

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2002

> I L L U M I N A T E

> I N S P I R E

> C O N N E C T

> E N V I S I O N



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M i s s i o n

To identify and meet the critical transportation infrastructure needs of the bistate region's businesses, residents and visitors: providing the highest quality, most efficient transportation and port commerce facilities and services that move people and goods within the region, provide access to the rest of the nation and to the world, and strengthen the economic competitiveness of the New York/New Jersey metropolitan region.



Facilities and Services

Aviation

John F. Kennedy International Airport
Newark Liberty International Airport
LaGuardia Airport
Teterboro Airport
Downtown Manhattan Heliport
AirTrain JFK
AirTrain Newark

Tunnels, Bridges & Terminals

George Washington Bridge
George Washington Bridge Bus Station
Bayonne Bridge
Outerbridge Crossing
Goethals Bridge
Holland Tunnel
Lincoln Tunnel
Port Authority Bus Terminal

Port Commerce

Auto Marine Terminal
Brooklyn Port Authority Marine Terminals
Port Newark
Elizabeth-Port Authority Marine Terminal
Howland Hook Marine Terminal
Greenville Yard
Oak Point Rail Freight Link

Port Authority Trans-Hudson

PATH Rail Transit System
Journal Square Transportation Center

Economic Development

The Legal Center
The Teleport
Essex County Resource Recovery Facility
Bathgate Industrial Park
Industrial Park at Elizabeth
Ferry Transportation

Waterfront Development

Queens West Waterfront Development
The South Waterfront at Hoboken

International Business Development Offices

London
Tokyo
Representatives in Hong Kong, Seoul, Shanghai, Singapore



The New York/New Jersey Region

Area	3,900 Square Miles
Population	16.8 Million
Total Labor Force	7.9 Million
Total Wage and Salary Jobs	8 Million
Total Personal Income	\$700 Billion (est.)

The New York/New Jersey Metropolitan Region, one of the largest and most diversified in the nation, consists of the five New York boroughs of Manhattan, Brooklyn, Queens, Richmond (Staten Island), and The Bronx; the four suburban New York counties of Nassau, Rockland, Suffolk and Westchester; and the eight northern New Jersey counties of Bergen, Essex, Hudson, Middlesex, Morris, Passaic, Somerset, and Union.

The Honorable George E. Pataki
Governor
State of New York

The Honorable James E. McGreevey
Governor
State of New Jersey



Dear Governors:

In conformity with the Port Compact of 1921, we are pleased to submit to you and the legislatures of New York and New Jersey this 2002 Annual Report of The Port Authority of New York and New Jersey.

In many ways, 2002 was a year that conclusively demonstrated the importance of the Port Authority to the economic well-being of New York and New Jersey. Although the Port Authority was still recovering from the devastating emotional and financial blows inflicted on September 11, 2001, the organization nevertheless moved forward with steady resolve and determination on initiatives that will improve the quality of life for residents of both states.

Key among these initiatives was advancement of the multi-year infrastructure renewal program, designed to keep the bistate economy strong and globally competitive. The Port Authority delivered on major capital investments, which included making enhancements and introducing customer service improvements at the region's airports, Hudson River crossings and port terminal facilities. Despite the continuing impact of the slow economy, and higher security and insurance costs on agency revenues, the Port Authority maintained its commitment to the region and the states, while holding the line on bridge and tunnel tolls and PATH fares.

In collaboration with public and private partners, the Port Authority remained on schedule for re-establishing PATH rail service to Lower Manhattan. The \$544 million PATH Restoration Program will rebuild the PATH connection to Lower Manhattan for thousands of commuters. Conceptual plans also are being developed for a PATH terminal facility — envisioned as the gateway to Lower Manhattan — at the World Trade Center site.

Among the year's many successes was the agreement signed with the City of Newark to extend the Port Authority's lease of the city's airport and seaport to 2065. The extension provides the long-term stability needed to ensure planning of future investments to improve service at the facilities, provide jobs and strengthen the regional economy. The Port Authority also was proud that a new name — Newark Liberty International Airport — was established as part of the agreement to honor the heroes of September 11.

The Port Authority is financially strong and able to carry on with record levels of capital investment, helping to ensure a prosperous future for the bistate region. Over the five-year period from 2003 to 2007, the agency expects to invest approximately \$8.7 billion in transportation and security improvements. More than \$500 million alone has been earmarked to reinforce security systems and improve public safety at our critical transportation facilities.

As we move forward, the agency will continue its mission of providing vital transportation and commerce services.

Very truly yours,

Handwritten signature of Jack G. Sinagra in black ink.

Jack G. Sinagra
Chairman

Handwritten signature of Charles A. Gargano in black ink.

Charles A. Gargano
Vice Chairman

April 10, 2003

Origins of the Port Authority

The Port Authority of New York and New Jersey was established on April 30, 1921. It was the first interstate agency ever created under a clause of the Constitution permitting compacts between states with Congressional consent.

The agency's area of jurisdiction was called the Port District, a bistate region generally within 25 miles of the Statue of Liberty. The mandate of the agency was to promote and protect the commerce of the bistate port and to undertake port and regional improvements not likely to be financed by private enterprise or to be attempted by either state alone: a modern wharfage for the harbor shared by the two states, tunnel and bridge connections between the states and, in general, trade and transportation projects to promote the region's economic well-being.

Governance of the Port Authority

The Governor of each state appoints six Commissioners to the agency's Board of Commissioners, each appointment subject to the approval of the respective state senate.

The twelve Commissioners serve as public officials without remuneration.

The Governors retain the right to veto the actions of the Commissioners. Within the Port District, the Port Authority undertakes projects and activities in accordance with the Port Compact of 1921 and amendatory and supplemental bistate legislation.

The Board of Commissioners appoints an Executive Director to effect its policies and manage day-to-day operations.

Board of Commissioners

Jack G. Sinagra, Chairman
Charles A. Gargano, Vice Chairman

Bruce A. Blakeman
Michael J. Chasanoff
Anthony R. Coscia¹
Lewis M. Eisenberg²
Charles Kushner¹
David S. Mack
William J. Martini³
Alan G. Philibosian⁴
Raymond M. Pocino²
Bradford J. Race Jr.⁵
Anthony J. Sartor
Henry R. Silverman⁵
Anastasia M. Song
David S. Steiner⁴

Joseph J. Seymour, Executive Director

Footnotes

1. Commissioner Coscia joined the Board on April 3, 2003, succeeding Commissioner Kushner. Commissioner Kushner joined the Board on June 26, 2002 and resigned from the Board on February 26, 2003.
2. Commissioner Pocino joined the Board on June 26, 2002, succeeding Commissioner Eisenberg, who resigned from the Board on February 19, 2002.
3. Commissioner Martini resigned from the Board on November 18, 2002.
4. Commissioner Steiner joined the Board on January 22, 2003, succeeding Commissioner Philibosian.
5. Commissioner Silverman joined the Board on June 25, 2002, succeeding Commissioner Race, who resigned from the Board on February 26, 2002.

Board of Commissioners



Jack G. Sinagra
Senior Vice President
Turtle & Hughes Inc.



Charles A. Gargano
Chairman & CEO
Empire State Development
Corporation



Bruce A. Blakeman
Attorney-at-Law
Robert M. Blakeman and
Associates



Michael J. Chasanoff
Managing Partner
Chasanoff Properties



Anthony R. Coscia
Partner
Windels Marx Lane
& Mittendorf, LLP



Lewis M. Eisenberg
Co-Chairman
Granite Capital International
Group



Charles Kushner
Chairman
Kushner Companies



David S. Mack
Senior Managing
Partner
The Mack Company



William J. Martini
United States
District Judge



Alan G. Philibosian
Attorney-at-Law



Raymond M. Pocino
Vice President/Eastern
Regional Manager
Laborers International
Union of North America



Bradford J. Race Jr.
Of Counsel
Dewey Ballantine LLP



Anthony J. Sartor
President &
Chief Operating Officer,
KeySpan Services, Inc.



Henry R. Silverman
Chairman, President and
Chief Executive Officer,
Cendant Corporation



Anastasia M. Song
Infrastructure Consultant



David S. Steiner
President
Steiner Equities Group, LLC



Joseph J. Seymour
Executive Director

Officers and Directors

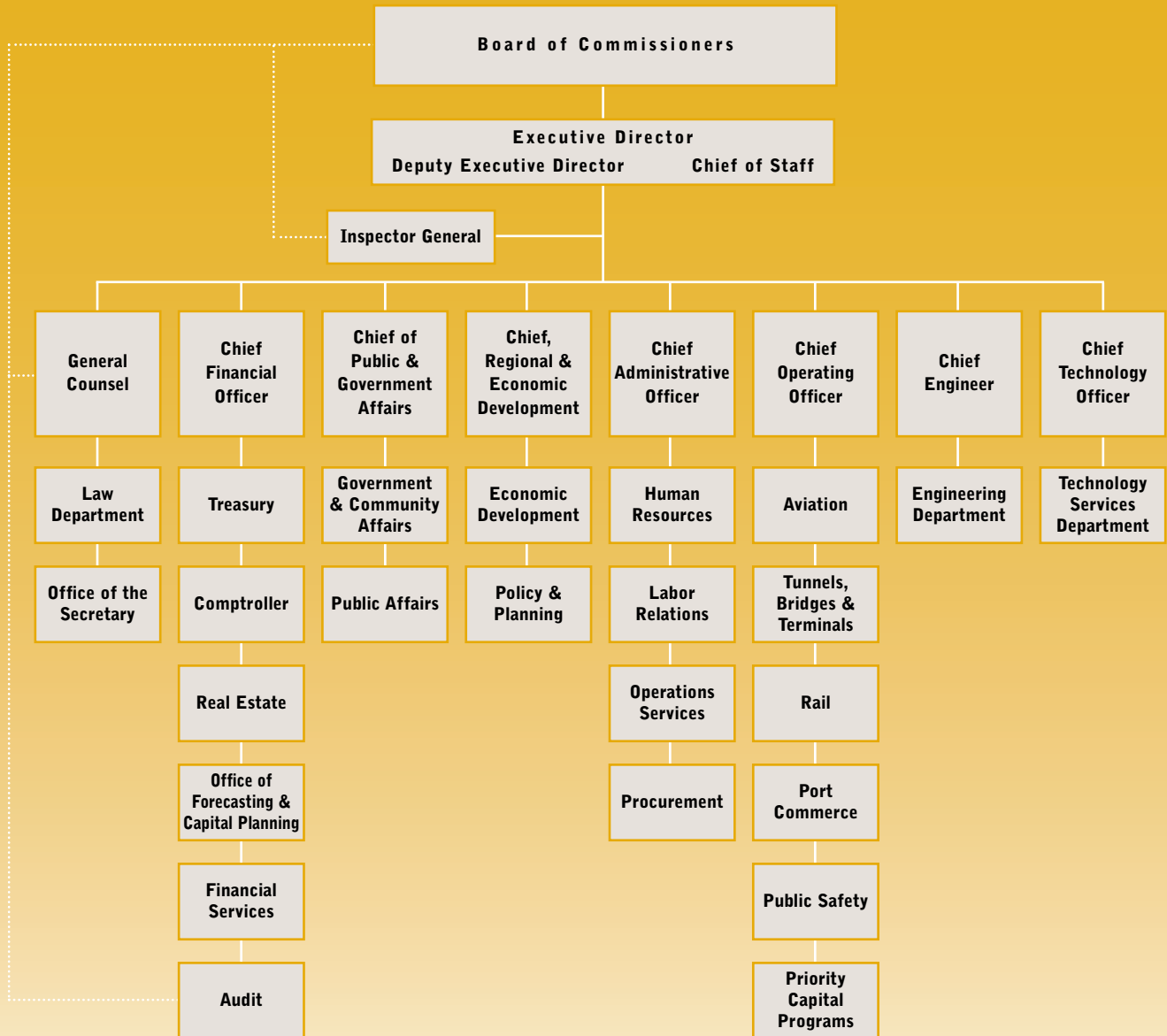
Executive Director
 Chief of Staff
 Audit
 Aviation
 Chief Administrative Officer
 Chief Engineer
 Chief Financial Officer
 Chief Operating Officer
 Chief of Public & Government Affairs
 Chief, Regional & Economic Development
 Chief Technology Officer
 Comptroller
 Economic Development
 Financial Services
 General Counsel
 Government & Community Affairs

