

# The Port Authority of New York and New Jersey

Condensed Consolidated Financial Statements as of and for the  
Nine-Month Period Ended September 30, 2015 (Unaudited)

# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

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# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

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### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

The following is an overview of the financial activities of the Port Authority of New York and New Jersey (The Port Authority) and its component units as of and for the nine-month period ended September 30, 2015. This overview is intended to serve as an introduction to the unaudited condensed consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and should be read in conjunction with the Port Authority's audited financial statements and appended note disclosures for the Year ended December 31, 2014.

The unaudited financial results for the nine-month period ended September 30, 2015 contained in these schedules are not necessarily indicative of the results for the annual period ending December 31, 2015.

#### *Management's Discussion and Analysis*

Management's Discussion and Analysis provides an assessment of how the Port Authority's financial position has changed and identifies the factors that, in management's view, significantly affected the Port Authority's overall financial position.

#### *The Condensed Consolidated Financial Statements*

The Statements of Net Position provide information about the nature and amounts of investments in resources (assets) and the obligations to the Port Authority's (liabilities), with the difference between the two reported as Net Position (equity).

The Statements of Revenues, Expenses and Changes in Net Position show how the Port Authority's overall net position changed during the nine-month period ended September 30, 2015 and 2014.

The Statements of Cash Flows provide information about the Port Authority's cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financings, and investing activities for the nine-month period ended September 30, 2015 and 2014.

### 2. FINANCIAL REPORTING ENTITY

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 primarily 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 for the use of, and privileges at certain of the Port Authority's facilities.

# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

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### 3. BASIS OF ACCOUNTING

The Port Authority's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

The Port Authority follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The preparation of the condensed 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 condensed 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.

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* in June 2012 that is effective for audited financial statements for periods beginning after June 15, 2014. The objective of this statement is to improve the information provided in government financial reports about pension benefits provided to employees. Management is evaluating the impact the adoption of GASB Statement No. 68 will have on its audited financial statements for the year ending December 31, 2015 and does not expect the adoption of GASB Statement No. 68 will have a material impact on the Port Authority's overall net position.

### 4. FINANCIAL STATEMENT COMPARISON FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015

#### Net Position (Equity)

The Port Authority's overall net position (equity) totaled \$15.4 billion at September 30, 2015, an increase of \$632 million from December 31, 2014. This increase for the first nine months of 2015 is comprised of income from operations of \$605 million and income from non-operating activities of \$27 million.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

	September 30, 2015	September 30, 2014	Variance
	(In thousands)		
Gross operating revenues	\$ 3,592,751	\$ 3,310,822	\$281,929
Operating expenses	(2,116,414)	(2,109,201)	(7,213)
Depreciation and Amortization	(871,522)	(726,210)	(145,312)
Net revenue related to Superstorm Sandy	41	18,246	(18,205)
Income from operations	<b>604,856</b>	493,657	111,199
Financial income	<b>36,838</b>	27,103	9,735
Interest expense	(666,119)	(475,971)	(190,148)
Grants & other	<b>58,788</b>	58,399	389
Capital contributions and Passenger Facility Charges (PFCs)	<b>597,335</b>	688,186	(90,851)
Income from non-operating activities	<b>26,842</b>	297,717	(270,875)
Increase in net position	<b>\$ 631,698</b>	\$ 791,374	\$(159,676)

### *Income from Operations:*

The Port Authority generated \$605 million in income from operations in the first nine months of 2015, comprised of gross operating revenues of \$3.6 billion offset by operating expenses and depreciation of \$3.1 billion.

**Gross operating revenues** of \$3.6 billion increased \$282 million or 8.5% from the same period in 2014. Rental revenues increased \$127 million or 13.5% primarily due to an increase in fixed and percentage rentals at Aviation facilities and the commencement of certain World Trade Center (WTC) commercial operations in November 2014. Toll revenue generated at the Port Authority's six vehicular crossings increased \$106 million due to scheduled increases in toll rates that became effective in December 2014 and a 1.4% increase in overall vehicular traffic. PATH fare revenue increased \$14 million primarily due to scheduled increases in PATH fares that became effective on October 1, 2014 and a 3.1% increase in ridership levels.

