

The Port Authority of New York and New Jersey

Condensed Consolidated Financial Statements as of
and for the Three-Month Period Ended March 31, 2015
(Unaudited)

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

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THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015 (UNAUDITED)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Management's Discussion and Analysis

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

The Condensed Consolidated Financial Statements

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

The Statements of Revenues, Expenses and Changes in Net Position show how the Port Authority's overall net position changed during the three-month period ended March 31, 2015 and 2014.

The Statements of Cash Flows provide information about the Port Authority's cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financings, and investing activities for the three-month period ended March 31, 2015 and 2014.

2. FINANCIAL REPORTING ENTITY

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015 (UNAUDITED)

3. BASIS OF ACCOUNTING

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

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

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

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

4. FINANCIAL STATEMENT COMPARISON FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015

The Port Authority's overall net position (equity) increased \$163 million in the first quarter of 2015. This increase is comprised of income from operations of \$121 million and income from non-operating activities of \$42 million.

Cash flow from operations, excluding amounts received in connection with the retail components of the World Trade Center (WTC) of \$354 million were primarily utilized to fund capital investment in Port Authority facilities during the first quarter of 2015. Cash flow from operations increased \$71 million when compared to the same period of 2014. This \$71 million increase is primarily attributable to a \$10 million increase in cash received from operations and a \$61 million decrease in cash used to pay employees, suppliers and municipalities. In addition, the Port Authority received \$19 million and \$616 million in 2015 and 2014, respectively in connection with the retail components of the WTC which will be used to fund future capital investment.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015 (UNAUDITED)

Significant variances from the first quarter of 2014 are highlighted below:

Description	First Qtr. 2015	First Qtr. 2014	Variance
(in thousands)			
Gross operating revenues	\$1,119,637	\$ 1,051,567	\$ 68,070
Operating expenses	(725,488)	(693,965)	(31,523)
Depreciation and amortization	(273,026)	(227,204)	(45,822)
Net revenue related to Superstorm Sandy	41	22,383	(22,342)
Income from operations	121,164	152,781	(31,617)
Financial income	18,315	8,120	10,195
Interest expense	(210,290)	(149,142)	(61,148)
Grants & other	24,376	11,290	13,086
Capital contributions and Passenger Facility Charges (PFCs)	209,508	242,737	(33,229)
Income from non-operating activities	41,909	113,005	(71,096)
Increase in net position	\$ 163,073	\$ 265,786	\$(102,713)

Income from Operations:

The Port Authority generated \$121 million in income from operations in the first quarter of 2015, comprised of gross operating revenues of \$1.1 billion offset by operating expenses and depreciation of \$999 million. Operating revenues and expenses in the current quarter's financial results include amounts related to the commencement of commercial operations of One World Trade Center in November 2014.

Gross operating revenues of \$1.1 billion increased \$68 million or 6.5% from the same period in 2014. Rental revenues increased \$33 million or 10.8% primarily due to an increase in fixed rentals at the WTC due to the commencement of commercial operations in November 2014. Toll revenue generated at the Port Authority's six vehicular crossings increased \$30 million primarily due to increases in toll rates that became effective in December 2014 and a 1.3% increase in overall vehicular traffic.

Operating expenses of \$725 million increased \$32 million or 4.6% from the same period in 2014 primarily due to an increase of \$35 million related to WTC payments-in-lieu of taxes and other WTC site operating expenses including insurance related to the commencement of certain commercial operating activities at the World Trade Center site in November 2014. Offsetting these amounts was a decrease of \$12.6 million in public safety expenditures primarily related to decreased overtime.

Depreciation and amortization of \$273 million increased \$46 million or 20.2% from the same period of 2014 primarily due to \$4 billion of WTC related capital projects becoming operational and ready for their intended use during the fourth quarter of 2014. These capital assets are now being depreciated over their estimated useful life.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

