-electric cruiser buses and three hybrid-electric transit buses for use on intercity and local routes. Representing the next generation of clean-running suburban transit vehicles, hybrid-electric buses use a smaller diesel engine and generator to create electric power, which in turn feeds an electric motor to propel the bus. Because the power is used more efficiently, electric buses achieve better fuel economy and reduce emissions without sacrificing performance. All buses will be delivered by spring 2005.

Articulated Bus Procurement

The Board authorized the purchase of 85 sixty-foot articulated buses, each with a 59-seat capacity plus room for standees. Delivery is expected between April and November 2003. Replacing the existing "accordion" fleet, the buses will travel heavily used local and intercity routes, and are equipped with advanced low-emission technology.

OzonePass

In the summer of 2002, NJ TRANSIT sold nearly 5,000 OzonePasses to major New Jersey employers. Helping encourage the use of public transportation, the pass allows companies to offer employees a \$2 round-trip ticket for use on any NJ TRANSIT bus, train or light rail line on days when high levels of

ozone pollution are predicted. NJ TRANSIT is a founding member of the New Jersey Ozone Action Partnership, a group of nearly 500 organizations working to reduce ground-level ozone pollution.

FARE INCREASE AND POLICY CHANGES

In FY2002, NJ TRANSIT initiated a new six-year fare policy that increased fares for the first time in more than a decade. This action was taken after conducting public hearings identifying policy changes and making modifications based on the public's input.

The increase averages 10 percent on trains, buses and the Newark City Subway in the first year and allows for inflationary increases in the next five years. Hudson-Bergen Light Rail fares remain unchanged the first year but can be adjusted in subsequent years.

The increase, which took effect April 1, 2002, will generate an additional \$38 million annually, and is the first step in closing a projected \$3.1 billion operating budget and capital funding gap.

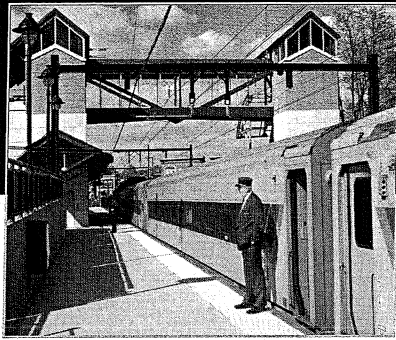
NJ TRANSIT also implemented an off-peak, round-trip rail ticket, which allows passengers to ride at any time except on weekdays from 6:30 a.m. to 9:30 a.m. and 4 p.m. to 7 p.m. based on New York arrival and departure times. It also enables seniors 65 and older and people with disabilities to ride half price all day, seven days a week.

A Promising Future

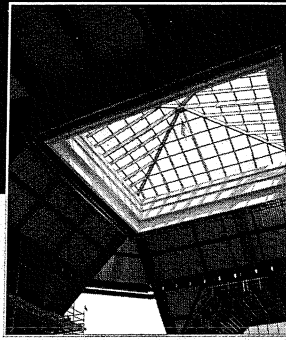


NJ TRANSIT 7th Avenue Concourse, Penn Station, New York, 2002





Bay Street Station



Secaucus Transfer skylight



Secaucus Transfer

NJ TRANSIT focuses on delivering services that meet the public's needs, now and in the future. Our smart growth initiatives also encourage economic development and create an improved quality of life.

PROJECTS ON THE WAY

A number of significant projects are expected to come on line in the next few years.

Secaucus Transfer

The opening of this facility in the next year, combined with a significant increase in new rail service prior to the opening, will transform the state's rail lines into a unified New Jersey commuter rail network. Secaucus Transfer will serve an estimated 32,000 inter- and intrastate travelers daily with the new service being introduced to riders bound for New York, Newark, Trenton, Bergen County, the Meadowlands, the Jersey Shore, Newark Liberty International Airport and a host of other popular destinations. Secaucus Transfer will bring commuters a substantial reduction in travel time and more trains, seats and parking. In addition, Secaucus Transfer allows for the potential development of 3.5 million square feet of office and hotel space at the site, while also providing for mobility to the sports and entertainment complex in the Meadowlands.

Montclair Connection

Governor McGreevey announced a September 30, 2002 opening for the much-anticipated Montclair Connection project. Montclair Connection will connect the Montclair Branch with the Boonton Line west of Pine Street in Montclair, thereby creating the Montclair-Boonton Line. System testing continued, as did signal, track and electric traction work. Construction completed in FY2002 includes the Great Notch Yard in Little Falls, a new catenary system on the Boonton Line between Great Notch Yard and the newly constructed Bay Street Station in Montclair, and 1,500 feet of dual-track right-of-way. The line provides access to Newark and Hoboken and introduces new MidTOWN DIRECT-Montclair service to Penn Station New York.

NJ TRANSIT 7th Avenue Concourse, Penn Station New York

In FY2002, construction was almost completed on the new 50,000-square-foot NJ TRANSIT 7th Avenue Concourse, designed to accommodate passenger increases generated by Secaucus Transfer, Montclair Connection and MidTOWN DIRECT service. The concourse, which is scheduled to open in September 2002, features ticket windows, new escalators, stairways and elevators.



HBLR construction at Hoboken



Montclair Connection



Bergen Tunnel north tube

Hudson-Bergen Light Rail Extension

Hudson-Bergen Light Rail will open to Hoboken Terminal in September 2002, marking the completion of the final portion of the light rail line's 16-station Minimum Operating Segment (MOS-1). The extension will serve as a major transfer station for Hudson-Bergen riders. Customers traveling on rail lines serving Hoboken will also benefit from convenient connections to light rail service. Work also continued in FY2002 on the Hoboken Terminal-to-Tonnelle Avenue extension (MOS-2). Completion of MOS-2 is scheduled for mid-2005.

Bi-level Coaches

In FY2003, NJ TRANSIT anticipates the award of a contract for the procurement of up to 231 new bi-level coaches that will add more seats than existing single-level cars; this translates to an increase of more than 20,000 seats daily. An option for an additional 46 cars is planned for use in the transfer of Amtrak Clocker service to NJ TRANSIT.

Bergen Tunnel

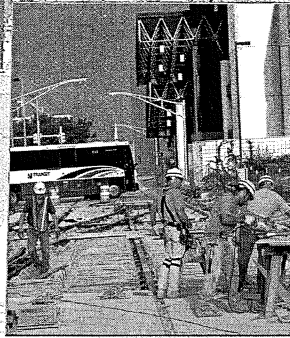
Work in FY2002 continued toward an August 2003 completion of rehabilitation of the north tube, one of two double-track tubes of the Bergen Tunnel slated for renovation. Full service will resume earlier, however, in spring 2003. Extensive customer outreach and assistance throughout construction minimized the impact of the reduced number of tracks necessitated by the closure of the north tube. The project will extend the life of the tunnel—built in 1877 and used by all trains traveling into and out of Hoboken Terminal—enhance its safety and improve its drainage and lighting.

Hoboken Yard B

NJ TRANSIT anticipates completion of the construction of Yard B in FY2003. The yard will replace the existing Hoboken Rail Yard servicing operation. Expanded and modernized to store 10 additional diesel trains during midday, a capacity necessitated by Secaucus Transfer, the yard will double the fueling/sanding capacity of the old facility and improve employee safety and train movements by eliminating the need to separate the train sets before servicing.



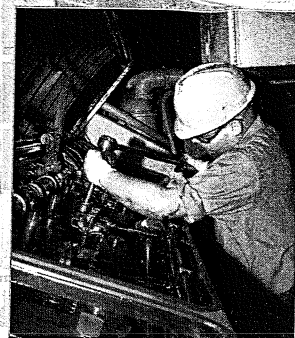
Hoboken Yard



SNJLR track work at Walter Rand Transportation Center



Rail Operations Center



Locomotive maintenance at MMC

Rail Operations Center

Construction was completed at the Meadows Maintenance Complex (MMC) in Kearny, the future home of NJ TRANSIT's Rail Operations Center. The \$27 million project includes a three-story structure housing the new train management and control system and a new communications system, which also allows control of catenary power as well as remote operation of moveable-span bridges. The Rail Operations Center is expected to be operational in early 2003, after installation of systems equipment.

Morrisville Yard

Work moved ahead on Phase I of this new train storage facility in Falls Township, PA, which will provide overnight storage and light maintenance for up to 225 rail cars operating on the Northeast Corridor (NEC). The project is needed to accommodate additional service generated on the NEC by Secaucus Transfer and the Newark Liberty International Airport Station. Phase I, currently under construction, includes 12 electrified tracks with capacity to store 120 rail cars, a 1,200-foot-long combination raised track/pit for train inspection, a crew quarters building and more. Phase II will accommodate future service expansion. NJ TRANSIT expects the yard to be operational in 2003.