**Operating expenses** of \$2.1 billion remained relatively flat from the same period in 2014. The \$7 million increase in operating expenses was primarily due to a \$64 million increase in WTC operating expenses, related to the commencement of certain commercial operating activities at the WTC site in November 2014. Offsetting these amounts was a \$54 million decrease in Aviation, Tunnels Bridges and Terminals (TB&T) and Port Commerce direct operating expenses primarily due to lower payments to third party contractors, lower electricity costs, lower self-insured public liability loss reserves as well as lower public safety overtime expense, primarily due to the addition of new officers in 2014.

**Depreciation and amortization** of \$872 million increased \$145 million from the same period of 2014 resulting from the impact of transferring \$6.9 billion of capital investment to completed construction in 2014 and an additional \$2.4 billion in the first three quarters of 2015. These capital infrastructure assets, which are primarily WTC related, are now ready for their intended use and are being depreciated over their estimated useful life.

# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

### *Income from Non-Operating Activities:*

**Income from non-operating activities** of \$27 million decreased \$271 million from the same nine-month period of 2014. This decrease is primarily due to a \$102 million decrease in capital contributions from third parties, primarily related to the redevelopment of the WTC site, and lower funding amounts received in connection with the Airport Improvement and Port Security Programs. Offsetting this decrease in capital contributions was an increase of approximately \$11 million in Passenger Facility Charges at Aviation facilities related to increased passenger activity.

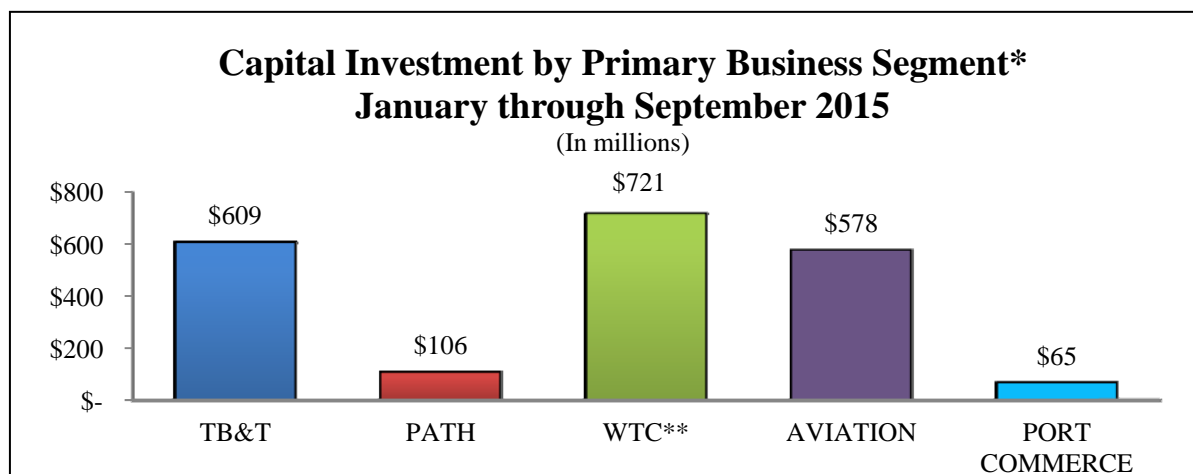
Operating interest expense related to Port Authority debt obligations, including New York Liberty Development Corporation's revenue bonds issued in 2011 related to the 4 WTC project increased \$163 million from the same period of 2014 primarily due to lower capitalized interest being allocable to capital construction projects still under construction, primarily at the WTC site.

