Comptroller's Department

# Financial Statements and Appended Notes for the Year ended December 31, 2012

THE PORT AUTHORITY OF NY & NJ

**THE PORT AUTHORITY OF NEW YORK & NEW JERSEY**
**FINANCIAL STATEMENTS AND APPENDED NOTES**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**KPMG LLP**
345 Park Avenue
New York, NY 10154-0102

# Independent Auditor's Report

Board of Commissioners
The Port Authority of New York and New Jersey

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of net position of The Port Authority of New York and New Jersey (the "Port Authority") as of December 31, 2012, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the net position of the Port Authority as of December 31, 2012, and the changes in its net position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

***Other Matters***

*Predecessor Auditor's Opinion*

The accompanying consolidated financial statements of the Port Authority as of and for the year ended December 31, 2011, were audited by other auditors whose report thereon dated February 24, 2012, expressed an unmodified opinion on those consolidated financial statements.

*Required Supplementary Information*

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

*Other Information*

Our audit for the year ended December 31, 2012 was conducted for the purpose of forming an opinion on the Port Authority's consolidated financial statements. The supplementary information included in Schedules D-1, D-2, E and F related to fiscal year 2012 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements for the year ended December 31, 2012, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedules D-1, D-2, E and F related to fiscal year 2012 is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The report of the other auditors on the consolidated financial statements of the Port Authority as of and for the year ended December 31, 2011, referred to in the Predecessor Auditor's Opinion section above, stated that the supplementary information included in Schedules D-1, D-2, E and F related to fiscal year 2011 was subjected to the auditing procedures applied in the audit of the 2011 consolidated financial statements and, in their opinion, was fairly stated in all material respects in relation to the consolidated financial statements as a whole for the year ended December 31, 2011.

The Port Authority's consolidated financial statements for the years ended December 31, 2003 through 2010 (not presented herein) were audited by other auditors whose reports thereon expressed unmodified opinions on those respective consolidated financial statements. The reports of the other auditors on these consolidated financial statements stated that the supplementary information included in Schedules D-1 and D-2 for fiscal years 2003 through 2010, was subjected to the auditing procedures applied in the audit of the respective consolidated financial statements and, in their opinion, was fairly stated in all material respects in relation to the respective consolidated financial statements.

Schedules D-3 and G are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Report on Financial Statements Prepared in Accordance with Port Authority Bond Resolutions**

We have audited the accompanying Schedules A, B and C of the Port Authority, which comprise financial statements that present the assets and liabilities as of December 31, 2012, and the revenues and reserves for the year then ended, prepared in accordance with the requirements of the Port Authority's bond resolutions.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Port Authority's bond resolutions. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the Port Authority as of December 31, 2012, and its revenues and reserves for the year then ended in accordance with the requirements of the Port Authority's bond resolutions.

***Basis of Accounting***

We draw attention to Note A-4 of the consolidated financial statements, which describes the basis of accounting used in Schedules A, B and C. Schedules A, B and C are prepared by the Port Authority based on the requirements present in its bond resolutions, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

***Restriction on Use***

Our report on Schedules A, B, and C is intended solely for the information and use of the Port Authority and those who are a party to the Port Authority's bond resolutions, and is not intended to be and should not be used by anyone other than these specified parties.

***Other Matter***

*Summarized Comparative Information*

The prior year summarized comparative information in Schedules A, B and C has been derived from the Port Authority's 2011 financial statements prepared in accordance with the requirements of the Port Authority's bond resolutions, which were audited by other auditors. The report of the other auditors on these financial statements, dated February 24, 2012, expressed an unmodified opinion on these financial statements prepared in accordance with the requirements of the Port Authority bond resolutions.

KPMG LLP

New York, New York
February 25, 2013

## Management's Discussion and Analysis (Unaudited)
## Years ended December 31, 2012 and 2011

### Introduction

The following discussion and analysis of the financial performance and activity of The Port Authority of New York and New Jersey (The Port Authority) and certain of its related entities (component units) described herein (see Note A.1.d – Nature of the Organization and Summary of Significant Accounting Policies) is intended to provide an introduction to and understanding of the consolidated financial statements of the Port Authority for the year ended December 31, 2012, with selected comparative information for the years ended December 31, 2011 and December 31, 2010. This section has been prepared by management of the Port Authority and should be read in conjunction with the consolidated financial statements and appended note disclosures that follow this section.

### Overview of 2012 Financial Results

Net position of the Port Authority increased $1.1 billion in 2012, compared to an increase of $701 million in 2011.

Gross operating revenues totaled $4.1 billion in 2012, representing a $250 million increase from 2011. This increase was primarily due to a $189 million increase in toll and fare revenue at the Port Authority's six vehicular crossings and the Port Authority Trans-Hudson Corporation (PATH) system, resulting from the full year impact of revised toll and fare schedules which became effective on September 18, 2011; and a $58 million increase in fixed and activity based rentals from major tenants at Aviation and Port Commerce facilities.

Operating and maintenance expenses totaled $2.6 billion in 2012, a $24 million increase when compared to 2011. This increase was primarily due to higher costs relating to interim terminal operating agreements at Port Commerce facilities, increased rental payments to the Cities of New York and Newark, and higher employer pension contributions. Offsetting these increases were decreased snow and ice costs as a result of milder winter weather conditions, a reduction in bad debt expense at Port Commerce facilities, and lower other postemployment benefits (OPEB).

Depreciation and amortization expense increased by $32 million in 2012 compared to 2011 primarily reflecting the full year impact of transferring $2.1 billion of construction in progress to completed construction in 2011 and the transfer of an additional $906 million of construction in progress to completed construction in 2012.

Financial income increased by $87 million in 2012 compared to 2011 primarily due to a $107 million increase in year-to-year market valuation adjustments associated with three unhedged interest rate exchange contracts (swap agreements) that were terminated in 2012. Partially offsetting this increase was a $14 million loss for guaranteed returns due World Trade Center (WTC) joint venture members. These guaranteed amounts earned on capital contributions made by The Durst Organization (Durst) to the Tower 1 Joint Venture and Westfield America, Inc. (Westfield) to the WTC

Retail Joint Venture are recognized in accordance with their respective joint venture agreements.

Interest expense increased by $99 million in 2012 primarily reflecting higher outstanding principal amounts in connection with consolidated bonds and other asset financings.

Net expenses/(recoverables) related to Hurricane Sandy totaled $30 million in 2012. Direct expenses for the ongoing restoration and repair to Port Authority facilities including; $78 million in contract services; $32 million in employee compensation; $11 million in materials and equipment; and losses of $16 million recognized on assets that were destroyed, totaled $136 million in 2012. Offsetting these amounts is a $106 million receivable, representing the estimated amount of insurance recoveries to be received for costs incurred through December 31, 2012 (see Note J.11 for additional information regarding Hurricane Sandy).

Capital contributions and Passenger Facility Charges (PFCs) increased by $239 million in 2012 compared to 2011 primarily due to higher contributions associated with capital projects eligible for federal funding, and contributed capital amounts of $100 million from the WTC Retail Joint Venture, Westfield member to WTC Retail LLC for the further construction and development of retail space at the WTC site (see Note K-Information with Respect to the Redevelopment of World Trade Center Site).

**Other Activities**

- Capital spending by the Port Authority reached $3.3 billion in 2012 with $2.2 billion spent on the redevelopment of the WTC site; $318 million spent on Aviation facilities, including $115 million on runway and taxiway improvements; $215 million spent on projects designed to maintain the safety and security of the agency's operating facilities; $194 million spent on Tunnels, Bridges & Terminals (TB&T) facilities, including $27 million for the structural rehabilitation of the upper level of the George Washington Bridge; $172 million spent on Port Commerce facilities, including $58 million on channel improvement projects; and $113 million spent on PATH, including $50 million for the PATH signal replacement project (excluding costs attributable to Hurricane Sandy).

- On December 6, 2012, the Board of Commissioners approved the operating budget for calendar year 2013. The budget keeps administrative expenses virtually flat for a fifth straight year and maintains agency headcount at the lowest levels in 40 years. It is presently expected that in early 2013, the Board of Commissioners will consider the adoption of a capital budget for calendar year 2013, in part addressing certain recommendations resulting from the Authority-wide review by a Special Committee of the Board of Commissioners and the impacts of Hurricane Sandy.

- Toll and fare schedules for the Port Authority's six vehicular crossings and the PATH system were revised effective September 18, 2011. The toll for

automobiles paying with cash was increased from $8.00 to $12.00 in 2011 and to $13.00 in December 2012, with further increases of $1.00 scheduled in December 2014 and 2015; the cash toll for truck classes 2-6 was increased from $8.00 to $13.00 per axle in 2011 and to $15.00 per axle in December 2012, with further increases of $2.00 per axle scheduled in December each year from 2013 through 2015; the cash toll for buses carrying 10 or more people was increased from $6.00 to $20.00 in 2011 and to $21.00 in December 2012, with further increases of $1.00 scheduled in December each year from 2013 through 2015. Discounts are available for vehicles using the E-ZPass electronic toll collection system and certain designated user programs. The PATH base fare for a single trip increased from $1.75 to $2.00 per trip in 2011 and to $2.25 per trip on October 1st, 2012, with further increases of 25 cents scheduled on October 1st in 2013 and in 2014. The cost of the multi-trip tickets and SmartLink passes increased on October 1st 2012, with further increases on October 1st in 2013 and in 2014 in a consistent manner with the base fare increase.

As a condition of the toll and fare increases, a Special Committee of the Board of Commissioners (Special Committee) was formed on September 30, 2011, as directed by the Governors of the States of New York and New Jersey, to immediately commence a comprehensive audit of the Port Authority focusing on both a financial audit of the Port Authority's ten-year capital plan to reduce its size and cost and a review of the Port Authority's management and operations to find ways to lower costs and increase efficiencies. On January 31, 2012, the Special Committee issued a Phase I Interim Report to the Governors. In response to the Interim Report, the Special Committee directed Port Authority executive staff to review and examine the findings of the report and identify measures for improvement to be presented to the Board of Commissioners and the Board of PATH for consideration and appropriate action. On September 19, 2012, the Special Committee released the Phase II Report, which reviewed, in more detail, potential initiatives and improvements to enhance productivity and efficiency. The Phase II Report does recognize that the Port Authority has already completed or has numerous initiatives underway that relate to revenue enhancements, monetization of asset value and cost savings opportunities. The Phase II Report also indicates that the 2011 toll increases and those scheduled to go into effect over the next three years are necessary to the funding requirements of the Port Authority's preliminary 2011-2020 capital plan for projects related to the interstate transportation network. Additionally, the Special Committee submitted another report to the Governors in September 2012. The report focused on the Port Authority's financing strategy and consideration related to the long-term funding of the capital investment needs identified by the Port Authority.

## Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Port Authority's consolidated financial statements, including the notes to the

consolidated financial statements, required supplementary information, financial schedules pursuant to Port Authority bond resolutions, and statistical and other supplemental information. The consolidated financial statements comprise the following: the Consolidated Statements of Net Position, the Consolidated Statements of Revenues, Expenses and Changes in Net Position, the Consolidated Statements of Cash Flows, and the Notes to the Consolidated Financial Statements.

## Consolidated Statements of Net Position

The Consolidated Statements of Net Position present the financial position of the Port Authority at the end of the fiscal year and include all of its assets, deferred outflows of resources, liabilities, and deferred inflows of resources as applicable (see Note A.3.n). Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. A summarized comparison of the Port Authority's assets, liabilities, and net position follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| **ASSETS** | | | |
| Current assets | **$4,696,608** | $4,044,368 | $3,348,508 |
| Noncurrent assets: | | | |
| Facilities, net | **25,551,503** | 23,134,288 | 20,557,400 |
| Other noncurrent assets | **7,040,524** | 6,739,065 | 5,649,662 |
| Total assets | **37,288,635** | 33,917,721 | 29,555,570 |
| **LIABILITIES** | | | |
| Current liabilities | **2,788,155** | 2,635,668 | 2,456,529 |
| Noncurrent liabilities: | | | |
| Bonds and other asset financing obligations | **18,049,669** | 15,751,041 | 13,554,884 |
| Other noncurrent liabilities | **3,590,377** | 3,805,121 | 2,519,534 |
| Total liabilities | **24,428,201** | 22,191,830 | 18,530,947 |
| **NET POSITION** | | | |
| Net investment in capital assets | **10,010,965** | 10,020,306 | 9,200,077 |
| Restricted | **392,389** | 294,460 | 222,871 |
| Unrestricted | **2,457,080** | 1,411,125 | 1,601,675 |
| Total net position | **$12,860,434** | $11,725,891 | $11,024,623 |

Port Authority assets totaled $37.3 billion at December 31, 2012, an increase of $3.4 billion from December 31, 2011. This increase was primarily due to a $2.4 billion increase in "Facilities, net," which includes both completed capital construction and capital construction in progress at Port Authority facilities; and a $1.1 billion increase in cash and investments primarily due to an increase in available bond proceeds received in connection with the issuance of capital obligations and an increase in Port Authority reserve funds.

Port Authority liabilities totaled $24.4 billion at December 31, 2012, an increase of $2.2 billion from December 31, 2011. This increase was primarily due to a $2.3 billion

increase in "Bonds and other asset financing obligations" resulting from the issuance of consolidated bonds in connection with the Port Authority's capital plan. Partially offsetting this increase was a $191 million decrease in "Accrued interest and other current liabilities" primarily due to the termination of three unhedged swap agreements in 2012.

Net position totaled $12.9 billion at December 31, 2012, an increase of $1.1 billion from December 31, 2011. "Net investment in capital assets" totaling $10 billion at December 31, 2012, represents the largest of the three components of the Port Authority's Net Position and is comprised of investment in capital assets (such as land, buildings, improvements and equipment), less the related outstanding indebtedness used to acquire those capital assets. Net position reported as restricted due to constraints imposed by agreements or legislation totaled $392 million and is comprised of, $160 million for Port Authority Insurance Captive Entity, LLC (PAICE); $132 million in PFCs restricted for use on projects expenditures eligible for the application of PFCs; and $100 million for a minority equity interest in Tower 1 Joint Venture LLC. The balance of net position at December 31, 2012 totaling $2.5 billion is unrestricted and may be used to meet ongoing Port Authority obligations.

## Consolidated Statements of Revenues, Expenses and Changes in Net Position

Change in net position is an indicator of whether the overall fiscal condition of an organization has improved or worsened during the year. Following is a summary of the Consolidated Statements of Revenues, Expenses and Changes in Net Position:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Gross operating revenues | **$4,050,016** | $3,800,480 | $3,634,023 |
| Operating expenses | **(2,589,447)** | (2,564,969) | (2,598,557) |
| Depreciation and amortization | **(961,958)** | (930,264) | (865,515) |
| Net recoverables/(expenses) related to the events of September 11, 2001 | **-** | - | 53,051 |
| Net recoverables/(expenses) related to Hurricane Sandy | **(30,000)** | - | - |
| Income from operations | **468,611** | 305,247 | 223,002 |
| Net non-operating expenses * | **(557,648)** | (585,445) | (487,630) |
| Capital contributions and PFCs * | **1,223,580** | 981,466 | 611,469 |
| Increase in net position | **$1,134,543** | $701,268 | $346,841 |

* Grants were reclassified to "Non-operating revenues" from "Capital contributions and PFCs" in 2012.

Additional information on facility operating results can be found in Schedule E-Information on Port Authority Operations located in the Statistical and Other Supplemental Information section of this report.

## Revenues

A summary of gross operating revenues follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Gross operating revenues: | | | |
| Tolls and fares | **$1,337,372** | $1,148,061 | $1,069,785 |
| Rentals | **1,208,730** | 1,150,569 | 1,144,709 |
| Aviation fees | **904,666** | 895,356 | 872,774 |
| Parking and other | **338,178** | 339,131 | 321,257 |
| Utilities | **152,945** | 154,810 | 154,041 |
| Rentals - Special Project Bonds Projects | **108,125** | 112,553 | 71,457 |
| Total | **$4,050,016** | $3,800,480 | $3,634,023 |

## 2012 vs. 2011

Gross operating revenues totaled $4.1 billion for the year ended December 31, 2012, a $250 million increase from 2011. The increase in operating revenues was primarily due to:

- Toll revenues from the Port Authority's six vehicular crossings increased by $178 million in 2012 compared to 2011 primarily due to the full year impact of the revised tolling schedule which became effective on September 18, 2011. Partially offsetting this increase was a 2.4% overall decline in vehicular activity at the Port Authority's six vehicular crossings in 2012 when compared to 2011. This overall decrease in activity includes approximately a 1% decrease in vehicular activity directly related to Hurricane Sandy.

  PATH fares increased by $11 million in 2012 compared to 2011 primarily due to the full year impact of the revised PATH fare schedule which became effective on September 18, 2011. Partially offsetting this increase was a 5.2% overall decline in 2012 ridership levels compared to 2011 directly attributable to Hurricane Sandy.

- Rental revenues increased by $58 million in 2012 compared to 2011 primarily due to a $52 million increase in fixed and activity based rentals from major tenants at Aviation and Port Commerce facilities.

- Aviation fees increased by $9 million year-to-year primarily reflecting higher revenues derived from cost recovery agreements with the airlines operating at major airports.

## 2011 vs. 2010

Gross operating revenues totaled $3.8 billion for the year ended December 31, 2011, a $166 million increase from 2010. The increase in operating revenues was primarily due to:

- Toll revenues from the Port Authority's six vehicular crossings increased by $68 million in 2011 compared to 2010. The increase was primarily due to the partial year impact of revised tolls which became effective on September 18, 2011; partially offsetting this increase was a 1.7% overall decline in vehicular activity at the Port Authority's six vehicular crossings in 2011 when compared to 2010.

  PATH fares increased by $10 million in 2011 compared to 2010 primarily due to the partial year impact of revised fares which became effective on September 18, 2011; this increase was furthered by an increase in overall ridership levels of 3.6% in 2011 when compared to 2010.

- Rentals – Special Project Bonds Projects revenue increased by $41 million due to the full year impact of the December 2010 issuance of Special Project Bonds, Series 8, John F. Kennedy International Air Terminal LLC (JFKIAT) Project obligations in connection with the expansion of Terminal 4 at John F. Kennedy International Airport (JFK).

- Aviation fees increased by $23 million year-to-year primarily reflecting higher revenues derived from cost recovery agreements with the airlines operating at LaGuardia Airport (LGA), JFK and Newark Liberty International Airport (EWR).

- Parking and other revenues increased by $18 million in 2011 compared with 2010 primarily due to a $7 million net increase related to the establishment of the Cargo Facility Charge, a cargo activity based port infrastructure and security fee, in March 2011; and a $6 million increase for the sale of development rights at Queens West Waterfront Development Facility.

- Rental revenues increased by $6 million in 2011 compared to 2010 primarily due to a $41 million increase in fixed and activity based rentals from major tenants at Aviation and Port Commerce facilities. Partially offsetting these increases was a $33 million decrease under the net leases for WTC Towers 2 and 3, resulting from the full year impact of the 2010 net lease amendments in connection with the implementation of the 2010 World Trade Center Eastside Development Plan.

## Expenses

A summary of operating expenses follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Operating expenses: | | | |
| Employee compensation, including benefits | **$1,038,243** | $1,037,681 | $1,022,195 |
| Contract services | **749,106** | 726,883 | 630,438 |
| Rents and amounts in-lieu-of taxes | **304,020** | 280,237 | 272,002 |
| Materials, equipment and other | **215,937** | 219,183 | 418,639 |
| Utilities | **174,016** | 188,432 | 183,826 |
| Interest on Special Project Bonds | **108,125** | 112,553 | 71,457 |
| Total | **$2,589,447** | $2,564,969 | $2,598,557 |

## 2012 vs. 2011

Operating expenses, before consideration of Hurricane Sandy related costs, totaled $2.6 billion in 2012, a $24 million increase from 2011. The year-to-year increase was primarily due to the following:

- Rent and amounts in lieu of taxes increased by $24 million in 2012 compared to 2011 primarily due to higher rental payments paid to the Cities of New York and Newark under lease agreements governing the operation of the New York City Air Terminals and Newark Air and Marine Terminals.

- Contract service costs increased by $22 million in 2012 from 2011 primarily due to a $26 million increase for interim terminal operating agreements at the Brooklyn-Port Authority Marine Terminal and Port Newark; and a $12 million increase attributable to an accelerated payment to the Brooklyn Bridge Park Development Corporation. Partially offsetting these increases was a $13 million decrease in snow and ice removal costs due to milder winter weather conditions in 2012.

- Employee compensation costs remained flat in 2012 compared to 2011. A $20 million increase in employer pension contributions was offset by a $6 million decrease in OPEB, and a $15 million decrease in agency labor costs, exclusive of employee benefits.

- Utility expenses decreased by $14 million in 2012 compared to 2011 primarily due to an $11 million decrease attributable to lower electricity usage at Aviation facilities and PATH.

- Costs for materials, equipment and other items decreased by $3 million in 2012 from 2011 primarily due to a $13 million decrease in bad debt expense at Port Commerce facilities, which was offset by a $9.2 million increase in self-insured public liability and workers compensation losses.

## 2011 vs. 2010

Operating expenses totaled $2.6 billion in 2011, a $34 million decrease from 2010. The year-to-year decrease was primarily due to the following:

- Costs for materials, equipment and other items decreased by $199 million in 2011 from 2010 primarily due to a $214 million decrease in non-recurring capital expenditure write-offs to operating expense accounts. 2010 write-offs included alternative design work performed in conjunction with the redevelopment of the WTC site, the terminated Access to the Region's Core Project (ARC Project), and $28 million associated with the 2010 purchase of a portion of the former Marine Ocean Terminal at Bayonne Peninsula (MOTBY). Partially offsetting these decreases were a $10 million increase in the write-off of bad debt at Port Authority facilities, and a $7 million increase in the actuarially determined incurred but not reported (IBNR) loss provision for PAICE.

- Contract service costs increased by $96 million in 2011 from 2010 primarily due to a $24 million increase in the use of outside legal services, a $15 million increase in costs for the demolition of Terminal 6 and Hangar 12 at JFK, and a $12 million increase in costs for interim terminal operating agreements at the Brooklyn-Port Authority Marine Terminal and Port Newark.

- Interest expenses associated with Special Project Bonds increased by $41 million due to the full year impact of the December 2010 issuance of JFKIAT Project obligations in connection with the expansion of Terminal 4 at JFK.

- Employee compensation costs increased by $15 million in 2011 compared to 2010 primarily due to an increase of $25 million in labor charges, including a $21 million increase in policing costs resulting from the continued heightened security levels at Port Authority facilities; partially offsetting these increases was a $10 million decrease in overall benefit expenses, primarily due to lower OPEB.

## Depreciation and Amortization

A summary of depreciation and amortization expenses follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Depreciation and amortization: | | | |
| Depreciation of facilities | **$884,239** | $852,727 | $789,011 |
| Amortization of costs for regional programs | **77,719** | 77,537 | 76,504 |
| Total | **$961,958** | $930,264 | $865,515 |

## 2012 vs. 2011

Depreciation and amortization expense totaled $962 million in 2012, an increase of

$32 million compared to 2011. The increase primarily reflects the full year impact of transferring $2.1 billion of construction in progress to completed construction in 2011 and the transfer of an additional $906 million in capital expenditures to completed construction in 2012, including $281 million of investment at Port Authority aviation facilities, including approximately $91 million for runway and taxiways improvements; $243 million of WTC site infrastructure including the WTC Transportation Hub; and approximately $103 million for capital projects designed to maintain security at Port Authority facilities.

## 2011 vs. 2010

Depreciation and amortization expense totaled $930 million in 2011, an increase of $65 million compared to 2010. The increase primarily reflects the full year impact of transferring $1.8 billion of construction in progress to completed construction in 2010 and the transfer of an additional $2.1 billion in capital expenditures to completed construction in 2011. 2011 transfers of $2.1 billion were comprised of $983 million for the construction of WTC site infrastructure; $386 million of aviation related investment including $200 million for runway and taxiway improvements; $203 million for capital projects designed to maintain security at Port Authority facilities; and $193 million for 130 new PATH rail cars.

## Non-operating Revenues and Expenses

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Non-operating revenues and (expenses): | | | |
| Interest income | **$37,510** | $54,398 | $61,168 |
| Net increase/(decrease) in fair value of investments | **2,151** | (101,296) | (56,733) |
| Interest expense in connection with bonds and other asset financing | **(658,313)** | (559,110) | (501,607) |
| Net gain/(loss) on disposition of assets | **(4)** | - | - |
| Pass-through grant program payments | **(56,446)** | (11,507) | (2,166) |
| 4 WTC associated payments | **65,293** | 8,343 | - |
| Grants * | **52,161** | 23,727 | 11,708 |
| Net non-operating expenses | **($557,648)** | ($585,445) | ($487,630) |

* Reclassified from "Capital Contributions and Passenger Facility Charges" in 2012.

## 2012 vs. 2011

Financial income, including interest income and changes to the fair value of investments increased by $87 million in 2012 compared with 2011, primarily due to a $107 million year-to-year increase in market valuation adjustments associated with three unhedged swap agreements that were terminated in 2012. Partially offsetting this increase was a $6 million decrease in earnings on investment securities due to the lower interest rate environment associated with United States Treasury securities, and a $14 million loss for guaranteed returns due WTC joint venture members. These guaranteed amounts earned on capital contributions made by Durst to the Tower 1 Joint Venture and Westfield to the WTC Retail Joint Venture are recognized in accordance with their

respective joint venture agreements.

Interest expense in connection with bonds and other financing obligations totaled $658 million in 2012, an increase of $99 million from 2011, primarily due to a $2.5 billion increase in outstanding debt obligations and a $57 million year-to-year increase in interest expense associated with Tower 4 Liberty Bonds issued in November 2011 for the continued construction of WTC Tower 4. Partially offsetting these amounts was a $57 million increase in "4 WTC associated payments" reflecting the reimbursement of interest expense associated with Tower 4 Liberty Bonds.