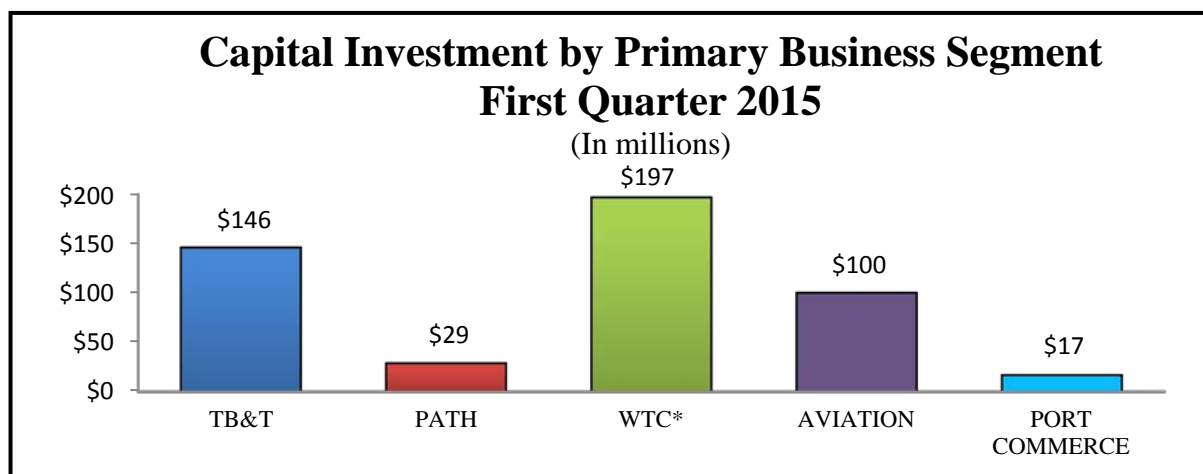
AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015 (UNAUDITED)

Income from Non-Operating Activities:

Income from non-operating activities of \$42 million decreased \$71 million from the same period of 2014. This decrease is primarily due to a \$42 million decrease in capital contributions related to the redevelopment of the WTC site and a \$61 million increase in interest expense related to Port Authority debt obligations, including with respect to the New York Liberty Development Corporation's bonds issued for the Four WTC project. This increase in interest expense is primarily due to lower capitalized interest related to ongoing construction projects. Offsetting these amounts was an increase of approximately \$10 million in financial income (unrealized gains) related to changes in fair market value of the Port Authority's \$5.4 billion investment portfolio.

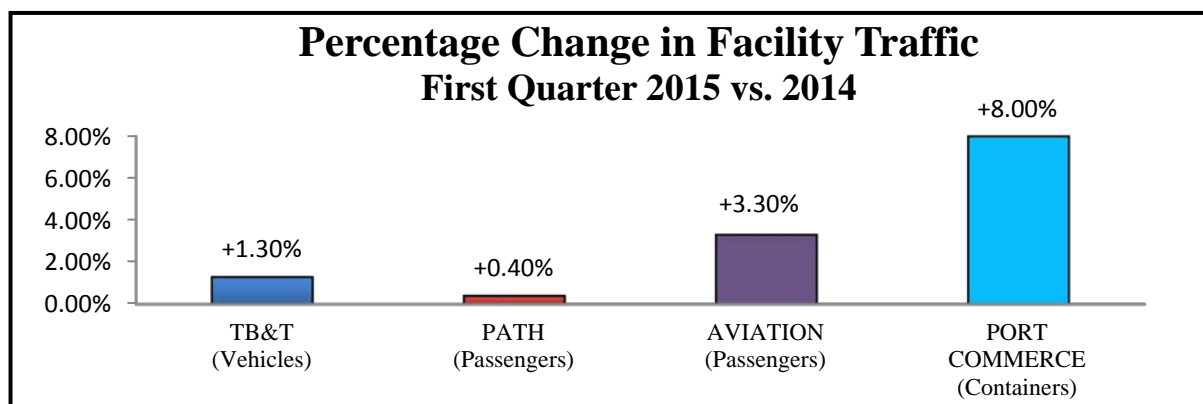
5. CAPITAL INVESTMENT IN PORT AUTHORITY FACILITIES

The following chart depicts total capital investment, including contributed capital in Port Authority facilities of \$489 million for the first quarter of 2015 summarized by primary business segment.



*Capital Investment includes WTC Transportation HUB.

6. FACILITY TRAFFIC



CONDENSED CONSOLIDATED STATEMENTS OF NET POSITION – UNAUDITED*

	MARCH 31, 2015	DEC. 31, 2014
	(In thousands)	
Assets		
Facilities, net	\$ 31,007,030	\$ 30,773,475
Cash and investments (including restricted amounts)	5,395,865	5,561,953
Receivables (including restricted amounts)	613,242	539,608
Amounts receivable - Special Project Bonds projects	1,514,249	1,513,892
Amounts receivable - Tower 4 Liberty Bonds	1,247,932	1,248,085
Unamortized costs for regional programs	326,838	342,987
Other assets	1,569,096	1,614,054
Total assets	<u>41,674,252</u>	<u>41,594,054</u>
Deferred outflows of resources		
Loss on debt refundings	105,904	108,447
Total deferred outflows of resources	<u>105,904</u>	<u>108,447</u>
Liabilities		
Bonds and other asset financing obligations	20,749,013	20,807,655
Amounts payable - Special Project Bonds projects	1,514,249	1,513,892
Amounts payable - Tower 4 Liberty Bonds	1,247,932	1,248,085
Accounts payable	1,145,752	1,289,162
Accrued payroll, pension and other employee benefits	577,591	595,284
Unearned income related to WTC Retail	662,917	645,485
Other liabilities	938,224	821,477
Total liabilities	<u>26,835,678</u>	<u>26,921,040</u>
Deferred inflows of resources		
Gain on debt refundings	6,865	6,921
Total deferred inflows of resources	<u>6,865</u>	<u>6,921</u>
Net position	<u><u>\$ 14,937,613</u></u>	<u><u>\$ 14,774,540</u></u>