### Assets:

Port Authority assets totaled \$42.6 billion at September 30, 2015, an increase of approximately \$1.0 billion from December 31, 2014. This overall increase is primarily due to:

**Facilities, net**, including contributed capital amounts totaled \$32 billion at September 30, 2015, an increase of approximately \$1.3 billion from December 2014. This net increase was primarily due to the Port Authority's continued capital investment in its operating facilities as outlined in the 2014-2023 ten-year capital plan. For additional information related to the Port Authority's current ten-year capital plan, please refer to Port Authority's website at: <http://www.panynj.gov/corporate-information/pdf/2014-public-capital-plan.pdf>.

The following chart depicts capital investment in Port Authority facilities of \$2.1 billion, including contributed capital amounts from third parties for the first nine months of 2015, summarized by primary business segment.



\*Excludes Development, Ferry and Regional facilities capital investment of approximately \$4m.

\*\*Capital Investment includes WTC Transportation HUB.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

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**Cash (including restricted amounts)** balances totaled \$1.5 billion at September 30, 2015, a net decrease of \$372 million from December 2014. Cash flows provided by operations of \$1.3 billion were used to fund financing, and capital construction activities of \$1.6 billion.

Cash flows from operations, including \$19 million received in connection with the retail components of the WTC, totaled \$1.3 billion in the first nine months of 2015, a decrease of \$470 million when compared to the same nine-month period of 2014. This decrease is attributable to a \$597 million year-to-year decrease in up-front payments received in connection with the Port Authority's transfer of its interests in the retail components of the WTC. Amounts received in connection with this transfer are being utilized as a source of funds for future capital investment. Before consideration of these WTC retail up-front payments, cash flow from operations in the first nine-months of 2015 increased by \$127 million, primarily as a result of increased operating revenues.

**Port Authority Investments** of \$3.6 billion, excluding PAICE restricted investments increased \$91 million primarily due to increases related to changes in the fair market value of purchased securities and the purchase of additional investments with available funds.

### Port Authority Investments, at fair value

<b>Investment Type*</b>	<b>at September 30, 2015</b>	<b>Weighted Average Maturity (In days)</b>
	(In thousands)	
US Treasury Notes	\$ 2,965,293	556
US Treasury Bills	74,994	144
JFK International Air Terminal Securities	92,716	3,716
Repurchase Agreements	447,494	4
Other governmental notes	35,443	433
<b>Total Investments**</b>	<b>\$ 3,615,940</b>	
<b>Portfolio Weighted Average Maturity (in days)</b>		<b>559</b>

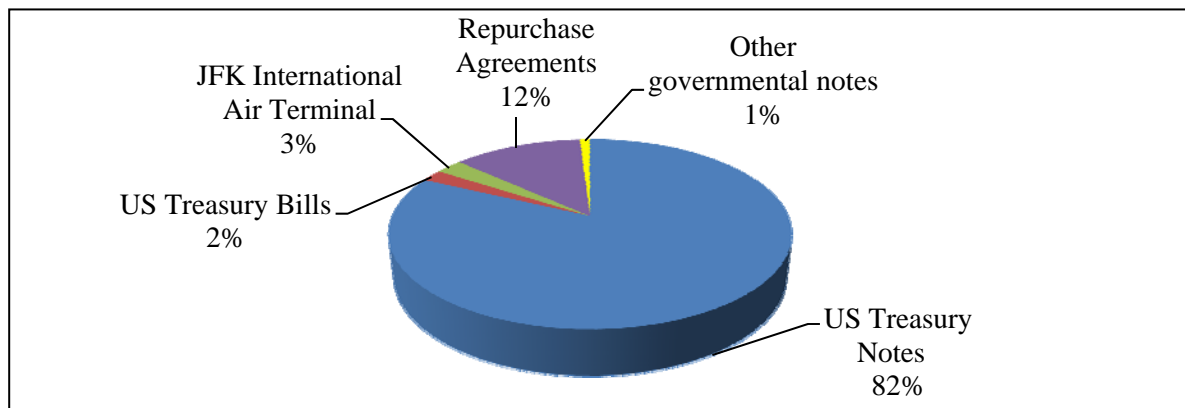
\*Excludes \$1.5 billion of Collateralized Bank Accounts, that are classified as cash equivalents and approximately \$900 million in investments that are on deposit in a restricted trust dedicated to Other Postemployment Employee Benefits (OPEB).