Southern New Jersey Light Rail

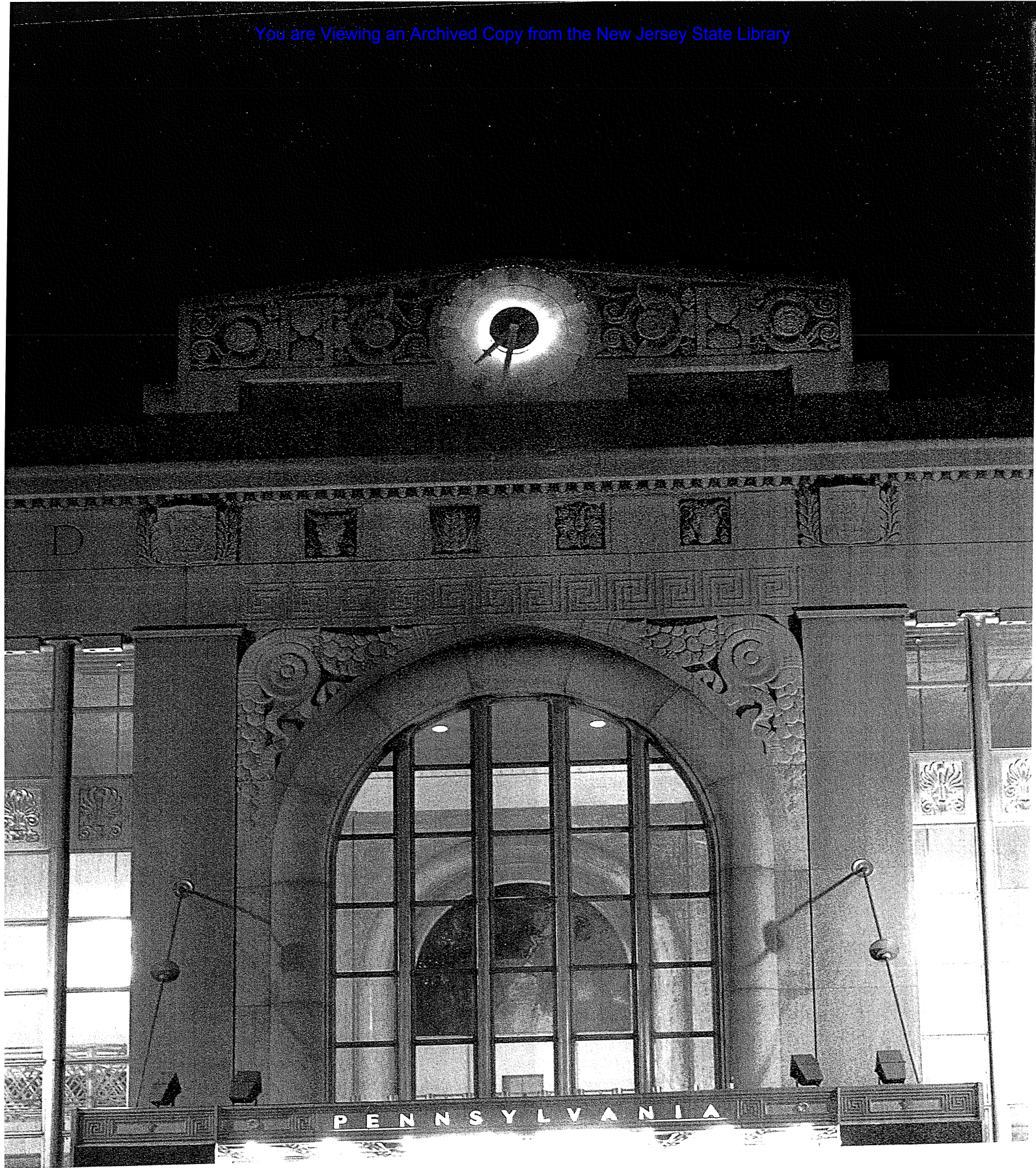
Construction continued in FY2002 on the 34-mile, 20-station Southern New Jersey Light Rail (SNJLR) system that will link Trenton and Camden and serve communities in between, and also provide bus and rail connections to NJ TRANSIT, Amtrak, PATCO and SEPTA. Activities included track and bridge rehabilitation and station construction. The project is scheduled for completion in 2003.

Newark-Elizabeth Rail Link

NJ TRANSIT began construction on the first phase of the Newark-Elizabeth Rail Link (NERL) Minimum Operable Segment One (MOS-1) in FY2002. NERL is a light rail line planned to link downtown Newark with Elizabeth. MOS-1 is a one-mile extension of the Newark City Subway that will operate between Newark Penn Station and Newark Broad Street Station, serving major cultural and sports venues such as the New Jersey Performing Arts Center, Bears and Eagles Riverfront Stadium and The Newark Museum.

Trenton Station

Engineering and design work progressed on the reconstruction of Trenton Station, which handles 9,200 trips per day and serves NJ TRANSIT, SEPTA and Amtrak riders. The design plan was recently approved by the State Historic Preservation Office and includes expansion of the building's footprint and the addition of a second floor/mezzanine level for more office, retail and civic space; heating and air-conditioning upgrades; landscaping; and improved passenger information displays. NJ TRANSIT expects to award a contract for design in FY2003.



Newark Penn Station, an intermodal transportation facility



Gateway into Newark Penn Station

NJ TRANSIT Board of Directors

James P. Fox, Chairman

James "Jamie" Fox was appointed by Governor James E. McGreevey to head the New Jersey Department of Transportation on February 12, 2002. Commissioner Fox oversees 16,000 employees and a budget of more than \$3 billion. He is Chairman of the Board of Directors of the New Jersey Transit Corporation, a member of the board of each of the state's toll roads and an ex officio member of other state agency boards.

Commissioner Fox has had a long and distinguished career in state and federal government. He most recently was a partner at Winning Strategies, a Washington, DC, government relations and lobbying firm. Prior to that, he served as Executive Director of the Democratic Senatorial Campaign Committee (DSCC). In charge of day-to-day operations, he oversaw all political, legislative, media and personnel matters for 33 national senate races.

Prior to his position at the DSCC, Commissioner Fox served as Chief of Staff to U.S. Senator Robert G. Torricelli. He also served in the same capacity (1994-96) and as NJ District Director (1983-87) while Senator Torricelli was in the U.S. House of Representatives. From 1987-89, Commissioner Fox was Director of Intergovernmental Affairs for the New Jersey State Senate. From 1989-1990, he served as State Director for former U.S. Senator Frank Lautenberg. From 1990-94, he was Deputy Chief of Staff to former Governor Jim Florio.

Commissioner Fox graduated with a B.A. in political science from Villanova University. In 1991, he participated in the State and Local Government program at the John F. Kennedy School of Government at Harvard University. He grew up in Union and now resides in Lambertville.

Myron P. Shevell, Vice Chairman

Myron "Mike" 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 is also Board Chairman of New Jersey Motor Truck Association and Regional Director of the Bank of New York. A resident of Long Branch, Mr. Shevell has worked in the trucking industry for more than 40 years.

Paul P. Josephson Governor's Representative

Paul Josephson is Chief of the Governor's Authorities Unit, responsible for the governor's relationships with over 40 independent authorities, boards and commissions. One of the state's leading attorneys in the field of administrative law, Mr. Josephson is an attorney-at-law who, until his selection by Governor McGreevey, was a member (1999-2002) and prior to that an associate (1990-99) with the Newark law firm of Sills, Cummis. He also served as outside counsel to the Turnpike Authority for four years, giving him in-depth experience with most of New Jersey's transportation authorities and transportation financing issues. Mr. Josephson resides in Spring Lake Heights.

John E. McCormac, CPA State Treasurer

John McCormac was previously the Acting Business Administrator for Woodbridge Township. He also served as Chief Financial Officer for the township since 1992. For the past 13 years, Mr. McCormac has been the owner and manager of McCormac & Co., CPAs. Mr. McCormac, who lives in the

Colonia section of Woodbridge Township, is a Certified Public Accountant, Certified Municipal Finance Officer, Certified Management Accountant, Registered Municipal Accountant, Certified Financial Planner, Licensed Public School Accountant and Certified Government Financial Manager.

John L. McGoldrick

Appointed by Governor Brendan T. Byrne, John McGoldrick has been a member of the Board of Directors since the agency's establishment in 1979. He is Executive Vice President of Bristol-Myers Squibb Company. He was previously a partner in the Newark law firm of McCarter & English. Mr. McGoldrick is a resident of Princeton.

Patrick W. Parkinson

Patrick Parkinson, a resident of Middletown, was appointed to the Board by Governor Christine Todd Whitman in September 1994. He served for many years on the Middletown Township Committee. He is currently Executive Director of the Middletown Sewerage Authority and is Mayor of Middletown Township.

Flora M. Castillo

Flora Castillo was appointed to the Board in April 1999 by Governor Christine Todd Whitman. She has represented the State on several overseas trade missions and is very active in a number of volunteer and community organizations. Ms. Castillo, who lives in Ventnor, is Associate Vice President for Public Affairs and Marketing at Keystone Mercy Health Plan in Philadelphia.

Executive and Advisory Committees

Executive Committee

George D. Warrington, Executive Director
Joseph Bober, Chief, NJ TRANSIT Police
Robert J. Guarnieri, Auditor General
Frank J. Hopper, Assistant Executive Director, Procurement and Support Services
Z. Wayne Johnson, Assistant Executive Director, Human Resources
William R. Knapp, Vice President and General Manager, Rail Operations
Maureen A. Milan, Vice President and General Manager, Bus Operations
James Redeker, Assistant Executive Director, Policy, Technology and Customer Service
Peter Saklas, Chief Engineer
Richard Sarles, Assistant Executive Director, Capital Planning and Programs
Herman Volk, Assistant Executive Director, Corporate Communications and External Affairs
Gwen A. Watson, Board Secretary
H. Charles Wedel, Chief Financial Officer and Treasurer

Robert Dazlich, Secretary
Richard D. Gaughan
Carl Howell
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

Nina Edwards
Harriet Findlay
Robbie Friedner
Lee Nash
Robert Paige
Virginia Peters
Bill Smith
Kenneth Wedeen
Ina White

The Business Transit Alliance advises public and private sector employers about public transportation options.

Business Transit Alliance

Michael Egenton, Chairman
Joseph F. Luste Jr., Vice Chairman
Robert Bocchino
Jacqueline D. Caine
Louis V. Capadona
Francisco J. Cotilla
Elaine Cooper
Richard Diegnan
Isidor Farash
S. Thomas Gagliano
John Maxwell
Brian McClean
Michael Perrette
Louis J. Pignataro
Tricia R. Russo, Esq.
George D. Sous
Len Sullivan
Charlotte Tomaszewski
George D. Warrington
Melanie Willoughby

The Transit Plus Advisory Board advises public and private sector employers in Essex and Union counties on the requirements of the Federal Clean Air Act.