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

	THREE-MONTHS ENDED MARCH 31, 2015	2014
	(In thousands)	
Gross operating revenues	\$ 1,119,637	\$ 1,051,567
Operating expenses	(725,488)	(693,965)
Depreciation and amortization	(273,026)	(227,204)
Net revenue related to Superstorm Sandy	41	22,383
Income from operations	<u>121,164</u>	<u>152,781</u>
Non-operating expenses, net	(167,599)	(129,732)
Capital contributions and PFC's	209,508	242,737
Income from non-operating activities	<u>41,909</u>	<u>113,005</u>
Increase in net position	<u><u>\$ 163,073</u></u>	<u><u>\$ 265,786</u></u>
Net position, January 1	<u>14,774,540</u>	<u>13,728,327</u>
Net position, March 31	<u><u>\$ 14,937,613</u></u>	<u><u>\$ 13,994,113</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED*

	MARCH 31, 2015	MARCH 31, 2014
	(In thousands)	
Net cash provided by operating activities**	\$ 373,776	\$ 899,755
Net cash (used for) noncapital financing activities	(44,035)	(28,973)
Net cash (used for)/provided by capital and related financing activities	(514,851)	242,896
Net cash provided by/(used for) investing activities	<u>299,079</u>	<u>(537,178)</u>
Net increase in cash	113,969	576,500
Cash at beginning of year	<u>1,845,491</u>	<u>2,400,109</u>
Cash at March 31st	<u><u>\$ 1,959,460</u></u>	<u><u>\$ 2,976,609</u></u>

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

**Amounts include \$19.4 million in 2015 and \$616.5 million in 2014, respectively, related to the retail components of the WTC unearned income.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION ON PORT AUTHORITY OPERATIONS - UNAUDITED

(In thousands)

	Three-month period ended March 31, 2015						
	Gross Operating Revenues	Operating Expenses	Depreciation and Amortization	Income (Loss) from Operations	Interest, Grants & Other Expenses *	Capital Contributions & PFC's	Increase/ (Decrease) in Net Position
Tunnels, Bridges, and Terminals	\$352,822	\$125,162	\$ 39,295	\$188,365	\$ 21,040	\$ 1,170	\$168,495
PATH	41,680	96,530	41,998	(96,848)	17,627	73,737	(40,738)
Aviation	610,416	395,739	104,679	109,998	54,724	77,413	132,687
Port Commerce	65,065	42,169	21,401	1,495	21,083	758	(18,830)
World Trade Center	43,110	61,858	43,618	(62,366)	41,671	56,430	(47,607)
Other**	6,544	4,030	22,035	(19,521)	11,454	-	(30,975)
Net Revenue related to Superstorm Sandy	-	-	-	41	-	-	41
Increase in net position	\$1,119,637	\$725,488	\$273,026	\$121,164	\$167,599	\$ 209,508	\$ 163,073

	Three-month period ended March 31, 2014						
	Gross Operating Revenues	Operating Expenses	Depreciation and Amortization	Income (Loss) from Operations	Interest, Grants & Other Expenses *	Capital Contributions & PFC's	Increase/ (Decrease) in Net Position
Tunnels, Bridges, and Terminals	\$ 321,866	\$113,708	\$33,332	\$ 174,826	\$ 18,954	\$ -	\$155,872
PATH	38,175	97,227	40,145	(99,197)	14,235	40,528	(72,904)
Aviation	609,748	411,160	103,545	95,043	53,716	77,126	118,453
Port Commerce	60,179	40,323	21,402	(1,546)	21,252	686	(22,112)
World Trade Center	14,194	26,589	5,994	(18,389)	7,703	124,397	98,305
Other**	7,405	4,958	22,786	(20,339)	13,872	-	(34,211)
Net Revenue related to Superstorm Sandy	-	-	-	22,383	-	-	22,383
Increase in net position	\$1,051,567	\$693,965	\$227,204	\$ 152,781	\$129,732	\$242,737	\$265,786

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

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

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