\*\*Excludes accrued interest receivable amounts of \$8.5 million.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

### Port Authority Investments Asset Allocation:



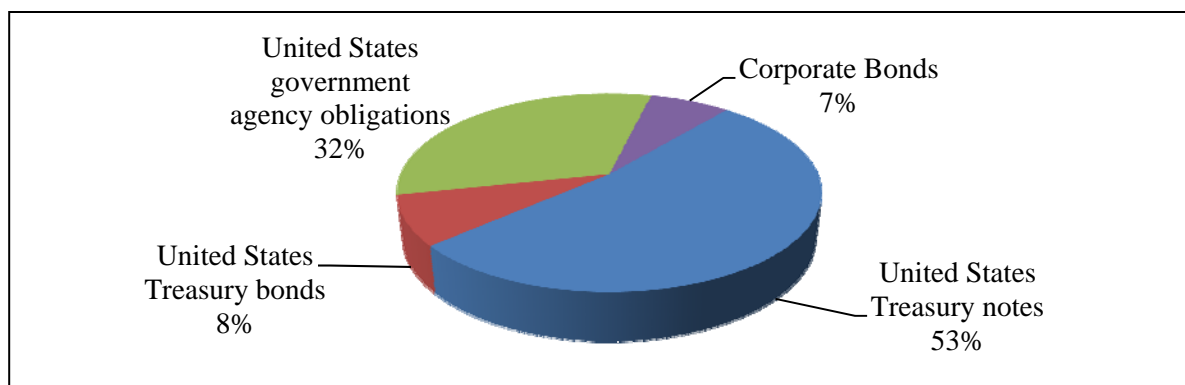
**Port Authority Insurance Captive Entity (PAICE)** investments of \$175 million, decreased \$8.0 million from December 31, 2014 primarily due the maturity of United States securities that have not been reinvested.

### PAICE Investments, at fair value

Investment Type*	at September 30, 2015 (In thousands)	Weighted Average Maturity (in days)
United States Treasury notes	\$ 91,206	569
United States Treasury bonds	14,121	979
United States government agency obligations	55,881	635
Corporate Bonds	12,705	752
Total Investments	\$ 173,913	
Portfolio weighted average maturity		637

\*Excludes accrued interest receivable of \$1 million.

### PAICE Investments Asset Allocation:





# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

### Liabilities:

**Port Authority liabilities** totaled \$27.3 billion at September 30, 2015, an increase of \$334 million from December 31, 2014. This overall increase was primarily due to the issuance of \$569 million of consolidated bonds for purposes of funding capital construction. Offsetting this increase was a \$249 million decrease in capital construction contract accrued payables.

Included in total liabilities are Port Authority bonds and other asset financing obligations totaling \$21.3 billion at September 30, 2015. A summary of outstanding bonds and other asset financing obligations follows:

#### Bonds and Other Financing Obligations\*

	<b>Opening Balance Dec. 31, 2014</b>	<b>Issued</b>	<b>Accreted</b>	<b>Refunded/ Retired</b>	<b>Ending Balance Sept. 30, 2015</b>
			(In millions)		
Consolidated Bonds and Notes	\$ 19,708	\$1,025	\$ 78	\$ 676	\$ 20,135
Commercial Paper Notes	448	884	-	887	445
Variable Rate Master Notes	78	-	-	-	78
Port Authority Equipment Notes	32	-	-	32	-
Fund for Regional Development Buy-Out Obligation	284	-	16	51	249
MOTBY Obligation	48	-	-	4	44
Goethals Bridge Replacement Obligation	210	-	124	-	334
<b>Total</b>	<b>\$ 20,808</b>	<b>\$1,909</b>	<b>\$ 218</b>	<b>\$1,650</b>	<b>\$ 21,285</b>

\*Excludes amounts payable associated with Special Project Bond projects and Tower 4 Liberty Bonds.