Transit Plus Advisory Board

Nancy Schmatz, Chairperson
Paul Dreifuss, Vice Chairperson
Michael Bennet
George Dredden
Raul J. Mendes
Mike Pilsbury
Al Trenton
Ronald S. Weening

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

Private Carrier Advisory Committee

Gary D. Mariano, Co-chairperson
Francis Tedesco, Co-chairperson
Robert DeCamp
Peter Creveling
Marta Mazarisi

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

Local Programs Citizens Advisory Committee

Frank Herbert, Chair
Ann Burns, 1st Vice Chair
Sigmund A. Kay, 2nd Vice Chair
Ernest Anemone
Donald Boeri
Christina Brino
Thomas Crawford
Harriet Findlay
Larry Karas
Dale Lloyd
Leroy Nash
Joseph Phillips
Richard Pinho
Rue Zalia Ray
John Stanik
William R. Wright

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
Peter Koelsch
Steven Monetti
Timothy O'Reilly
Ralph White
Audrey S. Wilson
William R. Wright

South Jersey Transit Advisory Committee

Anna Marie Gonnella-Rosato, Chair
Ruth Byard, 1st Vice Chair
Jeffrey Marinoff, 2nd Vice Chair

NJ TRANSIT

Facts at a Glance

Rail Operations

Rail lines	12
Annual passenger miles	1.5 billion
Route miles operated	466
Revenue rail cars in service	745
Daily revenue trains	607
Locomotives in service	111
Rail stations	162

Bus Operations

Bus routes	240
NJ TRANSIT	171
Contract	53
WHEELS	16
Annual vehicle miles in revenue	83.2 million
Annual passenger miles	845.5 million
Buses operated	2,014

Light Rail Operations

Light rail lines	2
Annual passenger miles	22.7 million
Total miles of track	12.3

NJ TRANSIT

Fiscal Year 2002
Consolidated Financial Statements

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Consolidated Statements of Revenues, Expenses and Changes
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Consolidated Statements of Cash Flows
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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 activities of the Corporation for the fiscal year ended June 30, 2002. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial performance. NJ TRANSIT encourages readers to consider the information presented here, in conjunction with the financial statements as a whole.

Financial Highlights

- Total operating revenues for NJ TRANSIT were \$542.9 million for fiscal year 2002. This was an increase of \$19.8 million or 3.8 percent over the prior year. This increase reflects the impact of an average 10-percent fare increase implemented in April 2002.
- Total operating expenses before depreciation were \$1,089.6 million in fiscal year 2002, an increase of \$44.5 million or 4.3 percent over the prior year. This increase in operating expenses is principally related to increases in employment costs and purchased transportation expenses.
- Total net assets at June 30, 2002 were \$3,998.0 million, an increase of \$357.2 million or 9.8 percent over total net assets at June 30, 2001.
- Total capital assets (net of depreciation) were \$5,756.1 million at June 30, 2002, an increase of 17.3 percent over June 30, 2001. The increase in total capital assets is primarily the result of the acquisition of revenue vehicles, construction of and improvements to facilities and structures and increases in capital project activity associated with Hudson-Bergen Light Rail, Newark-Elizabeth Rail Link, Secaucus Transfer and Southern New Jersey Light Rail.

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 shown.

NJ TRANSIT's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Accordingly, NJ TRANSIT's financial statements reflect the implementation of Government Accounting Standards Board Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments." The implementation of Statement No. 34 required NJ TRANSIT to make several changes to the presentation and content of its basic financial statements and this management discussion and analysis.

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 notes 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, 2002 were \$3,998.0 million, an increase of \$357.2 million or 9.8 percent over June 30, 2001 (see Table A-1). Total assets increased \$426.9 million (5.2 percent) and total liabilities increased \$69.7 million (1.6 percent).

Table A-1

NJ TRANSIT Fund Net Assets

<i>(in millions)</i>	As of June 30,		
	2002	2001	% Change
Current assets	\$437.1	\$413.7	5.7
Restricted assets	2,330.7	2,787.8	(16.4)
Capital assets	5,756.1	4,905.8	17.3
Other assets	35.8	25.5	40.4
Total Assets	8,559.7	8,132.8	5.2
Current liabilities	606.1	506.4	19.7
Liabilities payable from restricted assets	2,400.9	2,444.6	(1.8)
Post-retirement benefits	261.8	248.3	5.4
Long-term debt	1,208.5	1,166.4	3.6
Other liabilities	84.4	126.3	(33.1)
Total Liabilities	4,561.7	4,492.0	1.6
Net Assets			
Invested in capital assets, net of related debt	4,079.1	3,758.4	8.5
Restricted net assets	13.0	12.2	6.6
Deficit in unrestricted net assets	(94.1)	(129.8)	(27.5)
Total Net Assets	\$3,998.0	\$3,640.8	9.8

NJ TRANSIT's assets exceeded liabilities by \$3,998.0 million, an increase of 9.8 percent over the previous year.

The 16.4 percent decrease in restricted assets reflects project expenditures financed through the proceeds from the sale of Grant Anticipation Notes and Certificates of Participation to fund revenue fleet and system expansions. A transfer occurs from restricted assets (investments) to capital assets (construc-

tion in progress and property and equipment) as expenditures are incurred. Of the \$5,756.1 million in capital assets, \$2,690.1 million represents construction in progress, \$2,132.4 million represents the depreciated cost of NJ TRANSIT's investment in locomotives, rail cars, buses, track, buildings and structures and \$933.6 million represents other capital assets.

Current liabilities increased 19.7 percent due to an increase in short-term debt obligations associated with certain asset financing arrangements mentioned previously.

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

Restricted net assets includes proceeds from the sale of fixed assets and the deferral of certain leverage lease benefits. These amounts will eventually be released from restriction to fund capital project activities.

In fiscal year 1994, NJ TRANSIT adopted Statement of Financial Accounting Standards No. 106. The impact of adopting this standard resulted in the deficit in unrestricted net assets which continued through the current fiscal year.

Changes in Net Assets

The increase in net assets in fiscal year 2002 was \$357.2 million which was 22.2 percent less than the change in net assets in fiscal year 2001 (see Table A-2). NJ TRANSIT's total operating revenues increased \$19.8 million or 3.8 percent, and total operating expenses, before depreciation, increased \$44.5 million or 4.3 percent.

Table A-2

Changes in NJ TRANSIT Fund Net Assets

(in millions)

	Years Ended June 30,		
	2002	2001	% Change
Operating Revenues			
Passenger fares	\$502.7	\$484.7	3.7
Other	40.2	38.4	4.7
Total Operating Revenues	542.9	523.1	3.8
Operating Expenses			
Total operating expenses before depreciation	1,089.6	1,045.1	4.3
Depreciation	241.0	225.9	6.7
Total Operating Expenses including Depreciation	1,330.6	1,271.0	4.7
Operating loss	(787.7)	(747.9)	5.3
Non-operating revenues, net	588.3	511.4	15.0
Capital contributions, net of transfers out	556.6	695.5	(20.0)
Change in Net Assets	357.2	459.0	(22.2)
Total net assets, beginning	3,640.8	3,181.8	14.4
Total Net Assets, Ending	\$3,998.0	\$3,640.8	9.8

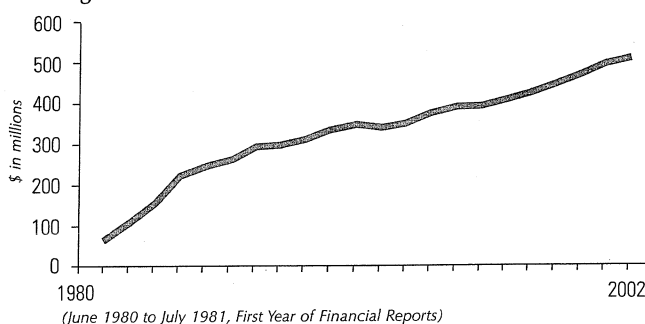
Operating Revenues

Operating revenues are composed of passenger fares and other revenues.

Passenger Fare Revenue

Passenger fare revenue consists of: fares earned from the sale of rail tickets and passes utilized during the year by riders on either NJ TRANSIT or Amtrak trains (under a cross-honoring agreement) and bus farebox receipts and tickets and passes sold, which were utilized during the year by riders on NJ TRANSIT buses, subway, contract bus service and Hudson-Bergen Light Rail.

Passenger Revenue



Rail passenger revenue increased \$9.4 million or 3.7 percent over fiscal year 2001, with ridership declining by 1.4 million passengers. Bus passenger revenue increased \$7.1 million or 3.2 percent over fiscal year 2001, with ridership declining by 0.9 million passengers. Hudson-Bergen Light Rail passenger revenues increased by \$1.6 million over fiscal year 2001, with ridership increasing by 1.0 million riders.

Ridership

(in millions)	FY02	FY01	% Increase (Dec)
Newark Division Rail Lines	40.3	41.0	(1.7)
Hoboken Division Rail Lines	21.3	22.0	(3.2)
Atlantic City Rail Line	1.0	1.0	—
Total Rail Ridership	62.6	64.0	(2.2)
Northern Division Bus Lines	58.2	59.1	(1.5)
Central Division Bus Lines	75.9	76.1	(0.3)
Southern Division Bus Lines	25.2	25.0	0.8
Total Bus Ridership	159.3	160.2	(0.6)
Hudson-Bergen Light Rail	3.1	2.1	47.6
Total Ridership	225.0	226.3	(0.6)

Other Revenues

Other revenues consist of contracted service revenues, station and vehicle advertising, rental of equipment and facilities, parking lot operations and Federal Emergency Management Act (FEMA) reimbursement of NJ TRANSIT costs associated with storm damage.

The increase in other revenues of \$1.8 million was primarily due to an increase in leases and rental income and parking lot operations revenue.

Operating Expenses

Operating expenses are composed of employment costs and other operating costs.

Employment Costs

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

Employment costs increased by \$55.6 million or 9.0 percent compared to fiscal year 2001. This is primarily due to labor contract increases for employees covered by collective bargaining agreements and to a lesser extent employment increases associated with service expansion. NJ TRANSIT's pension and medical and health-care expenses also increased, further impacting overall employment costs.