Joseph J. Seymour
Edmond F. Schorno
John D. Brill
William R. DeCota
Louis J. LaCapra
Francis J. Lombardi
Charles F. McClafferty
Ernesto L. Butcher
Michael A. Petralia
A. Paul Blanco
Gregory G. Burnham
Michael G. Fabiano
A. Paul Blanco
Edward L. Jackson
Jeffrey S. Green
Sean P. Walsh

Human Resources
 Inspector General
 Labor Relations
 Office of Forecasting & Capital Planning
 Office of the Secretary
 Operations Services
 Policy & Planning
 Port Commerce
 Priority Capital Programs
 Procurement
 Public Affairs
 Public Safety
 Rail
 Real Estate
 Treasury
 Tunnels, Bridges & Terminals

Michael G. Massiah
Robert E. Van Etten
Paul D. Segalini
Douglas L. Smith
Karen E. Eastman
Alan I. Rhome
Cruz C. Russell
Richard M. Larrabee
Anthony G. Cracchiolo
Cecile O. Pace
Kayla M. Bergeron
Charles D. DeRienzo
Michael P. DePallo
James T. Connors (Acting)
Bruce D. Bohlen
Kenneth P. Philmus

Organization Chart



Letter from the Executive Director

For more than 80 years, The Port Authority of New York and New Jersey has been a critical partner in shaping the prosperity of the bistate region, substantially influencing economic growth and quality of life in the two states. In 2002, the Port Authority faced some of the most significant challenges of its history but remained unwavering in its efforts to improve customer service and enhance its critical transportation infrastructure.

With the support of New York Governor George E. Pataki and New Jersey Governor James E. McGreevey, the Port Authority renewed its focus on safety and security, successfully meeting the new federally mandated security requirements at the three commercial airports and the port with minimal or no disruption to airline passengers and port businesses.

Our redevelopment work in the region advanced with major projects at Newark Liberty International Airport, with runway and taxiway improvements at LaGuardia, John F. Kennedy International and Newark Liberty International airports; and with reconstruction of the Outerbridge Crossing roadway deck, which was completed ahead of schedule.

We marked the beginning of the redevelopment and expansion of Howland Hook Marine Terminal in Staten Island, NY. The project will include construction of an extended wharf at both ends of the terminal and the development of a new on-dock rail facility.

We also took major steps to provide rail service to Howland Hook by reaching key agreements with the City of Elizabeth, NJ to allow construction of a critical rail connection that will link Staten Island to the Chemical Coast Line in New Jersey and to the national rail freight network.

The Port Authority led the effort to make ferries an even more integral component of the region's transportation network. Working with the states of New Jersey and New York, the City of New York and the Federal Emergency Management Agency, the Port Authority introduced ferry initiatives to reduce vehicular congestion resulting from the loss of PATH service at the World Trade Center and Exchange Place stations.

The Port Authority collaborated with the Lower Manhattan Development Corporation in a public process that established a vision for the future of the World Trade Center site and culminated in the selection earlier this year of Memory Foundations by Studio Daniel Libeskind as the design concept for the site. On the important issue of renewing transportation to Lower Manhattan, we made substantial progress on reconstructing PATH's Exchange Place tunnels and station, and on construction at the World Trade Center site of a temporary PATH station, which is rising on schedule for a December 2003 opening.

In the midst of planning and building for the future, we paused to remember the recent past. On the one-year anniversary of September 11, we honored our fallen colleagues: Executive Director, and my friend, Neil Levin; Police Superintendent Fred Morrone among 84 Port Authority employees, 37 of whom were police officers and commanders. Under the leadership of Governors Pataki and McGreevey, with Mayor Bloomberg, and working with the Lower Manhattan Development Corporation, we are rebuilding Ground Zero so that it will be even better than ever. Together, we can turn remembrance into renewal.

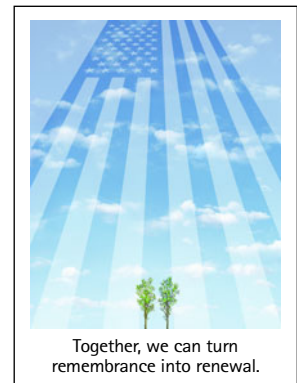
As we look ahead, we will refocus the Port Authority's direction to put first things first: tighten security and enhance public safety at our critical transportation facilities while furthering our infrastructure improvement programs. Despite the challenges of the new global realities, our commitments remain the same — moving forward on the critical projects that will ensure prosperity and strong quality of life in the New York/New Jersey region.

Sincerely,



Joseph J. Seymour
Executive Director

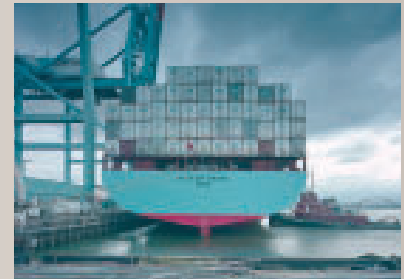
April 10, 2003



I L L U M I N A T E

> We are helping to create a brighter, more prosperous future for the nearly 17 million residents of the bistate region, whether through developing a transportation hub in Lower Manhattan, expanding the maritime ports, or improving service at our bridges, tunnels, airports and PATH system. <





Regional Update

In many ways, 2002 was a year that conclusively demonstrated the vital contribution of The Port Authority of New York and New Jersey to the strength of the bistate region. Like the 16.8 million people who live and work in the New York/New Jersey metropolitan area, we faced great challenges over the course of the year. And like those 16.8 million people, we met the challenges with ingenuity and determination.

Our accomplishments in 2002 affirm that the Port Authority is uniquely positioned to address many of the important issues facing the region. Our mission is focused squarely on transportation and commerce, which has always been key to the area's growth. And we look at all forms of transportation: air, rail, water-based and vehicular. This broad view is what makes the Port Authority singularly qualified to help lead the region into a safer, more prosperous future.

Leadership was amply demonstrated when we continued to play a significant role in the important process of planning for the rebuilding of downtown Manhattan. It was also demonstrated in the many initiatives we undertook in the face of an economic downturn that has severely affected this area as well as the entire nation.

Strengthening Security

Helping to ensure the continued security of our region remains a top priority for the Port Authority. Governor Pataki unveiled a comprehensive plan to include expanded criminal background checks for more airport employees and new security measures at John F. Kennedy International, Newark Liberty International and LaGuardia airports. In addition, the Port Authority successfully met the new federally mandated security requirements at the three commercial airports and the port, and built on them with initiatives of its own. Among these was the institution of new security badge identification programs for airport personnel, and a pilot installation of advanced biometric identification hardware for access control to secure areas at the airports.

At the agency's tunnels, bridges and terminals, major security initiatives included expansion of Intelligent Transportation System technologies, incorporation of various sensor technologies, and development of an extensive facility risk-assessment approach. Of equal importance was continuous enhancement of commercial vehicle inspection practices, evacuation planning, response training for operations and maintenance staff, and bus carrier security.

President George W. Bush examined security firsthand at the New York/New Jersey seaport during a June visit to the New Jersey Marine Terminals. In consultation with Governor McGreevey and Port Authority officials, the President underscored the importance of the port in efforts to improve homeland security. That same month, the U.S. Secretary of Transportation announced the award of a \$4.068 million grant to the New York/New Jersey seaport for security-related projects.

The Port Authority hired a total of 553 officers into the 102nd through 106th Police Academy classes. In anticipation of future hiring needs, an aggressive campaign was instituted to recruit applicants for a written police officer examination held in November. The outreach to communities surrounding Port Authority facilities and to other groups resulted in a diverse candidate pool of which 45 percent were women or minorities.

Rebuilding Lower Manhattan

The Port Authority remained on target to restore PATH service to Lower Manhattan in 2003. The \$544 million PATH Restoration Program provides for the repair and upgrading of PATH's Exchange Place tunnels and station, and for construction of a temporary PATH station at the World Trade Center site.

The Port Authority collaborated with the Lower Manhattan Development Corporation on a public process to establish a vision for the future of the World Trade Center site, which will include a memorial to September 11, a transportation hub and commercial space. Following the restoration of PATH service, the Port Authority's priority will be to develop plans for the intermodal transportation hub to enhance transit connections with subways and to facilitate pedestrian flow.

In an additional effort aimed at rebuilding the economy of Lower Manhattan, the Port Authority and the New York Power Authority (NYPA) launched the World Trade Center Economic Recovery Power program, which benefits former tenants and other businesses displaced by the September 11 attacks. NYPA continues to sell the Port Authority 80 megawatts of power, about what the World Trade Center formerly used, for resale to these distressed businesses. The power is priced about 25 percent lower than standard commercial rates.

Meeting the Challenge of a New Era in Aviation

Marking the beginning of a new era for the City of Newark and the Port Authority, an agreement was reached to extend the Port Authority's lease of Newark's airport and seaport to 2065. The

I N S P I R E

> Backed by an \$8.7 billion investment plan, we are helping to spur economic growth, keep critical transportation services moving efficiently, and make our region a flourishing, safe and enjoyable place to live and work. <





extension allows the agency to continue planning investments to improve service at the facilities, provide jobs and strengthen the region's economy. At the suggestion of the Governors, the Port Authority is proud that a new name — Newark Liberty International Airport — was established as part of the lease agreement to honor the heroes of September 11, 2001. Proactive discussions with New York City continue to extend the leases for Kennedy International and LaGuardia airports.