Listed below is a summary of credit ratings assigned to outstanding debt obligations of the Port Authority. All ratings for outstanding obligations in 2015 remained the same when compared to 2014. During 2015, Standard and Poor's (S&P), Fitch Ratings and Moody's Investors Service considered the Port Authority's outlook stable.

<b>Obligation</b>	<b>S&amp;P</b>	<b>Fitch Ratings</b>	<b>Moody's Investors Service</b>
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.

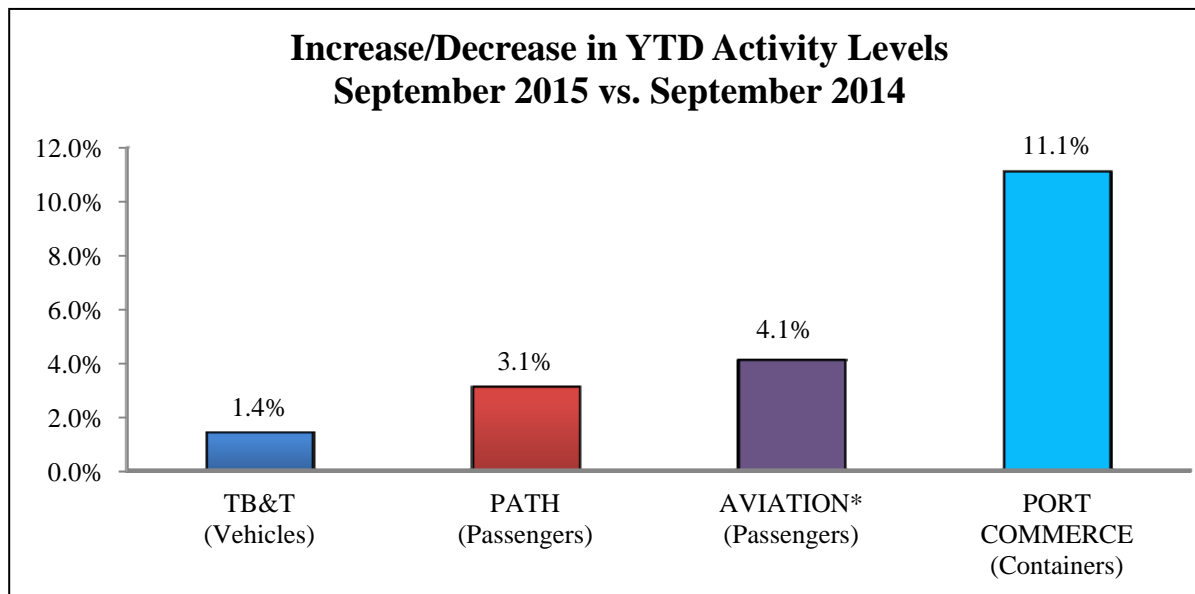
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## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2015 (UNAUDITED)

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Subsequent to September 30, 2015, the Port Authority issued three (3) additional series of consolidated bonds totaling \$2.0 billion. These bond proceeds were issued for purposes of refunding existing debt obligations totaling approximately \$1.5 billion, with the remaining amounts to be used to fund capital construction. The financial closing related to these series of consolidated bonds occurred on October 20, 2015.

### 5. FACILITY TRAFFIC



\*Excludes Atlantic City International Airport passenger activity.

