

MOVING THE NEEDLE



2011 NJ TRANSIT Annual Report

Governor
Chris Christie



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FY2011 Financial Report (attached)

MESSAGE FROM

The Chairman

Under the leadership of Governor Chris Christie, the Board of Directors and Executive Director Jim Weinstein, NJ TRANSIT positioned itself to be a stronger, more financially-stable agency in FY2011. Despite a stalled national and regional economy and skyrocketing fuel costs, the Corporation rose to the challenge by cutting spending, increasing non-farebox revenue and more effectively managing its resources to reduce a reliance on state subsidies. Those actions allowed us to keep fares stable during the fiscal year, something we are committed to doing again in FY2012.

NJ TRANSIT remains an integral part of the state's transportation network, linking New Jersey residents to jobs, health care, education and recreational opportunities. A number of investments paid dividends for customers this year, including the opening of new or rehabilitated stations, more retail options at stations, continued modernization of the rail and bus fleet, and placing new service-specific technology into the hands of customers.

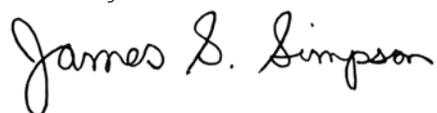
While we completed or advanced other projects to keep the system in a state-of-good-repair, the Corporation also worked closely with the New Jersey congressional delegation to secure additional federal funding for infrastructure upgrades along the busy Northeast Corridor, something that will benefit both NJ TRANSIT and Amtrak customers.

The launch of Scorecard in Spring 2011 was a fulfillment of Governor Christie's commitment to transparency and accountability. Scorecard uses a series of performance goals and metrics — combined with detailed customer feedback — to ensure NJ TRANSIT delivers safe, convenient, efficient and reliable service. This new management tool is driving our day-to-day and long-term business decisions, balancing the needs of customers while remaining accountable to the taxpayers of New Jersey.

Finally, we welcomed two new members to the NJ TRANSIT Board of Directors. Both Bruce Meisel and Jamie Finkle bring a wealth of business experience to the Board and will use that experience to help us balance the need for quality service with solid fiscal stewardship.

In closing, I thank Governor Christie, the State Legislature and our Congressional delegation for their continued support of our state's valued public transportation asset. I also thank the men and women of NJ TRANSIT who serve our customers each day with exceptional skills and professionalism. And I thank the hundreds of thousands of customers who choose to use our service, helping to deliver reduced traffic congestion, a cleaner environment and a higher quality of life for residents of the Garden State.

Sincerely,

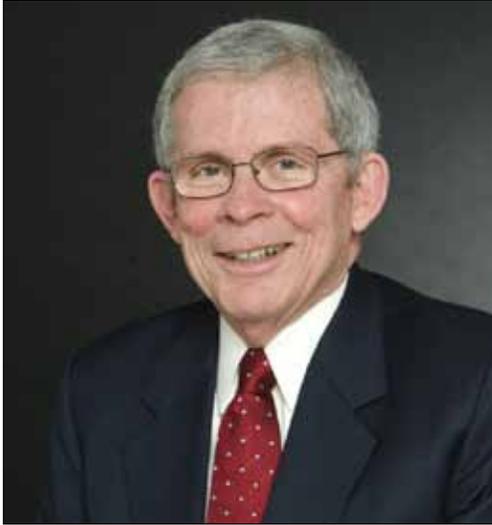


James S. Simpson
Transportation Commissioner & NJ TRANSIT Board Chairman



MESSAGE FROM

The Executive Director



Thanks to a combination of innovation, wise investments, budget efficiencies and other smart business decisions, NJ TRANSIT continued on a path of financial stability in Fiscal Year 2011 (FY2011) and celebrated some notable achievements along the way. We gave customers on the go new technology this past year to navigate our system, particularly new features for handheld devices. That included new bus, rail and light rail scheduling information via My Bus, My Light Rail and CooCoo, new My Transit alerts for Access Link customers, My Transit alerts for weekend rail customers, and service alerts via Twitter. Customers also started scanning “QR” codes into their smart phones at rail stations, allowing them to display train departure information from their station.

We delivered on a top customer request with Quiet Commute, now available on peak-period, peak-direction trains. Quiet Commute provides a riding environment on trains where customers speak in subdued voices, refrain from using their cell phones and disable the sound feature on electronic devices.

The onboard experience also improved as customers enjoyed a growing fleet of new buses and trains with the arrival of more multilevel railcars, transit buses and suburban buses. We also received the first of 35 locomotives powered by both diesel fuel and electricity, and placed orders for new low-floor transit buses and compressed natural gas cruiser buses.

We opened new or rehabilitated stations and terminals in Paterson, Bayonne, Somerville, Ridgewood and Plauderville in Garfield, and neared completion of ferry slip restoration work at Hoboken Terminal. We also advanced construction on two intermodal stations in Pennsauken and Lindenwold.

Customers benefited from stable fares in FY2011; we are committed to holding fares stable again in FY2012. To help us with that, we are in the process of establishing a public-private partnership called SPACES that will improve parking facilities for our customers, reduce the cost to operate them and create a new source of revenue for the Corporation. You’ll be hearing more about SPACES in FY2012.

Finally, we launched Scorecard, a new way of doing business at NJ TRANSIT that brings accountability and transparency to the organization. A combination of corporate-wide metrics and quarterly customer satisfaction surveys — a first for NJ TRANSIT — now drive our business decisions. You can read more about Scorecard inside the annual report.

In closing, let me thank Governor Chris Christie, our elected leaders, the Board of Directors, our regional transportation partners and other key stakeholders for their continued support. Additionally, let me thank the thousands of men and women who serve our customers each day. Thanks to their dedication and support, we expect continued success in FY2012 and beyond.

Most importantly, thank you to our customers. You are why we exist and for that we are grateful. We are committed to making your commuting experience better and better.

Travel safely,

A handwritten signature in black ink, appearing to read "James Weinstein". The signature is fluid and cursive, written over a light gray background.

James Weinstein
Executive Director

The Year in Review

NJ TRANSIT opened a new chapter of transparency and accountability in Fiscal Year 2011 (FY2011) under the leadership of Governor Chris Christie, the Board of Directors and Executive Director Jim Weinstein. The highlight was the unveiling of Scorecard, NJ TRANSIT's new metrics-based system built upon five pillars:

- Customer Experience
- Safety and Security
- Financial Performance
- Corporate Accountability
- Employee Excellence

Scorecard combines the results of online quarterly customer satisfaction surveys with a series of metrics based on corporate-wide standards that are built around the five pillars. The results are used to measure overall performance and make strategic

business decisions that help NJ TRANSIT “move the needle” in a positive direction, bringing accountability to our riders and the taxpayers of New Jersey.



Scorecard unveiled



The Year in Review

In addition to the unveiling of Scorecard, NJ TRANSIT completed several projects and advanced others in FY2011. They included the opening of new accessible stations, receiving delivery of new buses, railcars and locomotives, offering new retail opportunities for customers, upgrading the Corporation's website and unveiling new customer-friendly features for handheld devices.

Multilevel vehicles



The Year in Review

NJ TRANSIT rolled out its highly successful Quiet Commute program in FY2011, which is available on peak-period, peak-direction trains. Quiet cars have been a top customer request over the years, offering a balance between riders who wish to stay connected with those who want to relax or work in a quiet atmosphere without distractions.

Finally, we took several steps to enhance the safety and security of our system, including the hiring of a new Police Chief, adding more K-9 units, providing specialized counter-terrorism training for frontline employees and giving our customers the ability to text suspicious activity directly to our police department.

More new buses



Hoboken ferry slips



More K-9 units



FY2011 HIGHLIGHTS

Scorecard

Scorecard is NJ TRANSIT's dynamic management and reporting tool that makes key statistics and performance data readily accessible to the public for the first time, part of our effort to increase accountability and transparency. To support Scorecard, metrics were developed to provide a baseline for measuring our performance in five key areas:

- **CUSTOMER EXPERIENCE** — Focusing our time, talent and resources on meeting the expectations of our customers. This takes into account customer satisfaction ratings, the time it takes to process a customer inquiry, on-time performance numbers and other measures.
- **FINANCIAL PERFORMANCE** — Meeting the financial obligations of the corporation by reducing costs, maximizing revenues and lessening dependence on subsidy. Measurement tools include data on budget adherence, farebox recovery, operating subsidy per customer, pension funding and more.
- **CORPORATE ACCOUNTABILITY** — Using our resources to maximize their benefit to our stakeholders. This includes measurement of revenue per hour, ridership, fare stability, Disadvantaged and Small Business Enterprise goals and more.
- **SAFETY AND SECURITY** — Providing a safe, secure environment for our customers. This category is measured by the number of customer and employee injuries, crime statistics and other data.
- **EMPLOYEE EXCELLENCE** — Striving to be better tomorrow than we are today, as individuals, as a team, as a corporation. Employee excellence is measured by specific agency goals for service quality and employee volunteerism.

We're Listening Forum



FY2011 HIGHLIGHTS

Scorecard



Scorecard's quarterly results drive our attention towards the areas that we most need to improve, with a focus on "moving the needle" higher to improve customer satisfaction.

Among the progress already made to improve the customer experience: offering quarterly customer satisfaction surveys; putting new technology such as a new mobile website, My Bus, My Light Rail and DepartureVision

into the hands of customers; stabilizing fares; modernizing the bus and rail fleet; refocusing our attention on customer communications and customer service, particularly during service disruptions; and hosting "We're Listening" forums to speak directly with customers about the service we are providing and how we can make it better.

To learn more about Scorecard, visit www.njtransit.com/scorecard.

FY2011 HIGHLIGHTS

Equipment Update

NJ TRANSIT received the first of 35 **dual-power locomotives** in FY2011. The locomotives will be able to operate on both electrified and non-electrified territories, providing an added level of operating flexibility. The first two prototype locomotives are undergoing testing; the final locomotive is scheduled to be delivered in Summer 2013.

NJ TRANSIT ordered 76 new **compressed natural gas (CNG) cruiser buses**, which will replace older CNG cruiser buses. The first prototype CNG bus will arrive for testing in late-spring 2012, with full production buses arriving later in the year. The final bus will be delivered in early-2013.

NJ TRANSIT purchased 39 **low-floor buses** during the fiscal year, which allow faster and easier boarding and alighting. The new 30-foot buses will replace older 30-foot buses primarily operating in Atlantic and Morris counties. The buses are scheduled to be delivered through the end of 2012.

NJ TRANSIT continued to take delivery of 1,303 **transit and suburban buses**. The final bus in the procurement is scheduled for delivery in winter 2013/2014.

NJ TRANSIT ordered an additional 100 of its popular **multilevel vehicles** (MLVs) in FY2011, bringing the total number of MLV railcars the Corporation has ordered to 429.

NJ TRANSIT provided procurement assistance to the Atlantic City Jitney Association (ACJA) in FY2011, helping them purchase 100 new **jitney minibuses** with federal funds. The 13-seat vehicles are equipped with wheelchair lifts and powered by CNG engines. The ACJA is now in the process of purchasing 90 additional jitneys.

Dual-power locomotive



Transit bus



Multilevel vehicles



Jitney minibus



FY2011 HIGHLIGHTS

Passenger Facilities

Hudson-Bergen Light Rail's (HBLR) **8th Street Station** in Bayonne opened in January 2011. The station replicates the Central Railroad of New Jersey station that previously stood at the site, and includes an elevated platform with canopy, an elevator, stairs, lighting, landscaping, ticket vending machines and other customer amenities. The project also required the design and construction of foundations, viaduct structures, track work and intersection improvements to complete the mile-long extension of the system.