Working closely with the Transportation Security Administration to realize the aggressive security agenda set by Congress in the aftermath of the September 11 attacks, the Port Authority achieved federally mandated milestones in security implementation with minimal or no disruption to travelers. The Port Authority assisted U.S. authorities to ensure that federal screeners, reconfigured passenger screening checkpoints and explosives detection equipment were all successfully deployed at the region's airports by the year-end deadline.

Passenger traffic at the three major airports for 2002 was 81.1 million, down 2.3 percent from 2001. John F. Kennedy International Airport posted a total of 29.9 million passengers, nearly a two percent increase from 2001 while LaGuardia Airport welcomed 22 million passengers, a 2.4 percent decrease from the prior year. Newark Liberty International Airport saw a total of 29.2 million passengers, a 6.1 percent decrease from 2001 levels. Passenger traffic in 2002 was 12.2 percent lower than the 92 million passengers carried in 2000 and about the same as the number handled in 1996.

But in a sign of renewed strength, passenger traffic surged in the fourth quarter of the year, growing 27 percent regionally compared to 12.7 percent nationally. While the strong growth was partially attributable to the low passenger traffic seen post-9/11 in 2001, our region's stature as a high-yield market encouraged the airlines to shore up their competitive presence, while discount prices induced passengers to travel.

In an additional sign of resiliency at our regional air transportation hub, new services and even new airlines — including Air China at Kennedy International, and Alaska Airlines and Air India at Newark Liberty International — were added.

The Port Authority's ambitious capital reinvestment program at the airports progressed. To enhance the travel experience at Newark Liberty International, the agency spent approximately \$363 million on capital improvements, including major terminal enhancements, expansion and rehabilitation of critical

portions of the airport's taxiway system, and the addition of two parking structures.

LaGuardia Airport's \$4 million Marine Air Terminal Roadway Improvement Program was completed by year-end, including reconstruction of the roadways that provide access to the Delta Shuttle and airport bus stops.

At Kennedy International, British Airways' \$51 million redevelopment of Terminal 7 progressed significantly.

Strengthening our commitment to customer service, the Port Authority introduced a new customer service at Kennedy International: *E-ZPass PlusSM*. This automated system allows customers to pay for parking by using *E-ZPass* technology. The program will be introduced at LaGuardia and Newark Liberty International in 2003.

Representing some of the world's leading establishments, shops and restaurants at Kennedy, Newark Liberty and LaGuardia airports won seven first-place awards in the prestigious Airport Revenue News Best Concessions annual competition. The awards that our airports continue to garner evidenced the success of our customer service initiatives.

The highly successful AirTrain Newark achieved a new milestone with the greeting of the one-millionth passenger just after Thanksgiving. Recent daily ridership averages are exceeding 3,000 passengers a day with peaks of over 5,000 passengers a day seen during the holidays.

The AirTrain JFK light rail system was on schedule for an autumn opening when a derailment during a test being conducted by AirTrain manufacturer Bombardier resulted in the tragic fatality of a Bombardier employee and the suspension of testing. The National Transportation Safety Board is conducting an investigation in which Bombardier, all contractors and the Port Authority are cooperating. In addition, the Port Authority is conducting its own inquiry. All investigations are expected to conclude in 2003. Testing could resume shortly thereafter with passenger service possibly launching in 2003.

Air cargo enhancements continued at Newark Liberty International and Kennedy International airports. Handling capacity expanded at Newark Liberty with the opening of the Port Authority's new 140,000 square foot, multi-tenant cargo building. At Kennedy, a new \$25 million facility expedites shipments of various freight operations previously housed in separate buildings.

C O N N E C T

> For decades, the prosperity of the region has rested firmly on our unparalleled transportation infrastructure. Improving and managing this infrastructure has been a core mandate for the Port Authority, along with delivering superior service to the people who use our airports, bridges, tunnels and PATH system. <





Improving Our Tunnels, Bridges and Terminals

Vehicular traffic at the Port Authority's tunnels and bridges reached a level that nearly matched the record number of vehicles handled in 2000. The two tunnels and four bridges recorded a combined estimated volume of 125.2 million eastbound vehicles, just shy of the 126.3 million vehicles processed in 2000.

While traffic volumes nearly recovered, the distribution of traffic among the crossings changed significantly as a result of operating restrictions and shifting economic conditions in New York City. The Holland Tunnel operated through the year with restrictions, including a weekday 6:00 a.m. to 10:00 a.m. single-occupant auto ban to New York, and a ban of large trucks into New York City and all trucks into New Jersey. At the Lincoln Tunnel, the weekday morning single-occupant auto ban introduced following September 11 was lifted in April 2002.

An ambitious program to rehabilitate the deck of the Outerbridge Crossing and approach spans was completed in October, two months ahead of schedule. Some 135,000 square feet of the bridge's concrete deck and 82 roadway joints were replaced and a new asphalt surface was put in place. Although three construction seasons were scheduled for the effort, new innovative traffic patterns and staging during construction allowed 45 percent of the project's work to be accomplished more quickly.

After a 28-year absence from northern Manhattan, Greyhound bus service was reintroduced to the George Washington Bridge Bus Station. Greyhound operates seven long-distance routes from the station each day, serving destinations that include Washington, D.C., North Carolina and Miami, as well as a daily route to Long Island.

In June, another component of the George Washington Bridge's Intelligent Transportation System — the Highway Advisory Telephone number (1-877-PA-ROADS) — was introduced. Customers can call Highway Advisory Telephone from any location to receive current traffic, weather and road surface conditions.

A \$54 million project began at the George Washington Bridge to maintain its structural soundness by removing paint and recoating its massive steel towers, beginning with the 604-foot high New Jersey tower. Repainting of both towers is scheduled for completion by the end of 2005.

Significant leasing success was achieved at the Port Authority Bus Terminal with approval of an agreement for a new, high-quality

restaurant, which will open in 2005. The lease will significantly enhance both retail quality and rental revenue at the PABT, and burnishes the PABT's standing as a vital retail location in the redeveloped Times Square area. In addition, the lease of a new sports entertainment center was achieved for the bowling alley. The existing center will be renovated at a cost of \$3 million by the leading bowling operator in Scandinavia.

Expanding the Port Today for Growth Tomorrow

Cargo volumes at the Port of New York/New Jersey continued to surpass previous records, enabling the port to maintain its status as the premier container port from Maine to Texas. The port's loaded container volume rose more than 10 percent from the record volumes set in 2001. The surge of Far East cargo diverted from West Coast ports during the autumn job action there, and new steamship services through the Panama Canal contributed to the record volumes.

Working with the Army Corps of Engineers, the Port Authority advanced several key channel-deepening projects. By year's end, six of the eight contracts required to deepen the Kill van Kull and Newark Bay channels to 45 feet were either completed or underway, keeping that project on schedule for completion at the end of 2004.

The port made major strides in redeveloping the region's maritime commerce infrastructure. The landscapes of many facilities were transformed as the Port Authority and terminal operator tenants worked on major projects that will enable the region to anticipate continuing growth in international trade.

The Port Authority completed the first phase of a project designed to increase intermodal rail capacity at the Port Newark/Elizabeth complex and improve traffic flow within the facility. An interim rail terminal was opened by Port Newark Container Terminal (PNCT), the container terminal operator, in November. Construction on a lead track and rail bridge for the new 70-acre ExpressRail terminal was completed.

PNCT completed Phase I of the container terminal's redevelopment, which included upgraded berths and a rehabilitated container yard. PNCT is also in the process of creating 15 acres of new container terminal capacity, which will bring the terminal's total acreage to 176.

Redevelopment of the Howland Hook Marine Terminal in Staten Island, NY was launched in October. Made possible by a \$35 million investment by the Port Authority, the redevelopment will

E N V I S I O N

> Because our mandate encompasses the entire region,
we are uniquely positioned to leverage our assets
to energize the region's economy – and improve
the quality of life for the region's residents. <





include construction of an extended wharf at both the north and south ends of the terminal.

Additionally, a new \$70 million on-dock rail facility is planned for development on an adjacent site, the former Procter & Gamble property — dubbed Port Ivory — which was purchased by the Port Authority in 2000. When completed in mid-2005, and together with other rail service being developed, the ship-to-rail facility will provide a direct link from the ocean terminal to shippers throughout the continental United States.

PATH: Strengthening the Nation's "Best Large Transit System"

The American Public Transportation Association, one of the nation's foremost transportation organizations, named PATH the best large transit system in the nation. In 2002, the association honored PATH for outstanding performance in safety, customer service, financial management, marketing, policy and administration, and community relations.

Now in its fortieth year of operation by the Port Authority, the PATH rail system continues to expand customer service with the addition of new information agents and the enhancement of the PATHVision system, which now presents train status information on monitors at PATH's 11 stations. Using state-of-the-art technology, PATH is one of the first rail systems in the region to let riders track the status of the next train to arrive at their station.

The closing of the Exchange Place and World Trade Center stations, combined with the depressed regional job market, continued to impact PATH ridership. Weekday ridership averaged 174,100 passengers, a decline of 27.6 percent from 2001 levels. In addition, PATH continues to experience a dramatic shift in ridership patterns with the relocation of workers from Lower Manhattan to Midtown.

Using SmartCard technology, work began on the design of a new PATH regional fare collection system that will transition to a credit card-sized card in 2004. The regional SmartCard will improve customer convenience, control fare collection costs, and enable participating agencies to adopt common fare policies, which could attract more riders to transit.

Helping the Region

In December, the Port Inland Distribution Network (PIDN), an innovative barge and rail cargo distribution network, was announced. The Port of Albany will become the first Northeast port to participate in the network, which will provide jobs and economic activity for the region, speed the flow of goods to con-

sumer markets and help reduce highway truck traffic. The Port Authority is in negotiations with port operators in New Jersey, Rhode Island, Connecticut, and Delaware to expand participation in the network.

The Port Authority awarded more than \$1 billion in construction contracts last year, an all-time high for the agency. Completed construction-in-place — the actual value of completed infrastructure placed into service — reached \$1 billion during 2002, another record for the agency.

The Port Authority's multi-year capital program provided expanded opportunities to minority, women-owned and small business enterprises (M/W/SBEs). Contract awards totaled more than \$313 million for construction, goods and services, and architectural engineering services in 2002. These awards created 4,280 jobs, \$182 million in wages and \$485 million in regional economic activity.

