



**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
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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.



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

Management's Discussion and Analysis (Unaudited)

(continued)

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

Management's Discussion and Analysis (Unaudited)

(continued)

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

Management's Discussion and Analysis (Unaudited) (continued)

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

Management's Discussion and Analysis (Unaudited) (continued)

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.

Management's Discussion and Analysis (Unaudited) (continued)

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.

Management's Discussion and Analysis (Unaudited) (continued)

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.

Management's Discussion and Analysis (Unaudited) (continued)

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.

Management's Discussion and Analysis (Unaudited) (continued)

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

Management's Discussion and Analysis (Unaudited) (continued)

\$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

Management's Discussion and Analysis (Unaudited) (continued)

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

Management's Discussion and Analysis (Unaudited) (continued)

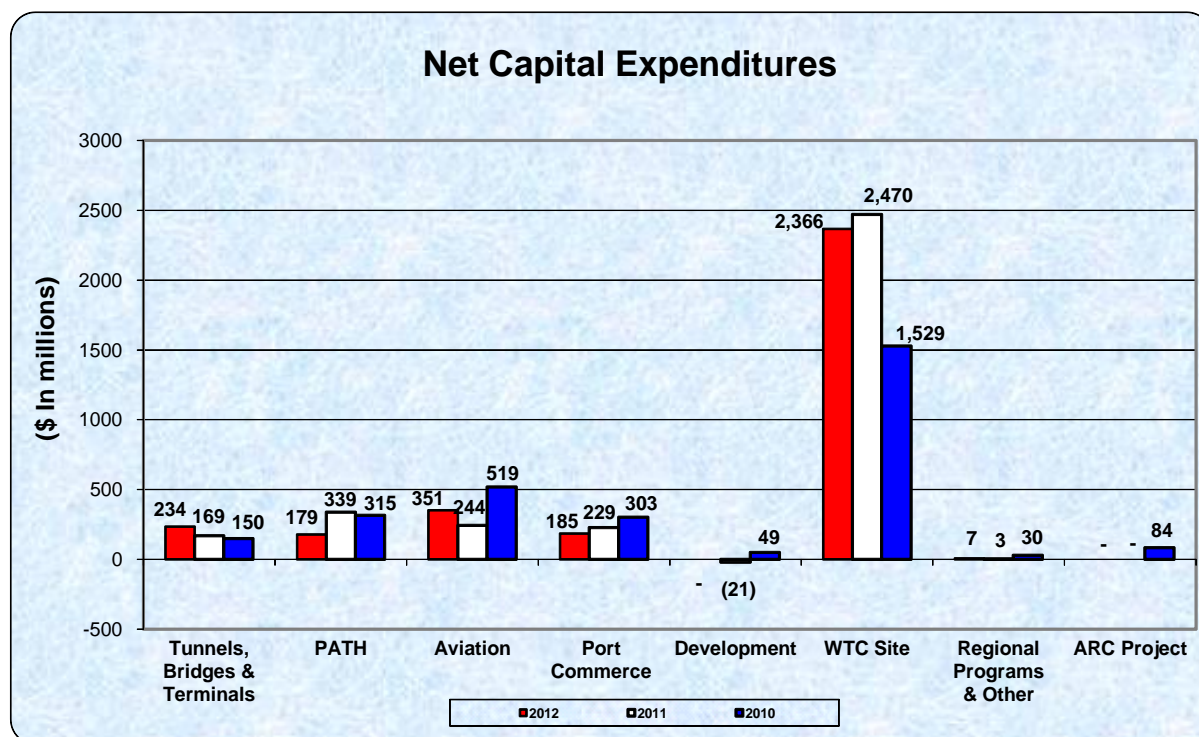
by a year-to-year decrease in Tower 1 Joint Venture LLC capital contributions from Durst made in 2011.

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:



Management's Discussion and Analysis (Unaudited) (continued)

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

Management's Discussion and Analysis (Unaudited)

(continued)

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	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

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

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

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:

Notes to Consolidated Financial Statements (continued)

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

Notes to Consolidated Financial Statements (continued)

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

Notes to Consolidated Financial Statements (continued)

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).

Notes to Consolidated Financial Statements (continued)

- 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

Notes to Consolidated Financial Statements (continued)

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.

Notes to Consolidated Financial Statements (continued)

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

Notes to Consolidated Financial Statements
(continued)

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

Notes to Consolidated Financial Statements (Continued)

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.

Notes to Consolidated Financial Statements
(continued)

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

Notes to Consolidated Financial Statements (continued)

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	<u>7,097</u>	593
Total fair value of investments*	<u>\$ 1,931,525</u>	
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.