Somerville Station on the Raritan Valley Line opened in FY2011. Work at the station included construction of new high-level platforms with canopies, improvements to the waiting room and bathrooms, installation of two elevator cabs and ramps, and upgrades to the pedestrian tunnel and stairs.

A rehabilitated **Broadway Bus Terminal** in Paterson opened in December 2010, providing customers with new heating and air conditioning in the waiting room, a new stucco and brick exterior, a new customer communications system, new lighting, repaved bus lanes and new canopies above the bus lanes.

8th Street Station



Somerville Station



FY2011 HIGHLIGHTS

Passenger Facilities

Ridgewood Station



In September 2011, NJ TRANSIT completed accessibility improvements at **Ridgewood Station** on the Main/Bergen County Line. Customers are now enjoying two new high-level platforms with canopies, elevators, ramps and stairs; ADA-accessible restrooms in the station building; and convenient connections with the downtown business district. Rail Operations also completed track, switch, communications and signal work during construction.

A new **Plauderville Station** on the Bergen County Line in Garfield opened in October 2011, featuring new high-level platforms, canopies, a heated shelter and accessible ramps, and will be conveniently located next to a parking lot for customers with disabilities.



Pennsauken Station

FY2011 HIGHLIGHTS

Passenger Facilities

Plans to restore ferry service in five of the original **ferry slips at Hoboken Terminal** neared completion in FY2011. The restoration includes substructure and superstructure work, dredging, repairs of columns and copper fascia, new utilities, construction of a raised floor and gangways, new ticket offices, new restrooms, and electronic and static signage. The ferry slips are scheduled to open in Fall 2011.

Work is underway on a new intermodal station and parking facility in Pennsauken, linking River LINE light rail trains, Atlantic City Line trains and local/regional bus service. The work on **Pennsauken Transit Center** includes construction of new platforms with canopies, stairs, elevators and a 280-space parking lot. The station is scheduled to open in Winter 2012/2013

Work at **Lindenwold Station** includes construction of a climate-controlled waiting room connected to the PATCO station, new lighting, installation of a new shelter on the Atlantic City Line platform, construction of a new entrance between the parking lot and the station, and repairs to the platform. The project is scheduled for completion in spring 2012.

Work is underway to improve the customer experience at two Newark Light Rail (NLR) stations. Work at **Bloomfield Avenue Station** includes the installation of two elevators, raised platforms and installation of a new public address system with active displays. The project is scheduled for completion in spring 2013. Work is also underway at **Davenport Avenue Station** on NLR, which involves demolition of an overhead pedestrian walkway and stairs, and installation of a new ramp, grade crossing, lighting and shelters. The project is scheduled for completion in winter 2012.

Ferry slips at Hoboken Terminal



FY2011 HIGHLIGHT

State of Good Repair

The FY2011 budget included a number of state-of-good repair investments that extend the life of our equipment and infrastructure, including track and tie replacement work, inspection and replacement of bridges, electric traction and signal improvements, and equipment overhauls.

A **rolling stock rehabilitation** project neared completion in FY2011. The project involves repair or replacement of major systems on some railcars and on the diesel and electric locomotive fleets.

Work neared completion in FY2011 on the **Shark River Drawbridge**, which is located between Bradley Beach and Belmar stations on the North Jersey Coast Line. This project involves the renovation and upgrade of electrical equipment to improve operational reliability and keep the structure in a state-of-good-repair.

Work is also nearing completion on the **Upper Hackensack Drawbridge**, located between Secaucus Junction and Kingsland Station on the Main Line. The project includes the repair or replacement of bridge drive components and emergency back-up diesel generators. When completed, the project will improve functional reliability and operational flexibility, and extend the useful life of the bridge.

NJ TRANSIT is performing **signal work on the Morris & Essex Lines (M&E)**, which includes installation of a train traffic control system and a new interlocking to facilitate train crossovers. When completed in summer 2012, the new system will increase train capacity and operational flexibility between Summit and Denville.

Railroad tie replacement program



FY2011 HIGHLIGHT

State of Good Repair

In addition, we installed 2.8 miles of **continuous welded rail**, replaced more than 30,000 **railroad ties over** 124 miles of track and 10 bridges, and completed **steel repairs** on three rail bridges.

NJ TRANSIT replaced flooring at the **Atlantic City Bus Terminal**, installed new accessible ramps and repaved the bus lanes at **Newark Penn Station**, installed raised walkways and barriers at **Walter Rand Transportation Center** in Camden, and began refurbishing seats and replacing interior lighting on long-distance **cruiser buses**.

We also installed **new equipment to remove ice and snow** from the rooftops of buses stored outdoors at Market Street, Oradell, Fairview, Wayne and Big Tree garages, and replaced **heating and air conditioning units** at four garages with more efficient units.

Refurbishing bus seats



New snow and ice removal equipment for buses



FY2011 HIGHLIGHTS

Safety and Security

NJ TRANSIT appointed Christopher Trucillo as its new **Police Chief** in FY2011 following a comprehensive nationwide search. Chief Trucillo previously served as Chief of Police at the Port Authority of New York & New Jersey where he worked for more than 21 years. On September 11, 2001, then Captain Trucillo led an effort to account for members of the Port Authority Police Department (PAPD) who were unaccounted for that day, and began to reach out to their families. This led to the formal establishment of a Family Liaison Unit that became the primary contact for the PAPD surviving families.

During his first year at NJ TRANSIT, Chief Trucillo emphasized to every member of the Police Department that, in addition to crime and great public service, counterterrorism is the department's number one priority. One area of focus for this effort was the training of additional **K-9 teams**. NJ TRANSIT now has 16 K-9 bomb and narcotics-detection units available for patrol duties and to respond to reports of suspicious packages or incidents as needed.

Chief Cristopher Trucillo



More K-9 teams



FY2011 HIGHLIGHTS

Safety and Security

Joint training exercise with first responders



With the assistance of federal Homeland Security funds, we launched two new initiatives this year that help NJ TRANSIT customers and employees serve as “the eyes and ears” of the system. “**Text Against Terror**” was launched in June 2011, giving riders the ability to text suspicious activity, packages or vehicles to NJTPD (65873). The Corporation also began ProActive Terrorist Recognition and Interdiction Operations and Tactics (**PATRIOT**) training for its employees, which will increase their knowledge of terrorism awareness, prevention and mitigation.

Also with the assistance of Homeland Security funds, the Police Department provided **additional training** for its police officers and purchased **vehicles, equipment** and other items to enhance security around the system.

The Police Department continued to perform joint **exercises** with federal, state, county and local law enforcement agencies and emergency responders to ensure a swift and unified response to potential incidents around the NJ TRANSIT system.

The Corporation joined the state’s **AMBER Alert** system in January 2011. Customers will receive information about child abductions via the My Transit system in an effort to safely recover the child.

Our **Safety Education Program** also hit the road in FY2011, bringing our rail and light rail safety messages to more than 45,000 students in 121 schools. The new **Driver Education Safety Program** reached nearly 10,000 driver education students at 102 schools. And our safety specialists attended 31 community functions and conventions to promote these valuable programs.

Anti-terror texting



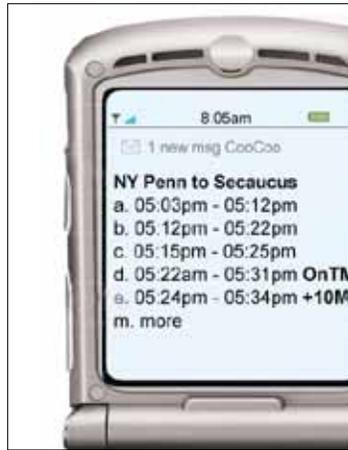
FY2011 HIGHLIGHTS

Technology

Mobile website



CooCoo



Tap & Ride



NJ TRANSIT unveiled a new **mobile website** in FY2011, featuring a new design, cleaner layout and new trip-planning functionality. Customers can now enter any address or station on their handheld device to plan their trip, similar to the desktop version of the website.

We introduced **My Bus** and **My Light Rail** in FY2011, offering customers with cell phones the ability to receive bus or light rail schedule information on their phones. Riders simply text the five-digit ID of their bus stop or light rail station to 69287; an automated response provides the next scheduled trips for that bus stop or light rail station.

The **My Transit** alert system was expanded to include Access Link and weekend rail customers. My Transit provides customers with critical service information via cell phones, handheld wireless devices or desktop e-mail mailboxes. My Transit also was linked to **Twitter**, allowing customers to “follow” NJ TRANSIT on their Twitter account.

Rail customers took advantage of a new regional text-messaging platform to receive train schedule information from railroads in the region. **CooCoo** allows customers to send a station-to-station text message to CooCoo (266266). Once the text is sent, CooCoo replies with the requested information, including connections between transit systems.

We made it easier for rail customers to receive **DepartureVision** on their smart phones by



My Bus

installing “QR” codes at ticket vending machines. Riders simply scan the QR code into their smart phone, enabling the phone to display a virtual train departure screen for that station.

NJ TRANSIT initiated a pilot program using contactless bankcards at Newark Liberty International Airport Station and on three bus routes in Hudson County. **Tap & Ride** was later expanded to include additional bus routes in Hudson County and at Penn Station New York.

In February 2011, the Board of Directors advanced plans to install **Clever Device** on the balance of our bus fleet, similar to those already installed on newer transit and suburban buses. This new “smart bus” technology provides NJ TRANSIT with both operational and customer benefits, including automated bus stop announcements, vehicle condition monitoring and greater efficiency of scheduling, planning and maintenance. In the future, Clever Device will also provide customers with real-time bus arrival information on web-enabled devices.

FY2011 HIGHLIGHTS

Transit-Oriented Development (TOD)

The State of New Jersey strongly supports Transit-Oriented Development (TOD) around public transportation facilities. TOD is a residential, commercial or mixed-use development project, made up of one or more buildings, that has been designed to take advantage of nearby transit and includes features that encourage walking, biking and transit ridership.

More than 200 luxury rental apartments at The Highlands at **Morristown Station** on the Morristown Line were 100-percent leased during FY2011. This is the first TOD project that includes property owned by NJ TRANSIT.

Morristown Station TOD



Construction began on the second phase of the Park Square project adjacent to **Rahway Station** on the Northeast Corridor. The first phase of this mixed-use, residential and retail project is 100-percent leased.

Ground was broken in March 2011 for a new TOD across the street from **Somerville Station** on the Raritan Valley Line. The project includes a new world-class Shop Rite, 300 residential units and additional retail space. Additional development plans are advancing around the station.

The Gateway Transit Village Project adjacent to **New Brunswick Station** broke ground in FY2011. When completed, it will include a new Rutgers University (RU) bookstore, several floors of rental apartments, RU office space, a bank, convenience retail space, a parking deck and be directly connected to New Brunswick's westbound platform.

Construction continued along the Jersey City waterfront on several residential and commercial projects, all in close proximity to existing **Hudson-Bergen Light Rail stations**.

Following completion of a strategic analysis around Garwood Station on the Raritan Valley Line, the Borough of Garwood commenced rezoning of key brownfield parcels adjacent to the station for TOD opportunities.