A \$300,000 feasibility study will explore options for reviving commuter service along the long-defunct North Shore Railroad in Staten Island, NY. The study, to begin in 2003, will be conducted by the Port Authority to examine demographics on the north shore to assess potential ridership, develop alternative transportation modes for passenger service, and establish costs for each alternative.

Helping to Build a Prosperous Future

As this review of operations clearly demonstrates, the Port Authority accomplished an extraordinary amount during 2002. Even as the Port Authority and the region we serve were recovering from the events of September 11 and were coping with a very challenging economic climate, we continued to lay the groundwork for a more prosperous future. We are still in the early stage of implementing our \$8.7 billion capital improvement plan, "Rebuild the Region," which will play a pivotal role in revitalizing our extraordinary transportation infrastructure — and thus the bistate region as a whole. In addition, we are still very much involved in the planning for rebuilding the transportation infrastructure in Lower Manhattan. In 2002, we laid the groundwork for many of the initiatives that will shape the future.

Our region will continue to be a beacon of commerce and culture for the nation and the world, and transportation will continue to be the linchpin of the region's success. The Port Authority is proud of its past contributions and looks forward to playing an important role in leveraging our unparalleled transportation infrastructure to bring new prosperity to the region.



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

The Comprehensive Annual Financial Report of The Port Authority of New York and New Jersey, including its wholly-owned subsidiaries, for the year ended December 31, 2002, is enclosed. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management of the Port Authority. To the best of my knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the Port Authority's financial results of net assets, changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). The accompanying Schedules A, B, and C have been prepared pursuant to the requirements of law and Port Authority bond resolutions and are not intended to be a presentation in conformity with GAAP.

The Port Authority has established a comprehensive internal control framework that is designed both to protect its assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Port Authority's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Port Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

A firm of independent auditors is retained each year to conduct an audit of the financial statements of the Port Authority in accordance with auditing standards generally accepted in the United States of America and with the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. The goal of the independent audit is to provide reasonable assurance that the financial statements and accompanying schedules of the Port Authority are free of material misstatement. The audit includes an examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements and schedules; an assessment of the accounting principles used and significant estimates made by management, as well as the overall presentation of the financial statements and accompanying schedules. In planning and performing such audits, the independent auditors give consideration to the internal control structure in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Port Authority also includes an examination based on federally mandated standards of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations, designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements involving the administration of federal awards.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Profile of the Port Authority

The Port Authority of New York and New Jersey is a municipal corporate instrumentality and political subdivision of the States of New York and New Jersey, which was established in 1921 to provide transportation, terminal, and other facilities of commerce within the Port District, an area of about 1,500 square miles in both States centering about New York Harbor. The Port Authority raises the funds necessary for the improvement, construction, or acquisition of its facilities generally upon the basis of its own credit. It has neither the power to pledge the credit of either State or any municipality nor to levy taxes or assessments.

The Port Authority maintains an infrastructure of financial systems to record the financial results of operations and provide an audit trail to be used in a review of accountability.

The financial planning process integrates an annual budget process with multi-year forecasting projections. Through the budget process, staff identifies strategic, financial and operational issues that affect resource allocations; sets forth an expenditure plan for the year that balances priorities across all agency lines of operation; and provides alternate financial scenarios of proposed operating and financial arrangements and their impact on the agency's financial position. Each new budget is separately considered and approved by the Board of Commissioners, although such approval does not in itself authorize specific expenditures, which are authorized from time to time by, or as contemplated by, other specific actions of the Board of Commissioners.

The approved budget becomes a mechanism that facilitates the systematic review of program expenditures to ensure that they are made consistent with statutory, contractual, and other commitments of the agency, the policies and financial decisions of the Board of Commissioners and the requirements of the By-Laws of the Port Authority. Forecasting models are used to assess the agency's projected long-range financial condition; determine the financial feasibility of future capital investment; and perform financial tests to measure fiscal risk and to ensure the organization's integrity in the credit markets. This comprehensive approach to planning, budgeting and forecasting enables the agency to identify, track and take corrective action with respect to the funding requirements needed to deliver the projects and services that the Port Authority provides.

Regional Economic Condition and Outlook

The New York and New Jersey Region continued to be deeply affected by the national recession, the aftermath of the events of September 11, 2001, and the prolonged downturn in the equity markets. The current regional downturn differs markedly from the recession of 1989-1992 in that the majority of job losses this time are concentrated in New York City. As for the immediate future, a tepid national economic recovery combined with a global economy still mired in recession is expected to result in lackluster external demand to lift New York City's service based economy.

In 2002, New York City lost 117,500 jobs, or 3.2% of its employment base. The loss was felt by all major sectors of industry. The City's financial service industry, for example, was hit especially hard, losing 5.7% of its employment base, or 27,200 jobs. The services industry, which had propelled an eight-year expansion beginning in 1992, slumped as well. Professional and business services accounted for most of the losses in this sector, declining by 35,700 jobs for a 6.1% decline in the employment base. Also severely hit was the transportation and warehousing sector, which lost almost 10,000 jobs, mostly stemming from the airline industry's need to pare costs. Despite these hardships, the current recession has not begun to match the severity of the 1989-1992 recession, which lasted 43 months and cost the City 362,000 jobs.

The rest of the region has weathered the economic downturn comparatively well, with respect to both the City and the rest of the nation. In Northern New Jersey, total employment in 2002 declined by only 0.7%, or 16,700 jobs. For the same period, the New York Suburbs comprised of Nassau, Suffolk, Westchester, and Rockland Counties, posted a 0.4% decline in employment, or 7,100 jobs. In the aggregate, the 17-county New York and New Jersey region lost 141,300 jobs, a decline of 1.8% compared to the 3.2% loss noted above for New York City and a 0.9% decline in the nation's employment base.

Inflation in the New York and New Jersey region, as measured by the Consumer Price Index, advanced 2.6%, a full point higher than the nation's inflation rate. Most of the differential is attributable to the region's housing costs, which are considerably higher than those of the rest of the nation.

The United States' economic recovery was slow to gain momentum in 2002. Preliminary estimates for the year indicate real Gross Domestic Product growth of 2.4%, compared with an increase of 0.3% in 2001. Consumer spending accounted for most of this gain, with an increase in expenditures of 3.1% in real terms. However, by the end of the year, consumer spending had slowed markedly and consumer confidence had reached a nine-year low. Both reflected growing uncertainty in the economy, weak labor markets, and three straight years of decline in the equity markets.

However, gross private domestic investment turned positive in 2002, after six straight quarters of decline. Federal government expenditures grew by 7.5% for the year, led by a 9.3% increase in defense expenditures. The housing market set new records in

2002 with sales of existing single-family homes in the US reaching 5.6 million units, a 5.0% increase above the record set in 2001. Nationally, the median housing price for a single family home was \$158,300, a 7.1% increase over 2001, and the largest increase since 1980. In this region, the median price of a single-family home soared to more than twice the national average.

Recovery at the national level may be held back until later in 2003 by significant global risks. Increased government spending, tax cuts, interest rates at 40-year lows, and strong productivity growth are the forces that are expected to drive stronger future economic growth. For the New York/New Jersey region, better economic prospects are contingent upon a restored national economy and a return to growth in the equity markets.

Certificate of Achievement

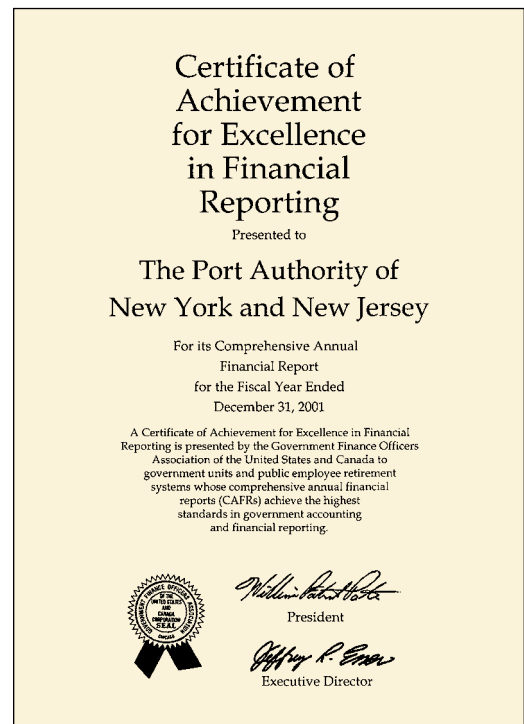
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Port Authority of New York and New Jersey for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2001. This was the eighteenth consecutive year that the Port Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

February 21, 2003

Original signed by:

Charles F. McClafferty
Chief Financial Officer



For the eighteenth consecutive year, The Port Authority of New York and New Jersey was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada for its 2001 Comprehensive Annual Financial Report.

F i n a n c i a l S e c t i o n

Report of Independent Auditors

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

We have audited the accompanying consolidated statements of net assets of The Port Authority of New York and New Jersey, which includes its wholly owned subsidiaries, (the Port Authority) as of December 31, 2002 and 2001, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. We also audited the financial information included in Schedules A, B, and C. These consolidated financial statements and schedules are the responsibility of the Port Authority's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the net assets of the Port Authority as of December 31, 2002 and 2001, and the changes in its net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A-3, the Port Authority has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments, as of January 1, 2002. The 2001 net asset balances have been reclassified to conform to the format of GASB Statement No. 34.

The accompanying Schedules A, B, and C have been prepared pursuant to the requirements of law and Port Authority bond resolutions and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. However, in our opinion, Schedules A, B, and C present fairly, in all material respects, the assets and liabilities of the Port Authority at December 31, 2002 and 2001, and the revenues and reserves for the years then ended in conformity with the accounting principles described in Note A-5.

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements and Schedules A, B, and C taken as a whole. Management's Discussion and Analysis, which is also the responsibility of the Port Authority's management, is not a required part of the consolidated financial statements or schedules, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The supplemental information presented in Schedules D, E, and F, which are also the responsibility of the Port Authority's management, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements or schedules. Such information has been subjected to the auditing procedures applied in our audits of consolidated financial statements and schedules, and in our opinion, is fairly stated in all material respects when considered in relation to the consolidated financial statements and schedules taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2003, on our consideration of the Port Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche LLP

February 21, 2003

Deloitte
Touche
Tohmatsu

Management's Discussion and Analysis

Year Ended December 31, 2002

Introduction

The following discussion and analysis of the financial performance and activity of The Port Authority of New York and New Jersey (Port Authority) is intended to provide an introduction and understanding to the financial statements of the Port Authority, which includes its wholly-owned subsidiaries, the Port Authority Trans-Hudson Corporation (PATH), the Newark Legal and Communications Center Urban Renewal Corporation and the New York and New Jersey Railroad Corporation, for the year ended December 31, 2002 with selected comparative information for the year ended December 31, 2001. This section has been prepared by the management of the Port Authority and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights

- > The Port Authority continued to demonstrate financial strength in 2002 with an increase in net assets of \$740 million.
- > Gross operating revenues of \$2.7 billion decreased by \$44 million, or 2%, in 2002 compared to 2001.
- > Operating expenses totaled \$1.9 billion in 2002, an increase of \$140 million from 2001.
- > During 2002, the Port Authority recognized receipts of \$652 million from insurance proceeds and the Federal Emergency Management Agency related to the events of September 11, 2001.
- > Capital expenditures totaled \$1.5 billion in 2002, an increase of \$138 million from 2001.
- > Construction of the temporary PATH station at the World Trade Center site commenced in 2002. The project, vital for rebuilding downtown Manhattan, also includes rehabilitation of the PATH Exchange Place Station and associated track and tunnel work. Total project costs are estimated at \$544 million, of which \$157 million was spent during 2002.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: management's discussion and analysis, the basic financial statements, the notes to the financial statements, and other supplementary information. The basic financial statements include: the Consolidated Statements of Net Assets, the Consolidated Statements of Revenues, Expenses and Changes in Net Assets, and the Consolidated Statements of Cash Flows.