### 2011 vs. 2010

Financial income, including interest income and changes to the fair value of investments decreased by $51 million in 2011 compared with 2010, primarily due to a $45 million decrease in the fair value of investments, including a $41 million year-to-year decrease in market valuation adjustments associated with three unhedged swap agreements, and a $7 million decrease in earnings on investment securities due to a lower interest rate environment. Financial expense in connection with bonds and other financing obligations of $559 million increased by $58 million in 2011 from 2010, primarily reflecting higher average principal balances of outstanding debt obligations in 2011 compared to 2010, including $8 million of accrued interest expense associated with Tower 4 Liberty Bonds issued in November 2011 for the continued construction of WTC Tower 4. Partially offsetting these amounts was an $8 million increase in "4 WTC associated payments" reflecting the reimbursement from the WTC Tower 4 net lessee for accrued interest expense associated with Tower 4 Liberty Bonds.

## Capital Contributions and Passenger Facility Charges

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Contributions in aid of construction | **$997,441** | $767,010 | $358,268 |
| Passenger Facility Charges | **222,614** | 214,456 | 210,387 |
| 1 WTC LLC insurance proceeds | **3,525** | - | 42,814 |
| Total | **$1,223,580** | $981,466 | $611,469 |

### 2012 vs. 2011

Contributions in aid of construction, PFCs, and 1 World Trade Center LLC (1 WTC LLC) restricted insurance proceeds totaled $1.2 billion in 2012, an increase of $242 million when compared to 2011. The year-to-year increase was primarily due to an increase of $131 million received from the Federal Transit Administration (FTA) in connection with the WTC PATH Transportation Hub; a $100 million contribution from the WTC Retail Joint Venture, Westfield member to WTC Retail LLC for the further construction and development of retail space at the WTC site; an increase of $50 million in contributed capital from Silverstein net lessees for the construction of WTC Towers 2, 3 and 4; and a $20 million contribution from the Hugh L. Carey Battery Park City Authority for the construction of a Route 9A WTC site underpass. These increases were partially offset

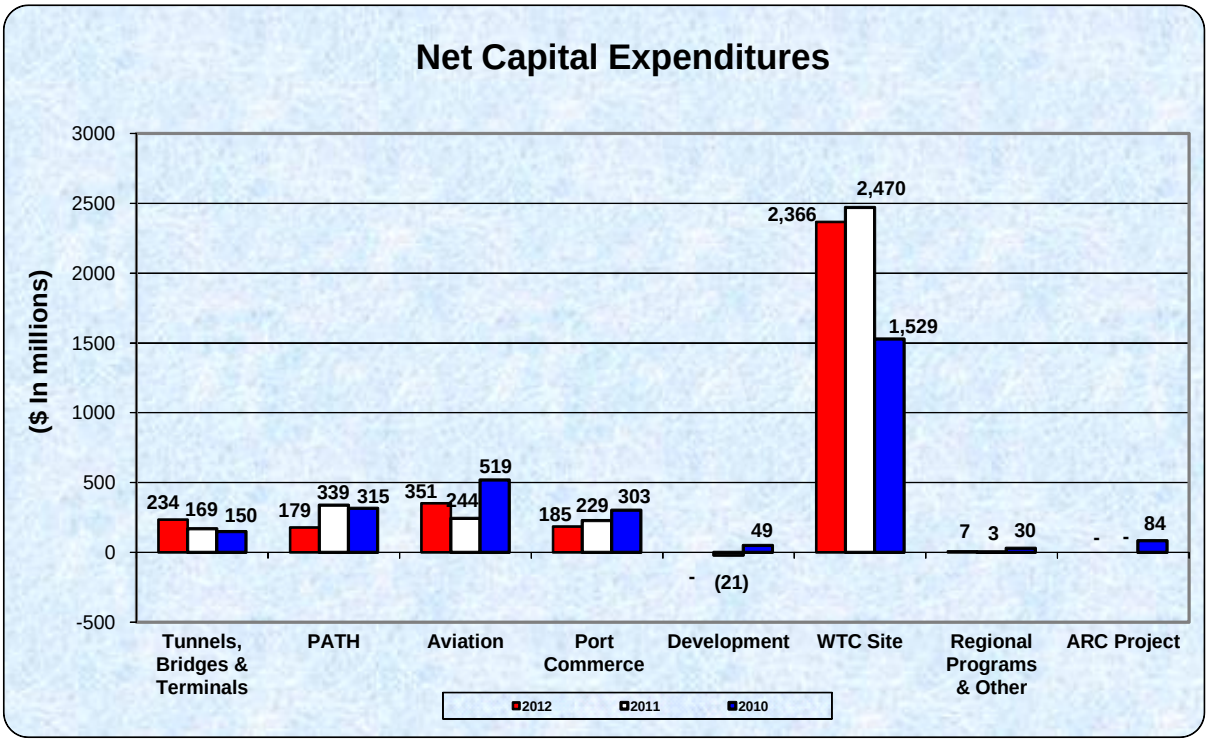
by a year-to-year decrease in Tower 1 Joint Venture LLC capital contributions from Durst made in 2011.

## 2011 vs. 2010

PFCs , 1 WTC LLC/ WTC Retail LLC restricted insurance proceeds, and other contributions in aid of construction totaled $981 million in 2011, representing a $370 million increase from 2010. The total year-to-year increase was primarily due to contributed capital amounts of $275 million from Silverstein net lessees for the construction of WTC Towers 2, 3 and 4, and a $100 million capital contribution by Durst for a minority equity interest in Tower 1 Joint Venture LLC. These increases were partially offset by a decrease of $43 million in insurance proceeds received in connection with the November 2006 global settlement of 1 WTC LLC and WTC Retail LLC allocated amounts of September 11, 2001 property damage and business interruption claims.

## Capital Construction Activities

Port Authority expenditures for capital construction projects, including contributed capital amounts, totaled $3.3 billion in 2012, $3.4 billion in 2011 and $3.0 billion in 2010. The following chart depicts net capital expenditures for the last three years summarized by line of business:



Funding sources for the $3.3 billion of Port Authority capital investment in 2012 were; $2.1 billion funded with proceeds received from the issuance of capital debt obligations, $395 million funded with FTA contributions in aid of construction for the WTC Transportation Hub, $354 million funded from WTC Towers 2, 3 and 4 net lessee capital contributions, $106 million applied from the Port Authority Consolidated Bond Reserve Fund, $102 million funded with PFCs, $100 million funded with WTC Retail Joint Venture capital contributions, $76 million funded with other contributions in aid of construction, $13 million funded with 1 WTC LLC and WTC Retail LLC insurance proceeds, and the balance funded through other sources.

Additional Port Authority capital investment information is contained in "Note B - Facilities, Net" to the consolidated financial statements and "Schedule F – Information on Port Authority Capital Program Components" located in the Statistical and Other Supplemental Information section of this report.

## 2013 Planned Capital Expenditures

Pending adoption of the capital budget for the calendar year 2013 by the Board of the Commissioners of the Port Authority, the Port Authority will continue to make capital expenditures, undertake contractual commitments, and continue planning, design and construction consistent with applicable authorization.

## Capital Financing and Debt Management

As of December 31, 2012, bonds and other asset financing obligations of the Port Authority totaled approximately $19.1 billion, excluding $1.2 billion associated with the issuance of Tower 4 Liberty Bonds.

During 2012, the Port Authority issued $4 billion of consolidated bonds and notes. Of this amount, $2.3 billion was allocated to fund capital project expenditures and $1.7 billion was allocated for the purpose of refunding existing outstanding obligations.

Listed below is a summary of credit ratings assigned to outstanding debt obligations of the Port Authority. On September 24, 2012, Moody's Investors Service changed its rating of the Port Authority's outstanding consolidated bonds to Aa3 from Aa2, with its overall economic outlook revised to stable from negative. All other ratings for the obligations outstanding in 2011 have remained the same for 2012. During 2012, Standard and Poor's (S&P) and Fitch Ratings considered the Port Authority's outlook as stable.

| OBLIGATION | S&P | Fitch Ratings | Moody's Investors Service |
|---|---|---|---|
| Consolidated Bonds | AA- | AA- | Aa3 |
| Commercial Paper | A-1+ | F1+ | P-1 |

Each rating reflects only the view of the ratings service issuing such rating and is not a recommendation by such ratings service to purchase, sell or hold any maturity of Port Authority obligations or as to market price or suitability of any maturity of the obligations for a particular investor. An explanation of the significance of a rating may be obtained from the ratings service issuing such rating. There is no assurance that any rating will continue for any period of time or that it will not be revised or withdrawn. A revision or withdrawal of a rating may have an effect on market price. Additional information on Port Authority obligations can be found in "Note D - Outstanding Obligations and Financing" to the consolidated financial statements.

## Consolidated Statements of Net Position

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash | **$ 3,692,900** | $ 3,297,365 |
| Restricted cash | **131,925** | 25,472 |
| Investments | **100,777** | 26,290 |
| Current receivables, net | **447,562** | 362,875 |
| Other current assets | **287,967** | 285,938 |
| Restricted receivables and other assets | **35,477** | 46,428 |
| Total current assets | **4,696,608** | 4,044,368 |
| Noncurrent assets: | | |
| Restricted cash | **6,472** | 7,765 |
| Investments | **1,835,720** | 1,356,269 |
| Restricted investments - PAICE | **162,630** | 156,356 |
| Other amounts receivable, net | **141,473** | 106,989 |
| Deferred charges and other noncurrent assets | **1,429,262** | 1,507,637 |
| Restricted deferred/other noncurrent assets - PAICE | **10,147** | 13,409 |
| Amounts receivable - Special Project Bonds | **1,656,350** | 1,720,536 |
| Amounts receivable - Tower 4 Liberty Bonds | **1,249,309** | 1,249,921 |
| Unamortized costs for regional programs | **549,161** | 620,183 |
| Facilities, net | **25,551,503** | 23,134,288 |
| Total noncurrent assets | **32,592,027** | 29,873,353 |
| Total assets | **37,288,635** | 33,917,721 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | **886,862** | 818,149 |
| Accrued interest and other current liabilities | **568,308** | 759,127 |
| Restricted other liabilities - PAICE | **852** | 816 |
| Accrued payroll and other employee benefits | **283,180** | 231,657 |
| Current portion bonds and other asset financing obligations | **1,048,953** | 825,919 |
| Total current liabilities | **2,788,155** | 2,635,668 |
| Noncurrent liabilities: | | |
| Accrued pension and other noncurrent employee benefits | **369,951** | 476,879 |
| Other noncurrent liabilities | **267,829** | 311,396 |
| Restricted other noncurrent liabilities - PAICE | **46,938** | 46,389 |
| Amounts payable - Special Project Bonds | **1,656,350** | 1,720,536 |
| Amounts payable - Tower 4 Liberty Bonds | **1,249,309** | 1,249,921 |
| Bonds and other asset financing obligations | **18,049,669** | 15,751,041 |
| Total noncurrent liabilities | **21,640,046** | 19,556,162 |
| Total liabilities | **24,428,201** | 22,191,830 |
| **NET POSITION** | **$ 12,860,434** | $ 11,725,891 |
| **Net position is composed of:** | | |
| Net investment in capital assets | **$ 10,010,965** | $ 10,020,306 |
| Restricted: | | |
| 1 WTC LLC/WTC Retail LLC insurance proceeds | **-** | 14,434 |
| Passenger Facility Charges | **132,228** | 19,590 |
| Port Authority Insurance Captive Entity, LLC | **160,161** | 160,436 |
| Minority interest in Tower 1 Joint Venture LLC | **100,000** | 100,000 |
| Unrestricted | **2,457,080** | 1,411,125 |
| **NET POSITION** | **$ 12,860,434** | $ 11,725,891 |

**See Notes to Consolidated Financial Statements**

## Consolidated Statements of Revenues, Expenses and Changes in Net Position

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| **Gross operating revenues:** | | |
| Tolls and fares | **$ 1,337,372** | $ 1,148,061 |
| Rentals | **1,208,730** | 1,150,569 |
| Aviation fees | **904,666** | 895,356 |
| Parking and other | **338,178** | 339,131 |
| Utilities | **152,945** | 154,810 |
| Rentals - Special Project Bonds Projects | **108,125** | 112,553 |
| Total gross operating revenues | **4,050,016** | 3,800,480 |
| **Operating expenses:** | | |
| Employee compensation, including benefits | **1,038,243** | 1,037,681 |
| Contract services | **749,106** | 726,883 |
| Rents and amounts in-lieu-of taxes | **304,020** | 280,237 |
| Materials, equipment and other | **215,937** | 219,183 |
| Utilities | **174,016** | 188,432 |
| Interest on Special Project Bonds | **108,125** | 112,553 |
| Total operating expenses before depreciation, amortization and other operating expenses | **2,589,447** | 2,564,969 |
| Net expenses/(recoverables) related to Hurricane Sandy | **30,000** | - |
| Depreciation of facilities | **884,239** | 852,727 |
| Amortization of costs for regional programs | **77,719** | 77,537 |
| Income from operations | **468,611** | 305,247 |
| **Non-operating revenues and (expenses):** | | |
| Interest income | **37,510** | 54,398 |
| Net increase/(decrease) in fair value of investments | **2,151** | (101,296) |
| Interest expense in connection with bonds and other asset financing | **(658,313)** | (559,110) |
| Net gain/(loss) on disposition of assets | **(4)** | - |
| Pass-through grant program payments | **(56,446)** | (11,507) |
| 4 WTC associated payments | **65,293** | 8,343 |
| Grants | **52,161** | 23,727 |
| Net non-operating revenues and (expenses) | **(557,648)** | (585,445) |
| Income before capital contributions and passenger facility charges | **(89,037)** | (280,198) |
| **Capital contributions and Passenger Facility Charges:** | | |
| Contributions in aid of construction | **997,441** | 767,010 |
| Passenger Facility Charges | **222,614** | 214,456 |
| 1 WTC LLC insurance proceeds | **3,525** | - |
| Total capital contributions and passenger facility charges | **1,223,580** | 981,466 |
| Increase in net position | **1,134,543** | 701,268 |
| Net position, January 1 | **11,725,891** | 11,024,623 |
| Net position, December 31 | **$ 12,860,434** | $ 11,725,891 |

**See Notes to Consolidated Financial Statements**

## Consolidated Statements of Cash Flows

| | Year Ended December 31, 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| **1. Cash flows from operating activities:** | | |
| Cash received from operations | **$ 3,914,471** | $ 3,788,114 |
| Cash paid to suppliers | **(1,040,440)** | (1,067,026) |
| Cash paid to or on behalf of employees | **(1,126,391)** | (1,097,311) |
| Cash paid to municipalities | **(313,511)** | (271,706) |
| Net cash provided by/(used for) operating activities | **1,434,129** | 1,352,071 |
| **Cash flows from noncapital financing activities:** | | |
| Principal paid on noncapital financing obligations | **(18,595)** | (30,485) |
| Payments for Fund for regional development buy-out obligation | **(51,213)** | (43,211) |
| Interest paid on noncapital financing obligations | **(149)** | (217) |
| Grants | **41,584** | 20,742 |
| Net cash provided by/(used for) noncapital financing activities | **(28,373)** | (53,171) |
| **Cash flows from capital and related financing activities:** | | |
| Proceeds from sales of capital obligations | **2,820,896** | 2,337,635 |
| Contribution for Tower 1 Joint Venture LLC minority equity interest | **-** | 100,000 |
| Proceeds from insurance related to 1 WTC LLC | **3,525** | - |
| Proceeds from WTC Retail Owner, LLC | **93,885** | - |
| Principal paid on capital obligations | **(224,425)** | (216,748) |
| Proceeds from capital obligations issued for refunding purposes | **1,663,115** | 1,132,865 |
| Principal paid through capital obligations refundings | **(1,663,115)** | (1,132,865) |
| Interest paid on capital obligations | **(815,373)** | (697,184) |
| Investment in facilities and construction of capital assets | **(2,688,209)** | (2,858,190) |
| Payments for MOTBY obligation | **(30,000)** | (35,000) |
| Financial income allocated to capital projects | **1,597** | 2,212 |
| Investment in regional programs | **(6,697)** | (3,332) |
| Proceeds from Passenger Facility Charges | **222,197** | 215,645 |
| Contributions in aid of construction | **476,364** | 420,671 |
| Net cash provided by/(used for) capital and related financing activities | **(146,240)** | (734,291) |
| **Cash flows from investing activities:** | | |
| Purchase of investment securities | **(1,706,458)** | (748,818) |
| Proceeds from maturity and sale of investment securities | **1,134,593** | 930,332 |
| Payments for termination of swap agreements | **(228,524)** | - |
| Interest received on investment securities | **32,977** | 40,420 |
| Other interest income | **8,591** | 9,224 |
| Net cash provided by/(used for) investing activities | **(758,821)** | 231,158 |
| Net increase in cash | **500,695** | 795,767 |
| Cash at beginning of year | **3,330,602** | 2,534,835 |
| Cash at end of year | **$ 3,831,297** | $ 3,330,602 |

**See Notes to Consolidated Financial Statements.**

## Consolidated Statements of Cash Flows (continued)

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| **2. Reconciliation of income from operations to net cash provided by operating activities:** | | |
| Income from operations | **$ 468,611** | $ 305,247 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | | |
| Depreciation of facilities | **884,239** | 852,727 |
| Amortization of costs for regional programs | **77,719** | 77,537 |
| Amortization of ancillary equipment | **76,123** | 81,462 |
| Change in operating assets and operating liabilities: | | |
| Decrease/(increase) in receivables | **(118,061)** | 113,308 |
| Decrease/(increase) in deferred charges and other assets | **(125,367)** | (83,332) |
| Increase/(decrease) in payables | **104,667** | 31,998 |
| Increase/(decrease) in other liabilities | **122,754** | 33,816 |
| Increase/(decrease) in accrued payroll, pension and other employee benefits | **(56,556)** | (60,692) |
| Total adjustments | **965,518** | 1,046,824 |
| Net cash provided by operating activities | **$ 1,434,129** | $ 1,352,071 |

### 3. Capital obligations:

Consolidated bonds and notes, commercial paper, and variable rate master notes.

### 4. Noncash investing, capital and financing activities:

Noncash activity of $34,898,000 in 2012 and $1,316,035,000 in 2011 included amortization of discount and premium on consolidated bonds and notes, accretion associated with capital appreciation bonds, and debt service in connection with Special Project Bonds and Tower 4 Liberty Bonds.

Noncash capital financing did not include any activities that required a change in fair value. In 2012, the Silverstein net lessees contributed $325 million towards construction of WTC Towers 2, 3 and 4, and financial income due Tower 1 Joint Venture Durst member and WTC Retail Joint Venture Westfield member totaled negative ($14) million.

## Note A – Nature of the Organization and Summary of Significant Accounting Policies

### 1. Reporting Entity

**a.** The Port Authority of New York and New Jersey was created in 1921 by Compact between the States of New York and New Jersey with the consent of the United States Congress. The Compact envisions the Port Authority as being financially self-sustaining. As such, the agency must raise the funds necessary for the improvement, construction or acquisition of its facilities and their operation generally upon the basis of its own credit. Cash derived from Port Authority operations and other cash received may be disbursed only for specific purposes in accordance with provisions of various statutes and agreements with holders of its obligations and others. The costs of providing facilities and services to the general public on a continuing basis are recovered primarily from operating revenue sources, including rentals, tolls, fares, aviation and port fees, and other charges.

**b.** The Governor of each State, with the consent of the respective State Senate, appoints six of the twelve members of the governing Board of Commissioners. The Commissioners serve without remuneration for six-year overlapping terms. Meetings of the Commissioners of the Port Authority are open to the public in accordance with policies adopted by the Commissioners. The actions taken by the Commissioners at Port Authority meetings are subject to gubernatorial review and may be vetoed by the Governor of their respective State.

**c.** The Audit Committee, which consists of four members of the Board of Commissioners other than the Chairman and Vice Chairman of the Port Authority, provides oversight of the quality and integrity of the Port Authority's framework of internal controls, compliance systems and the accounting, auditing and financial reporting processes. The Audit Committee retains independent auditors and reviews their performance and independence. The independent auditors are required to provide written disclosure of, and discuss with the Committee, any significant relationships or issues that would have a bearing on their independence. The Audit Committee meets directly, on a regular basis, with the independent auditors, a law firm retained to address certain Audit Committee matters, and management of the Port Authority. For the year ending December 31, 2011, Deloitte & Touche LLP served as independent auditors. On December 8, 2011, the Audit Committee selected KPMG LLP as independent auditors to perform the audit for the year ending December 31, 2012.

**d.** The consolidated financial statements and schedules include the accounts of The Port Authority of New York and New Jersey and its component units including:

| Port Authority Blended Component Units* | Establishment or Acquisition Date |
|---|---|
| Port Authority Trans-Hudson Corporation | May 10, 1962 |
| Newark Legal and Communications Center Urban Renewal Corporation | May 12, 1988 |
| New York and New Jersey Railroad Corporation | April 30, 1998 |
| WTC Retail LLC | November 20, 2003 |
| Port District Capital Projects LLC | July 28, 2005 |
| Tower 5 LLC (formerly known as 1 WTC LLC) | September 21, 2006 |
| Port Authority Insurance Captive Entity, LLC | October 16, 2006 |
| New York New Jersey Rail, LLC | September 18, 2008 |
| Tower 1 Member LLC | April 19, 2011 |
| Tower 1 Joint Venture LLC | April 19, 2011 |
| Tower 1 Holdings LLC | April 19, 2011 |
| WTC Tower 1 LLC | April 19, 2011 |
| PA Retail Newco LLC | May 7, 2012 |
| Tower 1 Rooftop Holdings LLC | June 8, 2012 |

* The blended component units listed above are included as part of the Port Authority's reporting entity because the Port Authority's Board of Commissioners serves as the overall governing body of these related entities.

## 2. Basis of Accounting

**a.** The Port Authority's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

**b.** The Port Authority follows Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which requires the Port Authority to follow the pronouncements of the GASB in its accounting and financial reporting. GASB Statement No. 62 superseded previous guidance contained in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Funds Accounting*.

## 3. Significant Accounting Policies

**a.** Facilities are carried at cost. The costs for facilities include net interest expense incurred from the date of issuance of the debt to finance construction until the capital project is completed and ready for its intended use. Generally, projects in excess of $100,000 for additions, asset replacements and/or asset improvements that benefit future accounting periods or are expected to prolong the service lives

of assets beyond their originally assigned lives are capitalized (see Note B). Facilities do not include regional programs undertaken at the request of the Governor of the State of New Jersey or the Governor of the State of New York (see Note H).

**b.** Depreciation of facilities is computed using the straight-line method during the estimated useful lives of the related assets (see Note B). The useful lives of assets are developed by the various related disciplines in the Port Authority's Engineering Department utilizing past experience, standard industrial expectations, and external sources such as consultants, manufacturers and contractors. Useful lives are reviewed periodically for each specific type of asset class. Asset lives used in the calculation of depreciation are generally as follows:

| | |
|---|---|
| Buildings, bridges, tunnels and other structures | 25 to 100 years |
| Machinery and equipment | 5 to 35 years |
| Runways, roadways and other paving | 7 to 40 years |
| Utility infrastructure | 20 to 40 years |

Assets located at facilities leased by the Port Authority from others are depreciated over the lesser of, the remaining term of the facility lease or the asset life stated above.

Costs of regional programs are deferred and amortized on a straight-line basis over the period benefited up to a maximum of 15 years (see Note H). In addition, certain operating costs, which provide benefits for periods exceeding one year, are deferred as a component of deferred charges and amortized over the period benefited.

**c.** Cash consists of cash on hand and short term cash equivalents. Cash equivalents are made up of negotiable order of withdrawal (NOW) accounts, collateralized time deposits, and money market accounts.

**d.** Restricted cash is primarily comprised of insurance proceeds, which are restricted to business interruption and redevelopment expenditures, PFCs and operating cash restricted for use by PAICE.

**e.** Net position is displayed in three components as follows:

Net investment in capital assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net resources that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the

Port Authority's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This consists of net resources that do not meet the definition of "Restricted" or "Net investment in capital assets."

**f.** Statutory reserves held by PAICE are restricted for purposes of insuring certain risk exposures.

**g.** Inventories are valued using an average cost method which prices items on the basis of the average cost of all similar goods remaining in stock. Inventory is reported as a component of "Deferred charges and other noncurrent assets" on the Consolidated Statements of Net Position.

**h.** Operating revenues are derived principally from rentals, tolls, fares, aviation and port fees, and other charges for the use of, and privileges at Port Authority facilities, and amounts reimbursed for operating activities. Operating expenses include those costs incurred for the operation, maintenance and security of Port Authority facilities. All other revenues, including financial income, PFCs, contributions in aid of construction, grants, insurance proceeds and gains resulting from the disposition of assets, if any, are reported as non-operating revenues, and all other expenses, such as interest expense, losses resulting from the disposition of assets, and pass-through grant program payment costs are reported as non-operating expenses.

**i.** Amounts attributable to the collection and investment of PFCs are restricted and can only be used for Federal Aviation Administration (FAA) approved airport-related projects. Revenue derived from the collection of PFCs, net of the air carriers' handling charges, is recognized and accrued as non-operating revenue when the passenger activity occurs and the fees are due from the air carriers. PFC revenue applied to eligible capital projects is reflected as a component of "Facilities, net."

**j.** Contributed capital amounts for the further construction of the WTC retail premises from the New WTC Retail Owner LLC, Westfield member are included as a component of contributions in aid of construction.