Rahway Station TOD



FY2011 HIGHLIGHTS

Additional Revenue Opportunities

In an effort to generate more non-farebox revenue for the Corporation, the Board of Directors approved a **billboard management contract** with Allvision that could generate more than \$16 million for NJ TRANSIT over the next five years. The contract also offers the potential for additional revenues through long-term leasing, inventory upgrades and other creative management strategies.

We advanced plans to introduce System Parking Amenity and Capacity Enhancement Strategy (**SPACES**), a public-private partnership that improves parking for customers and addresses growing costs to operate our parking facilities. SPACES is expected to provide a significant source of non-farebox revenue that will help to reduce extraordinary fiscal pressures on NJ TRANSIT and the taxpayers of New Jersey.

Several **new vendors** opened their doors around the NJ TRANSIT system this past year, offering a new revenue source for the Corporation and more retail options for our customers. Among the highlights, Moe's Southwest Grill, Dunkin' Donuts and an expanded McDonald's/McCafe at **Newark Penn Station**, Sbarro Restaurant at the **Frank R. Lautenberg Station at Secaucus Junction** and a new coffee and retail concession at **Princeton Junction**. Meanwhile, work is underway on a new food court at **Hoboken Terminal** that will feature Subway, Manchu Wok, Sbarro, Tim Hortons and a revamped Railhead Bar.



Digital billboards at Penn Station New York



McDonald's makeover in Newark Penn Station



SPACES will improve parking for customers



Sbarro at Secaucus Junction

FY2011 HIGHLIGHTS

Green Initiatives

Solar power will be generated for the Meadows Maintenance Complex in Kearny by a new photovoltaic generating system being installed on the roof of the rail maintenance facility. The project is scheduled for completion in spring 2012.

We are in the process of replacing older **electric switch heaters** on the rail system — used to melt ice and snow from rail switches — with more efficient and durable heaters that provide a longer life expectancy and lower energy use.

Installation work was completed on a new **wayside power** system at Gladstone Yard on the Morris & Essex Lines. The new system allows diesel engines to be shut down for extended periods of time by plugging into a separate power source, reducing emissions, noise and fuel costs.

Electricity and natural gas expenses were reduced by \$4 million compared to the prior fiscal year as a result of competitive third-party commodity contracts and favorable energy market conditions. Additionally, the prices were locked in for three years so that these favorable prices will continue through FY2012 and FY2013.

Additionally, NJ TRANSIT's current fleet modernization effort — utilizing clean-diesel, CNG and hybrid engine technology — will reduce the Corporation's carbon footprint significantly.



Solar panels



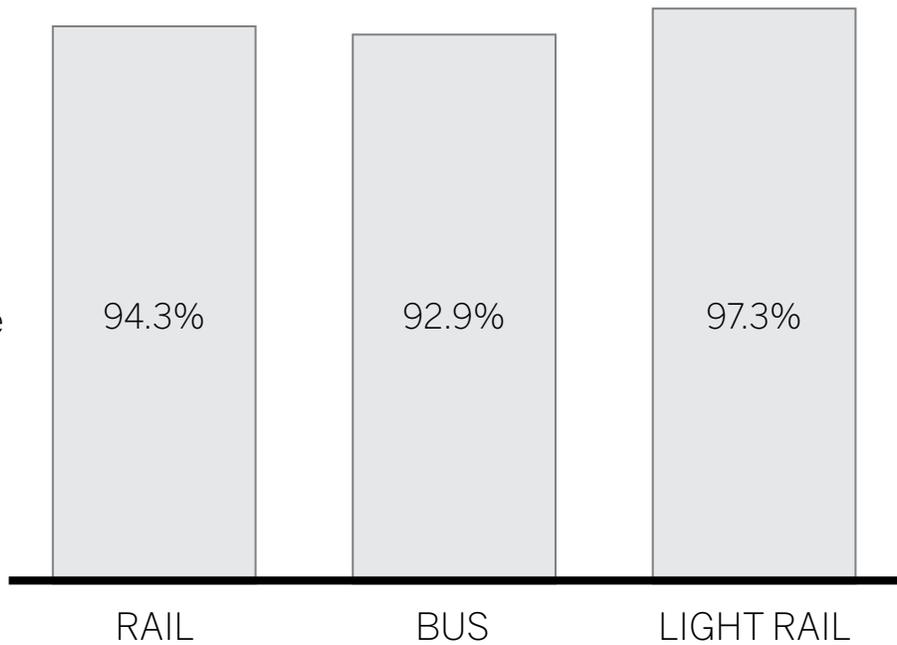
New energy-efficient switch heaters melt snow and ice

NJ TRANSIT

On-Time Performance by Mode



NJ TRANSIT
On-time Performance
By Mode FY2011



RAIL

Methodology

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

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

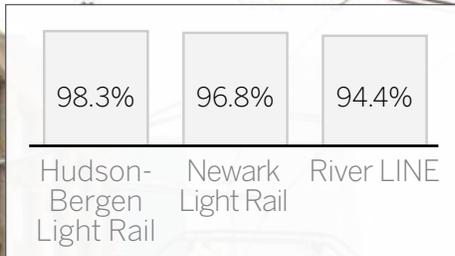
NJ TRANSIT also uses a computer-based train dispatching system called Train Management and Control (TMAC) at its Rail Operations Center, which is synchronized with the atomic clock located at the Naval Observatory in Colorado. TMAC provides NJ TRANSIT with the ability to accurately record a train's arrival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

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



LIGHT RAIL

Methodology



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

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

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

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

BUS

Methodology

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

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

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



NJ TRANSIT

Board of Directors



JAMES S. SIMPSON
Board Chairman

James S. Simpson was sworn in as Commissioner of the New Jersey Department of Transportation (NJDOT)

on March 11, 2010. In his capacity as Commissioner, he also serves as Chairman of NJ TRANSIT, the New Jersey Turnpike Authority and the South Jersey Transportation Authority. Prior to his appointment as Commissioner of Transportation, Jim served as Chairman of both a transportation infrastructure management company and a corporate relocation company.

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



BRUCE M. MEISEL
Vice Chairman

Bruce M. Meisel is President and Chief Executive Officer of Pascack Community Bank. He previously served as Chairman of the Board

of Directors of Pascack Community Bank from 2002 through 2007. Prior to 2007, Bruce was a practicing attorney concentrating in commercial, real estate and land use law.

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



ANDREW P. SIDAMON-ERISTOFF
State Treasurer

Andrew P. Sidamon-Eristoff was sworn in as State Treasurer on March 2, 2010. Prior to that, Andrew

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

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



DEBORAH L. GRAMICCIONI
Governor's Representative

Deborah L. Gramiccioni currently serves as Director of The Governor's Authorities Unit under

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

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

NJ TRANSIT

Board of Directors



MYRON P. SHEVELL

Myron P. Shevell was appointed to the Board of Directors in May 1995. He is Chairman of the Board of New England Motor Freight (NEMF) and Chairman of

the Shevell Group – real estate, trucking and logistics companies. He also is Board Chairman of the New Jersey Motor Truck Association and has worked in the transportation industry for more than 60 years.



JAMES C. "JAMIE" FINKLE

James C. "Jamie" Finkle is a New Jersey attorney, currently serving as General Counsel for several New Jersey corporations. Jamie clerked for the Honorable Richard M. Freid

J.S.C. in both Essex County and Passaic County, New Jersey. After completing his clerkship, Jamie joined CBF Trucking Inc., in Ocean, New Jersey, as General Counsel. He has handled a variety of logistics-related matters for CBF Trucking Inc., including, but not limited to, government contracts, compliance with State and Federal regulations and all employee-related matters.

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



FLORA M. CASTILLO

Flora M. Castillo has served on the Board since 1999. She is Vice President of Corporate Public Relations at AmeriHealth Mercy, one of the nation's

leaders in healthcare solutions for the underserved. The company is among the largest organizations of Medicaid managed care plans and related businesses in the United States headquartered in Philadelphia.

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

JOHANNA BARBA JONES
Governor's Alternate Representative

STEVEN PETRECCA
Treasurer's Representative

ADVISORY

Committees

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

NORTH JERSEY TRANSIT ADVISORY COMMITTEE

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

SOUTH JERSEY TRANSIT ADVISORY COMMITTEE

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

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

PRIVATE CARRIER ADVISORY COMMITTEE

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

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

ADA TASK FORCE

FRANK COYE
JUDY GOLDMAN
FRANCIS GRANT
NANCY HODGINS
LEE NASH
DR. SAL PIZZURO
BARBARA SMALL
BILL SMITH
JIM THEBERRY
MARIANNE VALLS
INA WHITE

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

LOCAL PROGRAMS CITIZENS ADVISORY COMMITTEE

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

NJ TRANSIT

Executive Management Team

PENNY BASSETT HACKETT,
ACTING ASSISTANT EXECUTIVE
DIRECTOR, COMMUNICATIONS &
CUSTOMER SERVICE

JAMES GIGANTINO,
VICE PRESIDENT/GENERAL MANAGER,
BUS OPERATIONS

JACQUELINE HALLDOW,
CHIEF OF STAFF

WARREN HERSH,
AUDITOR GENERAL

KEVIN O'CONNOR,
VICE PRESIDENT/GENERAL MANAGER,
RAIL OPERATIONS

CARLOS RAMIREZ,
ASSISTANT EXECUTIVE DIRECTOR,
CORPORATE AFFAIRS

KEVIN RITTENBERRY,
ACTING CHIEF, THE TUNNEL PROJECT

LEOTIS SANDERS,
VICE PRESIDENT, CIVIL RIGHTS
& DIVERSITY PROGRAMS

STEVEN SANTORO,
ASSISTANT EXECUTIVE DIRECTOR,
CAPITAL PLANNING & PROGRAMS

ALMA SCOTT-BUCZAK,
ASSISTANT EXECUTIVE DIRECTOR,
HUMAN RESOURCES

CHRISTOPHER TRUCILLO,
CHIEF OF POLICE

KIMBERLEY VACCARI,
CHIEF FINANCIAL OFFICER/TREASURER

KENNETH WORTON,
DEPUTY ATTORNEY GENERAL

PAUL WYCKOFF,
CHIEF, GOVERNMENT & EXTERNAL
AFFAIRS

JOYCE ZUCZEK,
ACTING BOARD SECRETARY



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



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FISCAL YEAR 2011 CONSOLIDATED FINANCIAL STATEMENTS



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FINANCIAL STATEMENTS:

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Ernst & Young LLP
99 Wood Avenue South
P.O. Box 751
Iselin, New Jersey 08830-0471
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 (the "Corporation"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and subsidiaries as of June 30, 2011 and 2010, and the consolidated changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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

Ernst & Young LLP

October 19, 2011

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial position and changes in financial position of NJ TRANSIT as of and for the fiscal year ended June 30, 2011. This discussion and analysis covers the last three fiscal years and is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial position and performance. NJ TRANSIT encourages readers to consider the information presented in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The **Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets** show NJ TRANSIT's operating results and how its net assets changed during the fiscal year. All revenues, expenses and changes in net assets are reported on

the *accrual basis* of accounting, which reports the event as it occurs, rather than when cash changes hands (*cash basis* of accounting).