**CONDENSED CONSOLIDATED STATEMENTS OF NET POSITION – UNAUDITED\***

	<b>SEPT. 30, 2015</b>	<b>DEC. 31, 2014</b>
	(In thousands)	
<b>Assets</b>		
Facilities, net	\$32,030,942	\$ 30,773,475
Cash, including restricted amounts	1,473,542	1,845,491
Port Authority investments	3,624,433	3,533,877
PAICE restricted investments	174,930	182,585
Receivables, including restricted amounts	639,681	539,608
Amounts receivable - Special Project Bonds projects	1,514,963	1,513,892
Amounts receivable - Tower 4 Liberty Bonds	1,247,626	1,248,085
Unamortized costs for regional programs	296,687	342,987
Other assets	1,579,424	1,614,054
Total assets	<u>42,582,228</u>	<u>41,594,054</u>
<b>Deferred outflows of resources</b>		
Loss on debt refundings	100,819	108,447
Total deferred outflows of resources	<u>100,819</u>	<u>108,447</u>
<b>Liabilities</b>		
Bonds and other asset financing obligations	21,284,946	20,807,655
Amounts payable - Special Project Bonds projects	1,514,963	1,513,892
Amounts payable - Tower 4 Liberty Bonds	1,247,626	1,248,085
Accounts payable	1,040,481	1,289,162
Accrued payroll, pension and other employee benefits	593,406	595,284
Unearned income related to WTC Retail	659,036	645,485
Accrued interest and other liabilities	914,531	821,477
Total liabilities	<u>27,254,989</u>	<u>26,921,040</u>
<b>Deferred inflows of resources</b>		
Gain on debt refundings	21,820	6,921
Total deferred inflows of resources	<u>21,820</u>	<u>6,921</u>
<b>Net position</b>	<u><u>\$15,406,238</u></u>	<u><u>\$ 14,774,540</u></u>

**CONDENSED CONSOLIDATED STATEMENTS OF REVENUES,  
EXPENSES AND CHANGES IN NET POSITION – UNAUDITED\***

	<b>NINE-MONTHS ENDED SEPTEMBER 30, 2015</b>	<b>2014</b>
	(In thousands)	
Gross operating revenues	\$3,592,751	\$ 3,310,822
Operating expenses	(2,116,414)	(2,109,201)
Depreciation and amortization	(871,522)	(726,210)
Net revenue related to Superstorm Sandy	41	18,246
Income from operations	<u>604,856</u>	<u>493,657</u>
Non-operating expenses, net	(570,493)	(390,469)
Capital contributions and PFC's	597,335	688,186
Income/(Loss) from non-operating activities	<u>26,842</u>	<u>297,717</u>
<b>Increase in net position</b>	<u><u>\$631,698</u></u>	<u><u>\$ 791,374</u></u>
Net position, January 1	<u>14,774,540</u>	<u>13,728,327</u>
Net position, September 30	<u><u>\$15,406,238</u></u>	<u><u>\$ 14,519,701</u></u>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED\*

	NINE-MONTHS ENDED SEPTEMBER 30,	
	2015	2014
	(In thousands)	
Net cash provided by operating activities**	\$ 1,295,292	\$1,765,711
Net cash (used for) noncapital financing activities	(42,681)	(83,000)
Net cash (used for) capital and related financing activities	(1,580,754)	(1,002,691)
Net cash (used for) investing activities	(43,806)	(664,768)
Net (decrease)/increase in cash	(371,949)	15,252
Cash at beginning of year	1,845,491	2,400,109
Cash at nine-months ended	\$ 1,473,542	\$2,415,361

\* The unaudited Condensed Consolidated Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows have been prepared, subject to audit, adjustment and reconciliation, solely for general information purposes, in accordance with accounting principles generally accepted in the United States of America. This unaudited condensed financial information should be read in conjunction with the Consolidated Financial Statements of The Port Authority of New York and New Jersey, and its component units (collectively the Port Authority) and the accompanying note disclosures and schedules for the year ended December 31, 2014.