**k.** All Port Authority investment values that are affected by interest rate changes have been reported at their fair value, using published market prices. The Port Authority uses a variety of financial instruments to assist in the management of its financing and investment objectives, and may also employ hedging strategies to minimize interest rate risk and enters into various derivative instruments, including options on United States Treasury securities, repurchase and reverse repurchase (yield maintenance) agreements, United States Treasury and municipal bond futures contracts (see Note C) and swap agreements (see Note D-3).

**l.** When issuing new debt for refunding purposes, the difference between the acquisition price of the new debt and the net carrying amount of the refunded debt is deferred and amortized using the straight-line method as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**m.** The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions are subject to various uncertainties, the occurrence of which may cause differences between those estimates and assumptions and actual results.

**n.** In 2012, The Port Authority implemented guidance provided in GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As of December 31, 2012, the Port Authority was not engaged in hedging derivative instruments applicable under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* or service concession agreements prescribed under GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* that would require the recognition of deferred outflows of resources or deferred inflows of resources in 2012. However, in accordance with GASB Statement No. 63 the term "Net Assets" has been replaced with "Net Position" on the Port Authority's Consolidated Statements of Net Position, and Consolidated Statements of Revenues, Expenses and Changes in Net Position.

**o.** GASB issued Statement No. 61, *The Financial Reporting Entity*, in November 2010, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in March 2012 that are effective for financial statements for periods beginning after December 15, 2012. The Port Authority has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 61 and No. 65 and, therefore, is unable to disclose the impact that adopting these statements will have on its financial position and results of operations.

## 4. Reconciliation of the Consolidated Financial Statements Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America to Schedules Prepared Pursuant to Port Authority Bond Resolutions

Schedules A, B and C, which follow the Required Supplementary Information section of this report, have been prepared in accordance with Port Authority bond resolutions which differ in some respects from accounting principles that are generally accepted in the United States of America, as follows:

**a.** The revenues and expenses of facilities are accounted for in the operating fund. The financial resources expended for the construction or acquisition of major

facilities or improvements are accounted for in the capital fund. Transactions involving the application of net revenues are accounted for in the reserve funds.

**b.** Port Authority bond resolutions provide that net operating revenues shall not include an allowance for depreciation on facilities other than the depreciation of ancillary equipment. Thus, depreciation is not a significant factor in determining the net revenues and the reserves of the Port Authority or their application as provided in the Port Authority's bond resolutions. Instead, facility capital costs are provided for through deductions from net revenues and reserves of amounts equal to principal payments on debt or through direct investment in facilities. These amounts are credited at par to "Facility infrastructure investment" on Schedule B – Assets and Liabilities.

**c.** Debt service in connection with operating asset obligations is paid from the same revenues and in the same manner as operating expenses of the Port Authority.

**d.** Capital costs for regional programs are included in "Invested in facilities" in accordance with Port Authority bond resolutions.

**e.** Consolidated bonds and notes are recorded as outstanding at their par value commencing on the date that the Port Authority is contractually obligated to issue and sell such obligations. Discounts and premiums associated with bonds issued in connection with capital investment are capitalized at issuance and are included in "Invested in facilities."

**f.** To reflect the cumulative amount invested by the Port Authority since 1921 in connection with its facilities, the cost of assets removed from service is not deducted from "Invested in facilities." However, in the event of the sale of assets removed from service or recovery of amounts related to assets destroyed or damaged, the amount of proceeds received from such sale or recovery is deducted from "Invested in facilities."

**g.** Contributed capital amounts resulting from non-monetary voluntary non-exchange transactions are included in "Invested in facilities" and credited to "Facility infrastructure investment" at the capital asset's fair value.

A reconciliation of the Consolidated Statements of Net Position to Schedule B and the Consolidated Statements of Revenues, Expenses and Changes in Net Position to Schedule A follows:

## Consolidated Statements of Net Position to Schedule B – Assets and Liabilities

| | | December 31, 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Net position reported on Consolidated Statements of Net Position | | **$ 12,860,434** | $ 11,725,891 |
| Add: | Accumulated depreciation of facilities | **11,473,543** | 10,673,443 |
| | Accumulated retirements and gains and losses on disposal of invested in facilities | **2,053,086** | 1,968,943 |
| | Cumulative amortization of costs for regional programs | **1,223,636** | 1,145,917 |
| | Cumulative amortization of discount and premium | **67,842** | 75,184 |
| | **Subtotal** | **14,818,107** | 13,863,487 |
| Less: | Deferred income - 1 WTC LLC/WTC Retail LLC insurance proceeds | **-** | 14,434 |
| | Restricted Net Revenues - PAICE | **(764)** | 1,946 |
| | Deferred income in connection with PFCs | **132,228** | 19,590 |
| | **Subtotal** | **131,464** | 35,970 |
| | **Total** | **$ 27,547,077** | $ 25,553,408 |
| Net position reported on Schedule B - Assets and Liabilities (pursuant to Port Authority bond resolutions) | | **$ 27,547,077** | $ 25,553,408 |

## Consolidated Statements of Revenues, Expenses and Changes in Net Position to Schedule A – Revenues and Reserves

| | | Year ended December 31, 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Increase in net position reported on Consolidated Statements of Revenues, Expenses and Changes in Net Position | | **$ 1,134,543** | $ 701,268 |
| Add: | Depreciation of facilities | **884,239** | 852,727 |
| | Application of 1 WTC LLC/WTC Retail LLC insurance proceeds | **17,962** | 57,340 |
| | Application of PFCs | **110,015** | 215,645 |
| | Amortization of costs for regional programs | **77,719** | 77,537 |
| | Amortization of discount and premium | **(7,342)** | 4,876 |
| | Restricted Net Revenues - PAICE | **2,710** | 644 |
| | Loss on disposition of assets | **4** | - |
| | Decrease in appropriations for self-insurance | **37,547** | 1,949 |
| | **Subtotal** | **1,122,854** | 1,210,718 |
| Less: | Debt maturities and retirements | **169,770** | 140,390 |
| | Debt retirement acceleration | **54,635** | 6,100 |
| | Repayment of asset financing obligations | **16,514** | 20,258 |
| | Non-monetary capital contributions | **327,179** | 279,714 |
| | Direct investment in facilities | **691,079** | 742,001 |
| | PFCs | **222,614** | 214,456 |
| | 1 WTC LLC insurance proceeds | **3,525** | - |
| | 1 WTC LLC/WTC Retail LLC interest income | **3** | 43 |
| | PFC interest income/Fair Value Adjustment | **39** | - |
| | Contribution from New WTC Retail Owner LLC | **100,000** | - |
| | **Subtotal** | **1,585,358** | 1,402,962 |
| | **Total** | **$ 672,039** | $ 509,024 |
| Increase/(decrease) in reserves reported on Schedule A - Revenues and Reserves (pursuant to Port Authority bond resolutions) | | **$ 672,039** | $ 509,024 |

## Note B - Facilities, Net

**1.** Facilities, net is comprised of the following:

| | Beginning of Year | Additions / (Dispositions) | Transfers | Retirements | End of Year |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **2012** | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | $ 1,060,160 | $ - | $ 23,358 | $ (404) | $ 1,083,114 |
| Construction in progress | 8,471,807 | 3,315,277 | (923,745) | - | 10,863,339 |
| Total capital assets not being depreciated | 9,531,967 | 3,315,277 | (900,387) | (404) | 11,946,453 |
| Other capital assets: | | | | | |
| Buildings, bridges, tunnels, other structures | 8,616,850 | - | 304,244 | (13,602) | 8,907,492 |
| Machinery and equipment | 7,811,193 | - | 144,393 | (69,032) | 7,886,554 |
| Runways, roadways and other paving | 4,270,143 | - | 288,208 | (1,586) | 4,556,765 |
| Utility infrastructure | 3,577,578 | - | 163,542 | (13,338) | 3,727,782 |
| Other capital assets being depreciated | 24,275,764 | - | 900,387 | (97,558) | 25,078,593 |
| Less accumulated depreciation: | | | | | |
| Buildings, bridges, tunnels, other structures | 3,466,550 | 224,190 | - | (13,152) | 3,677,588 |
| Machinery and equipment | 3,345,998 | 302,162 | - | (63,955) | 3,584,205 |
| Runways, roadways and other paving | 2,259,755 | 212,211 | - | (1,586) | 2,470,380 |
| Utility infrastructure | 1,601,140 | 145,675 | - | (5,445) | 1,741,370 |
| Accumulated depreciation | 10,673,443 | 884,238 | - | (84,138) | 11,473,543 |
| Total other capital assets, net | 13,602,321 | (884,238) | 900,387 | (13,420) | 13,605,050 |
| Facilities, net | $ 23,134,288 | $ 2,431,039 | $ - | $ (13,824) | $ 25,551,503 |
| **2011** | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | $ 1,108,399 | $ - | $ (48,239) | $ - | $ 1,060,160 |
| Construction in progress | 7,099,813 | 3,429,615 | (2,057,621) | - | 8,471,807 |
| Total capital assets not being depreciated | 8,208,212 | 3,429,615 | (2,105,860) | - | 9,531,967 |
| Other capital assets: | | | | | |
| Buildings, bridges, tunnels, other structures | 7,958,041 | - | 660,026 | (1,217) | 8,616,850 |
| Machinery and equipment | 6,814,568 | - | 1,068,009 | (71,384) | 7,811,193 |
| Runways, roadways and other paving | 4,153,343 | - | 118,725 | (1,925) | 4,270,143 |
| Utility infrastructure | 3,329,336 | - | 259,100 | (10,858) | 3,577,578 |
| Other capital assets being depreciated | 22,255,288 | - | 2,105,860 | (85,384) | 24,275,764 |
| Less accumulated depreciation: | | | | | |
| Buildings, bridges, tunnels, other structures | 3,257,439 | 210,328 | - | (1,217) | 3,466,550 |
| Machinery and equipment | 3,071,637 | 345,745 | - | (71,384) | 3,345,998 |
| Runways, roadways and other paving | 2,099,119 | 162,561 | - | (1,925) | 2,259,755 |
| Utility infrastructure | 1,477,905 | 134,093 | - | (10,858) | 1,601,140 |
| Accumulated depreciation | 9,906,100 | 852,727 | - | (85,384) | 10,673,443 |
| Total other capital assets, net | 12,349,188 | (852,727) | 2,105,860 | - | 13,602,321 |
| Facilities, net | $ 20,557,400 | $ 2,576,888 | $ - | $ - | $ 23,134,288 |

**2.** Net interest expense added to the cost of facilities was $280 million in 2012 and $217 million in 2011.

**3.** Projects that have been suspended pending determination of their continued viability totaled $17.6 million in 2012 and $54.4 million in 2011.

**4**. The impact on accelerated depreciation associated with Port Authority capital assets was $2 million in 2012 and $3.2 million in 2011.

## Note C - Cash and Investments

**1.** The components of cash and investments are:

| | December 31, 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| **CASH** | | |
| Cash on hand | **$ 1,730** | $ 2,331 |
| Cash equivalents | **3,829,567** | 3,328,271 |
| Total cash | **3,831,297** | 3,330,602 |
| Less restricted cash | **138,397** | 33,237 |
| Unrestricted cash | **$ 3,692,900** | **$ 3,297,365** |

| | December 31, 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| **PORT AUTHORITY INVESTMENTS AT FAIR VALUE** | | |

| | Port Authority | PAICE | Total | Total |
|---|---|---|---|---|
| United States Treasury notes | **$ 1,705,622** | **$ 109,632** | **$1,815,254** | $ 1,027,774 |
| United States Treasury bonds | **-** | **4,245** | **4,245** | 32,624 |
| United States Treasury bills | **100,777** | **-** | **100,777** | 26,290 |
| United States government agency obligations | **-** | **47,595** | **47,595** | 42,100 |
| Corporate Bonds * | **-** | **-** | **-** | 267,223 |
| JFK International Air Terminal LLC obligations | **118,029** | **-** | **118,029** | 129,274 |
| Other governmental obligations | **7,097** | **-** | **7,097** | 7,084 |
| Accrued interest receivable | **4,972** | **1,158** | **6,130** | 6,546 |
| Total investments | **1,936,497** | **162,630** | **2,099,127** | 1,538,915 |
| Less current investments | **100,777** | **-** | **100,777** | 26,290 |
| Noncurrent investments | **$ 1,835,720** | **$ 162,630** | **$1,998,350** | $ 1,512,625 |

* Guaranteed by the Federal Deposit Insurance Corporation under the Temporary Liquidity Guarantee Program, rated Aaa by Moody's Investors Service and AA+ by Standard & Poors.

**2.** Port Authority policy provides for funds of the Port Authority to be deposited in banks with offices located in the Port District, provided that the total funds on deposit in any bank do not exceed 50% of the bank's combined capital and permanent surplus. These funds must be fully secured by deposit of collateral having a minimum market value of 110% of average daily balances in excess of that part of the deposits secured through the Federal Deposit Insurance Corporation (FDIC). Actual daily balances may differ from the average daily balances. The collateral must consist of obligations of the United States of America, the Port Authority, the State of New York or the State of New Jersey held in custodial bank accounts in banks in the Port District having combined capital and surplus in excess of $1 million.

Total actual bank balances excluding amounts held by third party trustees were $3.7 billion as of December 31, 2012. Of that amount, $348 million was secured through the basic FDIC deposit insurance coverage for interest bearing accounts or was secured through the FDIC unlimited deposit insurance coverage for "non-interest bearing transaction accounts." The balance of $3.4 billion was fully collateralized with collateral held by a third party custodian acting as the Port Authority's agent and held by such custodian in the Port Authority's name.

**3.** The investment policies of the Port Authority are established in conformity with its agreements with the holders of its obligations, generally through resolutions of the Board of Commissioners or its Committee on Finance. For the Port Authority, but not necessarily its related entities, individual investment transactions are executed with recognized and established securities dealers and commercial banks. Investment securities are maintained, in the Port Authority's name, by a third party financial institution acting as the Port Authority's agent. Securities transactions are conducted in the open market at competitive prices. Transactions (including repurchase and reverse repurchase agreement transactions) are completed when the Port Authority's securities custodian, in the Port Authority's name, makes or receives payment upon receipt of confirmation that the securities have been transferred at the Federal Reserve Bank of New York or other repository in accordance with the Port Authority's instructions.

Proceeds of "Bonds and other asset financing obligations" may be invested, on an interim basis, in conformance with applicable Federal laws and regulations, in obligations of (or fully guaranteed by) the United States of America (including such securities held pursuant to repurchase agreements) and collateralized time deposit accounts. Consolidated Bond Reserve Fund and General Reserve Fund amounts may be invested in obligations of (or fully guaranteed by) the United States of America. Additionally, amounts in the Consolidated Bond Reserve Fund and the General Reserve Fund (subject to certain limitations) may be invested in obligations of the State of New York or the State of New Jersey, collateralized time accounts, and Port Authority bonds actually issued and secured by a pledge of the General Reserve Fund. Operating funds may be invested in various items including (a) direct obligations of the United States of America, obligations of United States government agencies, and sponsored enterprises that have the highest short-term ratings by two nationally recognized firms; (b) investment grade negotiable certificates of deposit and negotiable Bankers' Acceptances with banks having AA or

better long-term debt rating, premier status and with issues actively traded in secondary markets; (c) commercial paper having only the highest short-term ratings separately issued by two nationally recognized rating agencies; (d) United States Treasury and municipal bond futures contracts; (e) certain interest rate exchange contracts with banks and investment firms; (f) certain interest rate options contracts that are limited to $50 million of underlying securities with a maturity of no greater than five years with primary dealers in United States Treasury securities; and (g) certain unrated obligations of JFKIAT LLC (presently comprising approximately 6.1% of total Port Authority investments at December 31, 2012) for certain costs attributable to the completion of Terminal 4 (JFKIAT). The Board has from time to time authorized other investments of operating funds.

It is the general policy of the Port Authority to limit exposure to declines in fair market values by limiting the weighted average maturity of the investment portfolio to less than two years. Extending the weighted average maturity beyond two years requires explicit written approval of the Chief Financial Officer. Committee on Finance authorization is required to extend the weighted average maturity beyond five years.

The following is the fair value and weighted average maturity of investments held by the Port Authority, excluding PAICE, at December 31, 2012:

| PA Investment Type | Fair Value (In thousands) | Weighted Average Maturity (In days) |
|---|---|---|
| United States Treasury notes | $ 1,705,622 | 847 |
| United States Treasury bills | 100,777 | 5 |
| Corporate Bonds | - | - |
| JFK International Air Terminal LLC obligations | 118,029 | 4,642 |
| Other governmental obligations | 7,097 | 593 |
| Total fair value of investments* | $ 1,931,525 | |
| Investments weighted average maturity | | 1,034 |

* Excludes accrued interest receivable amounts of $5 million.

The Port Authority has, from time to time, entered into reverse repurchase (yield maintenance) agreements under which the Port Authority contracted to sell a specified United States Treasury security to a counterparty and simultaneously agreed to purchase it back from that party at a predetermined price and future date. All reverse repurchase agreements sold are matched to repurchase agreements bought, thereby minimizing market risk. The credit risk is managed by a daily evaluation of the market value of the underlying securities and periodic cash adjustments, as necessary, in accordance with the terms of the repurchase agreements. There were no investments in reverse repurchase agreements at December 31, 2012.

**4.** The investment policies of PAICE have been established and approved by the PAICE Board of Directors, which is comprised of Port Authority executive staff. Consistent with the Port Authority Board of Commissioners' authorization with respect to the establishment of PAICE as a wholly owned entity of the Port Authority, PAICE provides the Port Authority Board of Commissioners' Committee on Finance with periodic updates on PAICE's investment activities.

Under PAICE's investment policies, eligible investments include money market demand accounts of commercial banks, not to exceed bank deposit insurance limits, and/or taxable or tax-exempt money market mutual funds that offer daily purchase and redemption while maintaining a constant share price and whose fund assets are primarily United States Treasury notes and bonds and whose assets are at least $500 million. Other investments include: United States Treasury securities and United States government agency obligations, AAA rated tax-exempt general obligation issues of states, and U.S. dollar denominated corporate debt rated AA or above.

The following is the fair value and weighted average maturity of investments held by PAICE at December 31, 2012:

| PAICE Investment Type | Fair Value (In thousands) | Weighted Average Maturity (In days) |
|---|---|---|
| United States Treasury notes | $ 109,632 | 820 |
| United States Treasury bonds | 4,245 | 316 |
| United States government agency obligations | 47,595 | 638 |
| Total fair value of investments* | $161,472 | |
| Investments weighted average maturity | | 761 |

* Excludes accrued interest receivable amounts of $1.2 million.

## Note D - Outstanding Obligations and Financing

Obligations noted with (*) throughout Note D-1 and D-2 are subject to the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended, with respect to individuals and corporations. Obligations noted with (**) are subject to federal taxation.

### D-1. Outstanding bonds and other asset financing obligations

| | | December 31, 2012 | | |
|---|---|---|---|---|
| | | Current | Noncurrent | Total |
| | | | (In thousands) | |
| A. | Consolidated Bonds and Notes | $459,920 | $17,712,099 | $18,172,019 |
| B. | Commercial Paper Notes | 384,625 | - | 384,625 |
| C. | Variable Rate Master Notes | 77,900 | - | 77,900 |
| D. | Versatile Structure Obligations | - | - | - |
| E. | Port Authority Equipment Notes | 49,565 | - | 49,565 |
| F. | Fund for Regional Development Buy-Out Obligation | 51,212 | 285,241 | 336,453 |
| G. | MOTBY Obligation | 25,731 | 52,329 | 78,060 |
| H. | Tower 4 Liberty Bonds | - | 1,249,309 | 1,249,309 |
| | | $1,048,953 | $19,298,978 | $20,347,931 |

| | | December 31, 2011 | | |
|---|---|---|---|---|
| | | Current | Noncurrent | Total |
| | | | (In thousands) | |
| A. | Consolidated Bonds and Notes | $205,410 | $15,364,335 | $15,569,745 |
| B. | Commercial Paper Notes | 396,155 | - | 396,155 |
| C. | Variable Rate Master Notes | 77,900 | - | 77,900 |
| D. | Versatile Structure Obligations | - | - | - |
| E. | Port Authority Equipment Notes | 68,160 | - | 68,160 |
| F. | Fund for Regional Development Buy-Out Obligation | 51,213 | 308,646 | 359,859 |
| G. | MOTBY Obligation | 27,081 | 78,060 | 105,141 |
| H. | Tower 4 Liberty Bonds | - | 1,249,921 | 1,249,921 |
| | | $825,919 | $17,000,962 | $17,826,881 |

**Note D - Outstanding Obligations and Financing (continued)**

## A. Consolidated Bonds and Notes

| | | December 31, 2012 | | | |
|---|---|---|---|---|---|
| | | Dec. 31, 2011 | Issued/ Accreted | Refunded/ Retired | Dec. 31, 2012 |
| | | | (In thousands) | | |
| **Consolidated bonds and notes** | | | | | |
| Seventy-fourth series (a) | Due 2013-2014 | $ 11,849 | $ 343 | $ 4,160 | $ 8,032 |
| Eighty-fifth series | 5.2%-5.375% due 2013-2028 | 87,000 | - | 3,200 | 83,800 |
| Eighty-sixth series | 5.2% due 2012 | 3,855 | - | 3,855 | - |
| Ninety-third series | 6.125% due 2085-2094 | 100,000 | - | - | 100,000 |
| One hundred third series | 5.25% due 2012-2014 | 19,895 | - | 19,895 | - |
| One hundred thirteenth series | 4.75% due 2012-2013 | 10,500 | - | 10,500 | - |
| One hundred sixteenth series | 4.25%-5.25% due 2013-2033 | 392,150 | - | 12,280 | 379,870 |
| One hundred twenty-fourth series* | 4.75%-5% due 2013-2036 | 202,460 | - | 12,220 | 190,240 |
| One hundred twenty-fifth series | 5% due 2018-2032 | 300,000 | - | 300,000 | - |
| One hundred twenty-sixth series* | 5%-5.5% due 2012-2037 | 198,415 | - | 198,415 | - |
| One hundred twenty-seventh series* | 5%-5.5% due 2012-2037 | 220,305 | - | 220,305 | - |
| One hundred twenty-eighth series | 4.75%-5% due 2013-2032 | 232,275 | - | 4,140 | 228,135 |
| One hundred twenty-ninth series | 3.75%-4% due 2013-2015 | 29,715 | - | 6,300 | 23,415 |
| One hundred thirtieth series | 3.625%-3.75% due 2013-2015 | 31,085 | - | 7,375 | 23,710 |
| One hundred thirty-first series* | 4.625%-5% due 2013-2033 | 431,895 | - | 9,490 | 422,405 |
| One hundred thirty-second series | 5% due 2024-2038 | 300,000 | - | - | 300,000 |
| One hundred thirty-third series | 3.4%-4.4% due 2013-2021 | 152,180 | - | 16,000 | 136,180 |
| One hundred thirty-fourth series | 4%-5% due 2013-2039 | 241,530 | - | 3,125 | 238,405 |
| One hundred thirty-fifth series | 4.5%-5% due 2024-2039 | 400,000 | - | - | 400,000 |
| One hundred thirty-sixth series* | 5%-5.5% due 2013-2034 | 339,720 | - | 2,725 | 336,995 |
| One hundred thirty-seventh series* | 4.125%-5.5% due 2013-2034 | 226,650 | - | 4,180 | 222,470 |
| One hundred thirty-eighth series* | 4.25%-5% due 2013-2034 | 327,440 | - | 7,785 | 319,655 |
| One hundred thirty-ninth series* | 4.5%-5% due 2013-2025 | 152,535 | - | 8,895 | 143,640 |
| One hundred fortieth series | 4.125%-5% due 2016-2035 | 400,000 | - | - | 400,000 |
| One hundred forty-first series* | 4.5%-5% due 2016-2035 | 350,000 | - | - | 350,000 |
| One hundred forty-second series | 4%-5% due 2015-2036 | 350,000 | - | - | 350,000 |
| One hundred forty-third series* | 5% due 2016-2036 | 500,000 | - | - | 500,000 |
| One hundred forty-fourth series | 4.25%-5% due 2026-2035 | 300,000 | - | - | 300,000 |
| One hundred forty-fifth series** | 5.75% due 2027-2032 | 250,000 | - | 250,000 | - |
| One hundred forty-sixth series* | 4.25%-5% due 2016-2036 | 500,000 | - | - | 500,000 |
| One hundred forty-seventh series* | 4.75%-5% due 2017-2037 | 450,000 | - | - | 450,000 |
| One hundred forty-eighth series | 5% due 2015-2037 | 500,000 | - | - | 500,000 |
| One hundred forty-ninth series | 4%-5% due 2017-2037 | 400,000 | - | - | 400,000 |
| One hundred fiftieth series** | 4.125%-6.4% due 2013-2027 | 350,000 | - | - | 350,000 |
| One hundred fifty-first series* | 5.25%-6% due 2019-2035 | 350,000 | - | - | 350,000 |
| One hundred fifty-second series* | 4.75%-5.75% due 2018-2038 | 400,000 | - | - | 400,000 |
| One hundred fifty-third series | 4%-5% due 2018-2038 | 500,000 | - | - | 500,000 |
| One hundred fifty-fourth series | 3%-5% due 2013-2029 | 92,335 | - | 3,925 | 88,410 |
| One hundred fifty-fifth series | 2%-3.5% due 2013-2019 | 61,700 | - | 12,000 | 49,700 |
| One hundred fifty-sixth series | 4%-5% due 2025-2039 | 100,000 | - | - | 100,000 |
| One hundred fifty-seventh series** | 5.309% due 2019 | 150,000 | - | - | 150,000 |
| One hundred fifty-eighth series** | 5.859% due 2024 | 250,000 | - | - | 250,000 |
| One hundred fifty-ninth series** | 6.04% due 2029 | 350,000 | - | - | 350,000 |
| One hundred sixtieth series | 4%-5% due 2030-2039 | 300,000 | - | - | 300,000 |
| One hundred sixty-first series | 4.25%-5% due 2030-2039 | 300,000 | - | - | 300,000 |
| One hundred sixty-second series | 1.75%-3.3% due 2013-2020 | 87,070 | - | 18,020 | 69,050 |
| One hundred sixty-third series | 2.5%-5% due 2017-2040 | 400,000 | - | - | 400,000 |
| One hundred sixty-fourth series** | 5.647% due 2035-2040 | 425,000 | - | - | 425,000 |
| One hundred sixty-fifth series** | 5.647% due 2035-2040 | 425,000 | - | - | 425,000 |
| One hundred sixty-sixth series | 5%-5.25% due 2030-2041 | 300,000 | - | - | 300,000 |
| One hundred sixty-seventh series* | 4%-5.50% due 2013-2028 | 225,000 | - | 12,190 | 212,810 |
| One hundred sixty-eighth series** | 4.926% due 2047-2051 | 1,000,000 | - | - | 1,000,000 |
| One hundred sixty-ninth series* | 4%-5% due 2013-2041 | 400,000 | - | 17,905 | 382,095 |
| One hundred seventieth series (b) | 5%-5.25% due 2039-2043 | 672,480 | - | - | 672,480 |
| One hundred seventy-first series | 4%-5% due 2030-2042 | - | 400,000 | - | 400,000 |
| One hundred seventy-second series* | 3%-5% due 2013-2037 | - | 400,000 | - | 400,000 |
| One hundred seventy-third series | 3%-5% due 2018-2032 | - | 300,000 | - | 300,000 |
| Series ZZ | 1% due 2012 | - | 300,000 | 300,000 | - |
| One hundred seventy-fourth series** | 4.458% due 2053-2062 | - | 2,000,000 | - | 2,000,000 |
| One hundred seventy-fifth series | 3%-5% due 2013-2042 | - | 425,000 | - | 425,000 |
| One hundred seventy-sixth series** | 0.4%-2.5% due 2013-2022 | - | 170,000 | - | 170,000 |
| Consolidated bonds and notes pursuant to Port Authority bond resolutions | | 15,550,039 | $ 3,995,343 | $ 1,468,885 | 18,076,497 |
| Less unamortized discount and (premium) (c) | | (19,706) | | | (95,522) |
| Consolidated bonds and notes (d) | | $ 15,569,745 | | | $ 18,172,019 |

NOTE: See page 38 for explanations of footnotes (a-d) concerning Consolidated Bonds and Notes.