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

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

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

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2011

- Total operating revenues for NJ TRANSIT were \$942.8 million in fiscal year 2011, an increase of \$104.1 million, or 12.4 percent compared to the prior fiscal year. Passenger revenue increased \$104.8 million, or 13.7 percent, reflecting a system-wide fare increase averaging 22.0 percent which was implemented May 1, 2010. Other operating revenues decreased \$0.7 million, or 1.0 percent.
- Total operating expenses before depreciation were \$1,876.4 million in fiscal year 2011, an increase of \$56.8 million or 3.1 percent, above the prior

fiscal year. This increase was principally related to increases in fringe benefit expenses and higher costs for fuel and propulsion.

- Total net assets at June 30, 2011 were \$5,377.6 million, a decrease of \$285.5 million, or 5.0 percent below total net assets at June 30, 2010.
- Total capital assets (net of depreciation) were \$7,545.7 million at June 30, 2011, a net decrease of \$275.8 million, or 3.5 percent, below the previous fiscal year. The decrease in total capital assets is primarily the result of a decrease in capital projects in process, directly related to the write-down of assets previously capitalized for the Access to the Regions Core (ARC) project (Table A-4).
- The ARC project was cancelled in October 2010 due to concerns over projected cost overruns. Upon cancellation of the ARC Project, the Federal Transit Administration (FTA), which had funded a portion of the cost of this project, demanded repayment of \$271.1 million of federal funds that had been expended as of October 2010. On September 30, 2011, a settlement was agreed upon whereby NJ TRANSIT is liable to repay \$95 million in five annual payments of \$19 million. NJ TRANSIT has recorded this liability

as of June 30, 2011. In accordance with GAAP, NJ TRANSIT has also recorded a "Special Item" in the Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets, in the amount of \$297.4 million, which represents the write-down of certain assets that were previously capitalized related to the ARC Project. These assets are considered to be impaired due to the discontinuance of this project, under the provision of construction stoppage.

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2010

- Total operating revenues for NJ TRANSIT were \$838.7 million in fiscal year 2010, an increase of \$9.8 million, or 1.2 percent compared to the prior fiscal year. Passenger revenue increased \$11.4 million, or 1.5 percent, reflecting a system-wide fare increase averaging 22.0 percent effective May 1, 2010. Other operating revenues decreased \$1.6 million, or 2.1 percent.
- Total operating expenses before depreciation were \$1,819.6 million in fiscal year 2010, a decrease of \$16.3 million, or 0.9 percent, below the prior fiscal year. This decrease was principally related to lower costs for fuel and propulsion, outside services, and materials and supplies.

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

	2011	AS OF JUNE 30,		% INC/(DEC)	
		2010	2009	2011/2010	2010/2009
Current assets	\$709.6	\$473.8	\$507.7	49.8	(6.7)
Restricted assets	1,555.7	1,717.2	2,003.2	(9.4)	(14.3)
Capital assets, net	7,545.7	7,821.5	7,458.5	(3.5)	4.9
Other assets	5.9	6.2	6.0	(4.8)	3.3
TOTAL ASSETS	<u>9,816.9</u>	<u>10,018.7</u>	<u>9,975.4</u>	(2.0)	0.4
Current liabilities	832.3	644.6	725.2	29.1	(11.1)
Notes payable	1,823.9	2,018.5	2,192.0	(9.6)	(7.9)
Postemployment benefits	247.3	200.3	153.6	23.5	30.4
Long-term debt	1,291.9	1,336.1	1,382.1	(3.3)	(3.3)
Other non-current liabilities	243.9	156.1	143.2	56.2	9.0
TOTAL LIABILITIES	<u>4,439.3</u>	<u>4,355.6</u>	<u>4,596.1</u>	1.9	(5.2)
Fund Net Assets					
Invested in capital assets, net of related debt	5,665.2	5,923.6	5,615.5	(4.4)	5.5
Restricted net assets	3.9	2.7	2.0	44.4	35.0
Deficit in unrestricted net assets	(291.5)	(263.2)	(238.2)	10.8	10.5
TOTAL FUND NET ASSETS	<u>\$5,377.6</u>	<u>\$5,663.1</u>	<u>\$5,379.3</u>	(5.0)	5.3

- Total net assets at June 30, 2010 were \$5,663.1 million, an increase of \$283.8 million, or 5.3 percent, over total net assets at June 30, 2009.
- Total capital assets (net of depreciation) were \$7,821.5 million at June 30, 2010, a net increase of \$363.0 million, or 4.9 percent, over the previous fiscal year. The increase in total capital assets is primarily the result of the acquisition and rehabilitation of revenue vehicles and improvements to buildings and structures (Table A-4).

**FINANCIAL ANALYSIS
NET ASSETS**

NJ TRANSIT's total net assets at June 30, 2011, were \$5,377.6 million, a decrease of \$285.5 million, or 5.0 percent, from June 30, 2010 (Table A-1). Total assets decreased \$201.8 million (2.0 percent) and total liabilities increased \$83.7 million (1.9 percent).

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

FISCAL YEAR 2011

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

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

The 23.5 percent increase in postemployment benefits reflects the fiscal year 2011 incremental increase under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

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

Restricted net assets include proceeds from the sale of capital assets and an escrow deposit for potential environmental cleanup activity.

FISCAL YEAR 2010

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

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

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

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

Restricted net assets include proceeds from the sale of capital assets and an escrow deposit for potential environmental cleanup activity related to the Access to the Regions Core (ARC) project.

CHANGES IN NET ASSETS

The decrease in net assets in fiscal year 2011 was \$285.5 million, or 5.0 percent, when compared to the fund net assets at June 30, 2010 (Table A-1). NJ TRANSIT's total operating revenues increased \$104.1 million, or 12.4 percent, and total operating expenses, before depreciation, increased \$56.8 million, or 3.1 percent. Depreciation increased \$22.9 million, or 4.6 percent. Non-operating revenues, net, increased \$24.8 million, or 2.6 percent. Net capital contributions decreased \$226.1 million, or 28.2 percent.

The increase in net assets in fiscal year 2010 was \$283.8 million, or 5.3 percent, when compared to the fund net assets at June 30, 2009 (Table A-1). NJ TRANSIT's total operating revenues increased \$9.8 million, or 1.2 percent, and total operating expenses, before depreciation, decreased \$16.3 million, or 0.9 percent. Depreciation increased \$12.4 million, or 2.5 percent. Non-operating revenues, net, increased \$87.6 million, or 9.9 percent. Net capital contributions increased \$237.0 million, or 42.0 percent.

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

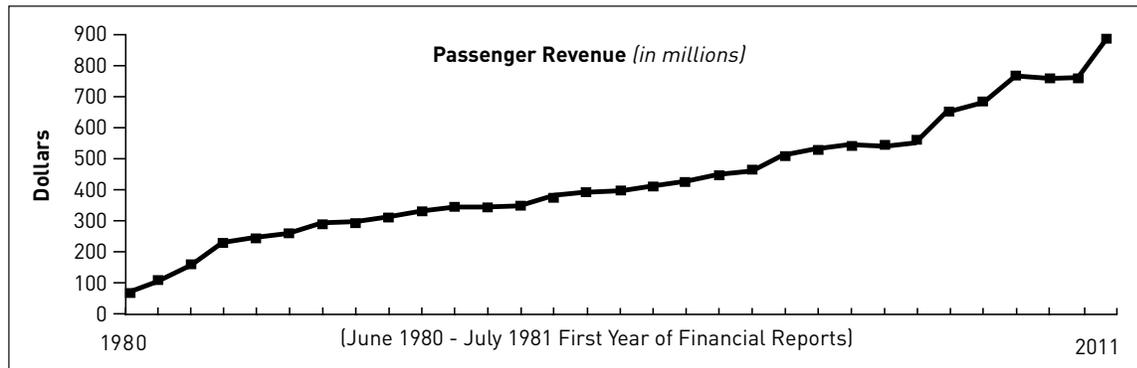
	YEARS ENDED JUNE 30,			% INC/(DEC)	
	2011	2010	2009	2011/2010	2010/2009
Operating Revenues					
Passenger fares	\$870.6	\$765.8	\$754.4	13.7	1.5
Other	72.2	72.9	74.5	(1.0)	(2.1)
Total Operating Revenues	942.8	838.7	828.9	12.4	1.2
Operating Expenses					
Total operating expenses before depreciation	1,876.4	1,819.6	1,835.9	3.1	(0.9)
Depreciation	525.8	502.9	490.5	4.6	2.5
Total Operating Expenses	2,402.2	2,322.5	2,326.4	3.4	(0.2)
Operating Loss	(1,459.4)	(1,483.8)	(1,497.5)	(1.6)	(0.9)
Non-operating revenues, net	991.0	966.2	878.6	2.6	9.9
Special items	(392.4)	—	—	—	—
Capital contributions, net	575.3	801.4	564.4	(28.2)	42.0
Change in Fund Net Assets	(285.5)	283.8	(54.5)	—	—
Total Fund Net Assets, Beginning	5,663.1	5,379.3	5,433.8	5.3	(1.0)
Total Fund Net Assets, Ending	\$5,377.6	\$5,663.1	\$5,379.3	(5.0)	5.3

OPERATING REVENUES

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

PASSENGER FARE REVENUES

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



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

Total passenger revenue for fiscal year 2010 increased \$11.4 million or 1.5 percent, reflecting a system-wide fare increase averaging 22.0 percent effective May 1, 2010. Rail passenger revenue for fiscal year 2010 increased \$6.7 million, or 1.6 percent, with ridership declining by 1.2 million passenger trips, or 1.5 percent. Bus passenger revenue increased \$1.8 million, or 0.6 percent, with ridership decreasing by 4.8 million passenger trips, or 2.9 percent. Passenger revenues for Light Rail decreased \$0.2 million, or 1.2 percent, and ridership decreased by 0.8 million passenger trips, or 3.6 percent.

TABLE A-3
RIDERSHIP (in millions)

	FY11	FY10*	FY09*	% INC/(DEC)	
				2011/2010	2010/2009
Rail Lines					
Newark Division	48.6	51.0	51.9	(4.7)	(1.7)
Hoboken Division	28.2	28.3	28.4	(0.4)	(0.4)
Atlantic City	1.0	1.1	1.3	(9.1)	(15.4)
Total	77.8	80.4	81.6	(3.2)	(1.5)
Bus Lines					
Northern Division	65.8	67.9	69.6	(3.1)	(2.4)
Central Division	66.0	68.9	71.1	(4.2)	(3.1)
Southern Division	23.5	24.4	25.3	(3.7)	(3.6)
Total	155.3	161.2	166.0	(3.7)	(2.9)
Light Rail Lines					
Newark Light Rail	5.5	5.7	6.1	(3.5)	(6.6)
Hudson-Bergen Light Rail	12.4	12.8	13.2	(3.1)	(3.0)
River LINE	2.8	2.8	2.8	—	—
Total	20.7	21.3	22.1	(2.8)	(3.6)
Total Ridership	253.8	262.9	269.7	(3.5)	(2.5)

*Adjusted

FISCAL YEAR 2011

OTHER OPERATING REVENUES

Other operating revenues consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and Metro-North contract operations revenue. There was a slight decrease in other operating revenues of \$0.7 million, or 1.0 percent.

OPERATING EXPENSES

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

EMPLOYMENT COSTS

Employment costs consisting of labor and related fringe benefit expenses represent over 52.5 percent of NJ TRANSIT's total operating costs. These costs include full-time and part-time agreement employees' regular wages and related overtime costs, non-agreement salaries, employment taxes, health and welfare expenses, retirement costs and other fringe benefits.