\*\* Amounts include \$19.4 million received in 2015 and \$616.5 million received in 2014, respectively, related to the transfer of the Port Authority's interests in the retail components of the WTC.

**CONDENSED CONSOLIDATED FINANCIAL INFORMATION ON PORT AUTHORITY OPERATIONS - UNAUDITED**

(In thousands)

**Nine-month period ended September 30, 2015**

	<b>Gross Operating Revenues</b>	<b>Operating Expenses</b>	<b>Depreciation and Amortization</b>	<b>Income/(Loss) from Operations</b>	<b>Grants &amp; Other Expenses *</b>	<b>Capital Contributions and PFC's</b>	<b>Increase/ (Decrease) in Net Position</b>
Tunnels, Bridges, and Terminals	\$ 1,182,402	\$ 367,381	\$ 122,034	\$ 692,987	\$ 70,677	\$ 1,604	\$ 623,914
PATH	136,162	282,650	159,176	(305,664)	93,438	159,728	(239,374)
Aviation	1,896,190	1,159,622	315,089	421,479	158,805	213,488	476,162
Port Commerce	208,561	114,504	67,480	26,577	68,132	5,548	(36,007)
World Trade Center	149,061	178,593	141,606	(171,138)	143,552	216,967	(97,723)
Other**	20,375	13,664	66,137	(59,426)	35,889	-	(95,315)
Net Revenue related to Superstorm Sandy	-	-	-	41	-	-	41
<b>Increase in net position</b>	<b>\$ 3,592,751</b>	<b>\$ 2,116,414</b>	<b>\$ 871,522</b>	<b>\$ 604,856</b>	<b>\$ 570,493</b>	<b>\$ 597,335</b>	<b>\$ 631,698</b>

**Nine-month period ended September 30, 2014**

	<b>Gross Operating Revenues</b>	<b>Operating Expenses</b>	<b>Depreciation and Amortization</b>	<b>Income/(Loss) from Operations</b>	<b>Grants &amp; Other Expenses *</b>	<b>Capital Contributions and PFC's</b>	<b>Increase/ (Decrease) in Net Position</b>
Tunnels, Bridges, and Terminals	\$ 1,074,579	\$ 371,076	\$ 128,357	\$ 575,146	\$ 59,228	\$ 3,325	\$ 519,243
PATH	122,420	282,340	123,740	(283,660)	48,260	206,101	(125,819)
Aviation	1,849,420	1,196,597	312,312	340,511	137,926	218,522	421,107
Port Commerce	191,251	126,054	64,327	870	59,566	15,469	(43,227)
World Trade Center	48,720	114,873	29,155	(95,308)	44,905	244,769	104,556
Other**	24,432	18,261	68,319	(62,148)	40,584	-	(102,732)
Net Revenue related to Superstorm Sandy	-	-	-	18,246	-	-	18,246
<b>Increase in net position</b>	<b>\$ 3,310,822</b>	<b>\$ 2,109,201</b>	<b>\$ 726,210</b>	<b>\$ 493,657</b>	<b>390,469</b>	<b>\$ 688,186</b>	<b>\$ 791,374</b>

\* Amounts include allocated net interest expense (interest expense less financial income), payments received in connection with the New York Liberty Development Corporation's bonds issued for the Four WTC project, grants in connection with operating activities, pass-through grant program payments; and gain or loss related to the disposition of assets, if any.

\*\* Includes Development, Regional, Ferry Transportation and Access to the Regions Core Facilities; and PA Insurance Captive Entity, LLC.

Note: These unaudited schedules related to Port Authority Operations have been prepared, subject to audit, adjustment and reconciliation, solely for general information purpose, in accordance with accounting principles generally accepted in the United States of America. This unaudited financial information should be read in conjunction with the Consolidated Financial Statements of The Port Authority of New York and New Jersey, and its component units (collectively the Port Authority) and the accompanying note disclosures and schedules for the year ended December 31, 2014.