**Note D - Outstanding Obligations and Financing (continued)**

## A. Consolidated Bonds and Notes (continued from previous page)

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Dec. 31, 2010 | Issued/ Accreted | Refunded/ Retired | Dec. 31, 2011 |
| Consolidated bonds and notes pursuant to Port Authority bond resolutions | $ 13,340,378 | $ 2,598,096 | $ 388,435 | $ 15,550,039 |
| Less unamortized discount and (premium) (c) | 30,742 | | | (19,706) |
| Consolidated bonds and notes | $ 13,309,636 | | | $ 15,569,745 |

(a) Includes $1,872,000 serial bonds issued on a capital appreciation basis; the only payments with respect to these bonds will be made at their respective maturities, ranging from years 2013 to 2014, in the total maturity amount of $8,305,000.

(b) The entire series was acquired by the New York Liberty Development Corporation in connection with its issuance of the New York Liberty Development Corporation Liberty Revenue Bonds, Series 1WTC-2011 (Secured by Port Authority Consolidated Bonds).

(c) Amount includes the unamortized difference between acquisition price and carrying amount on refunded debt.

(d) Debt service requirements to maturity for Consolidated Bonds outstanding on December 31, 2012 are as follows:

| Year ending December 31: | Principal | Interest | Debt Service |
|---|---|---|---|
| | | (In thousands) | |
| 2013 | $459,920 | $856,990 | $1,316,910 |
| 2014 | 258,840 | 847,945 | 1,106,785 |
| 2015 | 279,945 | 837,027 | 1,116,972 |
| 2016 | 307,355 | 824,831 | 1,132,186 |
| 2017 | 329,620 | 810,880 | 1,140,500 |
| 2018-2022 | 2,152,355 | 3,769,937 | 5,922,292 |
| 2023-2027 | 2,633,340 | 3,186,016 | 5,819,356 |
| 2028-2032 | 3,474,775 | 2,454,955 | 5,929,730 |
| 2033-2037 | 3,131,425 | 1,603,968 | 4,735,393 |
| 2038-2042 | 1,762,715 | 983,113 | 2,745,828 |
| 2043-2047 | 386,480 | 729,644 | 1,116,124 |
| 2048-2052 | 800,000 | 565,093 | 1,365,093 |
| 2053-2057 | 1,000,000 | 376,120 | 1,376,120 |
| 2058-2062 | 1,000,000 | 153,220 | 1,153,220 |
| 2063-2094 *** | 100,000 | 167,621 | 267,621 |
| | $18,076,770 | $18,167,360 | $36,244,130 |

**Note D - Outstanding Obligations and Financing (continued)**

*** Debt service for the years 2063-2094 reflects principal and interest payments associated with Consolidated Bonds Ninety-third Series.

Total principal of $18,076,770,000 shown above differs from the total consolidated bonds pursuant to Port Authority bond resolutions of $18,076,497,000 because of differences in the par value at maturity of the capital appreciation bonds Seventy-fourth Series of $273,000.

As of December 31, 2012, the Board of Commissioners had authorized the issuance of Consolidated Bonds, One Hundred Seventy-fourth Series through One Hundred Ninety-third Series, in the aggregate principal amount of up to $500 million of each series, and Consolidated Notes, Series AAA, BBB, CCC, DDD and EEE, of up to $300 million in aggregate principal amount of each series. To the extent any of Consolidated Bonds, One Hundred Seventy-fourth Series through Consolidated Bonds, One Hundred Ninety-third Series are issued and sold solely for purposes of capital expenditures in connection with the redevelopment of the WTC site or for refunding prior debt issued for such purposes, such series may be issued and sold without limit as to principal amounts and term to maturity, provided that the total aggregate principal amount of all of such series (regardless of the purpose for issuance) shall not be in excess of $10 billion.

During 2012, the Port Authority allocated the proceeds of consolidated bonds to refund $1.5 billion of consolidated bonds and notes and $218.5 million of commercial paper notes. While the Port Authority increased its aggregate debt service payments by approximately $145 million over the life of the refunded consolidated bonds, the economic gain resulting from the debt refunding (the difference between the present value of the cash flows required to service the old debt and the present value of the cash flows required to service the new debt) totaled approximately $112 million in present value savings to the Port Authority.

Consolidated bonds outstanding as of February 25, 2013 (pursuant to Port Authority bond resolutions) totaled $18,198,635,000.

### B. Commercial Paper Notes

Commercial paper obligations are issued to provide interim financing for authorized projects at Port Authority facilities and may be outstanding until December 31, 2015. The maximum aggregate principal amount that may be outstanding at any one time is $300 million for Series A and $200 million for Series B. Commercial paper obligations are issued without third party provider support for payment at their maturity dates.

**Note D - Outstanding Obligations and Financing (continued)**

| | | December 31, 2012 | | |
|---|---|---|---|---|
| | Dec. 31, 2011 | Issued | Refunded/ Repaid | Dec. 31, 2012 |
| | | (In thousands) | | |
| Series A* | $207,735 | $708,610 | $689,575 | $226,770 |
| Series B | 188,420 | 436,565 | 467,130 | 157,855 |
| | $396,155 | $1,145,175 | $1,156,705 | $384,625 |

| | | December 31, 2011 | | |
|---|---|---|---|---|
| | Dec. 31, 2010 | Issued | Refunded/ Repaid | Dec. 31, 2011 |
| | | (In thousands) | | |
| Series A* | $208,815 | $563,740 | $564,820 | $207,735 |
| Series B | 145,465 | 412,960 | 370,005 | 188,420 |
| | $354,280 | $976,700 | $934,825 | $396,155 |

Interest rates for all commercial paper notes ranged from 0.09% to 0.22% in 2012.

As of February 25, 2013, commercial paper notes outstanding totaled $342,630,000.

### C. Variable Rate Master Notes

Variable rate master notes may be issued in aggregate principal amounts outstanding at any one time not to exceed $400 million.

| | | December 31, 2012 | | |
|---|---|---|---|---|
| | Dec. 31, 2011 | Issued | Refunded/ Repaid | Dec. 31, 2012 |
| | | (In thousands) | | |
| Agreements 1989 -1995* | $44,900 | $ - | $ - | $44,900 |
| Agreements 1989 -1998 | 33,000 | - | - | 33,000 |
| | $77,900 | $ - | $ - | $77,900 |

**Note D - Outstanding Obligations and Financing (continued)**

| | | December 31, 2011 | | |
|---|---|---|---|---|
| | Dec. 31, 2010 | Issued | Refunded/ Repaid | Dec. 31, 2011 |
| | | (In thousands) | | |
| Agreements 1989 -1995* | $44,900 | $ - | $ - | $44,900 |
| Agreements 1989 -1998 | 33,000 | - | - | 33,000 |
| | $77,900 | $ - | $ - | $77,900 |

Interest rates are determined weekly, based upon a spread added to a specific industry index (the Securities Industry and Financial Markets Association rate) as stated in each master note agreement, and ranged from 0.11% to 0.34% in 2012.

Annual debt service requirements on outstanding variable rate master notes, valued for presentation purposes at the rate in effect on December 31, 2012, would be as follows:

| Year ending December 31: | Principal | Interest | Debt Service |
|---|---|---|---|
| | | (In thousands) | |
| 2013 | - | 154 | 154 |
| 2014 | - | 154 | 154 |
| 2015 | - | 154 | 154 |
| 2016 | - | 154 | 154 |
| 2017 | - | 154 | 154 |
| 2018-2022 | 58,000 | 637 | 58,637 |
| 2023-2025 | 19,900 | 114 | 20,014 |
| | $77,900 | $1,521 | $79,421 |

Variable rate master notes are subject to prepayment at the option of the Port Authority or upon demand of the holders.

**D. Versatile Structure Obligations**

There were no outstanding Versatile Structure Obligations in 2012.

Versatile Structure Obligations Series 1R and 4 were refunded in their entirety on April 29, 2011 through a combination of Consolidated Bond proceeds and net revenues deposited into the Consolidated Bond Reserve Fund.

**Note D - Outstanding Obligations and Financing (continued)**

| | Dec. 31, 2010 | December 31, 2011 Issued | Refunded/ Repaid | Dec. 31, 2011 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Series 1R* | $ 92,800 | $ - | $ 92,800 | $ - |
| Series 4* | 82,400 | - | 82,400 | - |
| | $175,200 | $ - | $175,200 | $ - |

## E. Port Authority Equipment Notes

Equipment notes may be issued in aggregate principal amounts outstanding at any one time not to exceed $250 million.

| | Dec. 31, 2011 | December 31, 2012 Issued | Refunded/ Repaid | Dec. 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Notes 2004, 2006, 2008* | $ 2,635 | $ - | $ 1,020 | $ 1,615 |
| Notes 2004, 2006, 2008 | 65,525 | - | 17,575 | 47,950 |
| | $68,160 | $ - | $18,595 | $49,565 |

| | Dec. 31, 2010 | December 31, 2011 Issued | Refunded/ Repaid | Dec. 31, 2011 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Notes 2004, 2006, 2008* | $ 4,380 | $ - | $ 1,745 | $ 2,635 |
| Notes 2004, 2006, 2008 | 94,265 | - | 28,740 | 65,525 |
| | $98,645 | $ - | $30,485 | $68,160 |

Variable interest rates, set weekly by a remarketing agent for each series, ranged from 0.12% to 0.40% in 2012.

Annual debt service requirements on outstanding Port Authority equipment notes, valued for presentation purposes at the rate in effect on December 31, 2012, would be as follows:

**Note D - Outstanding Obligations and Financing (continued)**

| Year ending December 31: | Principal | Interest | Debt Service |
|---|---|---|---|
| | | (In thousands) | |
| 2013 | $ 2,640 | $ 90 | $ 2,730 |
| 2014 | 15,425 | 62 | 15,487 |
| 2015 | 31,500 | 11 | 31,511 |
| | $49,565 | $ 163 | $49,728 |

The Port Authority has entered into agreements with the purchasers of the notes stating that on seven days notice on any business day during the term of the agreements, the Port Authority may prepay in whole, or, from time to time, in part, without penalty or premium, the outstanding principal amount of the notes. Also, the purchasers can tender the notes back to the remarketing agent on seven days notice, in whole and not in part. In the event that the remarketing agent cannot resell the notes, notice shall be given by the remarketing agent to the Port Authority requesting the Port Authority to pay the purchase price of the notes.

## F. Fund for Regional Development Buy-Out Obligation

| | | December 31, 2012 | | |
|---|---|---|---|---|
| | Dec. 31, 2011 | Accretion (a) | Refunded/ Repaid | Dec. 31, 2012 |
| | | (In thousands) | | |
| Obligation outstanding | $359,859 | $27,807 | $51,213 | $336,453 |

| | | December 31, 2011 | | |
|---|---|---|---|---|
| | Dec. 31, 2010 | Accretion (a) | Refunded/ Repaid | Dec. 31, 2011 |
| | | (In thousands) | | |
| Obligation outstanding | $373,707 | $29,363 | $43,211 | $359,859 |

(a) Represents the annual implicit interest cost (8.25%) contained in the present value of amounts due to the States of New York and New Jersey upon the termination, in 1990, of the Fund for Regional Development.

Payment requirements of the fund for regional development buy-out obligation outstanding, including the implicit interest cost, on December 31, 2012 are as follows:

**Note D - Outstanding Obligations and Financing (continued)**

| Year ending December 31: | Payments |
|---|---|
| | (In thousands) |
| 2013 | $ 51,212 |
| 2014 | 51,214 |
| 2015 | 51,212 |
| 2016 | 51,211 |
| 2017 | 53,213 |
| 2018-2021 | 213,240 |
| | $471,302 |

As of February 25, 2013, the fund for regional development buy-out obligation outstanding totaled $340,714,304. For additional information associated with the fund for regional development buy-out obligation, refer to Note H.3.

## G. MOTBY Obligation

On August 3, 2010, the Port Authority acquired approximately 131 acres of the former MOTBY from the Bayonne Local Redevelopment Authority (BLRA) for $235 million. The acquired property is comprised of three parcels on the southern side of the peninsula and has been incorporated into the Port Jersey – Port Authority Marine Terminal for future marine terminal purposes. The $235 million total purchase price is payable to the BLRA in twenty-four annual installment payments (2010-2033). Accordingly, the total purchase price of $235 million was discounted to a present value of $178.4 million at an implicit interest rate of 5.25% and recognized as an asset financing obligation in 2010.

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Dec. 31, 2011 | Accretion (a) | Refunded/ Repaid | Dec. 31, 2012 |
| | | (In thousands) | | |
| Obligation outstanding | $105,141 | $2,919 | $30,000 | $78,060 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Dec. 31, 2010 | Accretion (a) | Refunded/ Repaid | Dec. 31, 2011 |
| | | (In thousands) | | |
| Obligation outstanding | $138,396 | $1,745 | $35,000 | $105,141 |

(a) Represents the annual implicit interest cost (5.25%) contained in the present value of amounts due the BLRA.

**Note D - Outstanding Obligations and Financing (continued)**

Payment requirements for the MOTBY obligation outstanding, including the implicit interest cost, on December 31, 2012 are as follows:

| Year ending December 31: | Payments |
|---|---|
| | (In thousands) |
| 2013 | $ 30,000 |
| 2014 | 5,000 |
| 2015 | 5,000 |
| 2016 | 5,000 |
| 2017 | 5,000 |
| 2018-2022 | 25,000 |
| 2023-2027 | 25,000 |
| 2028-2032 | 25,000 |
| 2033 | 5,000 |
| | $130,000 |

## H. Tower 4 Liberty Bonds

In connection with the issuance of the Tower 4 Liberty Bonds by the New York Liberty Development Corporation on November 15, 2011, the Port Authority entered into a Tower 4 Bond Payment Agreement with Tower 4 Trustee to make, as a co-borrower/ obligor with respect to the New York Liberty Development Corporation, Liberty Revenue Bonds, Series 2011 (4 World Trade Center Project), debt service payments of principal and interest under the bonds as a special obligation of the Port Authority to the trustee during the term of the agreement, from May 11, 2012 through November 15, 2051.

| | | December 31, 2012 | | |
|---|---|---|---|---|
| | Dec. 31, 2011 | Issued | Repaid/ Amortized | Dec. 31, 2012 |
| | | (In thousands) | | |
| Series 2011 | $1,225,520 | $ - | $ - | $1,225,520 |
| Add: unamortized premium | 24,401 | - | 612 | 23,789 |
| Total Tower 4 Liberty Bonds | $1,249,921 | $ - | $ 612 | $1,249,309 |

**Note D - Outstanding Obligations and Financing (continued)**

| | Dec. 31, 2010 | December 31, 2011 Issued | Repaid/ Amortized | Dec. 31, 2011 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Series 2011 | $ - | $1,225,520 | $ - | $1,225,520 |
| Add: unamortized premium | - | 24,479 | 78 | 24,401 |
| Total Tower 4 Liberty Bonds | $ - | $1,249,999 | $ 78 | $1,249,921 |

Annual debt service payment requirements on outstanding Tower 4 Liberty Bonds on December 31, 2012, would be as follows:

| Year ending December 31: | Principal | Interest (a) | Debt Service |
|---|---|---|---|
| | | (In thousands) | |
| 2013 | $ - | $65,293 | $65,293 |
| 2014 | - | 65,293 | 65,293 |
| 2015 | - | 65,293 | 65,293 |
| 2016 | - | 65,293 | 65,293 |
| 2017 | - | 65,293 | 65,293 |
| 2018-2022 | - | 326,467 | 326,467 |
| 2023-2027 | 25,370 | 326,467 | 351,837 |
| 2028-2032 | 147,190 | 306,123 | 453,313 |
| 2033-2037 | 188,030 | 265,277 | 453,307 |
| 2038-2042 | 240,360 | 212,956 | 453,316 |
| 2043-2047 | 308,605 | 144,705 | 453,310 |
| 2048-2051 | 315,965 | 46,690 | 362,655 |
| | $1,225,520 | $1,955,150 | $3,180,670 |

(a) Excludes estimated fixed rent payments of $576.6 million by the City of New York directly payable to the Tower 4 Liberty Bond trustee pursuant to the City of New York's Tower 4 space lease.

### D-2. Amounts Payable - Special Project Bonds

Neither the full faith and credit of the Port Authority, nor the General Reserve Fund, nor the Consolidated Bond Reserve Fund are pledged to the payment of the principal and interest on special project bonds. Principal and interest on each series of special project bonds are secured solely by a mortgage by the Port Authority of facility rental (to the extent received by the Port Authority from a lessee) as set forth in a lease with respect to a project to be financed with the proceeds of the bonds of such series, by a mortgage by the lessee of its leasehold interest under the lease and by a security interest granted by the lessee to the Port Authority and mortgaged by the Port Authority in certain items of the lessee's personal property to be located at the project, and such

**Note D - Outstanding Obligations and Financing (continued)**

other security in addition to the foregoing as may be required by the Port Authority from time to time as appropriate to the particular project.

| | | December 31, 2012 | | |
|---|---|---|---|---|
| | Dec. 31, 2011 | Issued | Repaid/ Amortized | Dec. 31, 2012 |
| | | (In thousands) | | |
| Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project (a)* | | | | |
| 9.125% due 2013-2015 | $ 78,980 | $ - | $17,240 | $ 61,740 |
| Less: unamortized discount and premium | 1,906 | - | 487 | 1,419 |
| Total - Series 2 | 77,074 | - | 16,753 | 60,321 |
| Series 4, KIAC Partners Project (b)* | | | | |
| 6.75% due 2013-2019 | 137,000 | - | 13,900 | 123,100 |
| Less: unamortized discount and premium | 1,484 | - | 192 | 1,292 |
| Total - Series 4 | 135,516 | - | 13,708 | 121,808 |
| Series 6, JFKIAT Project (c)* | | | | |
| 5.75%-6.25% due 2013-2025 | 729,180 | - | 34,475 | 694,705 |
| Less: unamortized discount and premium | 4,670 | - | 335 | 4,335 |
| Total - Series 6 | 724,510 | - | 34,140 | 690,370 |
| Series 8, JFKIAT Project (d) | | | | |
| 5%-6.5% due 2018-2042 | 796,280 | - | - | 796,280 |
| Less: unamortized discount and premium | 12,844 | - | 415 | 12,429 |
| Total - Series 8 | 783,436 | - | (415) | 783,851 |
| Amounts payable - Special Project Bonds | $1,720,536 | $ - | $64,186 | $1,656,350 |

(a) Special project bonds, Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project, were issued in connection with a project that included the construction of a passenger terminal at LGA leased to and to be occupied by Continental and Eastern. The leasehold interest of Eastern was assigned to Continental. Continental's leasehold interest in such passenger terminal, including the previously acquired leasehold interest of Eastern, was subsequently assigned to USAir, Inc. and, then, subsequently assigned to Delta Airlines, Inc. (with Continental and USAir, Inc. to remain liable under both underlying leases).

(b) Special project bonds, Series 4, KIAC Partners Project, were issued to refund special project bonds, Series 3, KIAC Partners Project, and in connection with a project at JFK, that included the construction of a cogeneration facility, the renovation and expansion of the central heating and refrigeration plant, and the renovation and expansion of the thermal distribution system.

(c) Special project bonds, Series 6, JFKIAT Project, were issued in connection with a project that included the development and construction of a new passenger terminal at JFK.

(d) Special project bonds, Series 8, JFKIAT Project, were issued in connection with a project that included the expansion of Terminal 4 at JFK.

**Note D - Outstanding Obligations and Financing (continued)**

| | Dec. 31, 2010 | December 31, 2011 Issued | Repaid/ Amortized | Dec. 31, 2011 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project (a)* | | | | |
| 9.125% due 2012-2015 | $ 94,775 | $ - | $15,795 | $ 78,980 |
| Less: unamortized discount and premium | 2,392 | - | 486 | 1,906 |
| Total - Series 2 | 92,383 | - | 15,309 | 77,074 |
| Series 4, KIAC Partners Project (b)* | | | | |
| 6.75% due 2012-2019 | 150,500 | - | 13,500 | 137,000 |
| Less: unamortized discount and premium | 1,675 | - | 191 | 1,484 |
| Total - Series 4 | 148,825 | - | 13,309 | 135,516 |
| Series 6, JFKIAT Project (c)* | | | | |
| 5.75%-7% due 2012-2025 | 761,590 | - | 32,410 | 729,180 |
| Less: unamortized discount and premium | 5,006 | - | 336 | 4,670 |
| Total - Series 6 | 756,584 | - | 32,074 | 724,510 |
| Series 8, JFKIAT Project (d) | | | | |
| 5%-6.5% due 2018-2042 | 796,280 | - | - | 796,280 |
| Less: unamortized discount and premium | 13,259 | - | 415 | 12,844 |
| Total - Series 8 | 783,021 | - | (415) | 783,436 |
| Amounts payable - Special Project Bonds | $1,780,813 | $ - | $60,277 | $1,720,536 |

(a) Special project bonds, Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project, were issued in connection with a project that included the construction of a passenger terminal at LGA leased to and to be occupied by Continental and Eastern. The leasehold interest of Eastern was assigned to Continental. Continental's leasehold interest in such passenger terminal, including the previously acquired leasehold interest of Eastern, was subsequently assigned to USAir, Inc. and, then, subsequently assigned to Delta Airlines, Inc. (with Continental and USAir, Inc. to remain liable under both underlying leases).

(b) Special project bonds, Series 4, KIAC Partners Project, were issued to refund special project bonds, Series 3, KIAC Partners Project, and in connection with a project at JFK, that included the construction of a cogeneration facility, the renovation and expansion of the central heating and refrigeration plant, and the renovation and expansion of the thermal distribution system.

(c) Special project bonds, Series 6, JFKIAT Project, were issued in connection with a project that included the development and construction of a new passenger terminal at JFK.

(d) Special project bonds, Series 8, JFKIAT Project, were issued in connection with a project that included the expansion of Terminal 4 at JFK.

**Note D - Outstanding Obligations and Financing (continued)**

## D-3. Interest Rate Exchange Contracts (Swap agreements)

At December 31, 2011, the Port Authority had three pay-fixed, receive-variable rate interest rate swap agreements with a negative fair value totaling $241.9 million. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivatives*, changes in the fair value of these investment derivative instruments (unhedged), have been recognized as a change to investment income on the Consolidated Statement of Revenues, Expenses and Changes in Net Position.

Two of these unhedged swap agreements were entered into in anticipation of the issuance of future variable interest rate versatile structure obligations in July and August 2008, respectively; however, due to unfavorable market conditions, these obligations were not issued. The third remaining swap agreement became unhedged when the corresponding variable rate obligation was refunded in 2008 (Versatile Structure Obligations, Series 8). To mitigate the impacts of unfavorable market conditions, in the second quarter of 2009, the Port Authority amended the three unhedged swap agreements to defer periodic interest rate exchange contract payments until the last quarter of 2010. Periodic interest rate exchange contract payments resumed on these three unhedged swap agreements in October and November 2010, respectively.

During 2012, the three unhedged swap agreements were terminated, either by the Port Authority or the swap counterparty, resulting in total aggregate termination payments made by the Port Authority of $228.5 million. The difference between the negative fair value of $241.9 million and the termination payments of $228.5 million increased the change in fair value of investments by $13.4 million in 2012. As of December 31, 2012, the Port Authority had no interest rate swap agreements outstanding.