During fiscal year 2011, labor costs decreased by \$1.3 million, or 0.2 percent, while related fringe benefits costs increased \$41.4 million, or 8.9 percent, from fiscal year 2010. All contracts pertaining to agreement employees had expired as of June 30, 2011 and are all currently being negotiated. Wages for non-agreement employees were frozen at fiscal year 2010 levels. The increase in fringe benefits expenses was due to increased costs for pensions, health insurance and prescription drug plans, and vacation and sick time taken and accrued. Also contributing to this increase was the impact of the incremental costs for fiscal year 2011 for GASB Statement No. 45, which requires the recording of non-pension "other postemployment benefits" (OPEB).

OTHER OPERATING COSTS

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

Parts, materials and supplies expenses increased \$6.2 million, or 4.3 percent, due to an increase in parts and materials charged to various reimbursable project activities.

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

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

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

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

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

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

NON-OPERATING REVENUES

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

CAPITAL CONTRIBUTIONS, NET

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

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

FISCAL YEAR 2010

OTHER OPERATING REVENUES

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

OPERATING EXPENSES

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

EMPLOYMENT COSTS

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

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

OTHER OPERATING COSTS

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

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

Outside services expenses decreased \$6.9 million, or 6.0 percent, as a result of reduced spending for

professional and technical services and a reduction in costs associated with fiscal year 2010 reimbursable project activities. Increases in contracted maintenance service for revenue vehicles and snow removal costs related to the inclement weather conditions experienced during the winter months of fiscal year 2010 partially offset the aforementioned decreases.

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

Depreciation expense increased by \$12.4 million, or 2.5 percent, due to the capitalization of assets from construction in progress.

NON-OPERATING REVENUES

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

CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Funding of capital grant expenditures totaling \$801.4 million was \$237.0 million, or 42.0 percent, above fiscal year 2009. This increase includes \$128.0 million of federal funds received from American Recovery and Reinvestment Act (ARRA) grants.

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

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

	AS OF JUNE 30,			% INC/(DEC)	
	2011	2010	2009	2011/2010	2010/2009
Capital projects in process	\$1,004.5	\$1,352.2	\$965.0	(25.7)	40.1
Revenue vehicles	1,874.9	1,618.4	1,602.1	15.8	1.0
Buildings and structures	2,957.2	3,121.5	3,094.1	(5.3)	0.9
Track	1,231.8	1,286.0	1,346.7	(4.2)	(4.5)
Land	342.7	340.5	340.7	0.6	(0.1)
Equipment	115.3	86.8	92.4	32.8	(6.1)
Other	19.3	16.1	17.5	19.9	(8.0)
Total Capital Assets, Net	<u>\$7,545.7</u>	<u>\$7,821.5</u>	<u>\$7,458.5</u>	(3.5)	4.9

CAPITAL ASSETS

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

The 25.7 percent decrease in capital projects in process was the result of the write-down, or impairment, of certain ARC Tunnel assets.

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

The 40.1 percent increase in capital projects in process was the result of an increase in capital project activity during fiscal year 2010 associated

with the rail infrastructure program, improvements to rail passenger and support facilities, acquisition of and rehabilitation to revenue vehicles, and urban core new initiatives, most notably the ARC project.

NJ TRANSIT's Board of Directors approved a \$1.16 billion fiscal year 2012 capital program that calls for continued investment in the State of New Jersey's transit infrastructure in order to improve the overall state-of-good-repair of the system and improve reliability and safety. Foremost, among these efforts is NJ TRANSIT's rolling stock modernization program which includes the procurement of over 1,400 new buses, over 400 multilevel railcars and more than 50 electric and dual power locomotives. The program also invests in railroad bridge rehabilitation, track replacement, signal and security upgrades, repair to overhead power lines and electric substations, improvements to rail stations and bus shelter upgrades. Provisions also have been made for debt service and federally mandated accessibility and environmental regulations.

DEBT OBLIGATIONS

Debt obligations outstanding at June 30, 2011, totaled \$3,379.2 million compared with \$3,601.1 million at June 30, 2010, a decrease of 6.2 percent.

Debt obligations outstanding at June 30, 2010, totaled \$3,601.1 million compared with \$3,820.1 million at June 30, 2009, a decrease of 5.7 percent. The following table summarizes the changes in debt between fiscal years 2011, 2010 and 2009 (*in millions*):

	2011	AS OF JUNE 30, 2010	2009	% INC/(DEC)	
				2011/2010	2010/2009
Notes payable	\$2,010.7	\$2,183.6	\$2,367.5	(7.9)	(7.8)
Obligations under capital leases*	<u>1,368.5</u>	<u>1,417.5</u>	<u>1,452.6</u>	(3.5)	(2.4)
Total	<u>\$3,379.2</u>	<u>\$3,601.1</u>	<u>\$3,820.1</u>	(6.2)	(5.7)

*Includes \$1,317.7 million, \$1,349.3 million and \$1,368.1 million of leveraged lease transactions as of fiscal years 2011, 2010 and 2009, respectively.

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

CONTACTING NJ TRANSIT FINANCIAL MANAGEMENT

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

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

	AS OF JUNE 30,	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$211,870	\$47,681
Investments	24,968	18,845
Due from federal government	216,408	202,847
Due from State of New Jersey	97,381	38,761
Inventories, net	117,852	117,079
Other	41,084	48,554
Total Current Assets	<u>709,563</u>	<u>473,767</u>
Non-Current Assets		
Restricted cash and cash equivalents	3,955	2,736
Restricted investments	248,753	380,049
Restricted leveraged lease deposits	1,303,035	1,334,453
Other	5,930	6,188
Capital assets not being depreciated	1,361,459	1,706,922
Capital assets, net of accumulated depreciation	6,184,235	6,114,581
Total Non-Current Assets	<u>9,107,367</u>	<u>9,544,929</u>
Total Assets	<u>9,816,930</u>	<u>10,018,696</u>
LIABILITIES		
Current Liabilities		
Accounts payable	182,199	183,072
Accrued payroll and benefits	144,227	125,906
Current installments under capital leases	76,584	81,409
Short-term notes payable	186,846	165,061
FTA ARC settlement	19,000	—
Unearned revenue and other current liabilities	223,421	89,182
Total Current Liabilities	<u>832,277</u>	<u>644,630</u>
Non-Current Liabilities		
Notes payable	1,823,857	2,018,539
Accrued injury and damage claims	82,892	75,181
Obligations under capital leases	1,291,956	1,336,073
Other postemployment benefits	247,301	200,318
FTA ARC settlement	76,000	—
Unearned revenue and other non-current liabilities	85,012	80,854
Total Non-Current Liabilities	<u>3,607,018</u>	<u>3,710,965</u>
Total Liabilities	<u>4,439,295</u>	<u>4,355,595</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,665,211	5,923,558
Restricted for capital projects	3,955	2,736
Deficit in unrestricted net assets	(291,531)	(263,193)
Total Net Assets	<u>\$5,377,635</u>	<u>\$5,663,101</u>

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30,	
	2011	2010
Operating Revenues		
Passenger fares	\$870,575	\$765,753
Other	72,204	72,962
Total Operating Revenues	<u>942,779</u>	<u>838,715</u>
Operating Expenses		
Labor	603,482	604,773
Fringe benefits	503,978	462,619
Parts, materials and supplies	151,071	144,829
Services	107,641	109,293
Claims and insurance	49,986	57,624
Fuel and propulsion	146,538	127,983
Trackage, tolls and fees	45,675	45,656
Utilities	40,013	45,699
Purchased transportation	200,226	195,495
Other	27,771	25,562
Total Operating Expenses, Before Depreciation	<u>1,876,381</u>	<u>1,819,533</u>
Loss Before Depreciation	(933,602)	(980,818)
Depreciation	(525,828)	(502,955)
Operating Loss	<u>(1,459,430)</u>	<u>(1,483,773)</u>
Non-Operating Revenues (Expenses)		
State appropriation	276,200	261,500
Federal, state and local reimbursements	799,548	792,947
Investment income	4,024	3,864
Other non-operating revenues	11,852	7,343
Interest expense	(100,606)	(99,415)
Total Non-Operating Revenues (Expenses)	<u>991,018</u>	<u>966,239</u>
Special Items		
FTA ARC settlement	(95,000)	—
Loss on impairment of ARC assets	(297,415)	—
Total Special Items	<u>(392,415)</u>	<u>—</u>
Loss Before Capital Contributions	(860,827)	(517,534)
Capital contributions, net	575,361	801,350
Change in net assets	(285,466)	283,816
Total Net Assets, Beginning	<u>5,663,101</u>	<u>5,379,285</u>
Total Net Assets, Ending	<u>\$5,377,635</u>	<u>\$5,663,101</u>

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30,	
	2011	2010
Cash Flows from Operating Activities		
Cash receipts from fares	\$869,195	\$769,729
Other cash receipts	83,463	82,869
Payments for claims	(42,019)	(47,783)
Payments to employees	(1,042,156)	(1,044,637)
Payments to suppliers	(718,351)	(690,510)
Net Cash Used by Operating Activities	<u>(849,868)</u>	<u>(930,332)</u>
Cash Flows from Non-Capital Financing Activities		
Cash receipts from federal, state and local grants and appropriations	1,203,075	971,183
Net Cash Provided by Non-Capital Financing Activities	<u>1,203,075</u>	<u>971,183</u>
Cash Flow from Capital and Related Financing Activities		
Payment of obligations under capital leases	(17,346)	(17,110)
Interest payments	(100,606)	(99,415)
Repayment of note obligations	(172,896)	(183,948)
Purchase of capital assets	(577,338)	(945,484)
Capital grants	551,370	926,124
Net Cash Used by Capital and Related Financing Activities	<u>(316,816)</u>	<u>(319,833)</u>
Cash Flows from Investing Activities		
Sales and maturities of investments	137,178	267,400
Purchases of investments	(10,224)	(17,588)
Interest on investments	2,063	3,864
Net Cash Provided by Investing Activities	<u>129,017</u>	<u>253,676</u>
Net Increase (Decrease) in Cash and Cash Equivalents	165,408	(25,306)
Cash and Cash Equivalents		
Beginning of Year	<u>50,417</u>	<u>75,723</u>
End of Year	<u>\$215,825</u>	<u>\$50,417</u>
Non-Cash Investing Activities		
Increase in fair value of investments	1,781	5,472
Non-Cash Investing Activities	<u>\$1,781</u>	<u>\$5,472</u>

See Notes to Consolidated Financial Statements.

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

	YEARS ENDED JUNE 30,	
	2011	2010
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	\$(1,459,430)	\$(1,483,773)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation	525,828	502,955
Changes in Assets and Liabilities		
Inventories	(773)	(6,632)
Other current assets	(183)	(2,017)
Other non-current assets	258	(200)
Accounts payable	(873)	17,876
Accrued payroll and benefits	18,321	(23,960)
Other current liabilities	(3,721)	(1,523)
Accrued injury and damage claims	7,711	8,466
Other postemployment benefits	46,983	46,714
Deferred revenue and other non-current liabilities	16,011	11,762
Net Cash Used by Operating Activities	<u>\$(849,868)</u>	<u>\$(930,332)</u>

See Notes to Consolidated Financial Statements.

1. ORGANIZATIONS AND BUSINESS PURPOSE

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

New Accounting Pronouncement. In fiscal year 2011, NJ TRANSIT adopted the provisions of GASB Statement No. 59, *Financial Instruments Omnibus* (GASB No. 59). The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

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

the applicability of interest rate risk disclosures. Finally, addressing the applicability of Statement 53 to certain financial instruments refines which financial instruments are within the scope of that Statement.