Management's Discussion and Analysis (continued)

Consolidated Statements of Net Assets

The Consolidated Statements of Net Assets present the financial position of the Port Authority at the end of the fiscal year and include all assets and liabilities of the Port Authority. Net assets, the difference between total assets and total liabilities, are an indicator of the current fiscal health of an organization. A summarized comparison of the Port Authority's assets, liabilities, and net assets at December 31, 2002 and 2001 is as follows:

	2002	2001
	(In thousands)	
ASSETS		
Current assets (including restricted assets)	\$ 2,056,342	\$ 2,456,652
Noncurrent assets		
Facilities, net	10,077,080	8,953,240
Other noncurrent assets	4,769,590	4,222,269
Total assets	16,903,012	15,632,161
LIABILITIES		
Current liabilities	1,717,123	1,660,782
Noncurrent liabilities		
Bonds and other asset financing obligations	7,294,147	6,821,086
Other noncurrent liabilities	1,972,447	1,970,960
Total liabilities	10,983,717	10,452,828
NET ASSETS		
Invested in capital assets, net of related debt	4,492,027	3,814,967
Restricted	172,483	245,319
Unrestricted	1,254,785	1,119,047
Total net assets	\$ 5,919,295	\$ 5,179,333

In its eighty-first year of existence, the Port Authority's financial position remained strong at December 31, 2002, with assets of \$16.9 billion and liabilities of \$11.0 billion. Investment in facilities, net of depreciation, increased \$1.1 billion from 2001. This investment includes both fully completed facilities and construction-in-progress.

The Port Authority's noncurrent bonds and other asset financing obligations have increased by \$473 million from 2001. The increase resulted from the issuance of six new series of consolidated bonds and notes, offset by the refunding and the retirement of certain asset financing obligations.

Net assets, which represent the residual interest in the Port Authority's assets after liabilities are deducted, were \$5.9 billion at December 31, 2002, an increase of \$740 million from 2001. Invested in capital assets, net of related debt, increased by \$677 million to \$4.5 billion. The 2002 restricted net assets of \$172 million reflected a decrease of \$73 million from 2001, primarily due to decreased unspent bond proceeds. Unrestricted net assets increased by \$136 million in 2002 to \$1.3 billion.

Management's Discussion and Analysis (continued)**Consolidated Statements of Revenues,
Expenses and Changes in Net Assets**

The change in net assets 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 Assets:

	2002	2001
	(In thousands)	
Gross operating revenues	\$ 2,670,583	\$ 2,714,802
Operating expenses	(1,886,190)	(1,745,796)
Depreciation and amortization	(435,246)	(442,753)
Net recoverables (expenses) related to the events of September 11, 2001	474,663	(270,334)
Income from operations	823,810	255,919
Net non-operating expenses	(83,848)	(40,157)
Increase in net assets	\$ 739,962	\$ 215,762

Additional information on facility operating results can be found in Schedule E located in the other supplementary information section of this report.

Revenues

A summary of gross operating revenues through December 31, 2002 and 2001 follows:

	2002	2001
	(In thousands)	
Gross operating revenues:		
Rentals	\$ 832,527	\$ 976,054
Tolls and fares	774,337	750,782
Aviation fees	672,175	560,951
Parking and other	197,912	202,864
Utilities	97,184	126,956
Rentals — Special Project Bond projects	96,448	97,195
Total	\$2,670,583	\$2,714,802

Gross operating revenues decreased \$44 million from 2001, primarily due to the net leasing of various components of the World Trade Center in 2001. There was also a decrease in PATH fare revenue as a result of the closure of the Exchange Place station and the loss of the World Trade Center station due to the events of September 11, 2001. These decreases were partially offset by increased recoverable airport expenses, and increased toll revenue at tunnel and bridge facilities due to the full year effect of the toll increase implemented in March 2001.

Management's Discussion and Analysis (continued)**Expenses**

A summary of operating expenses through December 31, 2002 and 2001 follows:

	2002	2001
	(In thousands)	
Operating expenses:		
Employee compensation, including benefits	\$ 777,146	\$ 654,074
Contract services	622,781	600,686
Rents and amounts in-lieu-of taxes	140,614	96,401
Materials, equipment and other	135,321	157,004
Utilities	113,880	140,436
Interest on Special Project Bonds	96,448	97,195
Total operating expenses	1,886,190	1,745,796
Depreciation and amortization	435,246	442,753
Total	\$2,321,436	\$2,188,549

Operating expenses, including depreciation, totaled \$2.3 billion through December 31, 2002, an increase of 6% over 2001. Employee compensation and contract services increased \$145 million, of which \$108 million represented increased police costs and \$23 million represented additional security costs, primarily due to the heightened police and security requirements during 2002. Rents and amounts in-lieu-of taxes increased primarily due to an increase in municipal rent expense associated with the extension of the lease for Newark Liberty International Airport and Port Newark. These increases were partially offset by a 19% decline in utility expenses resulting from the net leasing of various components of the World Trade Center.

Recoverables Related to the Events of September 11, 2001

	2002	2001
	(In thousands)	
Recoverables	\$587,400	\$ 28,069
Expenses	112,737	298,403
Recoverables (expenses) related to the events of September 11, 2001	\$474,663	\$(270,334)

Recoverable amounts of approximately \$614 million from insurance proceeds and \$38 million from the Federal Emergency Management Agency were recognized in 2002. These amounts reimbursed costs incurred by the Port Authority as a result of the events of September 11, 2001. Of these amounts, \$587 million was recognized as revenue, and the balance was applied to a portion of the outstanding receivable representing the net book value of the properties destroyed as a result of the terrorist attacks. Year 2002 expenses related to the events of September 11, 2001 were primarily attributable to the cost of office space necessary to replace the Port Authority's offices that were located at the World Trade Center.

Management's Discussion and Analysis (continued)**Non-operating Revenues and Expenses**

	2002	2001
	(In thousands)	
Non-operating revenues and (expenses):		
Income on investments	\$ 67,898	\$ 76,980
Increase in fair value of investments	29,914	67,638
Interest expense	(336,725)	(338,332)
Net financial expense	(238,913)	(193,714)
Passenger Facility Charges	110,471	113,487
Contributions in aid of construction	36,258	40,070
Grants	19,892	—
Regional ferry pass-through grant program payments	(11,556)	—
Net non-operating grants	44,594	40,070
Net non-operating expenses	\$ (83,848)	\$ (40,157)

Net financial expense for 2002 increased by \$45 million from 2001, primarily attributable to decreased financial income resulting from the lower interest rate environment compared to 2001.

Passenger facility charges decreased by \$3 million due to lower enplanement activity resulting from the effects of September 11, 2001 on the airline industry and the overall downturn in the economy.

Grants and contributions provided by others totaled \$56 million for 2002. Of this amount, approximately \$8 million in grants were received by the Port Authority for reimbursement of costs incurred in 2001 for providing additional police personnel at the three major airports. The Port Authority also received \$12 million in pass-through grants designated for the expansion of ferry transportation service across the Hudson River between New York and New Jersey to partially offset lost interstate mass transportation capacity.

Capital Construction

During 2002 the Port Authority's expenditures (including amounts accrued) associated with capital construction projects were \$1.5 billion, an increase of \$138 million from last year's activity. Capital construction in 2002 was primarily associated with the following projects:

- > AirTrain at John F. Kennedy International Airport (JFK).
- > Various improvements and modernizations at Newark Liberty International Airport (EWR).
- > PATH restoration projects.
- > Roadway improvements at the Outerbridge, Lincoln Tunnel, and George Washington Bridge facilities.

Major capital projects that were completed at Port Authority facilities during 2002 include the following:

- > Runway, roadway, and taxiway improvements at JFK, EWR, and LaGuardia Airport.
- > Rehabilitation and replacement of pavement on the Outerbridge Crossing.
- > Terminal improvements at EWR including new check-in counters and improved baggage systems.
- > Two new parking garages at EWR and the installation of elevators in an existing parking garage at JFK.
- > Additional improvements for the Northeast Corridor Connection at EWR including pedestrian walkways, remote baggage check-in systems, and landscaping.

Management's Discussion and Analysis (continued)

Port Authority commitments for capital expenditures for projects that began in 2002 and will be completed in 2003 and future years include:

- > Construction of the temporary PATH Station at the World Trade Center site and rehabilitation of the PATH Exchange Place Station.
- > Rehabilitation of the infrastructure necessary for future construction on the World Trade Center site.
- > Harbor channel improvements at various ports in New Jersey.
- > Taxiway, roadway, and parking facility enhancements at the airports.

Additional capital investment information on Port Authority facilities can be found in Note B to the financial statements and in Schedule F located in the other supplementary information section of this report.

Capital Financing and Debt Management

As of December 31, 2002, bonds and other asset financing obligations of the Port Authority totaled \$7.9 billion, a \$290 million year to year increase.

During 2002, the Port Authority issued \$1.4 billion in new consolidated bonds and notes. Of this amount, \$606 million was issued to finance construction projects in connection with Port Authority facilities and \$794 million was issued to refund existing outstanding obligations.

Listed below is a summary of credit ratings that are assigned to the outstanding obligations of the Port Authority. The ratings for the obligations outstanding in 2001 have remained the same for 2002. It is important to note that subsequent to the events of September 11, 2001, Standard & Poor's placed all United States and Canadian Airports, as well as the Port Authority, on credit watch with negative implications, and has retained the negative outlook for the Port Authority in 2002. During 2002, Moody's and Fitch considered the Port Authority's outlook as stable.