## Note E – General and Consolidated Bond Reserve Funds

The General Reserve Fund is pledged in support of Consolidated Bonds and Notes. Statutes which require the Port Authority to create and maintain the General Reserve Fund established the principle of pooling revenues from all facilities and require that the Port Authority apply surplus revenues from all of its existing facilities to maintain the General Reserve Fund in an amount at least equal to 10% of the par value of outstanding bonds legal for investment. At December 31, 2012, the General Reserve Fund balance was $2,026,605,437 and met the prescribed statutory amount (see Schedule C – Analysis of Reserve Funds).

The balance remaining of all net revenues of the Port Authority's existing facilities after deducting payments for debt service upon all Consolidated Bonds and Notes and the amount necessary to maintain the General Reserve Fund at its statutorily required amount is to be paid into the Consolidated Bond Reserve Fund, which is pledged as additional security for all outstanding Consolidated Bonds and Notes. Consolidated Bonds and Notes have a first lien upon the net revenues (as defined in the Consolidated

Bond Resolution) of all existing facilities of the Port Authority and any additional facility financed by Consolidated Bonds.

Other asset obligations (commercial paper obligations, variable rate master notes, MOTBY obligation and Tower 4 Liberty Bonds), and the interest thereon, are not secured by or payable from the General Reserve Fund. Principal of, and interest on, other asset obligations are payable solely from the proceeds of obligations issued for such purposes or from net revenues paid into the Consolidated Bond Reserve Fund and, in the event such proceeds or net revenues are insufficient therefor, from other moneys of the Port Authority legally available for such payments. Operating asset obligations (equipment notes and the fund for regional development buy-out obligation) are payable in the same manner and from the same sources as operating expenses. Special project bonds are not secured by or payable from the General Reserve Fund or the Consolidated Bond Reserve Fund.

The Port Authority has a long-standing policy of maintaining total reserve funds in an amount equal to at least the next two years' bonded debt service on outstanding debt secured by a pledge of the General Reserve Fund. The moneys in the reserve funds may be accumulated or applied only to purposes set forth in legislation and the agreements with the holders of the Port Authority's obligations pertaining thereto. At December 31, 2012, the Port Authority met the requirements of the Consolidated Bond Resolution to maintain total reserve funds in cash and certain specified securities.

## Note F – Funding Provided by Others

During 2012 and 2011, the Port Authority received federal and state grants and contributions from other entities for various programs as summarized below:

### 1. Operating programs

a. K-9 Program – The FAA and the Transportation Security Administration (TSA) provided funding for operating costs associated with the training and care of explosive detection dogs. Amounts received in connection with this program were approximately $1,315,000 in 2012 and $1,336,000 in 2011.

b. Airport Screening Program – The TSA provided approximately $413,000 in 2012 and $459,000 in 2011 to fund operating costs incurred by Port Authority police personnel involved with airport screening programs at JFK and EWR.

c. U.S. Department of State (USDOS) – The Port Authority received $646,000 in 2012 and $1,310,000 in 2011 from the USDOS to fund operating security costs incurred by Port Authority police personnel for the United Nations General Assembly.

Amounts in connection with operating activities are recorded as operating revenues on the Consolidated Statements of Revenues, Expenses and Changes in Net Position and on Schedule A – Revenues and Reserves.

**2. Grants and Contributions in Aid of Construction**

a. Subsequent to September 11, 2001, the Port Authority entered into various agreements with federal and state agencies for programs associated with security related projects through which the Port Authority would be reimbursed for eligible expenses. Amounts provided in connection with security projects totaled $35 million in 2012 and $39 million in 2011.

b. The Port Authority receives contributions in aid of construction with respect to its facilities from federal, state and other entities. Amounts from the FTA for the construction of the WTC Transportation Hub totaled $446 million in 2012 and $315 million 2011, respectively. Amounts from the FAA under the Airport Improvement Program in 2012 and 2011 were approximately $52 million and $40 million, respectively. Other contributions in aid of construction, including $325 million in contributed capital from the Silverstein net lessees for the construction of WTC Towers 2, 3 and 4, and $100 million in contributed capital from the WTC Retail Joint Venture, Westfield member to WTC Retail LLC for the further construction and development of retail space at the WTC site totaled $460 million in 2012 and $386 million in 2011.

## Note G - Lease Commitments

**1. Operating lease revenues**

Gross operating revenues attributable to fixed rentals associated with operating leases amounted to approximately $1.1 billion in 2012 and $1.0 billion in 2011.

**2. Property held for lease**

The Port Authority has entered into operating leases with tenants for the use of space at various Port Authority facilities including buildings, terminals, offices and consumer service areas at air terminals, marine terminals, bus terminals, rail facilities, industrial parks, the Teleport, the WTC and the Newark Legal and Communications Center. Investments in such facilities, as of December 31, 2012, include property associated with minimum rentals derived from the leases. It is not reasonably practicable to segregate the value of assets associated with producing minimum rental revenue from the value of assets associated with an entire facility.

Future minimum rentals are predicated upon the ability of the lessees to meet their commitments. Future minimum rentals scheduled to be received on operating leases in effect on December 31, 2012 are as follows:

**Year ending December 31:**

| | (In thousands) |
|---|---|
| 2013 | $ 946,511 |
| 2014 | 1,001,716 |
| 2015 | 989,202 |
| 2016 | 862,167 |
| 2017 | 847,724 |
| 2018-2100 (a) | 21,666,411 |
| Total future minimum rentals (b and c) | $26,313,731 |

(a) Includes future minimum rentals of approximately $14 billion attributable to the Silverstein net leases for WTC Towers 2, 3 and 4.
(b) Future minimum rentals decreased in 2012 by approximately $19 billion primarily in connection with the net lease for WTC Retail, resulting from the Port Authority and Westfield entering into various agreements related to the establishment of a joint venture with respect to the construction, financing, development, leasing, management and operation of the retail space at the WTC site.
(c) Not included in the future minimum rentals is approximately $2.1 billion attributable to lease agreements at One World Trade Center entered into with Vantone Industrial Co., Ltd for 191,000 square feet of office space and Advance Magazine Publishers Inc d/b/a Conde Nast for approximately 1.2 million square feet of office and related space. Rentals from these leases are contingent upon specific events commencing upon completion of the building.

## 3. Property leased from others

Rental expenses under leases, including payments to the Cities of New York and Newark for various air terminals, marine terminals and other facilities and the cost of temporary office space due to the destruction of the WTC, aggregated $302 million in 2012 and $278 million in 2011.

Future minimum rentals scheduled to be paid on operating leases in effect on December 31, 2012 are detailed below. Additional rentals may be payable based on earnings of specified facilities under some of these leases.

**Year ending December 31:**

| | (In thousands) |
|---|---|
| 2013 | $ 270,044 |
| 2014 | 234,948 |
| 2015 | 234,099 |
| 2016 | 230,170 |
| 2017 | 191,770 |
| 2018-2022 | 899,148 |
| 2023-2027 | 880,131 |
| 2028-2032 | 870,000 |
| 2033-2037 | 870,000 |
| 2038-2065* | 3,387,000 |
| Total future minimum rent payments | $8,067,310 |

* Future minimum rent payments for the years 2038-2065 reflect payments associated with the Cities of New York and Newark lease commitments.

## Note H – Regional Programs

**1**. At the request of the Governors of the States of New York and New Jersey, the Port Authority participates in certain programs that are deemed essential to the continued economic viability of the two states and the region. These programs, which are generally non-revenue producing to the Port Authority, are addressed by the Port Authority in its budget and business planning process in the context of the Port Authority's overall financial capacity. To the extent not otherwise a part of existing Port Authority facilities, these projects are effectuated through additional Port Authority facilities established solely for these purposes. The Port Authority does not expect to derive any revenues from regional development facilities described below.

- **Regional Development Facility** – This facility is a centralized program of certain economic development and infrastructure renewal projects. It was expected that $250 million of capital funds would be made available in connection with the Governors' Program of June 1983. As of December 31, 2012, approximately $248 million has been expended under this program.

- **Regional Economic Development Program** – This facility is to be comprised of up to $400 million for certain transportation, economic development and infrastructure renewal projects. Net expenditures on projects authorized under this program totaled approximately $395 million as of December 31, 2012.

- **Oak Point Rail Freight Link** – The Port Authority has participated with the New York State Department of Transportation in the development of the Oak Point Rail Freight Link. As of December 31, 2012, the Port Authority has provided approximately $102 million for this rail project, of which approximately $63 million was made available through the Regional Development Facility and the Regional Economic Development Program.

- **New Jersey Marine Development Program** – This program was undertaken to fund certain fishery, marine or port development projects in the State of New Jersey at a total cost not to exceed $27 million. All funds under this program have been fully allocated and expended.

- **New York Transportation, Economic Development and Infrastructure Renewal Program** – This facility was established to provide up to $250 million for certain transportation, economic development and infrastructure renewal projects in the State of New York. As of December 31, 2012, $245 million has been spent on projects associated with this program.

- **Regional Transportation Program** – This facility was established in conjunction with a program to provide up to $500 million for regional transportation initiatives. As of December 31, 2012, all funds under this program have been fully expended.

- **Hudson-Raritan Estuary Resources Program** – This facility was established to acquire certain real property in the Port District area of the Hudson-Raritan Estuary for environmental enhancement/ancillary economic development purposes, in support of the Port Authority's capital program. The cost of real property acquired under this program is not to exceed $60 million. As of December 31, 2012, approximately $52 million has been expended under this program.

- **Regional Rail Freight Program** – This facility provides for the Port Authority to participate, in consultation with other governmental entities in the States of New York and New Jersey, in the development of certain regional rail freight projects to provide for increased rail freight capacity. The Port Authority is authorized to provide up to $50 million. As of December 31, 2012, all funds under this program have been fully expended.

- **Meadowlands Passenger Rail Facility** – This facility, which links New Jersey Transit's (NJT) Pascack Valley Rail Line to the Meadowlands Sports Complex, encourages greater use of PATH service since NJT runs shuttle bus service at peak times to Hoboken. The improved level of passenger rail service provided by the facility also serves to ease traffic congestion on the Port Authority's interstate tunnel and bridge crossings. The Port Authority is authorized to provide up to $150 million towards the project's capital costs. As of December 31, 2012, all funds under this program have been fully expended.

As of December 31, 2012, a total of approximately $2.1 billion has been expended for regional programs. Costs for these programs that are not otherwise recognized as part of an existing Port Authority facility, are deferred and amortized over the period benefited, up to a maximum of 15 years. The unamortized costs of the regional programs are as follows:

| | Dec. 31, 2011 | Project Expenditures | Amortization | Dec. 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Regional Development Facility | $34,393 | $ - | $6,423 | $27,970 |
| Regional Economic Development Program | 102,354 | - | 19,884 | 82,470 |
| Oak Point Rail Freight Link | 8,149 | - | 1,630 | 6,519 |
| New Jersey Marine Development Program | 4,194 | - | 834 | 3,360 |
| New York Transportation, Economic Development and Infrastructure Renewal Program | 142,172 | - | 15,891 | 126,281 |
| Regional Transportation Program | 160,054 | - | 16,667 | 143,387 |
| Hudson-Raritan Estuary Resources Program | 35,977 | 6,697 | 3,057 | 39,617 |
| Regional Rail Freight Program | 25,495 | - | 3,333 | 22,162 |
| Meadowlands Passenger Rail Facility | 107,395 | - | 10,000 | 97,395 |
| Total unamortized costs of regional programs | $620,183 | $6,697 | $77,719 | $549,161 |

**2. Bi-State Initiatives** – From time to time, the Port Authority makes payments to assist various bi-state regional operating initiatives. During 2012, the Port Authority expended approximately $30 million on regional initiatives, bringing the total amount spent to date to approximately $170 million.

**3. Buy-Out of Fund for Regional Development** – In 1983, the Fund for Regional Development (Fund) was established to sublease space in the WTC that was previously held by the State of New York as tenant. An agreement among the Port Authority and the States of New York and New Jersey with respect to the Fund provided that net revenues from the subleasing were to be accumulated subject to disbursements to be made upon the concurrence of the Governors of New York and New Jersey. The assets, liabilities, revenues and expenses of the Fund were not consolidated with those of the Port Authority. In 1990, the Port Authority and the States of New York and New Jersey agreed to terminate the Fund. The present value (calculated at the time of the termination agreement) of the cost to the Port Authority of its purchase of the Fund's interest in the WTC subleased space was approximately $431 million. The liability for payments to the States of New York and New Jersey attributable to the Fund for regional development buy-out obligation is further described in Note D-1 (F).

## Note I - Pension Plans and Other Employee Benefits

### 1. Pension Plans

**a.** Generally, full-time employees of the Port Authority (but not its related entities) are required to join one of two cost-sharing multiple-employer defined benefit pension plans, the New York State and Local Employees' Retirement System (ERS) or the New York State and Local Police and Fire Retirement System (PFRS), collectively referred to as the "Retirement System." The New York State Constitution provides that membership in a pension or retirement system of the State or of a civil division thereof is a contractual relationship, the benefits of which may not be diminished or impaired.

The Retirement System provides retirement benefits related to years of service and final average salary, death and disability benefits, vesting of benefits after a set period of credited public service, and optional methods of benefit payment. Depending upon the date of membership, retirement benefits differ as to the qualifying age or years-of-service requirement for service retirement, the benefit formula used in calculating the retirement allowance and the contributory or non-contributory nature of the plan.

Employer contributions to the Retirement System are determined based on an actuarial valuation of the present value of future benefits for active and retired members. When the actuarially determined value of benefits is greater than the assets to be used for the payment of benefits, the difference must be made up through employer contributions. That difference is amortized over the working lives of current members to determine the required annual contribution. Separate calculations are done for each plan, since each plan allows for different benefits. However, in no case will the employer's annual contribution to the Retirement System be less than 4.5% of covered payroll, including

years in which the investment performance of the New York State Common Retirement Fund would make a lower contribution possible.

The Port Authority's covered ERS and PFRS payroll expense for 2012 was approximately $392 million and $226 million, respectively.

Required Port Authority contributions to the Retirement System, including costs for participation in retirement incentive programs, are as follows:

| Year Ended | ERS | % of Covered Payroll | PFRS | % of Covered Payroll |
|---|---|---|---|---|
| | | ($ In thousands) | | |
| 2012 | $76,321 | 19.5% | $61,687 | 27.4% |
| 2011 | $77,549 | 19.6% | $41,789 | 19.0% |
| 2010 | $46,181 | 11.1% | $35,220 | 17.0% |

These contributions cover the entire funding requirements for the current year and each of the two preceding years.

In 2012, employee contributions of approximately $9.3 million to the ERS represented 2.4% of the payroll for employees covered by ERS.

The Annual Report of the Retirement System, which provides details on valuation methods and ten-year historical trend information, is available from the Comptroller of the State of New York, 110 State Street, Albany, New York 12236.

**b.** Employees of PATH are not eligible to participate in New York State's Retirement System. For most employees represented by unions, PATH contributes to supplemental pension plans that are administered by trustees, appointed by union members. Annual PATH contributions to these plans are defined in the various collective bargaining agreements; no employee contributions are required. PATH payroll expense in 2012 for these employees was approximately $85 million. For the year 2012, contributions made by PATH in accordance with the terms of various collective bargaining agreements totaled approximately $6 million, which represented approximately 7.4% of the total PATH covered payroll for 2012. Contributions were approximately $6 million for both 2011 and 2010.

**c**. Employees of PATH who are not covered by collective bargaining agreements (sometimes referred to as PATH Exempt Employees) are members of the PATH Corporation Exempt Employees Supplemental Pension Plan, amended and restated as of January 1, 2011 (the Plan). The Plan is a non-contributory, single employer, qualified defined benefit governmental pension plan administered by PATH.

The Plan provides retirement benefits related to years of service as a PATH Exempt Employee and final average salary, death benefits for active PATH Exempt

Employees, vesting of retirement benefits after a set period of credited service as a PATH Exempt Employee, and optional methods of retirement benefit payment. Depending upon the date of membership, retirement benefits differ as to the qualifying age or years-of-service requirement and the benefit formula used in calculating retirement benefits.

As of January 1, 2012, Plan participants included 97 retired PATH Exempt Employees (or their beneficiaries), 77 active PATH Exempt Employees, and 31 terminated but vested employees who were not receiving benefits.

On January 31, 2011, PATH requested a determination letter from the Internal Revenue Service to recognize the amended and restated Plan as a qualified plan under section 401(a) of the Internal Revenue Code. In May 2012, the IRS issued a favorable determination letter confirming the Plan's status as a qualified governmental plan.

**Actuarial Methods and Assumptions**

The actuarially determined valuation of the unfunded Net Pension Obligation (NPO) of the Plan was reviewed in 2012 for purposes of recognizing an actuarially determined annual required contribution operating expense provision and the change in the NPO liability for the Plan in the Port Authority consolidated financial statements.

The actuarial valuation was performed in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27).* The Plan does not issue separate stand-alone financial statements.

Projections of benefits for financial reporting purposes are based on the terms of the Plan as described by PATH to participants, and include the types of benefits provided at the time of each valuation.

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was employed for all participants. Actuarial assumptions used to project pension benefits included a 5.25% investment rate of return, representing the estimated long term yield on investments expected to be used for the payment of pension benefits and a salary scale adjustment of 3% per annum (including 2.5% inflation factor).

The annual required contribution represents the actuarially determined level of funding that, if paid on an ongoing basis, is projected to cover annual benefit costs and the 30-year open amortization amounts, which represents the difference between the actuarial accrued liability and amounts previously recognized. The following reflects the components of the 2012 annual pension cost, benefits paid and changes to the NPO.

**Annual Pension Cost and NPO for 2012**

| | (In thousands) |
|---|---|
| Service Cost | $ 1,267 |
| Amortization Cost | 1,287 |
| Interest on NPO | 1,413 |
| Annual Pension Cost | 3,967 |
| Benefits Paid in 2012 | (2,947) |
| Increase in NPO in 2012 | 1,020 |
| NPO Beginning of Year | 26,904 |
| NPO End of Year | $27,924 |

The year-to-year change in the NPO consists of the difference between the 2012 annual pension cost and 2012 pension benefits paid to Plan participants. As of January 1, 2012, the actuarial accrued liability for pension benefits totaled $53.9 million. The difference between the actuarial accrued liability of $53.9 million and the $26.9 million previously recognized is being amortized as a level dollar amount over an open amortization period of 30 years.

**Annual Pension Cost and NPO for 2010 - 2012**

| Year | Annual Pension Cost | Ratio of Benefit Payments to Annual Pension Cost | NPO Year-End Balance |
|---|---|---|---|
| | | ($ In thousands) | |
| 2012 | $3,967 | 74.29 % | $27,924 |
| 2011 | $3,934 | 73.14 % | $26,904 |
| 2010 | $3,976 | 84.64 % | $25,847 |

**Funding Status**

PATH (the employer) does not currently fund the Plan; therefore, there are no Plan assets. Retirement benefit payments are on a pay-as-you-go basis from available Port Authority operating funds.

The Schedule of Funding Progress for the plan covering 2012 is as follow:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | Unfunded Actuarial Accrued Liability as a % of Payroll |
|---|---|---|---|---|---|---|
| | | | ($ In thousands) | | | |
| 1/1/12 | $0 | $53,903 | $53,903 | 0% | $ 9,391 | 574% |

The schedule of funding progress for the current year and the two preceding years is presented as required supplementary information immediately following the notes to the financial statements, and 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.

## 2. Other Employee Benefits

### Benefit Plans

The Port Authority and PATH provide, pursuant to Board action or as contemplated thereby, certain group health care, prescription, dental, vision and term life insurance benefits for active and retired employees of the Port Authority and PATH (and for eligible dependents and survivors of active and retired employees). Collectively, these covered individuals are referred to as "participants." Contributions toward the costs of some of these benefits are required of certain participants. These contributions generally range from 10% to 50% of the Port Authority or PATH's cost of the benefit and depend on a number of factors, including status of the participants, type of benefit, hire date, years of service, and retirement date. Benefits are provided through insurance companies whose premiums are based on the benefits paid during the year, or through plans under which benefits are paid by service providers on behalf of the Port Authority or PATH. The actuarially determined valuation of postemployment benefits is reviewed annually for the purpose of estimating the present value of future benefits for participants.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the benefit plans as described by the Port Authority and PATH to participants, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future, including future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used for all participants. The actuarial assumptions used to project future costs included a 6% investment rate of return, representing the estimated yield on investments expected to be used for the payment of benefits; a medical healthcare cost trend rate of 7% in 2012, declining to an ultimate rate of 5% in 2016 (including 2.5% inflation factor); a pharmacy benefit cost trend rate of 5% in 2012; and a dental benefit cost trend rate of 4.5% per year. The actuarial value of assets is based on the market value of assets. In addition,

the unfunded, unrecognized actuarial accrued liability is amortized as a level dollar amount over a period of 30 years.

**Other Postemployment Benefit Costs and Obligations**

The annual non-pension postemployment benefit cost is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which also forms the basis for calculating the annual required contribution for the Port Authority and PATH. The annual required contribution represents the actuarially determined level of funding that, if paid on an ongoing basis, is projected to cover annual benefit costs and the 30-year open amortization of the difference between the actuarial accrued liability and amounts previously recognized. The Port Authority has been recognizing OPEB costs since 1985. The following reflects the components of the 2012 annual OPEB costs, amounts paid, and changes to the net accrued OPEB obligation based on the January 1, 2012 actuarial valuation:

| | (In millions) |
|---|---|
| Normal actuarial cost | $ 31.2 |
| Amortization cost | 82.0 |
| Interest on excess contribution | (12.1) |
| Annual OPEB Cost | 101.1 |
| OPEB payments | (108.7) |
| Increase/(decrease) in net OPEB obligation | (7.6) |
| Net accrued OPEB obligation as of 12/31/11 | 449.3 |
| OPEB obligation as of 12/31/12 | 441.7 |
| Trust contributions | (100.0) |
| Net accrued OPEB obligation as of 12/31/12 | $ 341.7 |

As of January 1, 2012, the actuarially accrued liability for OPEB totaled approximately $2 billion. The difference between the actuarial accrued liability of $2 billion and the sum of the $449.3 million liability previously recognized and the $376.6 million in trust assets is being amortized using an open amortization approach over a 30-year period.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established a new prescription drug benefit commonly known as Medicare Part D. The Port Authority's application to the Centers for Medicare and Medicaid Services (CMS) within the Department of Health and Human Services to sponsor a Part D Plan for retirees was approved effective January 1, 2006. Effective January 1, 2009, the Port Authority contracted with Express Scripts, Inc. for an Employee Group Waiver Plan (CMS approved series 800 plan) covering its retirees. Under the contract, Express Scripts, Inc. assumed responsibility for the administrative and compliance obligations imposed by CMS. In 2012, CMS payments to Express Scripts, Inc., on behalf of the Port Authority, totaled approximately $3.8 million. These amounts were considered in calculating the actuarial valuation of the OPEB liability.

The Port Authority and PATH's combined annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net accrued OPEB obligation for 2012 and the two preceding years, were as follows:

| Year | Annual OPEB Cost | OPEB Payments as a % of Annual OPEB Cost | Net Accrued OPEB Obligation |
|---|---|---|---|
| | | ($ In thousands) | |
| 2012 | $ 101,128 | 206% | $ 341,702 |
| 2011 | $ 113,078 | 180% | $ 449,299 |
| 2010 | $ 130,942 | 127% | $ 539,979 |

**Funding Status**

On December 14, 2006, the Port Authority established a restricted fund to provide funding for postemployment benefits. Effective December 2010, the Port Authority's quarterly contribution to The Port Authority of New York and New Jersey Retiree Health Benefits Trust (Trust), with Wells Fargo Bank, N.A-Institutional Trust Services serving as the Trustee totals $25 million. In 2012 and 2011, contributions to the Trust totaled $100 million annually.

OPEB Trust assets, the actuarial accrued liability, the unfunded actuarial accrued liability for benefits, the annual payroll amounts for active employees covered by the plans and the ratio of the unfunded actuarial liability to covered payroll for 2012 were as follows:

| Actuarial Valuation Date | Actuarial Value of OPEB Trust Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | Unfunded Actuarial Accrued Liability as a % of Payroll |
|---|---|---|---|---|---|---|
| | | | ($ In millions) | | | |
| 1/1/12 | $377 | $1,963 | $1,586 | 19% | $714 | 222% |

The schedule of funding progress for the current year and the two preceding years is presented as required supplementary information immediately following the notes to the financial statements, and 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.

Following are the Condensed Statements of Trust Net Position and Changes in Trust Net Position held in trust for OPEB for 2012 and 2011. The activities are accounted for using the accrual basis of accounting and all investments are recorded at their fair value.

### Statement of Trust Net Position

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Cash | **$ 138** | $ 6,425 |
| Investments, at fair value: | | |
| Bond/Equity Funds | **524,901** | 370,126 |
| Total Investments | **524,901** | 370,126 |
| Total assets | **525,039** | 376,551 |
| **LIABILITIES** | | |
| Total liabilities | **-** | - |
| **NET POSITION HELD IN TRUST FOR OPEB** | **$ 525,039** | $ 376,551 |

### Statements of Changes in Trust Net Position

| | Year Ended December 31, 2012 | Year Ended December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| **Additions** | | |
| Contributions* | **$ 208,725** | $ 203,758 |
| Total contributions | **208,725** | 203,758 |
| Investment Income: | | |
| Net change in fair value of investments | **36,360** | (6,450) |
| Interest income | **12,432** | 9,060 |
| Total net investment income | **48,792** | 2,610 |
| **Deductions** | | |
| Benefit payments, administrative expenses and fees* | **(109,029)** | (103,913) |
| Total deductions | **(109,029)** | (103,913) |
| **Net Increase** | **148,488** | 102,455 |
| Trust net position, January 1 | **376,551** | 274,096 |
| **NET POSITION HELD IN TRUST FOR OPEB** | **$ 525,039** | $ 376,551 |

* Include Port Authority's payments totaling $108.7 million in 2012 and $103.8 million in 2011 that were paid to OPEB plan members or their beneficiaries out of available Port Authority operating funds. These direct benefit payments were not included as part of the Trust's activities.