There was no impact on NJ TRANSIT's financial statements as a result of the implementation of GASB No. 59.

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

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

The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets and to reduce inconsistencies, thereby enhancing the comparability of accounting and financial reporting for such assets. As a result of the adoption of GASB 51, intangible assets with indefinite useful lives are no longer amortized. For fiscal year 2009, \$17.5 million of intangible assets were reclassified on the Consolidated Statements of Fund Net Assets from "Other" to "Capital Assets" [see Note 5].

Accounting Standards Issued But Not Yet Adopted.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61), was issued in November, 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion*

and Analysis – for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.

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

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

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

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

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

The requirements of GASB No. 61 are effective for financial statements for periods beginning after June 15, 2012. NJ TRANSIT is in the process of evaluating the impact of the adoption of GASB No. 61 on its financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62) was issued in December 2010. This Standard will improve financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance

that is included in FASB and the American Institute of Certified Public Accountants ("AICPA") pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 will supersede Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*.

The requirements of GASB No. 62 are effective for financial statements for periods beginning after December 15, 2011. NJ TRANSIT is in the process of evaluating the impact of the adoption of GASB No. 62 on its financial statements.

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

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

The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statements elements by providing guidance where none previously existed.

The requirements of GASB No. 63 are effective for financial statements for periods beginning after December 15, 2011. NJ TRANSIT is in the process of evaluating the impact of the adoption of GASB No. 63 on

its financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

Capital Projects in Process. These are costs incurred by NJ TRANSIT for capital projects in various stages of completion and include all activities designed to

construct, acquire or extend useful lives of existing capital assets.

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

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

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

Pollution Remediation Obligations. Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations. Pollution remediation obligations occur when any one of the obligating events takes place (see Note 12).

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

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

Pension Plans. In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which was amended by GASB Statement No. 50, *Pension Disclosures*, which established standards for measurement, recognition, and display of pension expense and the related accounting for assets,

liabilities, disclosures, and required supplementary information, as applicable. NJ TRANSIT has adopted these standards for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the Annual Required Contributions (ARC) to the pension plan, calculated in accordance with certain parameters (see Note 6).

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

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

Reclassifications. Certain reclassifications have been reflected in the fiscal year 2010 Consolidated Financial Statements to conform to the current year's presentation.

3. DEPOSITS AND INVESTMENTS

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

	AS OF JUNE 30,	
	2011	2010
Current		
Cash on hand	\$14.3	\$13.8
Cash equivalents	197.5	34.0
Short-term investments	25.0	18.8
Total current cash and investments	<u>236.8</u>	<u>66.6</u>
Non-current		
Restricted cash on hand	4.0	2.7
Restricted investments	248.8	380.0
Restricted total non-current	<u>252.8</u>	<u>382.7</u>
Total Deposits and Investments	<u>\$489.6</u>	<u>\$449.3</u>

NJ TRANSIT's cash on deposit with various entities as of June 30, 2011 and 2010 totaled \$18.9 million and \$18.1 million, respectively.

ACCOUNT TYPE	BALANCE (in millions)	
	2011	2010
Insured	\$1.4	\$1.1
Insured held at NJ TRANSIT's locations	3.5	3.4
Uncollateralized held by health care providers	4.5	4.3
Uninsured held by banks	9.5	9.3
Total	<u>\$18.9</u>	<u>\$18.1</u>

Custodial Credit Risk. Custodial credit risk is the risk that a bank failure would result in the forfeiture of NJ TRANSIT deposits. NJ TRANSIT does not have a policy for custodial credit risk. As of June 30, 2011 and 2010, \$14.0 million and \$13.6 million, respectively, of NJ TRANSIT's cash balance was exposed to custodial credit risk.

NJ TRANSIT's investments as of June 30, 2011 and 2010 totaled \$471.3 million and \$432.8 million, respectively.

Investments	Fair Value (in millions)		Weighted Average Maturity in Years	
	2011	2010	2011	2010
State of NJ Cash Management Fund	\$133.9	\$3.1	0.07	—
Repurchase Agreements	299.6	396.1	0.93	1.15
U.S. Treasury/Securities	12.8	11.4	0.01	0.01
Cash Equivalents	4.5	4.3	—	—
Bonds	7.2	3.2	—	—
Common Stocks	11.7	9.3	—	—
Other	1.6	5.4	—	—
Total	<u>\$471.3</u>	<u>\$432.8</u>	—	—
Portfolio weighted average maturity (inclusive of proceeds from debt issuance)			0.90	1.12

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

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

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

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

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

4. RESTRICTED ASSETS

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

Since April 1997, certain proceeds, primarily from the issuance of Grant Anticipation Notes, Certificates of Participation and New Jersey Economic Development Authority Bonds, financed portions of NJ TRANSIT’s capital projects. These proceeds are restricted by applicable agreement covenants. As of June 30, 2011 and 2010, the balance of restricted investments related to these proceeds was \$236.8 million and \$370.1 million, respectively.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas lessors. Restricted leveraged lease deposits as of June 30, 2011 and 2010, were \$1,303.0 million and \$1,334.5 million, respectively, for these lease agreements that represent investment agreements made to meet NJ TRANSIT’s payment obligations throughout the term of the leases. As these transactions do not meet the definition of an “in-substance defeasance,” NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Fund Net Assets.

Other restricted amounts are made up primarily of deposit requirements for NJ TRANSIT health insurance plans, stocks held by ARH III Insurance and debt and interest requirements for Metropark parking deck. The proceeds of other restricted amounts totaled \$15.9 million and \$12.7 million as of June 30, 2011 and 2010, respectively.

5. CAPITAL ASSETS

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

For the years ended June 30, 2011 and 2010, capital assets include capitalized interest costs of \$481.6 million and \$476.0 million, respectively, net of interest income of \$355.5 million and \$353.9

million, respectively, related to the issuance of Grant Anticipation Notes and Certificates of Participation (see Note 10).

During fiscal years 2011 and 2010, NJ TRANSIT received capital contributions of \$600.8 million and \$880.9 million, respectively, of which \$25.4 million and \$79.4 million were passed through to other entities, respectively. These amounts are considered to be passed through since NJ TRANSIT transferred ownership of the assets upon completion of the projects. For fiscal year 2011, these projects consisted primarily of the betterment of Amtrak's Northeast Corridor rail line, 69th Street Bridge Renovation and Atlantic City Jitney buses.

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

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets not being Depreciated				
Land	\$340.5	\$2.5	\$0.3	\$342.7
Capital projects in process	1,352.2	596.5	944.2	1,004.5
Operating rights	14.2	—	—	14.2
Total	<u>1,706.9</u>	<u>599.0</u>	<u>944.5</u>	<u>1,361.4</u>
Capital Assets being Depreciated				
Buildings and structures	5,315.9	40.2	0.1	5,356.0
Track	2,179.0	33.5	—	2,212.5
Railcars and locomotives	2,155.8	342.3	18.0	2,480.1
Buses, vans and light railcars	1,558.5	116.3	68.1	1,606.7
Furniture, fixtures and equipment	564.0	62.0	0.2	625.8
Computer software & licenses	14.6	5.4	—	20.0
Total	<u>11,787.8</u>	<u>599.7</u>	<u>86.4</u>	<u>12,301.1</u>
Less Accumulated Depreciation				
Buildings and structures	2,194.4	204.5	—	2,398.9
Track	893.0	87.7	—	980.7
Railcars and locomotives	1,108.8	78.8	16.1	1,171.5
Buses, vans and light railcars	987.1	119.3	66.0	1,040.4
Furniture, fixtures and equipment	477.2	33.3	0.1	510.4
Computer software & licenses	12.7	2.2	—	14.9
Total	<u>5,673.2</u>	<u>525.8</u>	<u>82.2</u>	<u>6,116.8</u>
Total Capital Assets, Net of Depreciation	<u>6,114.6</u>	<u>73.9</u>	<u>4.2</u>	<u>6,184.3</u>
Total Net Capital Assets	<u>\$7,821.5</u>	<u>\$672.9</u>	<u>\$948.7</u>	<u>\$7,545.7</u>

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

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

6. PENSION AND EMPLOYEE BENEFIT PLANS

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

NJ TRANSIT sponsors five defined benefit, single-employer pension plans for the employees not participating in PERS and PFRS. Of the five single-employer defined benefit pension plans, four cover bus agreement employees and one plan covers non-agreement employees. The four agreement plans are the Amalgamated Transit Union Employees Retirement Plan, the Transport Workers Union Employees Retirement Plan, the Utility Workers' Union of America

Employees Retirement Plan, and the Mercer Employees Retirement Plan. The plan covering all non-agreement employees, hired prior to July 1, 2006, is the Transit Employees Retirement Plan (TERP).

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

Funding Policy and Annual Pension Cost. For the cost-sharing PERS and PFRS plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the State legislature. Plan members are required to contribute 5.5 and 8.5 percent of their covered salary to the PERS and PFRS, respectively. NJ TRANSIT is required to

THREE-YEAR TREND INFORMATION *(in millions)*

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Non-Agreement Employees Retirement Plan			
06/30/2011	\$34.6	100%	\$0
06/30/2010	29.5	100	0
06/30/2009	27.7	100	0
Amalgamated Transit Union Employees Retirement Plan			
06/30/2011	\$42.8	100%	\$0
06/30/2010	34.5	100	0
06/30/2009	36.2	100	0
Transport Workers Union Employees Retirement Plan			
06/30/2011	\$1.4	100%	\$0
06/30/2010	1.1	100	0
06/30/2009	0.9	100	0
Utility Workers' Union of America Employees Retirement Plan			
06/30/2011	\$0.2	100%	\$0
06/30/2010	0.2	100	0
06/30/2009	0.2	100	0
Mercer Employees Retirement Plan			
06/30/2011	\$2.6	100%	\$0
06/30/2010	2.0	100	0
06/30/2009	1.9	100	0

contribute an amount based on a fixed percentage of applicable compensation as determined by the respective plan sponsors. NJ TRANSIT's contributions to these plans for the years ended June 30, 2011, 2010 and 2009 were \$9.8 million, \$5.3 million and \$6.0 million, respectively, equal to the required contributions for each year.

Under the provisions of five single-employer pension plans, the contribution requirements of plan members and NJ TRANSIT are established and may be amended by the Retirement Plan Committee of NJ TRANSIT as a result of bargaining agreements between the unions and NJ TRANSIT, except the TERP plan. Plan members are required to contribute 2 to 4 percent of their annual covered salary. NJ TRANSIT is required to contribute at an actuarially determined rate; the current rate is 20.0 percent of annual covered payroll. NJ TRANSIT's annual pension cost was \$81.6 million for fiscal year 2011.

Actuarial Methods and Assumptions. In the July 1, 2010, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included (a) 8 percent investment rate of return and (b) projected salary increase ranging from 3.5 percent to 5.3 percent per year. Both (a) and (b) included an inflation component of 3.5 percent. The assumptions did not include postretirement benefit increases. Contributions to sponsored plans during

fiscal year 2011 were in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 2010. The Plan assets are held in a variety of investment instruments including common stock, fixed-income securities and corporate bonds, all of which are reported at fair value. The actuarial value of assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liabilities are being amortized as a level-dollar amount over various periods on a closed basis. The remaining amortization periods at July 1, 2010, ranged from 4 to 29 years

Funded Status and Funding Progress. As of July 1, 2010, the most recent actuarial valuation date, the plans were 78.2 percent funded. The actuarial accrued liability for benefits was \$1,476.0 million, and the actuarial value of assets was \$1,154.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$321.9 million. The annual payroll of active employees covered by the plans was \$402.9 million, and the ratio of the UAAL to the covered payroll was 79.9 percent.