Notes to Consolidated Financial Statements (continued)

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	<u>47,595</u>	638
Total fair value of investments*	<u>\$161,472</u>	
Investments weighted average maturity		761

* Excludes accrued interest receivable amounts of \$1.2 million.

Notes to Consolidated Financial Statements
(continued)

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

Notes to Consolidated Financial Statements (continued)

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)		<u>\$ 15,569,745</u>			<u>\$ 18,172,019</u>

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

Notes to Consolidated Financial Statements (continued)

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	<u>\$ 13,309,636</u>			<u>\$ 15,569,745</u>

- (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
	<u>\$18,076,770</u>	<u>\$18,167,360</u>	<u>\$36,244,130</u>

Notes to Consolidated Financial Statements (continued)

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.

Notes to Consolidated Financial Statements (continued)

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

Notes to Consolidated Financial Statements (continued)

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
	<u>\$77,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$77,900</u>

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
	<u>\$77,900</u>	<u>\$1,521</u>	<u>\$79,421</u>

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.

Notes to Consolidated Financial Statements (continued)

Note D - Outstanding Obligations and Financing (continued)

		December 31, 2011		
	Dec. 31, 2010	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.

		December 31, 2012		
	Dec. 31, 2011	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

		December 31, 2011		
	Dec. 31, 2010	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:

Notes to Consolidated Financial Statements (continued)

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:

Notes to Consolidated Financial Statements (continued)

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.

Notes to Consolidated Financial Statements (continued)

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.

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

Notes to Consolidated Financial Statements (continued)

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

Notes to Consolidated Financial Statements (continued)

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.

	Dec. 31, 2011	December 31, 2012 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.

Notes to Consolidated Financial Statements (continued)

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.

Notes to Consolidated Financial Statements (continued)

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

Notes to Consolidated Financial Statements

(continued)

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.

Notes to Consolidated Financial Statements (continued)

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:

Notes to Consolidated Financial Statements
(continued)

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.

Notes to Consolidated Financial Statements
(continued)

- **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

Notes to Consolidated Financial Statements (continued)

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

Notes to Consolidated Financial Statements (continued)

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.

Notes to Consolidated Financial Statements
(continued)

Annual Pension Cost and NPO for 2012

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

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,

Notes to Consolidated Financial Statements (continued)

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:

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

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.

Notes to Consolidated Financial Statements (continued)

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.

Notes to Consolidated Financial Statements
(continued)

Statement of Trust Net Position

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

Statements of Changes in Trust Net Position

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

* 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:

Notes to Consolidated Financial Statements (continued)

General Coverage (Excluding Terrorism)

\$1.518 billion of purchased coverage

\$25 million in the aggregate self-insurance after which purchased coverage applies
\$5 million per occurrence deductible

Terrorism Coverage

\$1.518 billion TRIPRA* Coverage (PAICE)

\$25 million in the aggregate self-insurance after which purchased coverage applies
\$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

Notes to Consolidated Financial Statements (continued)

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					
<table border="1"> <tr> <td>\$1 billion excess above \$12.5 million</td><td rowspan="2">\$1.05 billion of purchased coverage per occurrence</td></tr> <tr> <td>\$7.5 million self-insurance</td></tr> </table>	\$1 billion excess above \$12.5 million	\$1.05 billion of purchased coverage per occurrence	\$7.5 million self-insurance	<table border="1"> <tr> <td>\$300 million purchased TRIPRA* Coverage</td><td>\$300 million purchased coverage per occurrence</td></tr> </table>	\$300 million purchased TRIPRA* Coverage	\$300 million purchased coverage per occurrence
\$1 billion excess above \$12.5 million	\$1.05 billion of purchased coverage per occurrence					
\$7.5 million self-insurance						
\$300 million purchased TRIPRA* Coverage	\$300 million purchased coverage per occurrence					
\$5 million per occurrence deductible	\$5 million per occurrence deductible					

* See footnote on page 64

Notes to Consolidated Financial Statements (continued)

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.

Notes to Consolidated Financial Statements (continued)

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	<u>\$128,878</u>

Operating Results

Revenues	\$ 25,180
Expenses	10,535
Net Income	<u>\$ 14,645</u>

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	<u>\$128,878</u>

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	<u>\$106,989</u>	<u>\$235,141</u>	<u>\$200,657</u>	<u>\$141,473</u>

Notes to Consolidated Financial Statements
(continued)

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.

Notes to Consolidated Financial Statements (continued)

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	<u>\$ 30,000</u>

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

Notes to Consolidated Financial Statements (continued)

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.

Required Supplementary Information (Unaudited)

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	<u>\$ (1,453,803)</u>	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
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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
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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
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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
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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
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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
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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
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(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)
Helipoint	-	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.