OBLIGATION	S&P	Fitch	Moody's
Consolidated Bonds	AA-	AA-	A1
Consolidated Notes	SP-1+	F-1+	MIG1
Commercial Paper	A-1+	F-1+	P-1
VSO Short Term	A-1+	F-1+	VMIG1
VSO Long Term	A-	A+	A2

Additional information on Port Authority debt can be found in Note D to the financial statements.

Consolidated Statements of Net Assets

	December 31,	
	2002	2001
	(In thousands)	
ASSETS		
Current assets:		
Cash	\$ 40,563	\$ 36,842
Investments	1,663,474	2,064,680
Current receivables, net	275,294	271,213
Other current assets	51,144	62,862
Total current assets	2,030,475	2,435,597
Restricted assets:		
Cash	9,362	9,893
PFC receivables	16,505	11,162
Total restricted assets	25,867	21,055
Noncurrent assets:		
Investments	1,329,837	896,985
Other amounts receivable, net	1,274,239	1,317,440
Deferred charges and other noncurrent assets	354,134	150,523
Amounts receivable — Special Project Bond projects	1,425,270	1,439,512
Unamortized costs for regional programs	386,110	417,809
Facilities, net	10,077,080	8,953,240
Total noncurrent assets	14,846,670	13,175,509
Total assets	16,903,012	15,632,161
LIABILITIES		
Current liabilities:		
Accounts payable	565,695	534,946
Accrued interest and other current liabilities	430,975	246,411
Accrued payroll and other employee benefits	105,162	80,690
Current portion bonds and other asset financing obligations	615,291	798,735
Total current liabilities	1,717,123	1,660,782
Noncurrent liabilities:		
Accrued pension and other noncurrent employee benefits	465,547	412,184
Other noncurrent liabilities	81,630	119,264
Amounts payable — Special Project Bonds	1,425,270	1,439,512
Bonds and other asset financing obligations	7,294,147	6,821,086
Total noncurrent liabilities	9,266,594	8,792,046
Total liabilities	10,983,717	10,452,828
NET ASSETS	\$ 5,919,295	\$ 5,179,333
Net assets are composed of:		
Invested in capital assets, net of related debt	\$ 4,492,027	\$ 3,814,967
Restricted	172,483	245,319
Unrestricted	1,254,785	1,119,047
Net assets	\$ 5,919,295	\$ 5,179,333

See Notes to Consolidated Financial Statements.

**Consolidated Statements of Revenues,
Expenses and Changes in Net Assets**

	Year Ended December 31,	
	2002	2001
	(In thousands)	
Gross operating revenues:		
Rentals	\$ 832,527	\$ 976,054
Tolls and fares	774,337	750,782
Aviation fees	672,175	560,951
Parking and other	197,912	202,864
Utilities	97,184	126,956
Rentals — Special Project Bond projects	96,448	97,195
Total gross operating revenues	2,670,583	2,714,802
Operating expenses:		
Employee compensation, including benefits	777,146	654,074
Contract services	622,781	600,686
Rents and amounts in-lieu-of taxes	140,614	96,401
Materials, equipment and other	135,321	157,004
Utilities	113,880	140,436
Interest on Special Project Bonds	96,448	97,195
Total operating expenses	1,886,190	1,745,796
Net recoverables (expenses) related to the events of September 11, 2001	474,663	(270,334)
Depreciation of facilities	(406,484)	(422,739)
Amortization of costs for regional programs	(28,762)	(20,014)
Income from operations	823,810	255,919
Non-operating revenues and expenses:		
Income on investments	67,898	76,980
Net increase in fair value of investments	29,914	67,638
Interest expense in connection with bonds and other asset financing	(336,725)	(338,332)
Passenger Facility Charges	110,471	113,487
Contributions in aid of construction	36,258	40,070
Grants	19,892	—
Regional ferry pass-through grant program payments	(11,556)	—
Increase in net assets	739,962	215,762
Net assets, January 1	5,179,333	4,963,571
Net assets, December 31	\$5,919,295	\$5,179,333

Consolidated Statements of Cash Flows

	Year ended December 31,	
	2002	2001
	(In thousands)	
1. Cash flows from operating activities:		
Cash received from operations	\$ 2,576,509	\$ 2,613,555
Cash received related to the events of September 11, 2001	613,952	—
Cash paid to suppliers	(901,805)	(837,105)
Cash paid to or on behalf of employees	(714,793)	(589,767)
Cash paid to municipalities	(153,930)	(113,858)
Cash payments related to the events of September 11, 2001	(126,068)	(82,532)
Net cash provided by operating activities	1,293,865	990,293
Cash flows from capital activities:		
Proceeds from sales of capital obligations	759,868	504,300
Principal paid on capital obligations	(470,615)	(202,730)
Proceeds from capital obligations issued for refunding purposes	2,607,108	1,316,418
Principal paid through capital obligations refundings	(2,607,108)	(1,316,418)
Interest paid on capital obligations	(396,305)	(370,887)
Investment in facilities and construction of capital assets	(1,396,263)	(1,234,563)
Financial income allocated to capital projects	2,592	5,349
Investment in regional programs	2,937	(4,709)
Insurance proceeds related to the destruction of Port Authority property on September 11, 2001	36,347	32,300
Contributions in aid of construction	30,727	26,588
Subtotal	(1,430,712)	(1,244,352)
Cash flows from related financing activities:		
Net proceeds — leasing activities	—	632,688
Interest paid on equipment notes	(1,838)	(2,723)
Principal paid on equipment notes	(5,000)	—
Proceeds from sale of equipment notes	—	27,900
Payments for Fund buy-out obligation	(35,215)	(28,063)
Proceeds from Passenger Facility Charges	105,128	117,023
Grants	19,892	—
Regional ferry pass-through grant program payments	(11,556)	—
Subtotal	71,411	746,825
Net cash used for capital and related financing activities	(1,359,301)	(497,527)
Cash flows from investing activities:		
Purchase of investment securities	(44,372,147)	(29,036,725)
Proceeds from maturity and sale of investment securities	44,383,978	28,457,869
Interest received on investment securities	41,190	62,604
Miscellaneous financial income	15,605	17,490
Net cash provided by (used for) investing activities	68,626	(498,762)
Net increase (decrease) in cash	3,190	(5,996)
Cash at beginning of year	46,735	52,731
Cash at end of year	\$ 49,925	\$ 46,735

(Consolidated Statements of Cash Flows continued on next page.)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31,	
	2002	2001
	(In thousands)	
2. Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 823,810	\$255,919
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation of facilities	406,484	422,739
Amortization of costs for regional programs	28,762	20,014
Amortization of other assets	57,400	220,010
Change in operating assets and operating liabilities:		
Decrease in receivables	5,590	35,116
Increase in prepaid expenses	(218,898)	(49,749)
Decrease in deferred costs	—	2,313
(Decrease) increase in payables	(41,291)	12,660
Increase in employee benefits	60,169	65,492
Increase in other liabilities	171,877	10,932
Decrease in deferred income	(38)	(5,153)
Total adjustments	470,055	734,374
Net cash provided by operating activities	\$1,293,865	\$990,293

3. Capital obligations:

Consolidated Bonds and Notes, commercial paper, variable rate master notes and versatile structure obligations.

4. Noncash capital financing activity:

Noncash activity of \$88,663,000 in 2002 and \$96,880,000 in 2001 includes amortization of discount and premium on consolidated bonds and notes, accretion associated with capital appreciation bonds and amounts payable in connection with Special Project Bonds. Noncash capital financing did not include any activities that required a change in fair value.

Notes to Consolidated Financial Statements

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 two States and consented to by the Congress of the United States. The Compact envisions the Port Authority as being financially self-sustaining. As such, it must raise the funds necessary for the improvement, construction or acquisition of its facilities 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 other fees.
- 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 the Commissioners take 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, provides oversight of the quality and integrity of the accounting, auditing and financial reporting processes. The independent auditors are retained by and meet directly, on a regular basis, with the Audit Committee. The Audit Committee also reviews the performance and independence of the independent auditors, who 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 Chairman of the Audit Committee periodically advises the Board of Commissioners on the activities of the Committee.
- d. The financial statements and schedules include the accounts of the Port Authority and its wholly-owned subsidiaries: Port Authority Trans-Hudson Corporation (PATH), the Newark Legal and Communications Center Urban Renewal Corporation and the New York and New Jersey Railroad Corporation.

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 assets, 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. In its accounting and financial reporting, the Port Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB). In addition, the Port Authority follows the pronouncements of all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

3. Change In Accounting Principles

During 2002, the Port Authority implemented GASB Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" (GASB 34), GASB Statement No. 37, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

As required by GASB 34, net assets (equity) have been classified on the Consolidated Statements of Net Assets into the following categories:

- > Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- > Restricted: Net assets subject to externally imposed stipulations on their use.
- > Unrestricted: All remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted".

Notes to Consolidated Financial Statements (continued)

GASB 34 has also required preparation of a management discussion and analysis section to introduce the basic financial statements and provide an analytic overview of the entity's financial activities. GASB Statement No. 37 amended certain of the GASB 34 reporting requirements, while GASB Statement No. 38 requires expanded note disclosures regarding debt and lease obligations.

The comparative 2001 financial statements contain the reclassification of certain amounts, which have primarily been made in order to conform to the new financial reporting model as required by GASB Statement No. 34.

4. Significant Accounting Policies

- a. Facilities are carried at cost. 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). Capital costs for facilities include net interest expense incurred from the date of issuance of debt for purposes of a capital project until such project is completed and ready for its intended use (see Note B).
- b. Depreciation of facilities is computed on the straight-line method based on estimated useful lives of the related assets. Costs of regional programs are amortized on a straight-line basis. Certain operating costs which provide benefits for periods exceeding one year are deferred and amortized over the period benefited.
- c. Cash consists of cash on hand and demand deposits.
- d. Inventories are valued at average cost.
- e. Rentals, tolls, fares, aviation fees, and other charges for the use of, and privileges at Port Authority facilities and amounts received from operating grants are reported as operating revenues. Financial income, Passenger Facility Charges (PFCs), other contributions in aid of construction, non-operating grants, and gains resulting from the disposition of assets, if any, are reported as non-operating revenues.
- f. Pursuant to the Aviation Safety and Capacity Expansion Act of 1990, the Port Authority has been authorized to impose \$3 Passenger Facility Charges on enplaning passengers. Amounts attributable to collection and investment of PFCs are restricted and can only be used for Federal Aviation Administration approved airport-related projects. Revenue derived from the collection of PFCs, net of the air carriers' handling charges, is recognized and reported as non-operating revenue in the year the fees are due from the air carriers (see Consolidated Statements of Revenues, Expenses and Changes in Net Assets and Schedule E). PFC revenue applied to eligible capital projects is reflected as a component of "Facilities, net" on the Consolidated Statements of Net Assets and Schedule F.
- g. All Port Authority investments whose values are affected by interest rate changes have been reported at their fair value, using published market prices.