The following is the funded status information for each plan as of July 1, 2010, the most recent actuarial valuation date (in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (Excess of Assets over AAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c)
Non-Agreement Employees Retirement Plan	\$382.2	\$527.9	\$145.7	72.4%	\$111.6	130.6%
Amalgamated Transit Union Employees Retirement Plan	707.2	869.8	162.6	81.3	269.9	60.2
Transport Workers Union Employees Retirement Plan	36.1	38.2	2.1	94.5	11.1	18.9
Utility Workers' Union of America Employees Retirement Plan	6.0	6.7	0.7	89.6	1.1	63.6
Mercer Employees Retirement Plan	22.6	33.4	10.8	67.7	9.2	117.4

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

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

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

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

NJ TRANSIT's expense for the defined contribution plans totaled \$18.9 million and \$18.8 million in fiscal years 2011 and 2010, respectively.

Recorded expenses for all plans (including PERS and PFRS) amount to \$110.3 million and \$91.4 million for the fiscal years ended June 30, 2011 and 2010, respectively.

7. OTHER POSTEMPLOYMENT BENEFITS

NJ TRANSIT sponsors a single-employer defined benefit health care plan that provides postretirement medical, dental and life insurance benefits for eligible retirees and their spouses. NJ TRANSIT does not issue a financial report for this plan. Contribution requirements are negotiated between NJ TRANSIT and union representatives for Rail and Bus agreement employees. NJ TRANSIT establishes and may amend the contribution requirements and benefit provisions for non-agreement employees. NJ TRANSIT's required contribution is based on projected pay-as-you-go financing requirements. NJ TRANSIT's payments under the plan were \$29.2 million for fiscal year 2011. Plan members receiving benefits contributed \$3.9 million or approximately 13.4% of total premiums.

NJ TRANSIT's annual Other Postemployment Benefit (OPEB) cost is calculated based on the employer Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the components of the annual OPEB cost for the year, the amount contributed to the plan, and changes in NJ TRANSIT's net OPEB obligation for fiscal years 2011 and 2010 (in millions):

	YEARS ENDED JUNE 30,	
	2011	2010
Annual required contribution	\$80.7	\$75.8
Interest on net OPEB obligation	9.0	6.9
Adjustment to annual required contribution	<u>(13.5)</u>	<u>(10.1)</u>
Annual OPEB cost	76.2	72.6
Contributions made	<u>(29.2)</u>	<u>(25.9)</u>
Increase in net OPEB obligation	47.0	46.7
Net OPEB Obligation, Beginning of Year	200.3	153.6
Net OPEB Obligation, End of Year	<u>\$247.3</u>	<u>\$200.3</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2010 and 2009 are as follows (*in millions*):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$76.2	38.3%	\$247.3
2010	72.6	35.7	200.3
2009	65.8	37.4	153.6

As of July 1, 2010, the Actuarial Accrued Liability (AAL) for benefits was \$649.1 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$392.4 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 165.4 percent.

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

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

As of July 1, 2010, the actuarial valuation utilized the projected unit-credit method. The actuarial assumptions included a 4.5 percent discount rate and an annual health care cost trend rate of 8.5 percent. The unfunded actuarial accrued liability is being amortized on a level-dollar amount over a thirty-year period on a closed basis. The remaining amortization period at July 1, 2010 was 26 years.

8. UNEARNED REVENUE AND OTHER CURRENT LIABILITIES

Unearned revenue and other current liabilities totaled \$223.4 million and \$89.2 million at June 30, 2011 and 2010, respectively and are comprised of the following (*in millions*):

	AS OF JUNE 30,	
	2011	2010
ARC insurance refunds payable	\$88.1	\$—
Advance funds-State	49.9	—
Injury and damage claims (Note 14)	35.0	34.9
Retainage on construction projects	20.2	22.5
Pollution remediation obligations	2.8	2.2
Other	27.4	29.6
Total	<u>\$223.4</u>	<u>\$89.2</u>

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

9. UNEARNED REVENUE AND OTHER NON-CURRENT LIABILITIES

Unearned revenue and other non-current liabilities totaled \$85.0 million and \$80.9 million as of June 30, 2011 and 2010, respectively. These amounts relate to unearned lease and permit revenues, reserves for future environmental clean-up costs and funds designated for future asset purchases (*in millions*).

	AS OF JUNE 30,	
	2011	2010
Balance, Beginning of Year	\$80.9	\$76.4
Additions	27.2	38.5
Reductions	(23.1)	(34.0)
Balance, End of Year	<u>\$85.0</u>	<u>\$80.9</u>

10. LONG-TERM DEBT AND OTHER OBLIGATIONS

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

In September 2008, NJ TRANSIT entered into an eleven year refinancing agreement to defease the New Jersey Economic Development Authority (NJEDA) 2003A & B SWAP deals by issuing \$342.1 million of NJEDA Series 2008A Sublease Revenue Bonds. The refunding transaction, which was consummated in order to eliminate the exposure to interest rate swings on the SWAPs, will result

in additional cash outflows of approximately \$28.4 million over the life of the debt. The NJEDA Series 2008A bond will accrue interest between 4.00 to 5.25 percent with a maturity date of 2019.

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

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

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

In September 2003, NJ TRANSIT issued \$149.8 million of Series 2003A COPs, accruing interest between 1.0 percent and 4.1 percent. The proceeds were used to refinance the Series 2000B COPs. The bond proceeds were placed in an irrevocable trust and will satisfy designated debt servicing. The debt matures in 2015. As of June 30, 2011, \$147.1 million of defeased COPs remain outstanding.

In February 2003, NJ TRANSIT issued \$61.5 million of Refunding COPs bearing interest between 2.0 percent and 5.5 percent with final maturity in 2016. The proceeds from the sale of these certificates were deposited into an irrevocable trust with an escrow agent to provide debt service on the 1991 COPs notes. The refunding transaction, which was consummated to take advantage of low interest rates, decreased the aggregate debt service payments and resulted in an economic benefit of approximately \$2.0 million over the life of the transaction with a \$10.8 million deferral of refunding costs. As of June 30, 2011, \$30.6 million of defeased notes remain outstanding.

In June 2002, NJ TRANSIT issued \$162.8 million of Series 2002A Refunding COPs bearing interest between 3.0 percent and 5.5 percent with a final maturity in 2015. The proceeds from the sale of these certificates provided advance refunding of \$158.7 million of certain maturities of NJ TRANSIT's Series 2000A COPs. The

proceeds of the refunding notes were deposited into an irrevocable trust with an escrow agent to provide for the debt service on certain Series 2000A notes. The refunding transaction was consummated to provide a structural modification to the original agreement. As of June 30, 2011, \$158.5 million of defeased COPs remain outstanding.

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

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

In October 2000, NJ TRANSIT issued \$693.1 million of Series 2000B COPs, bearing interest between 4.5 percent and 6.0 percent with a final maturity in 2016. The proceeds of these certificates were used to fund the purchase of 24 ALP-46 electric locomotives and 1,244 cruiser buses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Inception Date	Balance June 30, 2010	Additions	Payments/ Reductions	Balance June 30, 2011	Due Within One Year
NJEDA 1999	08/99	\$30.9	\$—	\$30.9	\$—	\$—
COPs 2000A	01/00	30.2	—	27.2	3.0	3.1
COPs 2000B	10/00	203.8	—	60.6	143.2	64.0
COPs 2002A	06/02	158.8	—	0.3	158.5	26.1
COPs 2002B	06/02	85.4	—	2.7	82.7	2.7
COPs 2003	02/03	35.2	—	4.6	30.6	5.2
COPs 2003A	10/03	147.4	—	0.3	147.1	0.3
COPs 2004A	03/04	169.3	—	17.3	152.0	18.0
COPs 2005A	09/05	253.5	—	—	253.5	--
COPs 2008A	04/08	293.3	—	16.6	276.7	17.4
NJEDA 2008A	10/09	333.4	—	4.5	328.9	37.2
COPS 2009A	04/09	394.3	—	—	394.3	13.0
Total		2,135.5	—	165.0	1,970.5	\$187.0
Unearned Bond Premium		67.5	—	12.3	55.2	
Unamortized Deferral on Refunding		(19.4)	—	(4.4)	(15.0)	
Total Notes Payable		<u>\$2,183.6</u>	<u>\$—</u>	<u>\$172.9</u>	<u>\$2,010.7</u>	

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

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

Long-term notes payable maturities as of June 30, 2011 (*in millions*):

Fiscal Years	Principal	Interest	Total
2012	\$186.8	\$97.9	\$284.7
2013	195.7	88.2	283.9
2014	205.0	78.0	283.0
2015	214.0	67.2	281.2
2016	225.2	55.8	281.0
2017-2021	606.1	163.8	769.9
2022-2026	221.2	55.0	276.2
2027-2031	116.5	15.8	132.3
Total	<u>\$1,970.5</u>	<u>\$621.7</u>	<u>\$2,592.2</u>

11. LEASES AND OTHER COMMITMENTS

Leveraged Lease Transactions

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

In connection with the leveraged lease transactions, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the term of the respective leases. As these transactions do not meet the definition of an "in-substance defeasance," NJ TRANSIT has recorded Obligations under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Fund Net Assets (see Note 4).

Leveraged Lease Risk Exposures

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

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

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

In September 2008, the credit rating for AIG Financial Products Corporation (AIG) was changed from AA- to A- with additional credit watch by Standard & Poor's, where the rating remains as of June 30, 2011. Subsequent to the downgrade, AIG began receiving liquidity support from the US Government. That support is anticipated to continue until 2013. AIG is both the third party lender and payment undertaker in several of these transactions. Under the applicable transaction documents, the lessor may require NJ TRANSIT to replace AIG in these transactions.

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

Termination Risk. A leveraged lease agreement could be terminated if one party does not fulfill the obligations set forth in the contract. When an Event of Default or a Termination Event has occurred, either NJ TRANSIT or the counterparties could be required to make a termination payment according to the contract terms. Events of Default include non-payment, false or misleading representations, or the bankruptcy of NJ TRANSIT or the counterparties. Termination Events include a downgrade of the counterparty's credit rating to below that stated in the agreement. For example, under

a current Equity Payment Undertaking Agreement, with respect to ratings of the equity payment undertaker, the counterparty, which may be a bank or other financial institution, must have a Credit Rating of at least AA by Standard & Poor's and of at least Aa2 by Moody's at all times before the final maturity of a leveraged lease. A party has the right to terminate the lease agreement earlier when there is a downgrading of the counterparty's credit ratings.

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

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

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

In FY 2010 and 2009, NJ TRANSIT terminated all of its March 1998 lease transactions at minimal cost. NJ TRANSIT will continue to actively pursue all avenues to terminate its remaining lease transactions.

Capital Leases

In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light railcars for the Hudson-Bergen Light Rail and Newark Light Rail systems. These cars

were financed through a sale of COPs by the State of New Jersey in May 1998. The cars were subleased by the New Jersey Department of Transportation to NJ TRANSIT pursuant to an equipment sublease purchase agreement. NJ TRANSIT will repay the financed amount of \$156.2 million over 15 years through June 2014.