Other Operating Costs

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

Services expenses declined \$0.6 million or 0.9 percent. A significant portion of this decrease reflects lower contracted snow removal costs related to the mild weather conditions experienced during fiscal year 2002.

Purchased transportation expenses increased \$3.9 million or 3.7 percent reflecting increased Amtrak costs (under a cross-honoring agreement) for NJ TRANSIT rail passes utilized during the year by riders on Amtrak trains on the Northeast Corridor. This line item also includes additional costs associated with the Americans with Disabilities Act service expansion.

Fuel and propulsion expenses declined \$6.1 million or 11.6 percent below fiscal year 2001. This decline was essentially the result of an average \$0.21 per gallon decrease in the cost per gallon of diesel fuel compared to fiscal year 2001.

Claims and insurance expenses decreased \$9.8 million or 30.9 percent reflecting the combined effect of reduced costs associated with the Federal Employee Liability Act (FELA) and third-party injury and damage claims as a result of improved claims management and an outstanding safety record.

Parts, materials and supplies expenses decreased \$2.9 million or 2.9 percent below fiscal year 2001 levels. This primarily is the result of the acquisition of new revenue vehicles, as well as the rehabilitation of NJ TRANSIT's existing revenue fleet which had the impact of reducing maintenance expenditures.

Trackage, tolls and fees expenses increased \$0.5 million or 1.3 percent, due to an increase in the charges from Amtrak for access fees to operate train service on the Northeast Corridor.

Non-Operating Revenues, Net

Non-operating revenues, net increased \$76.9 million or 15.0 percent reflecting increased operating assistance and other governmental reimbursements. Total federal and state operating assistance and reimbursements increased \$64.6 million compared to the prior fiscal year. State of New Jersey general fund appropriations increased \$45.3 million, while other federal, state and local reimbursements increased \$19.2 million during the fiscal year. Other reimbursements represent funding from the New Jersey Transportation Trust Fund, New Jersey Casino Revenue Fund and various federal grants for specific activities.

Capital Contributions, Net

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. The federal, state and local interest in assets acquired and constructed is provided in Note 14, Net Assets. Capital grants totaling \$601.1 million were \$121.0 million or 16.8 percent below fiscal year 2001.

Major capital project activity during the year included Hudson-Bergen Light Rail, Secaucus Transfer, Southern New Jersey Light Rail, the purchase of rolling stock and improvements to passenger and support facilities and rail infrastructure.

Capital Assets

As of June 30, 2002, NJ TRANSIT had invested \$8,109.0 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2002 totaled \$5,756.1 million (see Table A-3). This amount represents a net increase of \$850.3 million or 17.3 percent over June 30, 2001.

Table A-3

NJ TRANSIT Capital Assets (net of depreciation)

<i>(in millions)</i>	As of June 30,		
	2002	2001	% Change
Capital projects in process	\$2,690.1	\$2,048.7	31.3
Revenue vehicles	1,096.7	913.3	20.1
Buildings and structures	1,231.5	1,194.2	3.1
Track	545.1	552.1	(1.3)
Land	147.2	145.4	1.2
Equipment	45.5	52.1	(12.7)
Total Net Capital Assets	\$5,756.1	\$4,905.8	17.3

As previously stated, major capital project activity during the year included Southern New Jersey Light Rail, Secaucus Transfer, Hudson-Bergen Light Rail, Montclair Connection, Main/Bergen Connection, the purchase and rehabilitation of rolling stock and improvements to passenger and support facilities and rail infrastructure. This has resulted in a 31.3 percent increase in capital projects in process.

A 20.1 percent increase in revenue vehicles is the result of the acquisition of buses, light rail vehicles, locomotives and rail cars that were placed into service during fiscal year 2002 to replace aging equipment and support system expansion.

The Board of Directors approved a fiscal year 2003 capital program that authorizes NJ TRANSIT to request funds totaling \$1,189.6 million to provide for the continuation of the major projects currently underway, as well as new initiatives. Funds have been requested for the overhaul and maintenance of rolling stock, new system expansion and debt service related to the acquisition of buses, trains, locomotives and the construction of light rail projects. Provisions have also been made to comply with all federally mandated accessibility and environmental regulations.

Budgetary Integrity, Accounting Systems and Internal Controls

Budgetary control is exercised at the department level by major types of expenditures, and budget to actual performance is regularly reported to the Board of Directors. These reports are reviewed quarterly by NJ TRANSIT's independent auditors who provide a separate report thereon to the Board as well as the Department of Transportation's Office of the Inspector General. This report discloses the difference between GAAP and budgetary reporting in the areas of capitalization and depreciation expense.

In developing and maintaining NJ TRANSIT's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived from its use and that the evaluation of cost and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework.

Other Matters

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

NJ TRANSIT is party to various other legal actions and disputes which 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, 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 consolidated financial position of NJ TRANSIT.

Contacting NJ TRANSIT Financial Management

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

Financial Statements

New Jersey Transit Corporation and Subsidiaries

Consolidated Statements of Fund Net Assets

<i>(in thousands)</i>	As of June 30,	
	2002	2001
Assets		
Current Assets		
Cash and cash equivalents	\$173,571	\$200,180
Due from federal government	59,076	48,166
Due from State of New Jersey	80,018	53,895
Inventories, net	69,364	73,880
Other	<u>55,073</u>	<u>37,541</u>
Total Current Assets	<u>437,102</u>	<u>413,662</u>
Non-Current Assets		
Restricted cash and cash equivalents	13,010	12,214
Restricted investments	1,253,157	1,735,904
Restricted leveraged lease deposits	1,064,511	1,039,689
Other	35,856	25,494
Capital assets, net	<u>5,756,110</u>	<u>4,905,797</u>
Total Non-Current Assets	<u>8,122,644</u>	<u>7,719,098</u>
Total Assets	<u>8,559,746</u>	<u>8,132,760</u>
Liabilities		
Current Liabilities		
Accounts payable	187,583	186,922
Accrued payroll and benefits	113,237	105,996
Current installments under capital leases	84,534	113,229
Short-term notes payable	140,820	31,085
Other current liabilities	<u>79,951</u>	<u>69,156</u>
Total Current Liabilities	<u>606,125</u>	<u>506,388</u>
Non-Current Liabilities		
Notes payable	2,400,920	2,444,570
Accrued injury and damage claims	42,713	57,832
Obligations under capital leases	1,208,525	1,166,378
Post-retirement benefits other than pensions	261,814	248,314
Deferred revenue and other non-current liabilities	<u>41,608</u>	<u>68,465</u>
Total Non-Current Liabilities	<u>3,955,580</u>	<u>3,985,559</u>
Total Liabilities	<u>4,561,705</u>	<u>4,491,947</u>
Net Assets		
Invested in capital assets, net of related debt	4,079,109	3,758,396
Restricted net assets	13,010	12,214
Deficit in unrestricted net assets	<u>(94,078)</u>	<u>(129,797)</u>
Total Net Assets	<u>\$3,998,041</u>	<u>\$3,640,813</u>

See Notes to Consolidated Financial Statements.

New Jersey Transit Corporation and Subsidiaries

Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets

<i>(in thousands)</i>	Years Ended June 30,	
	2002	2001
Operating Revenues		
Passenger fares	\$502,674	\$484,684
Other	<u>40,212</u>	<u>38,361</u>
Total Operating Revenues	<u>542,886</u>	<u>523,045</u>
Operating Expenses		
Labor	417,976	394,690
Fringe benefits	255,107	222,781
Parts, materials and supplies	99,124	102,041
Services	66,577	67,149
Claims and insurance	21,902	31,694
Fuel and propulsion	46,437	52,536
Trackage, tolls and fees	34,811	34,355
Utilities	21,927	22,533
Purchased transportation	108,618	104,748
Other	<u>17,137</u>	<u>12,577</u>
Total Operating Expenses, Before Depreciation	<u>1,089,616</u>	<u>1,045,104</u>
Loss Before Depreciation	(546,730)	(522,059)
Depreciation	<u>240,950</u>	<u>225,855</u>
Operating Loss	<u>(787,680)</u>	<u>(747,914)</u>
Non-Operating Revenues (Expenses)		
State appropriation	254,427	209,097
Federal appropriation	475	464
Federal, state and local reimbursements	339,737	320,524
Investment income	10,406	10,422
Income from financing arrangements	11,338	8,609
Other non-operating revenues	9,055	12,553
Interest expense	<u>(37,181)</u>	<u>(50,275)</u>
Total Non-Operating Revenues (Expenses)	<u>588,257</u>	<u>511,394</u>
Loss Before Capital Contributions	(199,423)	(236,520)
Capital contributions	601,077	722,103
Transfers out, net	<u>(44,426)</u>	<u>(26,544)</u>
Change in net assets	<u>357,228</u>	<u>459,039</u>
Total Net Assets, Beginning	<u>3,640,813</u>	<u>3,181,774</u>
Total Net Assets, Ending	<u>\$3,998,041</u>	<u>\$3,640,813</u>

New Jersey Transit Corporation and Subsidiaries

Consolidated Statements of Cash Flows

<i>(in thousands)</i>	Years Ended June 30,	
	2002	2001
Cash Flows from Operating Activities		
Cash receipts from fares	\$503,187	\$485,131
Other cash receipts	4,839	32,360
Claims	(37,408)	(26,377)
Payments to employees	(645,990)	(616,698)
Payments to suppliers	<u>(391,553)</u>	<u>(387,155)</u>
Net Cash Used by Operating Activities	<u>(566,925)</u>	<u>(512,739)</u>
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants	<u>588,507</u>	<u>530,982</u>
Net Cash Provided by Non-Capital Financing Activities	<u>588,507</u>	<u>530,982</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of notes	94,710	1,255,360
Proceeds from issuance of refunding notes	177,072	283,540
Payment of obligations under capital leases	(11,367)	(158,565)
Interest payments	(28,254)	(50,276)
Repayment of note obligations	(208,157)	(465,369)
Transfers from (to) restricted funds	481,544	(949,981)
Purchase of capital assets	(1,144,347)	(653,767)
Capital grants	<u>561,690</u>	<u>759,288</u>
Net Cash (Used) Provided by Financing Activities	<u>(77,109)</u>	<u>20,230</u>
Cash Flows from Investing Activities		
Interest on investments	5,379	10,422
Leveraged lease proceeds	2,737	8,600
Income from other financing activities	<u>21,598</u>	<u>12,553</u>
Net Cash Provided from Investing Activities	<u>29,714</u>	<u>31,575</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(25,813)	70,048
Cash and Cash Equivalents		
Beginning of Year	<u>212,394</u>	<u>142,346</u>
End of Year	<u>\$186,581</u>	<u>\$212,394</u>
Non-Cash Investing and Capital Financing Activities		
Increase in fair value of investments	<u>\$1,084</u>	<u>\$4,019</u>

See Notes to Consolidated Financial Statements.