The audited financial statements for the years ended December 31, 2012 and December 31, 2011 of the Trust, which provides additional information concerning trust assets, are available from the Comptroller's Department of The Port Authority of New York and New Jersey, 1 PATH Plaza, Jersey City, New Jersey 07306.

## Note J – Commitments and Certain Charges to Operations

**1.** On December 6, 2012, the Board of Commissioners of the Port Authority adopted the operating budget for 2013. Approval of a budget by the Board of Commissioners does not in itself authorize any specific expenditures, which are authorized from time to time by or as contemplated by other actions of the Board of Commissioners consistent with statutory, contractual and other commitments of the Port Authority, including agreements with the holders of its obligations.

**2.** At December 31, 2012, the Port Authority had entered into various construction contracts totaling approximately $4.4 billion, which are expected to be completed within the next three years.

**3.** The Port Authority carries insurance or requires insurance to be carried (if available) on or in connection with its facilities to protect against direct physical loss or damage and resulting loss of revenue and against liability in such amounts as it deems appropriate, considering self-insured retentions, purchase of insurance through its captive insurance entity, PAICE, exceptions, or exclusions of portions of facilities, and the scope of insurable hazards. In view of the current state of the insurance industry, availability of coverage may be constrained and premium costs may increase for available coverage in connection with the Port Authority's periodic renewal of its insurance programs.

**a.** Property damage and loss of revenue insurance program:

The Port Authority's property damage and loss of revenue insurance program (which was renewed effective June 1, 2012 and expires on June 1, 2013) provides for coverage as follows:

| General Coverage (Excluding Terrorism) | Terrorism Coverage |
|---|---|
| $1.518 billion of purchased coverage | $1.518 billion TRIPRA* Coverage (PAICE) |
| $25 million in the aggregate self-insurance after which purchased coverage applies | $25 million in the aggregate self-insurance after which purchased coverage applies |
| $5 million per occurrence deductible | $5 million per occurrence deductible |

* On December 26, 2007, the Federal government enacted the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), which replaced the Federal reinsurance provisions of the Terrorism Risk Insurance Act of 2002 (TRIA) and added reinsurance for acts of domestic terrorism in addition to acts of foreign terrorism through December 31, 2014. Under TRIPRA, the Federal government reinsures 85% of certified terrorism losses, subject to a $100 million deductible and a 20% insurance carrier/captive deductible, in an amount not to exceed an annual cap on all such losses payable under TRIPRA of $100 billion. No federal payments are made under this program until the aggregate industry insured losses from acts of terrorism exceed $100 million.

| Wind Coverage (Sub-limit to General Coverage) |
|---|
| $375 million purchased coverage |
| $25 million in the aggregate self-insurance after which purchased coverage applies |
| $5 million per occurrence deductible |

**b.** Public liability insurance program:

**(1-b)** Aviation facilities

The Port Authority's public liability insurance program for aviation facilities (which was renewed effective October 27, 2012 and expires on October 27, 2013) provides for coverage as follows:

| General Coverage (Excluding Terrorism) | Terrorism Coverage |
|---|---|
| $1.25 billion per occurrence and in the aggregate of purchased coverage | $1.25 billion aviation war risk** per occurrence and in the aggregate of purchased coverage |
| $3 million per occurrence deductible | |

** Aviation war risk generally includes war, hijacking and other perils, both domestically and internationally.

**(2-b)** Non-Aviation facilities

The Port Authority's public liability insurance program for "non-aviation" facilities (which was renewed effective October 27, 2012 and expires on October 27, 2013) provides for coverage as follows:

| General Coverage (Excluding Terrorism) | | Terrorism Coverage | |
|---|---|---|---|
| $1 billion excess above $12.5 million | $1.05 billion of purchased coverage per occurrence | $300 million purchased TRIPRA* Coverage | $300 million purchased coverage per occurrence |
| $7.5 million self-insurance | | | |
| $5 million per occurrence deductible | | $5 million per occurrence deductible | |

* See footnote on page 64

During each of the past three years, claims payments have not exceeded insurance coverage.

**4.** In providing for uninsured potential losses, the Port Authority administers its self-insurance program by applications from the Consolidated Bond Reserve Fund and provides for losses by charging operating expense as liabilities are incurred. As of December 31, 2012, there was approximately $39 million for the payment of self-insured claims.

A liability is recognized when it is probable that the Port Authority has incurred an uninsured loss and the amount of the loss can be reasonably estimated. The liability for accrued self-insurable claims is based upon the estimated cost of settling the claims, which includes a review of estimated claims expenses, estimated recoveries and a provision for IBNR claims. Changes in the liability amounts in 2012 and 2011 were:

| Year | Beginning Balance | Additions and Changes | Payments | Year-end Balance |
|---|---|---|---|---|
| | | (In thousands) | | |
| 2012 | $ 45,602 | $ 19,466 | $ 11,871 | $ 53,197 |
| 2011 | $ 39,557 | $ 12,347 | $ 6,302 | $ 45,602 |

**5.** On October 16, 2006, the District of Columbia approved the establishment of a Port Authority captive insurance company, known as the Port Authority Insurance Captive Entity, LLC, for the purpose of insuring certain risk exposures of the Port Authority and its related entities. Under its current Certificate of Authority issued by the District of Columbia, PAICE is authorized to transact insurance business, in connection with Workers' Compensation, general liability, builders risk, property and terrorism insurance coverage for the Port Authority and its related entities. With the passage of TRIPRA, PAICE assumed coverage for acts of domestic terrorism with respect to the Port Authority's public liability and property damage and loss of revenue insurance programs in addition to the previously provided coverage for acts of foreign terrorism. In addition, as of December 31, 2012, PAICE has continued to provide the first $1,000,000 in coverage under the Workers' Compensation portion, the first $500,000 in coverage under the general liability aspect of the Port Authority's Contractor's Insurance Program, and $1 billion of Builders Risk and Terrorism coverage for the WTC Transportation Hub Owner Controlled Insurance Program, which is 100% reinsured through the commercial insurance marketplace and TRIPRA.

Any changes in the lines of insurance being provided by PAICE or its capitalization are subject to prior approval by the Port Authority Board of Commissioners' Committee on Finance. PAICE also provides periodic reports with respect to its general operations to the Port Authority's Board of Commissioners.

The financial results for PAICE for the year ended December 31, 2012 are set forth below. Amounts associated with PAICE recorded on the Port Authority's consolidated financial statements have been adjusted to reflect intercompany transfers between the Port Authority and PAICE (see Schedule E).

| **Financial Position** | (In thousands) |
|---|---|
| Total Assets | $232,597 |
| Total Liabilities | 103,719 |
| Net Position | $128,878 |
| **Operating Results** | |
| Revenues | $ 25,180 |
| Expenses | 10,535 |
| Net Income | $ 14,645 |
| **Changes in Net Position** | |
| Net Position at January 1, 2012 | $121,383 |
| Member's Distribution | 7,150 |
| Net Income | 14,645 |
| Net Position at December 31, 2012 | $128,878 |

**6.** "Other amounts receivable, net" recognized on the Consolidated Statement of Net Position totaled $141 million at December 31, 2012, and is comprised of the following:

| | Dec. 31, 2011 | Additions | Deductions | Dec. 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Long-term receivables from tenants | $24,423 | $16,123 | $21,560 | $18,986 |
| Installment due from the Essex County Resource Recovery Facility operator | 1,738 | 155 | 311 | 1,582 |
| Insurance receivable - Hurricane Sandy | - | 106,331 | - | 106,331 |
| Advances for construction projects | 72,166 | 47,239 | 113,493 | 5,912 |
| Interest due from Tower 4 net lessee | 8,343 | 65,293 | 65,293 | 8,343 |
| Other | 319 | - | - | 319 |
| Total other amounts receivable, net | $106,989 | $235,141 | $200,657 | $141,473 |

**7.** The 2012 balance of "Other noncurrent liabilities" consists of the following:

| | Dec. 31, 2011 | Additions | Deductions | Dec. 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Workers' Compensation liability | $45,388 | $25,346 | $22,660 | $48,074 |
| Claims liability | 45,602 | 19,466 | 11,871 | 53,197 |
| Pollution remediation | 31,832 | 2,895 | 6,780 | 27,947 |
| Asset forfeiture | 10,648 | 1,965 | 2,574 | 10,039 |
| Contractors Insurance Program-WTC | 122,701 | 3,822 | 67,277 | 59,246 |
| Surety and security deposits | 8,121 | 2,341 | 3,634 | 6,828 |
| Other | 62,660 | 14,815 | 82 | 77,393 |
| Gross other liabilities | $326,952 | $70,650 | $114,878 | 282,724 |
| Less current portion: | | | | |
| Workers' Compensation liability | | | | 14,895 |
| Total other noncurrent liabilities | | | | $267,829 |

**8.** During 2012, approximately $35 million in capital expenditures primarily associated with preliminary and alternative design analysis for the construction of a new ramp connecting the southbound Palisades Interstate Parkway to the eastbound lower level of the George Washington Bridge, PATH Newport station improvements, Christopher and 9th Street station entrances, and alternative designs associated with the ongoing PATH signal system replacement project that were previously included as a component of "Facilities, net" and no longer considered viable were written off to operating expense accounts in 2012.

**9.** During 2012, the Port Authority provided voluntary termination benefits, consisting of severance payments to 2 employees. Port Authority costs totaled $190,684 in 2012 for these severance programs.

**10.** In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, an operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligations that previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. The Port Authority recognized an additional $3 million in pollution remediation obligations, thus increasing the cumulative amounts recognized to date from $57 million in 2011 to $60 million in 2012, net of $2.1 million in expected recoveries. A corresponding liability, measured at its current value utilizing the prescribed expected cash flow method, has been recognized on the Consolidated Statements of Net Position.

As of December 31, 2012, the outstanding pollution remediation liability totaled $27.9 million, primarily consisting of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, soil contamination, and arsenic contamination at Port Authority facilities.

**11.** On October 29-30, 2012, Hurricane Sandy, a category 1 hurricane, came onshore in the mid-Atlantic region, as a post-tropical cyclone, causing intense wind gusts and storm surges in the New York and New Jersey region. Port Authority operations were significantly disrupted and certain Port Authority facilities sustained significant damage due in large part to wind and water damage and power outages because of Hurricane Sandy. By Thursday, November 1, 2012, service at the Port Authority's aviation and TB&T facilities had been largely restored, and the Port Authority continued to work with other appropriate federal, state and local agencies to restore service to the PATH rail transit system and the Port Authority's marine terminal facilities, and to resume its full construction activities at the WTC site. In addition, with its financial and business systems remaining operational during this period, the Port Authority met all of its immediate payment requirements and other financial obligations. It is presently anticipated that available insurance coverage and federal disaster relief funds will substantially cover the economic loss sustained by the Port Authority as a result of the effects of Hurricane Sandy. In view of anticipated revenues from Port Authority operations, income from sources other than operations, and the availability of substantial reserve funds, it is presently expected that the costs of operations, the payment of debt service, and the fulfillment of Port Authority statutory, contractual and other commitments, will continue to be provided for in accordance with the requirements therefor and agreements with the holders of Port Authority obligations.

Net expenses/(recoverables) associated with Hurricane Sandy totaled $30 million in 2012, which represents the Port Authority's self-insurance retention amounts associated with this event. In 2012, the Port Authority incurred approximately $120.6 million in repair and response costs, including direct labor and third-party contractor costs at Port Authority facilities that are directly attributable to Hurricane Sandy. In addition, approximately $15.7 million of unamortized investment (book value) associated with capital assets that were permanently destroyed as a result of Hurricane Sandy were written off in 2012. It is presently anticipated that available insurance coverage will cover the economic losses of $106.3 million that have been recognized to date. As such, a receivable for this amount was recognized in 2012. Net expenses/(recoverables) associated with Hurricane Sandy is comprised of the following:

| | | (In thousands) |
|---|---|---|
| Total Repair and Response Expenditures | $ | 120,607 |
| Losses on Destroyed Assets | | 15,724 |
| Insurance Receivable | | (106,331) |
| Net Expenses | **$** | **30,000** |

## Note K – Information with Respect to the Redevelopment of the World Trade Center Site

The terms of the original July 2001 net leases established both an obligation and concomitant right for the net lessees, at their sole cost and expense, to restore their net leased premises following a casualty whether or not the damage is covered by insurance proceeds in accordance, to the extent feasible, prudent and commercially reasonable, with the plans and specifications as they existed before the casualty or as otherwise agreed to with the Port Authority. The net lessees obtained property damage and business interruption insurance in a combined single limit of approximately $3.5 billion per occurrence. The net lessees recovered approximately $4.57 billion against available policy limits of approximately $4.68 billion. Approximately $2.3 billion of these funds has been used for the net lessees' business interruption expenses, including the payment of rent to the Port Authority, the prepayment of the mortgage loan entered into on July 24, 2001 by the Silverstein net lessees with GMAC Commercial Mortgage Corporation in the amount of approximately $562 million, and the purchase by the Port Authority on December 23, 2003 of the retail net lessee from Westfield for $140 million as well as certain of their WTC redevelopment expenses.

### Conceptual Framework for the Redevelopment of the Office, Retail and Other Components of the World Trade Center

The redevelopment of the WTC will provide approximately 10 million square feet of above-grade office space with associated storage, mechanical, loading, below-grade parking, and other non-office space, and consist of One World Trade Center, Tower 2, Tower 3, Tower 4, Tower 5, approximately 450,000 square feet of retail space, a WTC Transportation Hub, a memorial and interpretive museum (Memorial/Museum) and cultural facilities and certain related infrastructure.

Future minimum rentals (see Note G) include rentals of approximately $14 billion attributable to WTC net leases. The inclusion of this amount in future rentals is predicated upon the assumption that the net lessees of various components of the WTC Towers 2, 3 and 4, and WTC Retail will continue to meet their contractual commitments pertaining to their net leased properties, including those with respect to the payment of rent and the restoration of their net leased properties. The net lessees' ability to meet these contractual commitments may be affected by the nature of the downtown Manhattan real estate market, and coordination among various public and private sector entities involved in the redevelopment of downtown Manhattan.

### One World Trade Center

In November 2006, as part of the continuing redevelopment of the WTC, the Port Authority acquired from Silverstein Properties 100% of the membership interests in 1 WTC LLC, the then-net lessee of One World Trade Center and Tower 5, which will comprise, in the aggregate, approximately 4.2 million square feet of office space. On June 13, 2011, the Port Authority and Durst entered into various agreements in

connection with the establishment of a joint venture with respect to the construction, financing, leasing, management and operation of the One World Trade Center building. Durst contributed $100 million for a minority equity interest in Tower 1 Joint Venture LLC. One World Trade Center will contain 3.0 million square feet of space, comprised of commercial office space and an indoor observation deck. It is presently expected that One World Trade Center will be substantially completed by late 2013, at a cost of approximately $3.1 billion.

**World Trade Center Tower 2, Tower 3 and Tower 4**

A December 2010 World Trade Center Amended and Restated Master Development Agreement (MDA), among the Port Authority, PATH, 1 WTC LLC, WTC Retail LLC, and the Silverstein net lessees, sets forth the respective rights and obligations of the parties thereto with respect to construction on the WTC site, including the allocation of construction responsibilities and costs between the parties to the MDA.

The Silverstein net lessees are required to construct Tower 4, the Tower 3 podium and certain subgrade and foundation work required for Tower 2, to be located on the eastern portion of the WTC site, along the Church Street corridor, comprising, in the aggregate, approximately 6.2 million square feet of office space, as well as contribute an aggregate of $140,000,000 toward specified common infrastructure costs. The MDA also provides for the implementation of a construction coordination and cooperation plan among the respective parties' construction teams in order to provide for cooperation and coordination to achieve reasonable certainty of timely project completion.

**World Trade Center Tower 4**

For the continued development and construction of Tower 4, with approximately 600,000 of its 2 million square feet of office space preleased to the Port Authority, and approximately 580,000 square feet preleased to the City of New York, the Port Authority, as a co-borrower/obligor with respect to the Liberty Bonds issued on November 15, 2011 under a Tower 4 Tenant Repayment Agreement, has provided tenant support payments for the benefit of the Silverstein net lessee of Tower 4. The Port Authority's obligations with respect to the payment of debt service on the Tower 4 Liberty Bonds are evidenced by a separate Tower 4 Bond Payment Agreement between the Port Authority and the bond trustee. Tenant Support payments would be reimbursed to the Port Authority from Tower 4 cash flow and to the extent Tower 4 cash flow is not sufficient, would accrue interest until repaid with an overall term of the investment not in excess of 40 years. As security for the repayment to the Port Authority under the Tower 4 Tenant Support Agreement, the Silverstein net lessee of Tower 4, the Port Authority and a third party banking institution have entered into an account control agreement pursuant to which the revenues derived from the operation of Tower 4 (excluding the rents payable under the space lease with the City of New York which have been assigned by the Silverstein net lessee of Tower 4 directly to the bond trustee for the Tower 4 Liberty Bonds) will be deposited into a segregated lockbox account, in which the Port Authority has a security interest, and will be administered and

disbursed by such banking institution in accordance with the Tower 4 Tenant Repayment Agreement. To provide additional security for the repayment to the Port Authority, the Silverstein net lessee of Tower 4 will assign to the Port Authority various contracts with architects, engineers and other persons in connection with the development and construction of Tower 4, together with all licenses, permits, approvals, easements and other rights of the Silverstein net lessee of Tower 4; will grant a first priority leasehold mortgage on the net lease for Tower 4 to the Port Authority; and will assign all Tower 4 space leases and rents (other than the space lease with the City of New York) to the Port Authority.

**World Trade Center Tower 3**

The Silverstein net lessee of Tower 3 would construct the Tower 3 podium, with the construction of the office tower to follow. To assist the Silverstein net lessee of Tower 3 in the construction of the Tower 3 office tower following satisfaction of certain private-marketing triggers, the Port Authority has entered into a Tower 3 Tenant Support Agreement providing for the investment of Port Authority operating funds of $210 million for the construction of the tower and a backstop of $390 million for certain construction and leasing overruns, senior debt service shortfalls and operating expense deficits. These private-market triggers include the Silverstein Tower 3 net lessee raising $300 million of private equity, preleasing 400,000 square feet of the office tower, and obtaining private financing for the remaining cost of the office tower. The State of New York and the City of New York have agreed to reimburse the Port Authority for $200 million each of the $600 million to be provided under the Tower 3 Tenant Support Agreement for a total reimbursement of $400 million. Under the Tower 3 Tenant Support Agreement, the Silverstein net lessee of Tower 3 is responsible for the repayment of the $390 million backstop on a subordinated basis, without interest, from Tower 3 revenues. All repayments of the Tower 3 backstop received by the Port Authority would in turn be distributed among the Port Authority, the State of New York and the City of New York in accordance with their respective shares of the $390 million backstop payments.

**The World Trade Center Transportation Hub**

Immediately following the terrorist attacks of September 11, 2001, the Governors of the States of New York and New Jersey and the Board of Commissioners of the Port Authority made rapid restoration of PATH service a priority on the Port Authority's agenda. PATH service recommenced at the Exchange Place station (which was rendered unusable as a result of the events of September 11, 2001) on June 29, 2003, and PATH service to the WTC site recommenced on November 23, 2003 at the temporary PATH station at the WTC site.

On July 28, 2005, the Board of Commissioners of the Port Authority authorized the WTC Transportation Hub project. Construction of the WTC Transportation Hub commenced on September 6, 2005 and is presently expected to be substantially completed in 2015, at an estimated total project cost range of approximately $3.74

billion to $3.995 billion consistent with the range of cost estimates identified both in a project risk assessment performed by the FTA and an independent assessment conducted by Navigant Consulting, Inc. as part of its comprehensive review and assessment of the Port Authority.

**World Trade Center Infrastructure Projects**

In addition to the WTC Transportation Hub, the Port Authority continues to advance planning and design for various infrastructure projects toward full build out of the WTC site. A vehicular security center for cars, tour buses, and delivery vehicles to access subgrade loading facilities is presently expected to be operational in time to support the commercial development throughout the WTC site at a cost of approximately $670 million. Other infrastructure work to be implemented includes streets and utilities, a central chiller plant, and electrical infrastructure that will support the operations of the WTC site.

**WTC Retail**

In December 2003, as part of the redevelopment of the WTC, the Port Authority acquired 100% of the membership interest in the net lessee of the retail components of the WTC from Westfield for $140 million, and is the sole managing member of this bankruptcy remote single purpose entity, which was renamed “WTC Retail LLC.” In such capacity, the Port Authority has been involved in the planning for the restoration of the retail components of the WTC.

The retail project at the WTC site includes certain retail space to be located in the WTC Transportation Hub, One World Trade Center, Tower 2, Tower 3, and Tower 4 (collectively the “Retail Premises”). On May 16, 2012, the Port Authority and Westfield entered into various agreements in connection with the establishment of a joint venture with respect to the construction, financing, development, leasing, management and operation of the Retail Premises through its current net lessee New WTC Retail Owner LLC, a bankruptcy remote single purpose entity. New WTC Retail Owner LLC is indirectly owned by affiliated entities of the Port Authority and Westfield. Each party will be a 50% participant in the joint venture and contribute $612.5 million to the joint venture during the course of construction and initial lease-up of the Retail Premises. As part of this overall obligation, in 2012, the Port Authority and Westfield contributed $100 million of initial capital contributions which was subsequently redistributed to New WTC Retail Owner LLC for the further construction of the Retail Premises.

**The Memorial**

On July 6, 2006, the Board of Commissioners authorized the Port Authority to enter into an agreement with the Lower Manhattan Development Corporation (LMDC), the National September 11 Memorial and Memorial Museum at the WTC (Memorial Foundation), the City of New York and the State of New York for the construction by the Port Authority of the WTC memorial and cultural project. The agreement establishes

the general areas of responsibility of the parties for the design, development, construction, financing and operation of the project, which will include the Memorial/Museum, the Visitor Orientation and Education Center (VOEC), and the related common and exclusive infrastructure (Infrastructure).

In connection with the funding of the costs of the construction of the project, under the July 6, 2006 agreement, the Memorial Foundation and the LMDC were responsible for providing $280 million and $250 million, respectively, for the Memorial/Museum; the State of New York was responsible for providing $80 million for the VOEC; and the Port Authority was responsible for providing up to $150 million for the Infrastructure.

On October 19, 2012, the Port Authority and the Memorial Foundation entered into an agreement resolving certain issues pertaining to the continuing construction of the museum portion of the Memorial/Museum. The LMDC will pay the next $45 million of any additional construction funding and the Port Authority's total responsibility for any additional construction funding will be reduced to $38 million after the expenditure of the LMDC's $45 million commitment. The Memorial/Museum and the Port Authority will each contribute additional amounts to ensure completion of the Memorial/Museum based on a revised construction budget, which is now estimated by the Memorial/Museum at approximately $718 million, excluding the $150 million of Infrastructure costs.

The Port Authority does not have any responsibility for the operation and maintenance of the Memorial, the Memorial/Museum or the VOEC. The Memorial Plaza was substantially completed and opened for public access on September 11, 2011.

**Accounting**

In connection with the events of September 11, 2001, the Port Authority reclassified and recognized as an operating expense the $1.1 billion net book value of various assets consisting primarily of buildings, infrastructure and certain ancillary equipment that together comprised the components of the WTC complex destroyed as a result of the September 11, 2001 terrorist attacks. A receivable in an amount equal to such net book value was recorded in 2001. In connection with the recovery for and redevelopment of certain assets comprising the WTC, the receivable has been fully satisfied on the Port Authority's consolidated financial statements as of December 31, 2011. Contributed capital amounts provided by the Silverstein net lessees totaling $1.4 billion for the construction of WTC Towers 2, 3 and 4 have been recognized as a component of "Facilities, net". Of these amounts, $800 million was applied against the 2001 receivable and $600 million was recorded as contributions in aid of construction.