In 1994, NJ TRANSIT entered into a 23-year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an aboveground parking facility. A portion of the financing for this facility was provided by the NJEDA through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the NJEDA bond obligations. The remaining rental payments have a present value of approximately \$8.7 million as of June 30, 2011.

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

In total, NJ TRANSIT has recorded obligations under capital leases of \$1,368.5 million and \$1,417.5 million as of June 30, 2011 and 2010, respectively, of which \$76.6 million and \$81.4 million represent current installments under capital leases as of June 30, 2011 and 2010, respectively.

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

	AS OF JUNE 30,	
	2011	2010
Land	\$25.1	\$27.5
Buildings	431.3	536.8
Railcars and Locomotives	683.3	686.0
Buses and Light Railcars	727.3	709.5
Furniture, Fixtures and Equipment	<u>34.0</u>	<u>66.9</u>
Capital Assets Under Capital Leases (at cost)	1,901.0	2,026.7
Less Accumulated Depreciation	<u>(1,218.7)</u>	<u>(1,192.8)</u>
Net Capital Assets Under Capital Leases	<u>\$682.3</u>	<u>\$833.9</u>

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

	Inception Date	Balance June 30, 2010	Additions	Payments/Reductions	Balance June 30, 2011	Due Within One Year
NBC Facility	07/86	\$3.7	\$—	\$3.7	\$—	\$—
Metropark Parking Facility	03/94	9.7	—	1.0	8.7	1.0
MMC, Locos. & Railcars	01/97	96.0	—	6.9	89.1	6.5
ALP-44 Locomotives	06/97	7.2	—	—	7.2	—
Comet IV Coaches	07/97	17.6	—	2.1	15.5	2.0
Bus Garages	07/97	53.5	—	4.4	49.1	4.1
Light Railcars	06/98	54.8	—	12.7	42.1	13.4
Bus Garages	09/98	105.6	—	1.6	104.0	1.7
HBLR	12/00	187.3	1.4	10.7	178.0	10.2
MCI Buses	12/01	93.8	12.7	6.4	100.1	6.8
MCI Buses	10/02	280.0	30.1	—	310.1	—
Qualified Technical Equipment	08/03, 9/03	83.0	—	31.9	51.1	0.9
ALP-46 Locomotives	09/03	26.1	—	1.9	24.2	1.9
Comet IV Coaches	09/03	26.6	—	—	26.6	—
Light Railcars	09/03, 10/03	60.5	—	2.2	58.3	2.3
Articulated Buses	07/04	27.5	—	2.3	25.2	2.4
Diesel Locomotives	12/05	104.0	—	3.2	100.8	3.4
MCI Buses	11/06	17.6	—	—	17.6	17.6
Multilevel Railcars	12/06	18.7	—	0.2	18.5	0.2
Multilevel Railcars	06/07	34.3	—	0.1	34.2	0.2
Multilevel Railcars	12/07	62.1	—	0.6	61.5	0.7
Multilevel Railcars	01/08	47.9	—	1.3	46.6	1.3
Total Capital Lease Obligations		<u>\$1,417.5</u>	<u>\$44.2</u>	<u>\$93.2</u>	<u>\$1,368.5</u>	<u>\$76.6</u>

Minimum capital lease maturities as of June 30, 2011 (*in millions*):

Fiscal Years	Principal	Interest	Total
2012	\$76.6	\$51.3	\$127.9
2013	165.9	116.0	281.9
2014	160.7	62.6	223.3
2015	100.1	58.8	158.9
2016	125.7	138.0	263.7
2017-2021	436.0	207.0	643.0
2022-2026	219.1	111.9	331.0
2027-2031	65.9	37.9	103.8
2032-2036	18.5	5.3	23.8
Total Capital Lease Obligations	<u>\$1,368.5</u>	<u>\$788.8</u>	<u>\$2,157.3</u>

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

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

As of June 30, 2011, NJ TRANSIT was committed to future purchases under the following capital projects and special services which will be funded from federal, state, local or other capital sources (*in millions*):

Rail Support Facilities & Equipment	\$10.0
Hudson-Bergen Light Rail System	15.9
Rail Infrastructure	19.3
Casino Revenue Transportation Program	25.0
Rail Passenger Facilities	26.9
Portal Bridge	74.4
Bus Rolling Stock	80.9
Positive Train Stop Stage 2	151.6
Rail Rolling Stock	295.4
Other, for commitments less than \$10 million	75.0
Total Capital Projects and Special Service Commitments	<u>\$774.4</u>

12. POLLUTION REMEDIATION OBLIGATIONS

NJ TRANSIT has implemented GASB Statement No. 49, Accounting and Financial Reporting for pollution remediation obligations. The statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. In 2011, an operating expense and corresponding liability, measured at their current value using the expected cash flow method, have been recognized for certain pollution remediation obligations. Pollution remediation obligations, which are estimates and subject to changes in price, technology, or applicable laws and regulations, occur when any one of the following obligating events takes place:

- NJ TRANSIT is compelled to take pollution remediation action because of an imminent endangerment.

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

In accordance with GASB Statement No. 49, a net pollution remediation provision totaling \$23.6 million, measured at its current value utilizing the expected cash flow method, was recognized in fiscal year 2011. The total liability of \$25.7 million was reduced by \$2.1 million for expected recoveries from other responsible parties, potentially responsible parties (PRPs) and insurers. The cumulative liability increased by \$3.3 million in fiscal year 2011, attributable primarily to the remediation costs for properties acquired for the ARC Project.

The following table summarizes the changes in NJ TRANSIT's liability for pollution remediation for the years ended June 30, 2011 and 2010 (in millions):

	AS OF JUNE 30,	
	2011	2010
Balance, Beginning of Year	\$20.3	\$23.2
Current year costs	8.6	(0.6)
Payment made during the year	(5.3)	(2.3)
Balance, End of Year	<u>\$23.6</u>	<u>\$20.3</u>

The pollution remediation liability of \$23.6 million at June 30, 2011, essentially consists of future remediation activities associated with asbestos removal, cleanup of contamination, and wastewater treatment at NJ TRANSIT stations, garages and other facilities. Of this amount, \$2.8 million represents the current portion of the liability, which is included in other current liabilities, and \$20.8 million represents the noncurrent obligation, which is included in deferred revenue and other noncurrent liabilities.

The estimated outlays include costs of a) \$3.5 million associated with pre-cleanup activities including engineering studies, site investigation, corrective measures feasibility study, and the design of a remediation plan; b) \$15.2 million related to cleanup activities, such as neutralization, containment, removal

and disposal of pollutants, and restoration; c) \$0.8 million for the external government oversight and enforcement-related activities; and d) \$4.1 million for the post-remediation monitoring.

13. OTHER OPERATING REVENUES

Other operating revenues comprise the following (in millions):

	YEARS ENDED JUNE 30,	
	2011	2010
Lease and rental	\$26.9	\$25.5
Advertising	14.2	13.5
Metro-North operations	13.2	12.5
Other	17.9	21.5
Total	<u>\$72.2</u>	<u>\$73.0</u>

14. INJURY AND DAMAGE CLAIMS

As of June 30, 2011, NJ TRANSIT's self-insurance retention was \$10 million per occurrence with commercial excess liability insurance coverage for the amounts above \$10 million up to \$250 million. Settlements have not exceeded this insurance coverage for each of the past three years. Additionally, NJ TRANSIT is self-insured for workers' compensation. Employment-practice claims exceeding \$500,000 up to \$10 million are covered by insurance. On October 14, 2004, the ARH III Insurance Co., Inc., a wholly owned subsidiary of NJ TRANSIT, was formed. This captive insurance company provides coverage for FELA and rail third-party claims in excess of \$5 million up to \$10 million, consequently reducing NJ TRANSIT's self-insured retention in these two areas. As of June 30, 2011 and 2010, the ARH III Insurance Co., Inc. incurred no losses for covered claims.

NJ TRANSIT has recorded an estimated liability of \$117.9 million and \$110.0 million as of June 30, 2011 and 2010, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, \$35.0 million and \$34.9 million are included in other current liabilities as of June 30, 2011 and 2010, respectively (see Note 8).

The liability is based on NJ TRANSIT's past loss experience. NJ TRANSIT believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss expenses. Management believes that its reserves for claims incurred but not reported is determined in accordance with generally accepted actuarial principles and practices. However, estimating the ultimate liability is a complex and judgmental process inasmuch as the amounts are based on management's informed estimates and judgments using data currently

available. As additional experience and data become available regarding claim payments and reporting patterns, legislative developments and economic conditions, the estimates are revised accordingly and the impact is reflected currently in NJ TRANSIT's financial statements.

The total claims liability activity for the years ended June 30, 2011 and 2010 was as follows (*in millions*):

	AS OF JUNE 30,	
	2011	2010
Balance, Beginning of Year	\$110.0	\$100.0
Claims expense	34.7	54.1
Payment of claims	(26.8)	(44.1)
Balance, End of Year	<u>\$117.9</u>	<u>\$110.0</u>

15. FEDERAL GRANTS

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

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

16. ACCESS TO THE REGION'S CORE (ARC) PROJECT

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

On September 30, 2011, a settlement was agreed upon whereby NJ TRANSIT is liable to repay \$95 million

in five annual payments of \$19 million. NJ TRANSIT has recorded this liability as of June 30, 2011 in the Consolidated Statements of Fund Net Assets, and a corresponding "Special Item" in the Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets. The first \$19 million is recorded as a current liability, and the balance of \$76 million has been recorded as a non-current liability.

In accordance with Generally Accepted Accounting Principles (GAAP), NJ TRANSIT has also recorded a "Special Item" in the Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets, in the amount of \$297.4 million, which represents the write-down of certain assets that were previously capitalized related to the ARC Project. These assets are considered to be impaired due to the discontinuance of this project, under the provision of construction stoppage. Although certain contingent costs associated with the closeout of the ARC project contracts are not yet fully determinable, it is management's opinion that the overall costs of these contingencies will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

17. CONTINGENCIES

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

Non-Agreement Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2010	\$382.2	\$527.9	\$145.7	72.4%	\$111.6	130.6%
7/1/2009	355.0	505.4	150.4	70.2	115.8	129.9
7/1/2008	339.4	458.2	118.8	74.1	122.5	97.0

Amalgamated Transit Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2010	\$707.2	\$869.8	\$162.6	81.3%	\$269.9	60.2%
7/1/2009	664.4	814.2	149.8	81.6	254.6	58.8
7/1/2008	679.5	778.8	99.3	87.2	245.6	40.4

Transport Workers Union Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2010	\$36.1	\$38.2	\$2.1	94.5%	\$11.1	18.9%
7/1/2009	34.4	37.8	3.4	91.0	10.9	31.2
7/1/2008	35.5	36.7	1.2	96.7	10.8	11.1

Utility Workers' Union of America Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2010	\$6.0	\$6.7	\$0.7	89.6%	\$1.1	63.6%
7/1/2009	5.7	6.4	0.7	89.1	1.5	46.7
7/1/2008	5.9	6.5	0.6	90.8	1.6	37.5

Mercer Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2010	\$22.6	\$33.4	\$10.8	67.7%	\$9.2	117.4%
7/1/2009	20.9	32.8	11.9	63.7	9.6	124.0
7/1/2008	19.9	28.9	9.0	68.9	7.7	116.9

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