New Jersey Transit Corporation and Subsidiaries

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

<i>(in thousands)</i>	Years Ended June 30,	
	2002	2001
Net Operating Loss	<u>\$(787,680)</u>	<u>\$(747,914)</u>
Adjustment to Reconcile Net Operating Loss to Net Cash Used by Operating Activities		
Depreciation	240,950	225,855
Changes in Assets and Liabilities		
Receivables	(10,669)	(3,939)
Inventories	4,516	(3,677)
Other current assets	5,348	(3,161)
Other non-current assets	(9,675)	(3,091)
Accounts payable	(4,456)	12,821
Accrued payroll and benefits	13,592	(14,327)
Other current liabilities	8,449	5,001
Accrued injury and damage claims	(15,119)	5,072
Post-retirement benefits	13,500	15,100
Deferred revenue and other non-current liabilities	<u>(25,681)</u>	<u>(479)</u>
Net Cash Used by Operating Activities	<u>\$(566,925)</u>	<u>\$(512,739)</u>

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements Years Ended June 30, 2002 and 2001

1. Organization and Business Purpose

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

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

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

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

2. Summary of Significant Accounting Policies

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

Revenues are recognized in the period in which they are earned; expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of NJ TRANSIT are included in the Consolidated

Statements of Fund Net Assets and depreciation of capital assets is recognized in the Consolidated Statement of Revenues, Expenses and Changes in Fund Net Assets. The two principal sources of revenue are passenger fares and governmental operating assistance and reimbursements. Operating expenses for NJ TRANSIT include the costs of operating the system, administrative expenses and depreciation on capital assets.

New Accounting Pronouncements. In June 1999, the GASB adopted its Statement No. 34, "Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments." The adoption of Statement No. 34 required NJ TRANSIT to make several changes to NJ TRANSIT's presentation of its basic financial statements. In addition, Management's Discussion and Analysis is considered to be required supplemental data.

To conform to the requirements of GASB 34, the following changes have been made to NJ TRANSIT's financial statements:

- The net assets have been reclassified into the following categories:
 - Invested in capital assets
 - Restricted
 - Unrestricted
- The Consolidated Balance Sheet has been modified to report a classified balance sheet and is now referred to as the Consolidated Statements of Fund Net Assets.
- The Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets has been formatted to report operating and non-operating revenues and expenses.
- The Consolidated Statements of Cash Flows has been presented using the direct method.

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

Principles of Consolidation. The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries.

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.

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

Accounts Receivable. Accounts receivable are included with other current assets and are recorded net of an allowance for uncollectible amounts of \$1.8 million and \$2.2 million as of June 30, 2002 and 2001, respectively.

Capital Assets. All capital assets are recorded at cost. The cost of property and equipment includes costs for revenue and non-revenue vehicles, buildings, stations, furniture, fixtures, other equipment and infrastructure assets (right-of-way, track-work and bridges). Capital assets, which were acquired by the State of New Jersey, Department of Transportation, and subsequently transferred to NJ TRANSIT at cost, are recorded as capital assets.

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

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

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

Construction in Progress. Construction in progress represents expenditures incurred by NJ TRANSIT for in-process project activities designed to construct, acquire or extend useful lives of existing capital assets.

Capitalized Interest. 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 of \$12.2 million and \$10.4 million, as of June 30, 2002 and 2001, respectively.

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

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes. NJ TRANSIT is exempt from federal income taxes under the Internal Revenue Code, Section 115 and from

state income taxes under NJSA 27:25-16. Accordingly, no provision is recorded for federal and state income taxes.

Reclassifications. Certain reclassifications have been made to the 2001 consolidated financial statements to conform to the current year's presentation.

3. Other Operating Revenues

Other operating revenues comprise the following:

<i>(in millions)</i>	Years Ended June 30,	
	2002	2001
Lease and rental revenues	\$13.0	\$12.1
Advertising revenues	8.8	10.6
Metro-North operations revenues	7.0	7.7
Bus contracted revenues	2.5	3.2
Other operating revenues	<u>8.9</u>	<u>4.8</u>
Total	<u>\$40.2</u>	<u>\$38.4</u>

4. Injury and Damage Claims

As of June 30, 2002, NJ TRANSIT's self-insurance retention was \$5 million per occurrence with commercial excess liability insurance coverage for the amounts in excess of \$5 million to \$250 million. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment practice claims over \$500,000 to \$10 million are covered by insurance. NJ TRANSIT has recorded an estimated liability of \$80.8 million and \$93.3 million as of June 30, 2002 and 2001, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, \$38.2 million and \$35.5 million are included in other current liabilities as of June 30, 2002 and 2001, respectively.

A reconciliation of total claims liability follows:

<i>(in millions)</i>	As of June 30,	
	2002	2001
Balance, beginning of year	\$93.3	\$88.0
Claims expense	18.0	28.3
Payment of claims	<u>(30.5)</u>	<u>(23.0)</u>
Balance, End of Year	<u>\$80.8</u>	<u>\$93.3</u>

5. Federal Grants

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

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

6. Cash, Cash Equivalents and Investments

As of June 30, 2002, NJ TRANSIT's cash balance was \$13.6 million. Of the cash balance, \$753,000 was covered by federal depository insurance and \$12.8 million was covered by a collateral pool maintained by the banks as required by New Jersey statutes (Category 1).

The investment of NJ TRANSIT funds is governed by the by-laws of NJ TRANSIT. 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 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.

Cash, cash equivalents and investments consist of the following:

<i>(in millions)</i>	As of June 30,	
	2002	2001
Current		
Cash on hand	\$11.4	\$5.7
Short-term investments	<u>162.1</u>	<u>194.5</u>
Total current cash and cash equivalents	<u>173.5</u>	<u>200.2</u>
Non-current		
Restricted cash and cash equivalents	13.0	12.2
Restricted investments	<u>1,253.1</u>	<u>1,735.9</u>
Restricted total non-current	<u>1,266.1</u>	<u>1,748.1</u>
Total Cash, Cash Equivalents and Investments	<u>\$1,439.6</u>	<u>\$1,948.3</u>

Government Accounting Standards Board (GASB) Statement No. 3 requires disclosure of the level of investment custodial risk assumed by NJ TRANSIT as of June 30, 2002 and 2001. Category 1 includes investments that are insured or registered, or held by NJ TRANSIT or its agent in its name. Category 3 includes uninsured and unregistered investments held by a broker or dealer or by its trust department or agent, but not in the entity's name.

NJ TRANSIT's portfolio of investments includes the following:

<i>(in millions)</i>	GASB Category	As of June 30,	
		2002	2001
Categorized			
Commercial paper	3	\$411.2	\$1,476.3
Collateralized investment agreements	1	<u>946.9</u> 1,358.1	<u>349.8</u> 1,826.1
Uncategorized			
State of New Jersey Cash Management Fund	N/A	<u>67.9</u>	<u>113.7</u>
Total		<u>\$1,426.0</u>	<u>\$1,939.8</u>

All investments, except for investment agreements, are carried at fair value. Investment agreements are collateralized, non-participating guaranteed investment contracts, which are carried at cost. U.S. government and agencies obligations are guaranteed by the full faith and credit of the issuing entity and are held by NJ TRANSIT's escrow agent in an account for NJ TRANSIT. Commercial paper is uncollateralized and uninsured and is limited to investment-grade paper. The New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of Treasury, Division of Investment. Securities in the fund are insured, registered or held by the division or its agent in the fund's name.

7. Restricted Assets

Restricted assets include cash, investments and amounts on deposit with various lessors restricted from use for normal operations.

Since April 1997, certain proceeds from the issuance of Grant Anticipation Notes and Certificates of Participation to finance portions of NJ TRANSIT's capital projects are restricted by applicable agreement covenants. As of June 30, 2002 and 2001, the balance of cash received and restricted related to these proceeds was \$1,146.1 million and \$1,672.3 million, respectively.

In October 1997, NJ TRANSIT entered into a funding agreement with Metro-North Commuter Railroad Company for Secaucus Transfer and the right-of-way modifications to the Main/Bergen and Northeast Corridor rail lines. This agreement provided for an initial cash payment to NJ TRANSIT. The remaining balance of this payment along with interest earnings on investment of funds have been recorded as restricted assets and deferred revenue in the amount of \$21.4 million and \$48.8 million as of June 30, 2002 and 2001, respectively.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas lessors. Restricted leveraged lease deposits as of June 30, 2002 and 2001 were \$1,064.5 million and \$1,039.7 million, respectively, for these lease agreements which represent investment arrangements made to meet NJ TRANSIT's payment obligations throughout the term of the leases.

In May 1984, NJ TRANSIT purchased the land under and adjacent to Newark Penn Station along with air rights above the land and acquired operational control of the station. This arrangement also provides cash proceeds to NJ TRANSIT, which management projects will assist in the funding of net station operating expenses. Proceeds have been recorded as restricted assets and deferred revenue as of June 30, 2002 and 2001, respectively.