## Schedule of Funding Progress (Unaudited)
## PATH Exempt Employees Supplemental Pension Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (c) = (b–a) | Funded Ratio (a) / (b) | Covered Payroll (d) | Unfunded Actuarial Accrued Liability as a % of Payroll (c) / (d) |
|---|---|---|---|---|---|---|
| | | | ($ In thousands) | | | |
| 1/1/12 | $0 | $53,903 | $53,903 | 0% | $ 9,391 | 574% |
| 1/1/11 | $0 | $53,977 | $53,977 | 0% | $ 9,185 | 588% |
| 1/1/10 | $0 | $53,382 | $53,382 | 0% | $10,456 | 511% |

## Schedule of Funding Progress (Unaudited)
## Other Postemployment Benefits Plan

| Actuarial Valuation Date | Actuarial Value of OPEB Trust Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (c) = (b–a) | Funded Ratio (a) / (b) | Covered Payroll (d) | Unfunded Actuarial Accrued Liability as a % of Payroll (c) / (d) |
|---|---|---|---|---|---|---|
| | | | ($ In millions) | | | |
| 1/1/12 | $377 | $1,963 | $1,586 | 19% | $714 | 222% |
| 1/1/11 | $274 | $1,978 | $1,704 | 14% | $712 | 239% |
| 1/1/10 | $180 | $2,120 | $1,940 | 9% | $722 | 269% |

## Schedule A - Revenues and Reserves
(Pursuant to Port Authority bond resolutions)

| | Year ended December 31, 2012 | | | 2011 |
|---|---|---|---|---|
| | **Operating Fund** | **Reserve Funds** | **Combined Total** | Combined Total |
| | | (In thousands) | | |
| **Gross operating revenues:** | | | | |
| Tolls and fares | $ 1,337,372 | $ - | **$ 1,337,372** | $ 1,148,061 |
| Rentals | 1,208,730 | - | **1,208,730** | 1,150,569 |
| Aviation fees | 904,666 | - | **904,666** | 895,356 |
| Parking and other | 338,178 | - | **338,178** | 339,131 |
| Utilities | 152,945 | - | **152,945** | 154,810 |
| Rentals - Special Project Bonds Projects | 108,125 | - | **108,125** | 112,553 |
| Total gross operating revenues | 4,050,016 | - | **4,050,016** | 3,800,480 |
| **Operating expenses:** | | | | |
| Employee compensation, including benefits | 1,038,243 | - | **1,038,243** | 1,037,681 |
| Contract services | 749,106 | - | **749,106** | 726,883 |
| Rents and amounts in-lieu-of taxes | 304,020 | - | **304,020** | 280,237 |
| Materials, equipment and other | 215,937 | - | **215,937** | 219,183 |
| Utilities | 174,016 | - | **174,016** | 188,432 |
| Interest on Special Project Bonds | 108,125 | - | **108,125** | 112,553 |
| Total operating expenses | 2,589,447 | - | **2,589,447** | 2,564,969 |
| Amounts in connection with operating asset obligations | 27,956 | - | **27,956** | 29,580 |
| Net expenses/(recoverables) related to Hurricane Sandy | 30,000 | - | **30,000** | - |
| Net operating revenues | 1,402,613 | - | **1,402,613** | 1,205,931 |
| **Financial income:** | | | | |
| Interest income | 1,488 | 25,482 | **26,970** | 48,026 |
| Net increase/(decrease) in fair value of investments | (3,048) | 5,199 | **2,151** | (101,296) |
| Contributions in aid of construction | 570,261 | - | **570,261** | 487,296 |
| Application of Passenger Facility Charges | 110,015 | - | **110,015** | 215,645 |
| Application of 1WTC LLC/WTC Retail LLC insurance proceeds | 17,962 | - | **17,962** | 57,340 |
| Application of 4 WTC associated payments | 65,293 | - | **65,293** | 8,343 |
| Restricted Net Revenues - PAICE | 2,710 | - | **2,710** | 644 |
| Grants | 52,161 | - | **52,161** | 23,727 |
| Pass-through grant program payments | (56,446) | - | **(56,446)** | (11,507) |
| Net revenues available for debt service and reserves | 2,163,009 | 30,681 | **2,193,690** | 1,934,149 |
| **Debt service:** | | | | |
| Interest on bonds and other asset financing obligations | 539,436 | 87,764 | **627,200** | 518,325 |
| Debt maturities and retirements | 169,770 | - | **169,770** | 140,390 |
| Debt retirement acceleration | - | 54,635 | **54,635** | 6,100 |
| Repayment of asset financing obligations | - | 16,514 | **16,514** | 20,258 |
| Total debt service | 709,206 | 158,913 | **868,119** | 685,073 |
| Transfers to reserves | $ (1,453,803) | 1,453,803 | **-** | - |
| Revenues after debt service and transfers to reserves | | 1,325,571 | **1,325,571** | 1,249,076 |
| Direct investment in facilities | | (691,079) | **(691,079)** | (742,001) |
| Change in appropriations for self-insurance | | 37,547 | **37,547** | 1,949 |
| Increase in reserves | | 672,039 | **672,039** | 509,024 |
| Reserve balances, January 1 | | 2,705,036 | **2,705,036** | 2,196,012 |
| Reserve balances, December 31 | | $ 3,377,075 | **$ 3,377,075** | $ 2,705,036 |

## Schedule B - Assets and Liabilities
(Pursuant to Port Authority bond resolutions)

| | December 31, 2012 | | | | 2011 |
|---|---|---|---|---|---|
| | Operating Fund | Capital Fund | Reserve Funds | Combined Total | Combined Total |
| | | | (In thousands) | | |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash | $ 259,928 | $ 1,772,956 | $ 1,660,016 | **$ 3,692,900** | $ 3,297,365 |
| Restricted cash: | | | | | |
| 1 WTC LLC/WTC Retail LLC insurance proceeds | - | - | - | **-** | 14,434 |
| Passenger Facility Charges | 120,795 | - | - | **120,795** | - |
| Port Authority Insurance Captive Entity, LLC | 11,130 | - | - | **11,130** | 11,038 |
| Investments | 777 | 100,000 | - | **100,777** | 26,290 |
| Current receivables, net | 369,846 | 77,716 | - | **447,562** | 362,875 |
| Other current assets | 82,259 | 205,708 | - | **287,967** | 285,938 |
| Restricted receivables and other assets | 41,250 | (5,773) | - | **35,477** | 46,428 |
| Total current assets | 885,985 | 2,150,607 | 1,660,016 | **4,696,608** | 4,044,368 |
| Noncurrent assets: | | | | | |
| Restricted cash | 6,472 | - | - | **6,472** | 7,765 |
| Investments | 118,661 | - | 1,717,059 | **1,835,720** | 1,356,269 |
| Restricted Investments - PAICE | 162,630 | - | - | **162,630** | 156,356 |
| Other amounts receivable, net | 120,560 | 20,913 | - | **141,473** | 106,989 |
| Deferred charges and other noncurrent assets | 1,382,736 | 51,688 | - | **1,434,424** | 1,514,071 |
| Restricted deferred/other noncurrent assets - PAICE | 10,147 | - | - | **10,147** | 13,409 |
| Amounts receivable - Special Project Bonds Projects | - | 1,675,825 | - | **1,675,825** | 1,741,440 |
| Amounts receivable - Tower 4 Liberty Bonds | - | 1,225,520 | - | **1,225,520** | 1,225,520 |
| Invested in facilities | - | 40,818,087 | - | **40,818,087** | 37,591,818 |
| Total noncurrent assets | 1,801,206 | 43,792,033 | 1,717,059 | **47,310,298** | 43,713,637 |
| Total assets | 2,687,191 | 45,942,640 | 3,377,075 | **52,006,906** | 47,758,005 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 305,006 | 581,856 | - | **886,862** | 818,149 |
| Accrued interest and other current liabilities | 507,629 | 60,679 | - | **568,308** | 759,127 |
| Restricted other liabilities - PAICE | 852 | - | - | **852** | 816 |
| Accrued payroll and other employee benefits | 283,180 | - | - | **283,180** | 231,657 |
| Deferred income: | | | | | |
| 1 WTC LLC/WTC Retail LLC insurance proceeds | - | - | - | **-** | 14,434 |
| Passenger Facility Charges | 132,228 | - | - | **132,228** | 19,590 |
| Restricted Net Revenues - PAICE | (764) | - | - | **(764)** | 1,946 |
| Current portion bonds and other asset financing obligations | 110,837 | 938,116 | - | **1,048,953** | 825,919 |
| Total current liabilities | 1,338,968 | 1,580,651 | - | **2,919,619** | 2,671,638 |
| Noncurrent liabilities: | | | | | |
| Accrued pension and other noncurrent employee benefits | 369,951 | - | - | **369,951** | 476,879 |
| Other noncurrent liabilities | 162,121 | 105,708 | - | **267,829** | 311,396 |
| Restricted other noncurrent liabilities - PAICE | 46,938 | - | - | **46,938** | 46,389 |
| Amounts payable - Special Project Bonds | - | 1,675,825 | - | **1,675,825** | 1,741,440 |
| Amounts payable - Tower 4 Liberty Bonds | - | 1,225,520 | - | **1,225,520** | 1,225,520 |
| Bonds and other asset financing obligations | 730,699 | 17,223,448 | - | **17,954,147** | 15,731,335 |
| Total noncurrent liabilities | 1,309,709 | 20,230,501 | - | **21,540,210** | 19,532,959 |
| Total liabilities | 2,648,677 | 21,811,152 | - | **24,459,829** | 22,204,597 |
| **NET POSITION** | $ 38,514 | $ 24,131,488 | $ 3,377,075 | **$ 27,547,077** | $ 25,553,408 |
| **Net position is composed of:** | | | | | |
| Facility infrastructure investment | $ - | $ 24,131,488 | $ - | **$ 24,131,488** | $ 22,772,311 |
| Reserves | - | - | 3,377,075 | **3,377,075** | 2,705,036 |
| Appropriated reserves for self-insurance | 38,514 | - | - | **38,514** | 76,061 |
| **NET POSITION** | $ 38,514 | $ 24,131,488 | $ 3,377,075 | **$ 27,547,077** | $ 25,553,408 |

## Schedule C - Analysis of Reserve Funds
(Pursuant to Port Authority bond resolutions)

| | Year ended December 31, 2012 | | | 2011 |
|---|---|---|---|---|
| | **General Reserve Fund** | **Consolidated Bond Reserve Fund** | **Combined Total** | Combined Total |
| | | (In thousands) | | |
| Balance, January 1 | $ 1,783,370 | $ 921,666 | **$ 2,705,036** | $ 2,196,012 |
| Increase in reserve funds * | 243,235 | 1,241,249 | **1,484,484** | 1,313,136 |
| | 2,026,605 | 2,162,915 | **4,189,520** | 3,509,148 |
| Applications: | | | | |
| Repayment of asset financing obligations | - | 16,514 | **16,514** | 20,258 |
| Interest on asset financing obligations | - | 87,764 | **87,764** | 37,702 |
| Debt retirement acceleration | - | 54,635 | **54,635** | 6,100 |
| Direct investment in facilities | - | 691,079 | **691,079** | 742,001 |
| Self-insurance | - | (37,547) | **(37,547)** | (1,949) |
| Total applications | - | 812,445 | **812,445** | 804,112 |
| **Balance, December 31** | $ 2,026,605 | $ 1,350,470 | $ 3,377,075 | $ 2,705,036 |

* Consists of "Transfers to reserves" from the operating fund totaling $1.5 billion, plus "financial income" generated on Reserve funds of $30.7 million in 2012.

# STATISTICAL AND OTHER SUPPLEMENTAL INFORMATION

For the year ended December 31, 2012

The Statistical and Other Supplemental Information section presents additional information as context for further understanding the information in the financial statements, note disclosures and schedules.

**Financial Trends – Schedule D-1**

Trend information is provided to help the reader understand how the Port Authority's financial performance and fiscal health has changed over time.

**Debt Capacity – Schedule D-2**

The Port Authority has several forms of outstanding obligations.

Information on Port Authority revenues, outstanding obligations, debt service, and reserves is included here for statistical purposes (more detailed information about the various kinds of debt instruments used by the Port Authority can be found in Note D, and the reserve funds are described in Note E). Debt limitations, including in some cases limits on total authorized amounts or requirements for the issuance of additional bonds, may be found in the various resolutions establishing and authorizing such obligations.

**Operating Information – Schedule D-3 (Unaudited)**

Operating and service data is provided to help the reader understand how information in the Port Authority's financial report relates to the services it provides and activities it performs.

**Information on Port Authority Operations – Schedule E**

Detailed information on Port Authority’s operating results including income from operations, non-operating expenses and contributions, and net income is provided on Port Authority operating facility level.

**Information on Port Authority Capital Program Components – Schedule F**

This schedule provides information on capital investment summarized by Port Authority operating facilities, which includes net capital expenditures and depreciation expenses.

**Facility Traffic – Schedule G (Unaudited)**

This schedule provides comparative information on Port Authority facility traffic relative to vehicles, passengers, containers, cargo, waterborne vehicles and plane movements.

## Schedule D-1 - Selected Statistical Financial Trends Data

| | **2012** | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Net position is composed of | | | | |
| Net investment in capital assets | **$ 10,010,965** | $10,020,306 | $ 9,200,077 | $ 8,415,993 |
| Restricted | **392,389** | 294,460 | 222,871 | 211,725 |
| Unrestricted | **2,457,080** | 1,411,125 | 1,601,675 | 2,050,064 |
| Net Position | **12,860,434** | 11,725,891 | 11,024,623 | 10,677,782 |
| | | | | |
| Revenues, Expenses and Changes in Net Position: | | | | |
| Gross operating revenues: | | | | |
| Tolls and Fares | **$ 1,337,372** | $ 1,148,061 | $ 1,069,785 | $ 1,068,105 |
| Rentals | **1,208,730** | 1,150,569 | 1,144,709 | 1,115,652 |
| Aviation Fees | **904,666** | 895,356 | 872,774 | 839,327 |
| Parking and other fees | **338,178** | 339,131 | 321,257 | 316,005 |
| Utilities | **152,945** | 154,810 | 154,041 | 140,817 |
| Rentals associated with Special Project Bonds | **108,125** | 112,553 | 71,457 | 72,337 |
| Gross operating revenues | **4,050,016** | 3,800,480 | 3,634,023 | 3,552,243 |
| | | | | |
| Operating expenses: | | | | |
| Employee compensation, including benefits | **1,038,243** | 1,037,681 | 1,022,195 | 974,154 |
| Contract services | **749,106** | 726,883 | 630,438 | 683,418 |
| Rents and amounts in-lieu-of taxes | **304,020** | 280,237 | 272,002 | 276,830 |
| Utilities | **215,937** | 188,432 | 183,826 | 168,249 |
| Interest on Special Project Bonds | **174,016** | 112,553 | 71,457 | 72,337 |
| Materials, equipment and other | **108,125** | 219,183 | 418,639 | 263,682 |
| Operating expenses | **2,589,447** | 2,564,969 | 2,598,557 | 2,438,670 |
| | | | | |
| Net recoverables/(expenses) related to the events of September 11, 2001 | **-** | - | 53,051 | 202,978 |
| Net recoverables/(expenses) related to the events of Hurricane Sandy | **(30,000)** | - | - | - |
| Depreciation of facilities | **(884,239)** | (852,727) | (789,011) | (712,331) |
| Amortization of costs for regional programs | **(77,719)** | (77,537) | (76,504) | (74,617) |
| Income from operations | **468,611** | 305,247 | 223,002 | 529,603 |
| | | | | |
| Income on investments (including fair value adjustment) | **39,661** | (46,898) | 4,435 | 146,561 |
| Interest expense on bonds and other asset financing | **(658,313)** | (559,110) | (501,607) | (501,892) |
| Gain/(loss) on disposition of assets | **(4)** | - | - | 27,125 |
| Pass-through grant program payments | **(56,446)** | (11,507) | (2,166) | (1,120) |
| 4 WTC associated payments | **65,293** | 8,343 | - | - |
| Grants | **52,161** | 23,727 | 11,708 | 10,613 |
| Contributions in aid of construction | **997,441** | 767,010 | 358,268 | 382,978 |
| Passenger Facility Charges | **222,614** | 214,456 | 210,387 | 201,737 |
| 1 WTC LLC/WTC Retail LLC insurance proceeds | **3,525** | - | 42,814 | 50,813 |
| Increase in net position December 31, | **$ 1,134,543** | $ 701,268 | $ 346,841 | $ 846,418 |

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $7,526,446 | $6,609,691 | $ 5,872,518 | $ 5,725,929 | $ 5,563,683 | $ 5,397,959 |
| 409,800 | 719,306 | 208,771 | 17,916 | 14,651 | 15,153 |
| 1,895,118 | 1,608,284 | 1,553,114 | 1,371,928 | 1,375,533 | 1,389,219 |
| 9,831,364 | $ 8,937,281 | $ 7,634,403 | $ 7,115,773 | $ 6,953,867 | $ 6,802,331 |
| $ 1,054,801 | $ 800,244 | $ 798,682 | $ 787,381 | $ 788,333 | $ 758,326 |
| 1,079,634 | 986,663 | 952,431 | 928,395 | 877,306 | 858,414 |
| 816,628 | 781,355 | 716,700 | 748,811 | 714,766 | 705,302 |
| 328,220 | 387,966 | 335,019 | 296,663 | 269,413 | 234,261 |
| 169,576 | 149,537 | 146,822 | 147,795 | 121,436 | 112,555 |
| 78,693 | 85,861 | 88,884 | 91,648 | 93,570 | 95,193 |
| 3,527,552 | 3,191,626 | 3,038,538 | 3,000,693 | 2,864,824 | 2,764,051 |
| 941,289 | 922,671 | 840,640 | 870,784 | 806,890 | 769,711 |
| 670,489 | 587,730 | 590,197 | 564,332 | 545,404 | 543,927 |
| 274,916 | 271,073 | 254,178 | 243,411 | 252,658 | 237,014 |
| 183,583 | 167,912 | 150,729 | 149,604 | 141,476 | 122,445 |
| 78,693 | 85,861 | 88,884 | 91,648 | 93,570 | 95,193 |
| 314,722 | 212,147 | 187,996 | 168,139 | 141,367 | 150,961 |
| 2,463,692 | 2,247,394 | 2,112,624 | 2,087,918 | 1,981,365 | 1,919,251 |
| 457,918 | (4,563) | (2,069) | (3,358) | (4,985) | 664,211 |
| - | - | - | - | - | - |
| (644,620) | (632,553) | (674,940) | (643,732) | (575,539) | (488,986) |
| (70,840) | (59,316) | (49,319) | (42,996) | (38,677) | (32,112) |
| 806,318 | 247,800 | 199,586 | 222,689 | 264,258 | 987,913 |
| (4,976) | 229,812 | 137,968 | 105,579 | 59,047 | 66,148 |
| (488,463) | (493,689) | (454,134) | (422,334) | (391,870) | (344,755) |
| 7 | 17,011 | (3,741) | (55) | - | 787 |
| (3,130) | (4,717) | (6,832) | - | - | (28,237) |
| - | - | - | - | - | - |
| 9,811 | 11,310 | 17,469 | 14,336 | 13,396 | 34,501 |
| 313,078 | 313,504 | 250,904 | 107,262 | 81,173 | 57,568 |
| 211,667 | 221,380 | 192,509 | 134,429 | 125,532 | 109,111 |
| 49,771 | 760,467 | 184,901 | - | - | - |
| $ 894,083 | $ 1,302,878 | $ 518,630 | $ 161,906 | $ 151,536 | $ 883,036 |

## Schedule D-2 - Selected Statistical Debt Capacity Data

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| | | | (In thousands) | |
| Gross Operating Revenues | **$ 4,050,016** | $ 3,800,480 | $ 3,634,023 | $ 3,552,243 |
| Operating expenses | **(2,589,447)** | (2,564,969) | (2,598,557) | (2,438,670) |
| Net recoverables/(expenses) related to the events of September 11, 2001 (a) | **-** | - | 53,051 | 202,978 |
| Net recoverables/(expenses) related to Hurricane Sandy (a) | **(30,000)** | - | - | - |
| Amounts in connection with operating asset obligations | **(27,956)** | (29,580) | (46,561) | (55,058) |
| Net operating revenues | **1,402,613** | 1,205,931 | 1,041,956 | 1,261,493 |
| Financial income | **29,121** | (53,270) | (900) | 141,136 |
| Grants and contributions in aid of construction, net | **565,976** | 499,516 | 367,810 | 392,471 |
| Application of Passenger Facility Charges | **110,015** | 215,645 | 207,122 | 205,164 |
| Application of 4 WTC associated payments | **65,293** | 8,343 | - | - |
| Application of 1WTC LLC/WTC LLC Retail insurance proceeds | **17,962** | 57,340 | 61,468 | 266,676 |
| Restricted Net Revenues - PAICE | **2,710** | 644 | (102) | 3,177 |
| Net Revenues available for debt service and reserves (b) | **2,193,690** | 1,934,149 | 1,677,354 | 2,270,117 |
| **DEBT SERVICE - OPERATIONS** | | | | |
| Interest on bonds and other asset financing obligations (c) | **(539,436)** | (480,623) | (436,622) | (427,384) |
| Times, interest earned* (b/c) | **4.07** | 4.02 | 3.84 | 5.31 |
| Debt maturities and retirements (d) | **(169,770)** | (140,390) | (178,095) | (147,370) |
| Times, debt service earned* [b/(c+d)] | **3.09** | 3.11 | 2.73 | 3.95 |
| **APPLICATION OF RESERVES** | | | | |
| Direct investment in facilities | **(691,079)** | (742,001) | (1,375,008) | (1,522,096) |
| Debt retirement acceleration | **(54,635)** | (6,100) | - | - |
| Change in appropriations for self-insurance | **37,547** | 1,949 | (3,971) | 6,463 |
| Interest on bonds and other asset financing obligations | **(87,764)** | (37,702) | (7,580) | (8,938) |
| Repayment of asset financing obligations | **(16,514)** | (20,258) | (30,062) | (13,525) |
| Net increase/(decrease) in reserves | **672,039** | 509,024 | (353,984) | 157,267 |
| **RESERVE BALANCES** | | | | |
| January 1 | **2,705,036** | 2,196,012 | 2,549,996 | 2,392,729 |
| December 31 | **$ 3,377,075** | $ 2,705,036 | $ 2,196,012 | $ 2,549,996 |
| Reserve funds balances represented by: | | | | |
| General Reserve | **2,026,605** | 1,783,370 | 1,584,955 | 1,412,221 |
| Consolidated Bond Reserve | **1,350,470** | 921,666 | 611,057 | 1,137,775 |
| Total | **$ 3,377,075** | $ 2,705,036 | $ 2,196,012 | $ 2,549,996 |
| **OBLIGATIONS AT DECEMBER 31** | | | | |
| Consolidated Bonds and Notes | **$ 18,076,497** | $ 15,550,039 | $ 13,340,378 | $ 12,284,449 |
| Fund for regional development buy-out obligation | **336,453** | 359,859 | 373,707 | 386,480 |
| MOTBY obligation | **78,060** | 105,141 | 138,396 | - |
| Amounts payable - Special Project Bonds | **1,675,825** | 1,741,440 | 1,803,145 | 1,064,380 |
| Variable rate master notes | **77,900** | 77,900 | 77,900 | 90,990 |
| Commercial paper notes | **384,625** | 396,155 | 354,280 | 321,010 |
| Versatile structure obligations | **-** | - | 175,200 | 250,900 |
| Port Authority equipment notes | **49,565** | 68,160 | 98,645 | 110,485 |
| Tower 4 Liberty Bonds | **1,225,520** | 1,225,520 | - | - |
| Total obligations | **$ 21,904,445** | $ 19,524,214 | $ 16,361,651 | $ 14,508,694 |
| **DEBT RETIRED THROUGH INCOME:** | | | | |
| Annual | **240,919** | 166,748 | 208,157 | 160,895 |
| Cumulative | **$ 7,734,225** | $ 7,493,306 | $ 7,326,558 | $ 7,118,401 |

* Debt service ratios excluding net recoverables/(expenses) related to the events of September 11, 2001 and Hurricane Sandy are as follows:

| | | | | |
|---|---|---|---|---|
| Times, interest earned [(b-a)/c] | **4.12** | 4.02 | 3.72 | 4.84 |
| Times, debt service earned [(b-a)/(c+d)] | **3.14** | 3.11 | 2.64 | 3.60 |

Note: This selected financial data is prepared primarily from information contained in Schedules A, B and C and is presented for general information only and is not intended to reflect the specific applications of the revenues and reserves of the Port Authority, which are governed by statutes and its bond resolutions.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $ 3,527,552 | $ 3,191,626 | $ 3,038,538 | $ 3,000,693 | $ 2,864,824 | $ 2,764,051 |
| (2,463,692) | (2,247,394) | (2,112,624) | (2,087,918) | (1,981,365) | (1,919,251) |
| 457,918 | (4,563) | (2,069) | (3,358) | (4,985) | 664,211 |
| - | - | - | - | - | - |
| (41,301) | (40,787) | (42,391) | (48,008) | (34,609) | (35,113) |
| 1,480,477 | 898,882 | 881,454 | 861,409 | 843,865 | 1,473,898 |
| (19,537) | 208,274 | 134,806 | 103,572 | 57,403 | 61,765 |
| 319,759 | 320,097 | 261,541 | 121,598 | 94,569 | 63,832 |
| 215,407 | 220,583 | 186,555 | 113,649 | - | - |
| - | - | - | - | - | - |
| 411,278 | 305,532 | - | - | - | - |
| (4,311) | (1,354) | - | - | - | - |
| 2,403,073 | 1,952,014 | 1,464,356 | 1,200,228 | 995,837 | 1,599,495 |
| | | | | | |
| (409,175) | (417,209) | (379,361) | (355,068) | (345,129) | (291,514) |
| 5.87 | 4.68 | 3.86 | 3.38 | 2.89 | 5.49 |
| (152,275) | (177,160) | (254,210) | (205,220) | (211,870) | (698,280) |
| 4.28 | 3.28 | 2.31 | 2.14 | 1.79 | 1.62 |
| | | | | | |
| (1,514,369) | (808,694) | (490,750) | (626,813) | (285,441) | (542,260) |
| - | - | - | - | (110,075) | (183,120) |
| 2,123 | (3,220) | (4,968) | (5,325) | 249 | (15,201) |
| (28,797) | (36,077) | (26,587) | (17,645) | (8,684) | (6,860) |
| (80,775) | (110,424) | (109,934) | (12,205) | (10,737) | (6,329) |
| 219,805 | 399,230 | 198,546 | (22,048) | 24,150 | (144,069) |
| | | | | | |
| 2,172,924 | 1,773,694 | 1,575,148 | 1,597,196 | 1,573,046 | 1,717,115 |
| $ 2,392,729 | $ 2,172,924 | $ 1,773,694 | $ 1,575,148 | $ 1,597,196 | $ 1,573,046 |
| | | | | | |
| 1,270,215 | 1,238,915 | 1,198,499 | 1,068,790 | 1,068,790 | 948,902 |
| 1,122,514 | 934,009 | 575,195 | 506,358 | 528,406 | 624,144 |
| $ 2,392,729 | $ 2,172,924 | $ 1,773,694 | $ 1,575,148 | $ 1,597,196 | $ 1,573,046 |
| | | | | | |
| $ 10,794,831 | $ 9,495,419 | $ 9,659,104 | $ 8,328,644 | $ 8,273,573 | $ 7,053,296 |
| 398,262 | 409,128 | 419,155 | 420,660 | 422,050 | 423,330 |
| - | - | - | - | - | - |
| 1,118,105 | 1,264,735 | 1,311,100 | 1,354,425 | 1,393,920 | 1,420,240 |
| 90,990 | 90,990 | 130,990 | 130,990 | 130,990 | 149,990 |
| 186,040 | 238,950 | 270,740 | 282,095 | 280,315 | 249,200 |
| 399,700 | 1,205,600 | 519,600 | 532,100 | 544,000 | 554,500 |
| 112,485 | 93,460 | 93,460 | 47,105 | 65,105 | 61,800 |
| - | - | - | - | - | - |
| $ 13,100,413 | $ 12,798,282 | $ 12,404,149 | $ 11,096,019 | $ 11,109,953 | $ 9,912,356 |
| | | | | | |
| 233,050 | 287,584 | 364,144 | 217,425 | 332,682 | 887,729 |
| $ 6,957,506 | $ 6,724,456 | $ 6,436,872 | $ 6,072,728 | $ 5,855,303 | $ 5,522,621 |
| | | | | | |
| 4.75 | 4.69 | 3.87 | 3.39 | 2.90 | 3.21 |
| 3.46 | 3.29 | 2.31 | 2.15 | 1.80 | 0.94 |