The Port Authority is authorized to use a variety of financial instruments to assist in the management of its financing and investment objectives. The Port Authority 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 interest rate exchange contracts (swaps) (see Note D).

- h. 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 as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- i. Environmental contamination treatment costs, including costs associated with the Port Authority's dredging and disposal plan, are generally charged as an operating expense. However, such costs, when they result in the construction of a new asset or the improvement of an existing asset compared with its condition when it was constructed or acquired, are capitalized. Improved asset conditions include the extension of the useful life, increased capacity, and improvement of safety or efficiency.

Notes to Consolidated Financial Statements (continued)

5. Reconciliation Of Consolidated Statements Prepared In Accordance With Accounting Principles Generally Accepted In The United States To Schedules Prepared Pursuant To Port Authority Bond Resolutions

Schedules A, B, and C, which follow the notes to the consolidated financial statements, have been prepared in accordance with legal requirements and Port Authority bond resolutions which differ in some respects from accounting principles that are generally accepted in the United States of America, as follows:

- a. The revenues and expenses of facilities are accounted for in the operating fund. The financial resources expended for the construction or acquisition of major facilities or improvements are accounted for in the capital fund. Transactions involving the application of net revenues are accounted for in the reserve funds.
- b. Consistent with Port Authority bond resolutions, Passenger Facility Charges are deferred until spent on approved project costs. Unspent PFC program amounts are a Port Authority liability, which are reflected as "Deferred income in connection with PFCs". A reconciliation of revenues related to PFCs on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets to deferred income in connection with PFCs on Schedule B—Assets and Liabilities follows:

	Year Ended December 31,	
	2002	2001
	(In thousands)	
Passenger Facility Charges	\$ 110,471	\$ 113,487
Financial income, PFCs	—	986
Direct PFC project payments	(105,128)	(150,716)
PFC deferred income, January 1	11,162	47,405
PFC deferred income, December 31	\$ 16,505	\$ 11,162

- c. The Port Authority's bond resolutions provide that net operating revenues shall not include an allowance for depreciation on facilities other than 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.
- d. 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.
- e. Capital costs for regional programs are included in "Invested in facilities" in accordance with Port Authority bond resolutions.
- f. 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 are capitalized at issuance.
- g. 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".

Notes to Consolidated Financial Statements (continued)

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

Consolidated Statements of Revenues, Expenses and Changes in Net Assets to Schedule A, Revenues and Reserves

	Year Ended December 31,	
	2002	2001
	(In thousands)	
Increase in net assets reported on Consolidated Statements of Revenues, Expenses and Changes in Net Assets	\$ 739,962	\$ 215,762
Add: Depreciation of facilities	406,484	422,739
Amortization of costs for regional programs	28,762	20,014
Amortization of discount and premium	5,409	9,019
	1,180,617	667,534
Less: Debt maturities and retirements	181,250	171,340
Call premiums on refunded bonds	4,957	2,542
Repayment of capital asset obligations	5,863	6,390
Debt retirement acceleration	283,502	25,000
Appropriations for self-insurance	19,017	(14,270)
Direct investment in facilities	433,747	462,129
Passenger Facility Charges	110,471	113,487
PFC income on investments (including net increase in fair value of investments)	—	986
	1,038,807	767,604
Increase (decrease) in reserves reported on Schedule A, Revenues and Reserves (pursuant to Port Authority bond resolutions)	\$ 141,810	\$(100,070)

Consolidated Statements of Net Assets to Schedule B, Assets and Liabilities

	December 31,	
	2002	2001
	(In thousands)	
Net assets reported on Consolidated Statements of Net Assets	\$ 5,919,295	\$ 5,179,333
Add: Accumulated depreciation of facilities	5,158,970	4,776,180
Accumulated retirements and gains and losses on disposal of invested in facilities	1,510,111	1,486,417
Cumulative amortization of costs for regional programs	624,000	595,238
Cumulative amortization of discount and premium	48,139	47,685
	13,260,515	12,084,853
Less: Deferred income in connection with PFCs	16,505	11,162
Net assets reported on Schedule B, Assets and Liabilities (pursuant to Port Authority bond resolutions)	\$13,244,010	\$12,073,691

Notes to Consolidated Financial Statements (continued)

Note B | Facilities

1. Facilities, net is comprised of the following:

	Beginning of Year	Additions	Less Retirements	End of Year
(In thousands)				
2002				
Completed construction:				
Land	\$ 461,478	\$ 40,617	\$ —	\$ 502,095
Buildings, bridges, tunnels, other structures	4,258,162	226,088	4,757	4,479,493
Machinery and equipment	3,041,667	108,280	1,348	3,148,599
Runways, roadways and other paving	2,213,108	272,914	7,122	2,478,900
Utility infrastructure	1,504,801	79,348	10,467	1,573,682
Subtotal	11,479,216	\$ 727,247	\$ 23,694	12,182,769
Construction in progress*	2,250,204			3,053,281
Facilities	13,729,420			15,236,050
Less accumulated depreciation:				
Buildings, bridges, tunnels, other structures	1,833,724	\$ 132,824	\$ 4,757	1,961,791
Machinery and equipment	1,288,288	110,493	1,348	1,397,433
Runways, roadways and other paving	938,500	99,155	7,122	1,030,533
Utility infrastructure	715,668	64,012	10,467	769,213
Total	4,776,180	\$ 406,484	\$ 23,694	5,158,970
Facilities, net	\$ 8,953,240			\$10,077,080
2001				
Completed construction:				
Land	\$ 464,045	\$ 1,930	\$ 4,497	\$ 461,478
Buildings, bridges, tunnels, other structures	5,233,688	490,228	1,465,754	4,258,162
Machinery and equipment	2,919,521	318,206	196,060	3,041,667
Runways, roadways and other paving	1,940,971	362,609	90,472	2,213,108
Utility infrastructure	1,563,831	200,715	259,745	1,504,801
Subtotal	12,122,056	\$1,373,688	\$2,016,528	11,479,216
Construction in progress*	2,227,396			2,250,204
Facilities	14,349,452			13,729,420
Less accumulated depreciation:				
Buildings, bridges, tunnels, other structures	2,381,804	\$ 158,995	\$ 707,074	1,833,725
Machinery and equipment	1,293,888	107,742	113,384	1,288,246
Runways, roadways and other paving	889,501	87,340	38,299	938,542
Utility infrastructure	717,363	68,662	70,358	715,667
Total	5,282,556	\$ 422,739	\$ 929,115	4,776,180
Facilities, net	\$ 9,066,896			\$ 8,953,240

Amounts for 2001 reflect reductions for assets removed from service due to the destruction of the World Trade Center.

* Net capital expenditures totaled \$1,530,324,000 and \$1,392,040,000 in 2002 and 2001, assets placed in service were \$727,247,000 and \$1,373,688,000 in 2002 and 2001, respectively.

Notes to Consolidated Financial Statements (continued)

2. Asset lives used in the calculation of depreciation are generally as follows:

Buildings, bridges, tunnels, other structures	25 to 100 years
Machinery and equipment	5 to 35 years
Runways, roadways and other paving	10 to 20 years
Utility infrastructure	20 to 40 years

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

3. Net interest expense added to the cost of facilities was \$90,808,000 in 2002 and \$72,657,000 in 2001.

Notes to Consolidated Financial Statements (continued)

Note C | Cash and Investments

1. THE COMPONENTS OF CASH AND INVESTMENTS ARE:

	December 31,	
	2002	2001
(In thousands)		
CASH		
Cash on hand	\$ 1,906	\$ 1,825
Demand deposits	48,019	44,910
Total cash	49,925	46,735
Less restricted cash	9,362	9,893
Unrestricted cash	\$ 40,563	\$ 36,842

	December 31,	
	2002	2001
(In thousands)		
INVESTMENTS		
United States Treasury notes	\$ 496,974	\$ 819,058
United States Treasury bills	1,115,471	974,732
United States government agency obligations	716,066	690,540
Commercial paper notes	—	249,544
United States Treasury obligations held pursuant to repurchase agreements	511,246	137,384
JFK International Air Terminal LLC obligations	147,500	80,200
Accrued interest receivable	6,054	10,207
Total investments	2,993,311	2,961,665
Less current investments	1,663,474	2,064,680
Noncurrent investments	\$1,329,837	\$ 896,985

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 targeted 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 targeted daily balance. 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 \$1,000,000.

Total actual bank balances were \$39,532,000 as of December 31, 2002. In accordance with the aforementioned policy, \$37,076,000 was either secured through the FDIC or was fully collateralized by collateral held by a bank acting as the Port Authority's agent and held by such bank in the Port Authority's name. The balance of \$2,456,000 was not collateralized.

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. 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.

Notes to Consolidated Financial Statements (continued)

Additionally in 2002, the Port Authority purchased State and Local Government Series securities, which were issued directly to the Port Authority by the United States Treasury Department and were held in book entry form in the Port Authority's name. There were no investments in State and Local Government Series securities at December 31, 2002.

Proceeds of "Bonds and other asset financing obligations" may be invested, on an interim basis, in conformance with applicable Federal law 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 accounts. The Consolidated Bond Reserve Fund and the 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 presently be invested in direct obligations of the United States of America and obligations of United States government agencies and sponsored enterprises, investment grade negotiable certificates of deposit, negotiable bankers' acceptances, commercial paper, United States Treasury and municipal bond futures contracts, certain interest rate exchange contracts with banks and investment firms, certain interest rate options contracts with primary dealers in United States Treasury securities, obligations of JFK International Air Terminal LLC for certain costs attributable to the completion of the passenger terminal project, and in securities of Prudential Financial, Inc. that were distributed to the Port Authority and PATH as a result of the demutualization of the Prudential Insurance Company of America. (The securities of Prudential Financial, Inc. were received and subsequently sold in 2002.) The Board has from time to time authorized other investments of operating funds.

The passenger terminal lease with JFK International Air Terminal LLC (JFKIAT) was amended during 2001 to provide for, among other items, the Port Authority to invest up to \$180 million of operating funds to be used by JFKIAT for certain costs attributable to the completion of its passenger terminal project at John F. Kennedy International Airport (JFK). Payments by JFKIAT to the Port Authority on account of such investment (JFKIAT payment obligation) are to be made on a subordinated basis to certain other rental obligations of JFKIAT under such lease, including facility rental pledged to the payment of debt service on Special Project Bonds, Series 6 (see Note D-2). In 2002, the JFKIAT passenger terminal lease was further supplemented to provide for the deferral of approximately \$11 million of JFKIAT payment obligations in 2003.

The Port Authority has 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. Although there were no investments in reverse repurchase agreements at December 31, 2002, during 2002 reverse repurchase agreements in effect at any one time ranged as high as \$215,498,000. Repurchase agreements in effect at any one time during 2002 ranged as high as \$761,733,000.