8. Capital Assets

Capital assets are summarized as follows:

<i>(in millions)</i>	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not Being Depreciated				
Land	\$145.4	\$1.8	\$0.0	\$147.2
Capital projects in process	<u>2,048.7</u>	<u>1,191.1</u>	<u>(549.7)</u>	<u>2,690.1</u>
Total Capital Assets not Being Depreciated	<u>2,194.1</u>	<u>1,192.9</u>	<u>(549.7)</u>	<u>2,837.3</u>
Capital Assets Being Depreciated				
Buildings and structures	1,911.1	120.7	(0.0)	2,031.8
Track	846.9	30.9	(4.3)	873.5
Rail cars and locomotives	1,120.0	5.0	(51.2)	1,073.8
Buses, vans and light rail cars	862.5	303.9	(139.8)	1,026.6
Furniture, fixtures and equipment	<u>255.5</u>	<u>13.5</u>	<u>(3.0)</u>	<u>266.0</u>
Total Capital Assets Being Depreciated	<u>4,996.0</u>	<u>474.0</u>	<u>(198.3)</u>	<u>5,271.7</u>
Less Accumulated Depreciation				
Buildings and structures	716.9	90.7	(7.3)	800.3
Track	294.8	35.3	(1.7)	328.4
Rail cars and locomotives	648.4	52.0	(48.9)	651.5
Buses, vans and light rail cars	420.8	61.7	(130.3)	352.2
Furniture, fixtures and equipment	<u>203.4</u>	<u>17.5</u>	<u>(0.4)</u>	<u>220.5</u>
Total Accumulated Depreciation	<u>2,284.3</u>	<u>257.2</u>	<u>(188.6)</u>	<u>2,352.9</u>
Total Capital Assets Being Depreciated, Net	<u>2,711.7</u>	<u>216.8</u>	<u>(9.7)</u>	<u>2,918.8</u>
Total Net Capital Assets	<u>\$4,905.8</u>	<u>\$1,409.7</u>	<u>\$(559.4)</u>	<u>\$5,756.1</u>

As of June 30, 2002, capital projects in progress include net capitalized interest expense and income of \$60.1 million and \$92.5 million, respectively, related to the Grant Anticipation Notes and Certificates of Participation (see Notes 11 and 12).

During fiscal years 2002 and 2001, NJ TRANSIT transferred \$33.3 million and \$35.5 million of assets, respectively, from capital assets and capital contributions to other entities. These amounts represented assets for which NJ TRANSIT has transferred ownership upon completion of the project. These projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line and the construction of the Newark Liberty International Airport Northeast Corridor Station.

9. Pension and Employee Benefit Plans

NJ TRANSIT and its subsidiaries have pension plans covering substantially all employees who participate in the New Jersey Public Employee Retirement System (PERS), certain police employees who participate in the Police and Fireman's Retirement System (PFRS) and certain rail operations employees who participate in 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, 2002, 2001 and 2000 were \$30.4 million, \$28.7 million and \$29.1 mil-

lion, 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 \$310.4 million, \$285.2 million and \$261.2 million for the 2001, 2000 and 1999 plan years, respectively. Under the provisions of the five pension plans, pension benefits vest after 10 years of full-time employment. Employees are 100 percent vested if they are age 55 and have five years of full-time employment. As of June 30, 2002, an employee who retires at age 65 with 10 years of credited service is entitled to an annual retirement benefit equal to 2.0 percent for each year of service multiplied by the average of the highest three years' earnings, excluding overtime, in the last 10 years of service. The sponsored pension plans also provide early retirement programs and death benefits.

Presented hereinafter is the total pension benefit obligation of the NJ TRANSIT-sponsored pension plans as of June 30, 2001. A variety of significant actuarial assumptions are used to determine the valuation of the pension benefit obligation at the pension plan valuation dates. The current assumptions include (a) a weighted average assumed rate of return of 8.0 percent for all plans, (b) annual salary increases ranging from 4.1 percent to 6.4 percent, and (c) no post-retirement benefit

increases. For fiscal year 2002, 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 2002 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2001.

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

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

Pension expense for defined benefit plans (excluding PERS, PFRS and Railroad Retirement) totaled \$36.7 million, \$26.6 million and \$28.1 million for fiscal years 2002, 2001 and 2000, respectively.

For the three plan years ended June 30, 2001, 2000 and 1999, available assets were sufficient to fund 83.1, 96.5 and 109.8 percent, respectively, of the pension benefit obligation. The funded excess (unfunded) pension benefit obligation represented (40.5), (7.6) and 20.0 percent of the annual payroll for employees covered by NJ TRANSIT pension plans for fiscal years 2001, 2000 and 1999, respectively. Disclosing the funded excess (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, 2001, 2000 and 1999, all made in accordance with actuarially determined requirements, were 11.8, 9.5 and 10.6 percent, respectively, of applicable fiscal year covered payroll.

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

Co-Workers Association Employees Retirement Plan and the Mercer Employees Retirement Plan. The plan covering all non-agreement employees is the Non-Agreement Employees Retirement Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement plan while the agreement plans are subject to the collective bargaining process. Separate audited financial statements are issued for the five pension plans, which can be obtained from NJ TRANSIT.

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan 401(k) for all eligible non-agreement employees. This plan permits employees to contribute up to 50 percent of their salary not to exceed \$11,000 annually on a pre-tax basis. NJ TRANSIT provides a maximum 50-percent matching contribution on the first six percent contributed by the employee.

NJ TRANSIT also provides a money purchase pension plan 401(a) and an employee savings/deferred compensation plan (457) for eligible agreement employees. The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed \$11,000 annually on a pre-tax basis. NJ TRANSIT contributed three to five percent of annual compensation to certain employees' accounts in the 401(a) plan.

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

Pursuant to the act, participants in the 401(k) and 457 plans who are over 50 years of age can contribute an additional \$1,000 above the \$11,000 limit. This amount increases to \$2,000 in 2003.

NJ TRANSIT's expense for the defined contribution plans totaled \$12.0 million and \$11.2 million in fiscal years 2002 and 2001, respectively.

Recorded expenses for all plans (including PERS, PFRS and Railroad Retirement) amounted to \$79.1 million and

Pension Benefit Obligation

(in millions)

	As of June 30,				
	2001	2000	1999	1998	1997
Accrued Benefit Obligation					
Participants currently receiving payments	\$244.3	\$205.2	\$182.6	\$168.5	\$170.5
Employer-financed vested benefits	284.9	243.1	197.1	186.0	165.1
Employer-financed nonvested benefits	91.0	74.6	64.0	60.2	11.5
Total Accrued Benefit Obligation	<u>\$620.2</u>	<u>\$522.9</u>	<u>\$443.7</u>	<u>\$414.7</u>	<u>\$347.1</u>
Pension Funding					
Pension benefit obligation	\$745.9	\$621.2	\$535.1	\$506.7	\$420.0
Fair value of net assets available for plan benefits	620.0	599.5	587.5	544.6	448.4
Funded Excess/(Unfunded) Pension Benefit Obligation	<u>\$(125.9)</u>	<u>\$(21.7)</u>	<u>\$52.4</u>	<u>\$37.9</u>	<u>\$28.4</u>

\$66.5 million for the years ended June 30, 2002 and 2001, respectively.

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

Bus agreement retirees are eligible for benefits upon attainment of age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retiree and spousal coverage for medical and life insurance. Dental coverage is also available for bus agreement retirees until the age of 65.

Rail agreement retirees are eligible for benefits once they reach age 60 with 30 years of service. These benefits include retiree and spousal coverage for medical benefits and life insurance. The spousal coverage becomes 100 percent contributory once the retiree reaches age 65.

Non-agreement retirees are eligible for benefits upon attainment of whichever is earlier: age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retirees and spousal coverage for medical and life insurance.

Dental coverage is also available for non-agreement retirees until the age of 65 and for those non-agreement employees who retired under the Voluntary Special Retirement Program.

The accumulated post-retirement benefit obligation of NJ TRANSIT's post-retirement benefit plan is summarized as follows:

<i>(in millions)</i>	As of June 30,	
	2002	2001
Retirees	\$82.3	\$76.4
Fully eligible active plan participants	29.8	37.5
Other active plan participants	<u>134.9</u>	<u>116.5</u>
Accumulated post-retirement benefit obligation	247.0	230.4
Unrecognized net actuarial gain	<u>14.8</u>	<u>17.9</u>
Total Accumulated Post-Retirement Benefit Obligation	<u>\$261.8</u>	<u>\$248.3</u>

The accumulated post-retirement benefit obligation was determined using the unit credit method and an assumed discount rate of 7.0 percent. The assumed health care trend rate was 5.5 percent for bus agreement employees, pre- and post-age 65 retirees; non-agreement employees, pre- and post-age 65 retirees; and rail agreement employees, pre-age 65 retirees.

The net periodic post-retirement benefit cost for fiscal years 2002 and 2001 follows:

<i>(in millions)</i>	Years Ended June 30,	
	2002	2001
Service costs	\$9.6	\$8.7
Interest costs	15.9	15.7
Amortization of actuarial (gain)/loss	<u>(0.5)</u>	<u>(0.2)</u>
Total Post-Retirement Benefit Cost	<u>\$25.0</u>	<u>\$24.2</u>

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

<i>(in millions)</i>	1 Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components	\$3.5	\$2.9
Effect on the post-retirement benefit obligation	\$29.5	\$24.5

10. Other Current Liabilities

Other current liabilities comprise the following:

<i>(in millions)</i>	As of June 30,	
	2002	2001
Injury and damage claims (Note 4)	\$38.2	\$35.5
Miscellaneous	<u>41.8</u>	<u>33.7</u>
Total	<u>\$80.0</u>	<u>\$69.2</u>

11. Long-Term Debt and Other Obligations

In June 2002, NJ TRANSIT issued \$162.8 million of Series 2002A Certificates of Participation 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 Certificates of Participation, Series 2000A and pay certain costs of issuance of the Series 2002A certificates. The proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide for the debt service on certain 2000A notes. The refunding transaction, which was consummated to provide a structural modification to the original agreement, increases the aggregate debt service payment by approximately \$4.1 million over the life of the issue. As of June 30, 2002, \$158.7 million of defeased 2000A notes remain outstanding. NJ TRANSIT has recorded the remaining balance of cash received and the payment obligations as capital assets, restricted investments and notes payable, respectively.