## Schedule D-3 Selected Statistical Operating Data (Unaudited)

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Authorized Port Authority staffing levels:** | | | | | | | | | | |
| Tunnels, Bridges and Terminals | **881** | 881 | 911 | 911 | 940 | 910 | 938 | 1,010 | 1,039 | 1,023 |
| PATH | **1,070** | 1,070 | 1,081 | 1,081 | 1,088 | 1,075 | 1,080 | 1,089 | 1,092 | 1,093 |
| Port Commerce facilities | **170** | 170 | 172 | 172 | 179 | 168 | 175 | 183 | 187 | 191 |
| Air Terminal facilities | **926** | 926 | 958 | 958 | 978 | 918 | 953 | 989 | 999 | 999 |
| Development (a) | **50** | 52 | 82 | 82 | 86 | 77 | - | - | - | - |
| Other operational and support activities (b) | **1,968** | 1,957 | 2,030 | 2,030 | 2,082 | 2,208 | 2,259 | 2,382 | 2,403 | 2,409 |
| Subtotal | **5,065** | 5,056 | 5,234 | 5,234 | 5,353 | 5,356 | 5,405 | 5,653 | 5,720 | 5,715 |
| Public Safety and Security | **1,712** | 1,721 | 1,743 | 1,743 | 1,774 | 1,772 | 1,776 | 1,541 | 1,547 | 1,519 |
| Total | **6,777** | 6,777 | 6,977 | 6,977 | 7,127 | 7,128 | 7,181 | 7,194 | 7,267 | 7,234 |
| **Facility Traffic and Other Indicators (c):** | | | | | | (In thousands) | | | | |
| INTERSTATE TRANSPORTATION NETWORK | | | | | | | | | | |
| Tunnels and Bridges (Total Eastbound Traffic) | | | | | | | | | | |
| George Washington Bridge | **49,111** | 50,397 | 51,231 | 52,126 | 52,947 | 53,956 | 54,265 | 53,612 | 54,202 | 52,971 |
| Lincoln Tunnel | **19,015** | 19,829 | 20,214 | 20,248 | 20,937 | 21,842 | 21,933 | 21,794 | 21,733 | 21,078 |
| Holland Tunnel | **16,118** | 16,590 | 17,037 | 16,609 | 16,871 | 17,349 | 17,365 | 16,982 | 16,963 | 16,566 |
| Staten Island Bridges | **32,009** | 32,334 | 32,724 | 32,517 | 32,970 | 33,857 | 33,457 | 33,479 | 33,649 | 33,205 |
| Total vehicles | **116,253** | 119,150 | 121,206 | 121,500 | 123,725 | 127,004 | 127,020 | 125,867 | 126,547 | 123,820 |
| Automobiles | **105,895** | 108,428 | 110,482 | 110,755 | 112,176 | 115,349 | 115,506 | 114,481 | 115,219 | 112,869 |
| Buses | **2,957** | 3,111 | 3,122 | 3,119 | 3,158 | 3,139 | 3,140 | 3,137 | 3,123 | 3,041 |
| Trucks | **7,401** | 7,611 | 7,602 | 7,626 | 8,391 | 8,516 | 8,374 | 8,249 | 8,205 | 7,910 |
| Total vehicles | **116,253** | 119,150 | 121,206 | 121,500 | 123,725 | 127,004 | 127,020 | 125,867 | 126,547 | 123,820 |
| Bus Facility Terminals | | | | | | | | | | |
| Bus facilities passengers | **77,100** | 76,403 | 75,378 | 75,769 | 76,236 | 71,540 | 72,731 | 69,060 | 69,871 | 69,428 |
| Bus movements | **3,414** | 3,385 | 3,338 | 3,386 | 3,375 | 3,361 | 3,394 | 3,346 | 3,426 | 3,447 |
| PATH | | | | | | | | | | |
| Total Passengers | **72,563** | 76,556 | 73,911 | 72,277 | 74,956 | 71,592 | 66,966 | 60,787 | 57,725 | 47,920 |
| Passenger weekday average | **242** | 256 | 247 | 243 | 253 | 242 | 227 | 206 | 194 | 160 |
| Total Interstate Transportation Network Net Capital Expenditures | **$ 976,843** | $ 895,688 | $ 1,005,891 | $ 935,147 | $ 834,742 | $ 660,620 | $ 491,269 | $ 471,306 | $ 463,652 | $ 751,509 |
| PORT COMMERCE | | | | | | | | | | |
| Containers in twenty foot equivalent units (TEU) (in thousands) | **5,530** | 5,503 | 5,292 | 4,562 | 5,249 | 5,298 | 5,015 | 4,793 | 4,478 | 4,068 |
| International waterborne vehicles (in thousands) | **429** | 388 | 493 | 440 | 724 | 790 | 725 | 625 | 670 | 608 |
| Waterborne bulk commodities (in metric tons) (in millions) | **3** | 4 | 3 | 5 | 5 | 7 | 6 | 5 | 5 | 3 |
| Total Port Commerce Net Capital Expenditures | **$ 184,750** | $ 228,747 | $ 302,858 | $ 174,459 | $ 181,772 | $ 288,677 | $ 228,873 | $ 220,545 | $ 258,669 | $ 298,162 |
| THREE MAJOR AIR TERMINALS | | | | | | | | | | |
| John F. Kennedy International Airport total passengers | **49,293** | 47,644 | 46,514 | 45,878 | 47,790 | 47,717 | 42,630 | 40,892 | 37,517 | 31,737 |
| LaGuardia Airport total passengers | **25,708** | 24,122 | 23,983 | 23,163 | 23,077 | 24,985 | 25,810 | 25,889 | 24,452 | 22,483 |
| Newark Liberty International Airport total passengers | **34,014** | 33,700 | 33,194 | 33,429 | 35,347 | 36,367 | 35,692 | 33,078 | 31,908 | 29,451 |
| Total passengers | **109,015** | 105,466 | 103,691 | 102,470 | 106,214 | 109,069 | 104,132 | 99,859 | 93,877 | 83,671 |
| Domestic passengers | **71,328** | 69,034 | 68,071 | 68,956 | 71,579 | 75,546 | 73,163 | 70,223 | 66,329 | 59,655 |
| International passengers | **37,687** | 36,432 | 35,620 | 33,514 | 34,635 | 33,523 | 30,969 | 29,636 | 27,548 | 24,016 |
| Total passengers | **109,015** | 105,466 | 103,691 | 102,470 | 106,214 | 109,069 | 104,132 | 99,859 | 93,877 | 83,671 |
| Total Cargo-tons | **2,067** | 2,203 | 2,261 | 1,925 | 2,343 | 2,620 | 2,697 | 2,695 | 2,799 | 2,723 |
| Revenue Mail-tons | **174** | 185 | 186 | 205 | 237 | 227 | 194 | 180 | 194 | 188 |
| Total Plane Movements | **1,186** | 1,185 | 1,168 | 1,181 | 1,249 | 1,271 | 1,222 | 1,191 | 1,156 | 1,020 |
| Total Air Terminals Net Capital Expenditures | **$ 351,535** | $ 243,995 | $ 518,545 | $ 658,292 | $ 624,700 | $ 685,787 | $ 587,265 | $ 501,476 | $ 410,581 | $ 560,695 |

(a) Reflects reorganization of Development Department in 2011. The Development Department was established in early 2007.

(b) Includes staff such as engineering, finance, human resources, legal, technical services and other activities that provide support to the different Port Authority lines of business.

(c) Some 2012 and 2011 numbers reflect estimated data based on available year-end volumes and revised data, respectively.

## Schedule E - Information on Port Authority Operations

| | Year ended December 31, 2012 | | | | | | | 2011 |
|---|---|---|---|---|---|---|---|---|
| | Gross Operating Revenues | Operating Expenses(a) | Depreciation & Amortization | Income (Loss) from Operations | Interest, Grant & Other Expenses(b) | Capital Contributions & PFCs | Net Income (Loss) | Net Income (Loss) |
| | | | | (In thousands) | | | | |
| **INTERSTATE TRANSPORTATION NETWORK** | | | | | | | | |
| G.W. Bridge & Bus Station | $ 550,086 | $ 123,981 | $ 39,456 | $ 386,649 | $ 26,701 | $ 37 | **$ 359,985** | $ 282,104 |
| Holland Tunnel | 157,184 | 72,054 | 17,207 | 67,923 | 9,033 | - | **58,890** | 32,148 |
| Lincoln Tunnel | 196,885 | 97,875 | 34,621 | 64,389 | 15,474 | - | **48,915** | 17,983 |
| Bayonne Bridge | 33,333 | 24,629 | 5,199 | 3,505 | 6,806 | - | **(3,301)** | (4,099) |
| Goethals Bridge | 151,170 | 23,074 | 17,203 | 110,893 | 6,340 | - | **104,553** | 86,386 |
| Outerbridge Crossing | 132,143 | 23,896 | 9,027 | 99,220 | 2,705 | - | **96,515** | 75,166 |
| P. A. Bus Terminal | 37,324 | 102,754 | 24,273 | (89,703) | 16,975 | 1,328 | **(105,350)** | (112,556) |
| Subtotal - Tunnels, Bridges & Terminals | 1,258,125 | 468,263 | 146,986 | 642,876 | 84,034 | 1,365 | **560,207** | 377,132 |
| PATH | 130,604 | 315,474 | 138,975 | (323,845) | 96,148 | 16,423 | **(403,570)** | (395,934) |
| Permanent WTC PATH Terminal | - | - | 28,546 | (28,546) | - | 445,483 | **416,937** | 291,122 |
| Journal Square Transportation Center | 3,778 | 14,189 | 7,322 | (17,733) | 2,884 | - | **(20,617)** | (17,886) |
| Subtotal - PATH | 134,382 | 329,663 | 174,843 | (370,124) | 99,032 | 461,906 | **(7,250)** | (122,698) |
| Ferry Transportation | 254 | 252 | 5,320 | (5,318) | 4,895 | - | **(10,213)** | (8,038) |
| Access to the Regions Core (ARC) | - | 782 | 10,115 | (10,897) | 4,441 | - | **(15,338)** | (17,980) |
| Total Interstate Transportation Network | 1,392,761 | 798,960 | 337,264 | 256,537 | 192,402 | 463,271 | **527,406** | 228,416 |
| **AIR TERMINALS** | | | | | | | | |
| LaGuardia | 334,828 | 240,387 | 49,384 | 45,057 | 27,125 | 13,004 | **30,936** | 29,466 |
| JFK International | 1,115,567 | 707,116 | 152,222 | 256,229 | 95,695 | 29,857 | **190,391** | 130,933 |
| Newark Liberty International | 780,081 | 418,635 | 119,774 | 241,672 | 82,662 | 19,644 | **178,654** | 174,134 |
| Teterboro | 37,100 | 24,087 | 14,430 | (1,417) | 7,545 | 9,229 | **267** | 14,195 |
| Stewart International | 8,442 | 14,806 | 1,006 | (7,370) | 738 | 2,663 | **(5,445)** | (7,471) |
| Heliport | - | 4 | - | (4) | - | - | **(4)** | (158) |
| PFC Program | - | 5,035 | 95,383 | (100,418) | 3,300 | 222,614 | **118,896** | 105,426 |
| Total Air Terminals | 2,276,018 | 1,410,070 | 432,199 | 433,749 | 217,065 | 297,011 | **513,695** | 446,525 |
| **PORT COMMERCE** | | | | | | | | |
| Port Newark | 78,928 | 84,850 | 27,211 | (33,133) | 21,765 | 3,597 | **(51,301)** | (54,916) |
| Elizabeth Marine Terminal | 117,869 | 23,342 | 38,948 | 55,579 | 37,002 | - | **18,577** | (3,595) |
| Brooklyn | 6,450 | 9,619 | 546 | (3,715) | 1,246 | 2,634 | **(2,327)** | (6,061) |
| Red Hook | 15,690 | 30,966 | 1,385 | (16,661) | - | 2,380 | **(14,281)** | (9,936) |
| Howland Hook | 13,210 | 12,695 | 17,503 | (16,988) | 15,248 | - | **(32,236)** | (28,578) |
| Greenville Yard | 351 | 3 | - | 348 | - | - | **348** | 426 |
| NYNJ Rail LLC | 1,784 | 4,178 | 398 | (2,792) | (1,938) | 2,301 | **1,447** | (1,248) |
| Port Jersey - Port Authority Marine Terminal | 15,327 | 24,390 | 2,269 | (11,332) | 9,073 | - | **(20,405)** | (19,630) |
| Total Port Commerce | 249,609 | 190,043 | 88,260 | (28,694) | 82,396 | 10,912 | **(100,178)** | (123,538) |
| **DEVELOPMENT** | | | | | | | | |
| Essex County Resource Recovery | 57,110 | 64,873 | 1,408 | (9,171) | 481 | - | **(9,652)** | (3,983) |
| Industrial Park at Elizabeth | 1,070 | 123 | 286 | 661 | 307 | - | **354** | 156 |
| Bathgate | 4,624 | 1,583 | 1,455 | 1,586 | 319 | - | **1,267** | 743 |
| Teleport | 14,438 | 12,913 | 2,176 | (651) | 651 | - | **(1,302)** | (2,204) |
| Newark Legal & Communications Center | 2,171 | (114) | 3,007 | (722) | 1,026 | - | **(1,748)** | (1,958) |
| Queens West | 268 | - | 605 | (337) | 1,588 | - | **(1,925)** | 4,132 |
| Hoboken South | 7,840 | 242 | 2,841 | 4,757 | 3,012 | - | **1,745** | 320 |
| Total Development | 87,521 | 79,620 | 11,778 | (3,877) | 7,384 | - | **(11,261)** | (2,794) |
| **WORLD TRADE CENTER** | | | | | | | | |
| WTC Site | 14,897 | 79,306 | 12,380 | (76,789) | (8,868) | 25,190 | **(42,731)** | (43,052) |
| One World Trade Center | - | (3,448) | 690 | 2,758 | 12,772 | 2,397 | **(7,617)** | 78,417 |
| WTC Towers 2, 3 & 4 | 29,210 | 78 | - | 29,132 | - | 324,799 | **353,931** | 274,739 |
| WTC Retail LLC | - | 213 | 1,668 | (1,881) | 4,806 | 100,000 | **93,313** | (3,691) |
| Total World Trade Center | 44,107 | 76,149 | 14,738 | (46,780) | 8,710 | 452,386 | **396,896** | 306,413 |
| **Port Authority Insurance Captive Entity, LLC** | - | 4,238 | - | (4,238) | (1,527) | - | **(2,711)** | (644) |
| **Regional Programs** | - | 30,367 | 77,719 | (108,086) | 51,218 | - | **(159,304)** | (153,110) |
| **Recoverables/(expenses) related to Hurricane Sandy** | - | - | - | (30,000) | - | - | **(30,000)** | - |
| **Total Port Authority** | $ 4,050,016 | $ 2,589,447 | $ 961,958 | $ 468,611 | $ 557,648 | $ 1,223,580 | **$ 1,134,543** | $ 701,268 |

(a) Amounts include all direct operating expenses and allocated expenses.
(b) Amounts include net interest expense (interest expense less financial income), 4 WTC associated payments, pass-through grant program payments and gain or loss generated by the disposition of assets, if any.

## Schedule F - Information on Port Authority Capital Program Components

| | Facilities, net Dec. 31, 2011 | Net Capital Expenditures * | Depreciation | Facilities, net Dec. 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| **INTERSTATE TRANSPORTATION NETWORK** | | | | |
| G.W. Bridge & Bus Station | $ 815,210 | $ 44,725 | $ 39,456 | $ 820,479 |
| Holland Tunnel | 368,348 | 18,891 | 17,207 | 370,032 |
| Lincoln Tunnel | 460,049 | 76,561 | 34,621 | 501,989 |
| Bayonne Bridge | 192,006 | 44,699 | 5,199 | 231,506 |
| Goethals Bridge | 258,843 | 25,454 | 17,203 | 267,094 |
| Outerbridge Crossing | 77,943 | 2,545 | 9,027 | 71,461 |
| P. A. Bus Terminal | 483,725 | 20,762 | 24,273 | 480,214 |
| Subtotal - Tunnels, Bridges & Terminals | 2,656,124 | 233,637 | 146,986 | 2,742,775 |
| PATH | 1,973,748 | 173,747 | 139,958 | 2,007,537 |
| Temporary WTC PATH Station | 304,248 | - | 8,634 | 295,614 |
| WTC Transportation Hub | 2,106,993 | 563,756 | 28,546 | 2,642,203 |
| Journal Square Transportation Center | 91,974 | 5,633 | 7,322 | 90,285 |
| Subtotal - PATH | 4,476,963 | 743,136 | 184,460 | 5,035,639 |
| Ferry Transportation | 125,635 | 70 | 5,320 | 120,385 |
| Access to the Region's Core (ARC) | 118,733 | - | 10,115 | 108,618 |
| Total Interstate Transportation Network | 7,377,455 | 976,843 | 346,881 | 8,007,417 |
| **AIR TERMINALS** | | | | |
| LaGuardia | 800,166 | 11,487 | 49,384 | 762,269 |
| JFK International | 2,408,149 | 77,169 | 152,222 | 2,333,096 |
| Newark Liberty International | 1,853,635 | 135,201 | 119,773 | 1,869,063 |
| Teterboro | 226,817 | 15,753 | 14,430 | 228,140 |
| Stewart International | 59,327 | 10,284 | 1,006 | 68,605 |
| PFC Program | 2,036,300 | 101,641 | 95,383 | 2,042,558 |
| Total Air Terminals | 7,384,394 | 351,535 | 432,198 | 7,303,731 |
| **PORT COMMERCE** | | | | |
| Port Newark | 674,079 | 70,065 | 27,211 | 716,933 |
| Elizabeth Marine Terminal | 1,090,894 | 52,371 | 39,352 | 1,103,913 |
| Brooklyn | 38,926 | 6,935 | 546 | 45,315 |
| Red Hook | 158 | 1,590 | 1,385 | 363 |
| Howland Hook | 513,771 | 9,339 | 17,503 | 505,607 |
| Greenville Yard / NYNJ Rail LLC | 13,134 | 7,868 | 4,201 | 16,801 |
| Port Jersey-Port Authority Marine Terminal | 174,036 | 36,582 | 2,269 | 208,349 |
| Total Port Commerce | 2,504,998 | 184,750 | 92,467 | 2,597,281 |
| **DEVELOPMENT** | | | | |
| Essex County Resource Recovery | 11,291 | - | 1,408 | 9,883 |
| Industrial Park at Elizabeth | 7,228 | - | 286 | 6,942 |
| Bathgate | 8,151 | 106 | 1,455 | 6,802 |
| Teleport | 17,033 | 34 | 2,176 | 14,891 |
| Newark Legal & Communications Center | 26,412 | - | 3,007 | 23,405 |
| Queens West | 88,457 | - | 606 | 87,851 |
| Hoboken South | 79,934 | - | 2,841 | 77,093 |
| Total Development | 238,506 | 140 | 11,779 | 226,867 |
| **WORLD TRADE CENTER** | | | | |
| WTC Site | 1,726,225 | 491,369 | 12,380 | 2,205,214 |
| One World Trade Center | 1,921,379 | 586,887 | 689 | 2,507,577 |
| WTC Towers 2, 3 & 4 | 1,059,790 | 401,293 | - | 1,461,083 |
| WTC Memorial | 286,087 | 49,501 | - | 335,588 |
| WTC Retail LLC | 635,454 | 272,959 | 1,668 | 906,745 |
| Total World Trade Center | 5,628,935 | 1,802,009 | 14,737 | 7,416,207 |
| **FACILITIES, NET** | $ 23,134,288 | $ 3,315,277 | $ 898,062 | $ 25,551,503 |
| **REGIONAL PROGRAMS** | $ 620,183 | $ 6,697 | $ 77,719 | $ 549,161 |

* excludes premium and discount on debt issuances.

## Schedule G - Port Authority Facility Traffic* (Unaudited)

| TUNNELS AND BRIDGES (Eastbound Traffic) | 2012 | 2011 |
|---|---|---|
| **All Crossings** | | |
| Automobiles | **105,895,000** | 108,428,000 |
| Buses | **2,957,000** | 3,111,000 |
| Trucks | **7,401,000** | 7,611,000 |
| Total vehicles | **116,253,000** | 119,150,000 |
| **George Washington Bridge** | | |
| Automobiles | **45,042,000** | 46,116,000 |
| Buses | **430,000** | 487,000 |
| Trucks | **3,639,000** | 3,794,000 |
| Total vehicles | **49,111,000** | 50,397,000 |
| **Lincoln Tunnel** | | |
| Automobiles | **15,909,000** | 16,644,000 |
| Buses | **2,106,000** | 2,156,000 |
| Trucks | **1,000,000** | 1,029,000 |
| Total vehicles | **19,015,000** | 19,829,000 |
| **Holland Tunnel** | | |
| Automobiles | **15,489,000** | 15,968,000 |
| Buses | **234,000** | 268,000 |
| Trucks | **395,000** | 354,000 |
| Total vehicles | **16,118,000** | 16,590,000 |
| **Staten Island Bridges** | | |
| Automobiles | **29,455,000** | 29,700,000 |
| Buses | **187,000** | 200,000 |
| Trucks | **2,367,000** | 2,434,000 |
| Total vehicles | **32,009,000** | 32,334,000 |

| PATH | 2012 | 2011 |
|---|---|---|
| Total passengers | **72,563,052** | 76,555,644 |
| Passenger weekday average | **241,725** | 256,186 |

| MARINE TERMINALS | 2012 | 2011 |
|---|---|---|
| **All Terminals** | | |
| Containers | **3,210,809** | 3,197,016 |
| General cargo (a) (Metric tons) | **34,380,850** | 33,896,217 |
| Containers in twenty foot equivalent units | **5,529,908** | 5,503,485 |
| International waterborne vehicles | **428,616** | 387,656 |
| Waterborne bulk commodities (in metric tons) | **3,240,189** | 3,885,614 |
| **New Jersey Marine Terminals** | | |
| Containers | **2,782,059** | 2,652,744 |
| **New York Marine Terminals** | | |
| Containers | **428,750** | 544,272 |

| AIR TERMINALS | 2012 | 2011 |
|---|---|---|
| **Totals at the Major Airports** | | |
| Plane movements | **1,185,730** | 1,184,624 |
| Passengers | **109,014,544** | 105,466,030 |
| Cargo-tons | **2,067,120** | 2,202,680 |
| Revenue mail-tons | **174,242** | 184,696 |
| **John F. Kennedy International Airport** | | |
| Plane movements | **401,680** | 408,730 |
| Passengers | **49,292,733** | 47,644,060 |
| Domestic | **24,217,083** | 23,757,976 |
| International | **25,075,650** | 23,886,084 |
| Cargo-tons | **1,318,834** | 1,382,949 |
| **LaGuardia Airport** | | |
| Plane movements | **369,989** | 365,870 |
| Passengers | **25,707,784** | 24,122,478 |
| Domestic | **24,274,029** | 23,086,756 |
| International | **1,433,755** | 1,035,722 |
| Cargo-tons | **7,009** | 7,390 |
| **Newark Liberty International Airport** | | |
| Plane movements | **414,061** | 410,024 |
| Passengers | **34,014,027** | 33,699,492 |
| Domestic | **22,836,683** | 22,189,669 |
| International | **11,177,344** | 11,509,823 |
| Cargo-tons | **741,277** | 812,341 |

| TERMINALS | 2012 | 2011 |
|---|---|---|
| **All Bus Facilities** | | |
| Passengers | **77,100,350** | 76,403,160 |
| Bus movements | **3,413,500** | 3,384,900 |
| **Port Authority Bus Terminal** | | |
| Passengers | **65,000,000** | 64,550,000 |
| Bus movements | **2,255,000** | 2,263,500 |
| **George Washington Bridge Bus Station** | | |
| Passengers | **4,700,000** | 4,605,000 |
| Bus movements | **327,000** | 307,000 |
| **PATH Journal Square Transportation Center Bus Station** | | |
| Passengers | **7,400,350** | 7,248,160 |
| Bus movements | **831,500** | 814,400 |

* Some 2012 and 2011 numbers reflect estimated data based on available year-end volumes and revised data, respectively.

(a) International oceanborne general cargo as recorded in the New York - New Jersey Customs District.