In June 2002, NJ TRANSIT issued \$94.7 million of Series 2002B Certificates of Participation bearing interest between 4.0 percent and 5.75 percent with a final maturity in 2015. The proceeds of these certificates shall be used to purchase 28 light rail cars. As of June 30, 2002, no project expenditures have been incurred.

In November 2000, NJ TRANSIT issued \$562.2 million of Capital Grant Anticipation Notes, consisting of \$452.2 million Series 2000B and \$110.0 million 2000 Series C, bearing interest between 4.5 percent and 5.75 percent. The Series 2000B and 2000C notes have maturity dates of 2011 and 2005, respectively. The proceeds of the notes are being used to fund the costs of constructing the next segment of Hudson-Bergen Light Rail (MOS-2) and Newark-Elizabeth Rail Link. As of June 30, 2002, total project expenditures financed through the pro-

ceeds from the sale of the notes were approximately \$101.4 million.

In October 2000, NJ TRANSIT issued \$693.1 million of Series 2000B Certificates of Participation bearing interest between 4.5 percent and 6.0 percent with final maturity in 2015. The proceeds of these certificates are being used to fund the purchase of 24 ALP-46 electric locomotives and 1,244 cruiser buses. As of June 30, 2002, total project expenditures financed through the proceeds from the sale of the certificates were approximately \$403.5 million.

In September 2000, NJ TRANSIT issued \$283.5 million of Series 2000A Capital Grant Anticipation Refunding Notes (Refunding Notes) bearing interest between 4.4 percent and 5.125 percent with final maturity in 2004. The proceeds of these notes refunded NJ TRANSIT's Capital Grant Anticipation Notes, Series 1997A, which were issued to finance the first phase of Hudson-Bergen Light Rail (MOS-1). A portion of the proceeds of the Refunding Notes was deposited into an irrevocable trust with an escrow agent to provide for debt service on the 1997 notes. The remaining proceeds of \$27.4 million were deposited into a debt service reserve to support the timely payment of debt service on the Refunding Notes. The refunding transaction, which was consummated to provide a structural modification to the original agreement, increases the aggregate debt service payments by approximately \$8.6 million over the life of the issue and resulted in an economic loss of \$2.0 million and a deferral of \$2.7 million of cost at June 30, 2002. As of June 30, 2002, \$250.3 million of defeased 1997 notes remain outstanding.

In January 2000, NJ TRANSIT issued \$234.1 million of Certificates of Participation bearing interest between 4.4 percent and 6.125 percent and maturing on September 15 of the years 2002 through 2015. The proceeds of the certificates shall be used to purchase 200 rail cars and spare parts. As of June 30, 2002, total project expenditures financed through the proceeds from the sale of the certificates were approximately \$44.7 million.

In March 1999, NJ TRANSIT issued \$151.5 million of Certificates of Participation bearing interest between 3.625 percent and 5.0 percent and maturing on September 15 of the years 2001 through 2008. The proceeds of the certificates were used to purchase 500 transit buses. As of June 30, 2002, total project expenditures financed through the proceeds from the sale of the certificates were \$151.5 million.

In April 1997, NJ TRANSIT issued \$351.6 million of Capital Grant Anticipation Notes bearing interest between 4.625 percent and 5.5 percent and maturing on September 1 of the years 2000 through 2003. The proceeds of the notes were used to design, acquire, construct and equip a portion of the first phase of Hudson-Bergen Light Rail. As of June 30, 2002, total project expenditures of \$351.6 million were financed through proceeds from the sale of the notes.

The notes and certificates referred to above are special limited obligations of NJ TRANSIT payable solely from federal capital grants proceeds and investment earnings on undisbursed proceeds held by the trustee.

In August 1999, NJ TRANSIT entered into a 20-year lease/sublease agreement with the New Jersey Economic Development Authority as required for the issuance by the authority of its Transportation Project Sublease Revenue Bonds, consisting of \$486.7 million in 1999 Series A Bonds and \$147.2 million in 1999 Series B Bonds, bearing interest between 4.375 percent and 5.75 percent and maturing on May 1 of the years 2001 through 2011. The Series A Bonds were issued to provide funds for the Southern New Jersey Light Rail project while the Series B Bonds were issued to provide funds for the second phase of the Hudson-Bergen Light Rail project. As of June 30, 2002, project expenditures financed through the bond proceeds totaled \$531.6 million. NJ TRANSIT has committed to rental payments in an amount equal to the bond obligations and has recorded the project expenditures, the remaining balance of the bond proceeds and the payment obligations as capital assets, restricted funds and notes payable, respectively.

The following schedules summarize notes payable obligations as of June 30, 2002 and 2001, respectively (in millions), and include Capital Grant Anticipation Notes (GANs), Certificates of Participations (COPs), and New Jersey Economic Development Authority (NJEDA) debt:

<i>(in millions)</i>	As of June 30, 2002					
	Inception Date	Beginning Balance	Additions	Payments/Reductions	Ending Balance	Due Within One Year
COPs 1999	03/99	\$151.5	\$0.0	\$(16.9)	\$134.6	\$17.7
NJEDA 1999 A&B	09/99	622.1	0.0	(12.3)	609.8	16.3
COPs 2000A	01/00	234.1	0.0	(158.7)	75.4	1.6
GANs 2000A	09/00	172.3	0.0	(0.0)	172.3	87.6
COPs 2000B	10/00	693.1	0.0	(0.0)	693.1	0.0
GANs 2000B	11/00	452.2	0.0	(0.0)	452.1	0.0
GANs 2000C	11/00	110.0	0.0	(1.9)	108.2	15.3
COPs 2002A	06/02	0.0	162.8	(0.0)	162.8	2.3
COPs 2002B	06/02	<u>0.0</u>	<u>94.7</u>	<u>(0.0)</u>	<u>94.7</u>	<u>0.0</u>
Total		2,435.3	257.5	(189.8)	2,503.0	<u>\$140.8</u>
Unearned Bond Premium		43.1	25.6	(10.1)	58.6	
Unamortized Deferral on Refunding		<u>(2.7)</u>	<u>(18.1)</u>	<u>0.9</u>	<u>(19.9)</u>	
Total Notes Payable Commitment		<u>\$2,475.7</u>	<u>\$265.0</u>	<u>\$(199.0)</u>	<u>\$2,541.7</u>	

<i>(in millions)</i>	As of June 30, 2001					
	Inception Date	Beginning Balance	Additions	Payments/Reductions	Ending Balance	Due Within One Year
GANs 1997	04/97	\$339.3	\$0.0	\$(339.3)	\$0.0	\$0.0
COPs 1999	03/99	172.0	0.0	(20.5)	151.5	16.9
NJEDA 1999 A&B	09/99	634.4	0.0	(12.3)	622.1	12.3
COPs 2000A	01/00	234.1	0.0	(0.0)	234.1	0.0
GANs 2000A	09/00	0.0	283.6	(111.3)	172.3	0.0
COPs 2000B	10/00	0.0	693.1	(0.0)	693.1	0.0
GANs 2000B	11/00	0.0	452.2	(0.0)	452.2	0.0
GANs 2000C	11/00	0.0	110.0	(0.0)	110.0	1.9
Refunding COPs 2000A	06/01	<u>0.0</u>	<u>136.1</u>	<u>(136.1)</u>	<u>0.0</u>	<u>0.0</u>
Total		1,379.8	1,675.0	(619.5)	2,435.3	<u>\$31.1</u>
Unearned Bond Premium		16.3	35.9	(9.1)	43.1	
Unamortized Deferral on Refunding		<u>0.0</u>	<u>(2.7)</u>	<u>0.0</u>	<u>(2.7)</u>	
Total Notes Payable Commitment		<u>\$1,396.1</u>	<u>\$1,708.2</u>	<u>\$(628.6)</u>	<u>\$2,475.7</u>	

Long-term notes payable maturities as of June 30, 2002
(in millions):

Fiscal Years	Principal	Interest	Total
2003	\$140.8	\$139.5	\$280.3
2004	265.5	121.7	387.2
2005	186.2	108.4	294.6
2006	158.4	98.8	257.2
2007	169.0	90.3	259.3
2008-2012	902.0	328.4	1,230.4
2013-2017	631.0	115.1	746.1
2018-2019	<u>50.1</u>	<u>2.9</u>	<u>53.0</u>
Total	\$2,503.0	\$1,005.1	\$3,508.1
Unamortized premium	58.6		
Unamortized deferral on refunding	<u>(19.9)</u>		
Total Notes Payable	\$2,541.7		

12. Leases and Other Commitments

Leveraged Lease Transactions. NJ TRANSIT has entered into a number of leveraged lease agreements with certain domestic lessors. In connection with these agreements, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the terms of the respective lease. Effective January 1, 1997, NJ TRANSIT changed its method of accounting for the extinguishment of leveraged leased obligations and no longer records "in-substance" defeasance of its leveraged lease obligations as extinguished. Accordingly, NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leverage Lease Deposits in the Consolidated Statements of Fund Net Assets (see Notes 6 and 7).

The fiscal year 2002 leveraged lease agreement is summarized as follows:

Lease type	Domestic
Lease term	12 years
Assets leased	250 MCI Cruiser buses
Present value of lease obligations	\$100.6 million

NJ TRANSIT received a benefit of \$2.7 million for fiscal year 2002 related to the above agreement.

In connection with the above 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, 2002.

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

Extinguished leveraged lease obligations as of June 30, 2002 (in millions):

Fiscal Years	Lease Years	Equipment	Amount
1997	18 Years	12 locomotives	\$37.5
1995	15 Years	17 Arrow III cars and 5 locomotives	\$55.6
1995	15 Years	46 Arrow III cars	\$72.7
1994	15 Years	46 Arrow III cars	\$65.6
1994	15 Years	48 Arrow III cars	\$73.3
1993	15 Years	43 Arrow III cars	\$65.3
1993	10 Years	16 Arrow III cars	\$25.1

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, 2002.

Capital Leases. In 1996, NJ TRANSIT entered into a design, build, operate and maintain agreement for the design, building, operation and maintenance of Hudson-Bergen Light Rail. In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light rail cars for the Hudson-Bergen Light Rail project and Newark City Subway. These cars were financed through a sale of Certificates of Participation by the State of New Jersey in May 1998. The cars were subleased by the State of 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 New Jersey Economic Development Authority 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 New Jersey Economic Development Authority bond obligations. The remaining rental payments have a present value of approximately \$15.8 million as of June 30, 2002.

In fiscal year 1991, NJ TRANSIT entered into a 25-year, \$66.7 million capital lease for its headquarters building in Newark, New Jersey. NJ TRANSIT will own this facility at the end of the lease. Rent increases every five years beginning at \$15.80 per square foot and rising to \$22.85 per square foot in year 21 of the lease.

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.

NJ TRANSIT has recorded obligations under capital leases of \$1,296.5 million and \$1,296.9 million as of June 30, 2002 and 2001, respectively, of which \$84.5 million and \$113.2 million represent current installments under capital leases as of June 30, 2002 and 2001, 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):

<i>(in millions)</i>	As of June 30,	
	2002	2001
Land	\$27.4	\$27.1
Buildings	510.4	508.3
Rail cars and locomotives	585.0	580.6
Buses and light rail cars	<u>346.6</u>	<u>205.3</u>
Capital assets under capital leases (at cost)	1,469.4	1,321.3
Accumulated depreciation	<u>(578.0)</u>	<u>(501.7)</u>
Net Capital Assets under Capital Leases	<u>\$891.4</u>	<u>\$819.6</u>

The following schedules summarize the capital lease obligations as of June 30, 2002 and 2001:

<i>(in millions)</i>	As of June 30, 2002					
	Inception Date	Beginning Balance	Additions	Payments/Reductions	Ending Balance	Due Within One Year
NBC facility	07/86	\$24.6	\$0.0	\$1.5	\$23.1	\$1.7
One Penn Plaza East	09/91	59.2	0.0	1.8	57.4	2.2
Metropark parking facility	03/94	16.1	0.0	0.3	15.8	0.4
MMC, locos. & rail cars	01/97	179.1	0.0	11.1	168.0	10.3
ALP-44 locomotives	06/97	7.2	0.0	0.0	7.2	0.0
Bus garages	07/97	109.9	0.0	9.0	100.9	5.2
Comet IV coaches	07/97	84.4	0.0	6.5	77.9	6.0
Nova buses	07/97	27.7	0.0	27.7	0.0	0.0
FY98-181 Arrows & 30 ALP-44s	03/98	400.2	0.0	37.1	363.1	37.9
Light rail	06/98	144.1	0.0	8.0	136.1	8.5
FY99-bus garage	09/98	83.3	5.5	0.0	88.8	0.0
FY01-HBLR	12/00	147.9	10.1	0.0	158.0	5.4
MCI buses (250)	12/01	<u>0.0</u>	<u>100.6</u>	<u>0.0</u>	<u>100.6</u>	<u>6.9</u>
Total		1,283.7	116.2	103.0	1,296.9	<u>\$84.5</u>
Unamortized Deferral on Refunding		<u>(4.1)</u>	<u>0.0</u>	<u>(.3)</u>	<u>(3.8)</u>	
Total Capital Lease Commitment		<u>\$1,279.6</u>	<u>\$116.2</u>	<u>\$102.7</u>	<u>\$1,293.1</u>	

<i>(in millions)</i>	As of June 30, 2001					
	Inception Date	Beginning Balance	Additions	Payments/Reductions	Ending Balance	Due Within One Year
NBC facility	07/86	\$25.9	\$0.0	\$1.3	\$24.6	\$1.5
One Penn Plaza East	09/91	60.2	0.0	1.0	59.2	1.8
Metropark parking facility	03/94	16.1	0.0	0.0	16.1	0.4
MMC, locos. & rail cars	01/97	191.1	0.0	12.0	179.1	11.1
ALP-44 locomotives	06/97	7.2	0.0	0.0	7.2	0.0
Bus garages	07/97	195.6	0.0	85.7	109.9	9.0
Comet IV coaches	07/97	91.5	0.0	7.1	84.4	6.5
Nova buses	07/97	32.4	0.0	4.7	27.7	27.7
FY98-181 Arrows & 30 ALP-44s	03/98	420.6	0.0	20.4	400.2	37.1
Light rail	06/98	141.9	2.2	0.0	144.1	8.0
FY99-bus garage	09/98	0.0	83.3	0.0	83.3	0.0
FY01-HBLR	12/00	<u>0.0</u>	<u>147.9</u>	<u>0.0</u>	<u>147.9</u>	<u>10.1</u>
Total		1,182.5	233.4	132.2	1,283.7	<u>\$113.2</u>
Unamortized Deferral on Refunding		<u>0.0</u>	<u>(4.1)</u>	<u>0.0</u>	<u>(4.1)</u>	
Total Capital Lease Commitment		<u>\$1,182.5</u>	<u>\$229.3</u>	<u>\$132.2</u>	<u>\$1,279.6</u>	

Minimum capital lease commitments as of June 30, 2002
(in millions):

Fiscal Years	Principal	Interest	Total
2003	\$84.5	\$27.3	\$111.8
2004	84.7	29.8	114.5
2005	86.5	32.8	119.3
2006	94.2	35.6	129.8
2007	86.2	34.0	120.2
2008-2012	473.5	199.1	672.6
2013-2017	300.9	392.9	693.8
2018-2022	43.3	33.0	76.3
2023-2027	<u>43.1</u>	<u>24.6</u>	<u>67.7</u>
Total	1,296.9	\$809.1	\$2,106.0
Unamortized Deferral on Refunding	(3.8)		
Total Capital Lease Commitment	<u>\$1,293.1</u>		

As of June 30, 2002, NJ TRANSIT was committed for future expenditures under the following capital projects and special services which will be funded from federal, state, local or other capital sources (in millions):

Rolling stock improvements	\$94.6
Hudson-Bergen Light Rail	86.3
Rail infrastructure	75.4
Bus and light rail rolling stock	54.4
Rail passenger facilities	53.3
Rail support facilities & equipment	51.2
Main/Bergen Connection	35.7
Secaucus Transfer	33.1
Southern New Jersey Light Rail	25.1
Special services	24.1
Ticket vending machines	15.7
Bus and light rail infrastructure	14.8
Other	<u>72.2</u>
Total Capital Projects and Special Services Commitments	<u>\$635.9</u>

13. Contingencies

NJ TRANSIT is party to various legal actions and disputes which 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 the Consolidated Statements of Fund Net Assets of NJ TRANSIT. In addition, NJ TRANSIT's contractor for the construction of the Southern New Jersey Light Rail project has filed suit against NJ TRANSIT as a result of alleged changes in the project. The contractor is seeking additional compensation in excess of \$100 million. Although the ultimate effect of this matter is not presently determinable, management believes that the resolution of this suit will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

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

NJ TRANSIT receives federal and state grants for capital projects and other reimbursable activities which 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 which 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 must also be made accessible. Additionally, NJ TRANSIT was required to identify high-usage, strategically located rail stations which 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, 23 of which were to be made accessible by July 26, 1993. The remaining stations required major renovations and the FTA granted time extensions ranging from 1997 to 2008. A mix of capital funding sources including federal and state transportation trust and casino revenue funds is 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 U.S. Department of Justice.

14. Net Assets

For the years ended June 30, 2002 and 2001, changes in net assets consisted of the following:

<i>(in thousands)</i>	Invested in Capital Assets				
	Deficit in Unrestricted Net Assets	Restricted Net Assets	Federal	State Local Other	Total
Balance June 30, 2000	<u>\$(115,574)</u>	<u>—</u>	<u>\$2,055,445</u>	<u>\$1,241,903</u>	<u>\$3,181,774</u>
Loss before capital contributions	(236,520)	—	—	—	(236,520)
Capital grants	—	—	461,667	260,438	722,105
Capital grants pass-throughs	—	—	(3,899)	(31,647)	(35,546)
Capital assets removed from service	—	—	(2,027)	(1,187)	(3,214)
Restricted net assets	—	12,214	—	—	12,214
Depreciation on capital funded assets	<u>222,297</u>	<u>—</u>	<u>(154,432)</u>	<u>(67,865)</u>	<u>—</u>
Balance June 30, 2001	<u>(129,797)</u>	<u>12,214</u>	<u>2,356,754</u>	<u>1,401,642</u>	<u>3,640,813</u>
Loss before capital contributions	(199,423)	—	—	—	(199,423)
Capital grants	—	—	186,984	414,092	601,076
Capital grants pass-throughs	—	—	4,760	(38,054)	(33,294)
Capital assets removed from service	—	—	(6,798)	(5,129)	(11,927)
Restricted net assets	—	796	—	—	796
Depreciation on capital funded assets	<u>235,142</u>	<u>—</u>	<u>(161,389)</u>	<u>(73,753)</u>	<u>—</u>
Balance June 30, 2002	<u>\$(94,078)</u>	<u>\$13,010</u>	<u>\$2,380,311</u>	<u>\$1,698,798</u>	<u>\$3,998,041</u>



■ Ernst & Young LLP
99 Wood Avenue South
MetroPark
P. O. Box 751
Iselin, New Jersey 08830-0471

■ Phone: (732) 516-4200
www.ey.com

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, a component unit of the State of New Jersey, as of and for the years ended June 30, 2002 and 2001. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 New Jersey Transit Corporation and subsidiaries as of June 30, 2002 and 2001, and the consolidated changes in financial position and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the accompanying consolidated financial statements, in 2002 New Jersey Transit Corporation has adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

September 30, 2002