Although there were no investments in commercial paper notes at December 31, 2002, during 2002, investments in commercial paper notes, in effect at any one time, ranged as high as \$300 million.

Notes to Consolidated Financial Statements (continued)

Note D | Outstanding Obligations and Financing

1. OUTSTANDING BONDS AND OTHER ASSET FINANCING OBLIGATIONS

The obligations noted with “(*)” on original issuance were 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.

	December 31, 2002		
	Current	Noncurrent	Total
	(In thousands)		
A. CONSOLIDATED BONDS AND NOTES	\$198,280	\$6,288,547	\$6,486,827
B. COMMERCIAL PAPER NOTES	180,408	—	180,408
C. VARIABLE RATE MASTER NOTES	149,990	—	149,990
D. VERSATILE STRUCTURE OBLIGATIONS	6,100	554,500	560,600
E. PORT AUTHORITY EQUIPMENT NOTES	45,300	61,800	107,100
F. FUND BUY-OUT OBLIGATION	35,213	389,300	424,513
	\$615,291	\$7,294,147	\$7,909,438

	December 31, 2001		
	Current	Noncurrent	Total
	(In thousands)		
A. CONSOLIDATED BONDS AND NOTES	\$181,250	\$5,762,995	\$5,944,245
B. COMMERCIAL PAPER NOTES	356,880	—	356,880
C. VARIABLE RATE MASTER NOTES	214,990	—	214,990
D. VERSATILE STRUCTURE OBLIGATIONS	5,400	560,600	566,000
E. PORT AUTHORITY EQUIPMENT NOTES	5,000	107,100	112,100
F. FUND BUY-OUT OBLIGATION	35,215	390,391	425,606
	\$798,735	\$6,821,086	\$7,619,821

Notes to Consolidated Financial Statements (continued)

A. CONSOLIDATED BONDS AND NOTES

		Dec. 31, 2001	Issued/ Accreted	Refunded/ Retired	Dec. 31, 2002
(In thousands)					
CONSOLIDATED BONDS					
Sixty-ninth series (a)	Due 2003-2011	\$ 23,241	\$ 2,784	\$ 2,395	\$ 23,630
Seventy-second series	7.4% due 2012, 7.35% due 2027	100,000	—	100,000	—
Seventy-fourth series (b)	Due 2003-2014	28,124	3,221	1,800	29,545
Seventy-sixth series*	6.3%-6 1/2% due 2006-2026	100,000	—	100,000	—
Seventy-seventh series*	6 1/8%-6 1/4% due 2007-2027	100,000	—	100,000	—
Seventy-eighth series	6%-6 1/2% due 2003-2011	72,900	—	72,900	—
Seventy-ninth series	5.8%-6% due 2003-2005	27,935	—	7,070	20,865
Eightieth series	5.8%-6% due 2003-2005	14,115	—	3,555	10,560
Eighty-first series	5.2%-5.8% due 2003-2014	88,495	—	88,495	—
Eighty-second series	5.2%-5.8% due 2003-2013	70,800	—	70,800	—
Eighty-third series	5.8%-6 3/8% due 2003-2017	79,620	—	79,620	—
Eighty-fourth series*	5 3/4%-6% due 2008-2028	97,250	—	—	97,250
Eighty-fifth series	5%-5 3/8% due 2008-2028	98,000	—	—	98,000
Eighty-sixth series	4.7%-5.2% due 2003-2012	80,775	—	10,930	69,845
Eighty-seventh series	4.7%-5 1/4% due 2003-2021	88,590	—	2,275	86,315
Eighty-eighth series	4.4%-4 3/4% due 2003-2008	94,350	—	20,230	74,120
Eighty-ninth series	4.4%-5 1/8% due 2003-2021	91,430	—	2,745	88,685
Ninetieth series**	6%-6 1/8% due 2003-2005	30,480	—	6,970	23,510
Ninety-first series	4.6%-5.2% due 2003-2020	259,915	—	6,940	252,975
Ninety-second series	4 3/4%-5 5/8% due 2009-2029	90,680	—	—	90,680
Ninety-third series	6 1/8% due 2094	100,000	—	—	100,000
Ninety-fourth series	5.1%-6% due 2003-2017	100,000	—	—	100,000
Ninety-fifth series*	5 1/2%-6 1/8% due 2005-2029	95,000	—	—	95,000
Ninety-sixth series*	5.6%-6.6% due 2003-2023	100,000	—	—	100,000
Ninety-seventh series*	6%-7.1% due 2003-2023	100,000	—	—	100,000
Ninety-eighth series*	5.7%-6.2% due 2005-2015	100,000	—	—	100,000
Ninety-ninth series*	5 1/4%-7% due 2004-2015	86,000	—	—	86,000
One hundredth series	5 5/8%-5 3/4% due 2010-2030	135,000	—	—	135,000
One hundred first series*	5%-6% due 2003-2015	79,395	—	4,015	75,380
One hundred second series	5.1%-5 7/8% due 2007-2027	120,000	—	120,000	—
One hundred third series	4 5/8%-5 1/4% due 2003-2014	68,000	—	4,000	64,000
One hundred fourth series	4 3/4%-5.2% due 2011-2026	150,000	—	—	150,000
One hundred fifth series*	5%-6 1/4% due 2003-2016	122,845	—	6,085	116,760
One hundred sixth series*	5.2%-6% due 2003-2016	83,700	—	3,800	79,900
One hundred seventh series*	4.9%-6% due 2004-2016	100,000	—	—	100,000
One hundred eighth series*	4 3/4%-6% due 2003-2017	130,070	—	5,520	124,550
One hundred ninth series	5 3/8%-5 1/2% due 2012-2032	150,000	—	—	150,000
One hundred tenth series*	4 1/2%-5 3/8% due 2002-2017	87,015	—	3,625	83,390
One hundred eleventh series	5% due 2012-2032	100,000	—	—	100,000
One hundred twelfth series*	4 3/4%-5 1/4% due 2003-2018	135,355	—	5,295	130,060
One hundred thirteenth series	4 1/8%-4 3/4% due 2003-2013	117,750	—	12,750	105,000
One hundred fourteenth series	4 3/4%-5 1/2% due 2013-2033	100,000	—	—	100,000
One hundred fifteenth series	4%-4 3/8% due 2003-2008	47,000	—	6,000	41,000
One hundred sixteenth series	4 1/4%-5 1/4% due 2005-2033	450,000	—	—	450,000
One hundred seventeenth series*	4%-5 1/8% due 2003-2018	89,405	—	3,725	85,680
One hundred eighteenth series	4 1/4%-5.35% due 2003-2014	87,000	—	6,500	80,500
One hundred nineteenth series*	5%-5.875% due 2003-2019	281,745	—	10,065	271,680
One hundred twentieth series*	4 1/2%-6% due 2003-2035	290,755	—	9,920	280,835
One hundred twenty-first series	5%-5 1/2% due 2016-2035	200,000	—	—	200,000
One hundred twenty-second series*	5 1/4%-5 1/2% due 2003-2036	250,000	—	7,850	242,150
One hundred twenty-third series	4 3/4%-5% due 2017-2036	100,000	—	—	100,000
One hundred twenty-fourth series*	4%-5% due 2003-2036	300,000	—	7,660	292,340
One hundred twenty-fifth series	5% due 2018-2032	—	300,000	—	300,000
One hundred twenty-sixth series*	5%-5.5% due 2003-2037	—	300,000	—	300,000
One hundred twenty-seventh series*	4%-5.5% due 2003-2037	—	300,000	—	300,000
One hundred twenty-eighth series	4%-5% due 2007-2032	—	250,000	—	250,000
One hundred twenty-ninth series	1.4%-4% due 2003-2015	—	75,000	—	75,000
CONSOLIDATED NOTES					
Series TT	3 5/8% due 2004	—	200,000	—	200,000
Consolidated bonds and notes pursuant to Port Authority bond resolutions (c)		\$6,092,735	\$1,431,005	\$893,535	6,630,205
Less unamortized discount and premium (d)		148,490	—	—	143,378
Consolidated bonds and notes		\$5,944,245	—	—	\$6,486,827

Notes to Consolidated Financial Statements (continued)

A. CONSOLIDATED BONDS AND NOTES (CONTINUED)

(a) Includes \$12,388,000 (initial amounts) 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 2000 to 2011, in total aggregate maturity amounts of \$38,270,000.

(b) Includes \$14,204,000 (initial amounts) 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 2002 to 2014, in total aggregate maturity amounts of \$44,555,000.

(c) Debt service on consolidated bonds and notes outstanding on December 31, 2002 is:

Year ending December 31:	Principal	Interest	Debt Service
		(In thousands)	
2003	\$ 198,280	\$ 336,251	\$ 534,531
2004	411,695	321,755	733,450
2005	225,375	309,338	534,713
2006	227,365	298,533	525,898
2007	227,945	287,615	515,560
2008-2012	1,244,670	1,261,466	2,506,136
2013-2017	1,317,650	902,419	2,220,069
2018-2022	920,765	609,679	1,530,444
2023-2027	826,455	387,299	1,213,754
2028-2032	663,520	193,720	857,240
2033-2037	287,820	64,143	351,963
2038-2094*	100,000	320,746	420,746
	\$6,651,540	\$5,292,964	\$11,944,504

* Debt service 2038-2094 reflects principal and interest payments associated with a single series of outstanding consolidated bonds.

Total principal of \$6,651,540,000 shown above differs from the total consolidated bonds and notes pursuant to Port Authority bond resolutions of \$6,630,205,000 because of differences in the par value at maturity of the capital appreciation bonds of \$21,335,000.

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

Consolidated Bonds and Notes outstanding as of February 21, 2003 (pursuant to Port Authority bond resolutions) totaled \$6,783,345,000.

The Board of Commissioners has authorized the issuance of Consolidated Bonds, one hundred thirtieth series through one hundred forty-second series, in aggregate principal amount of up to \$500 million of each series, and Consolidated Notes, Series UU, VV, WW, XX and YY of up to \$300 million in aggregate principal amount of each series.

The Port Authority operates John F. Kennedy International and LaGuardia Airports under a lease agreement with the City of New York, which expires in 2015. During 1994, the City of New York suspended negotiations to extend the lease term. In this context, the Port Authority instituted a program to accelerate the retirement of certain Consolidated Bonds that were outstanding as of December 31, 1994, and had maturities extending beyond 2015. If the lease agreement is not extended beyond 2015 and the program continues through the year 2015, all such Consolidated Bonds (with the exception of Consolidated Bonds, ninety-third series) outstanding as of December 31, 1994, with maturities beyond 2015 would be retired. Additionally, from 1994 through November 2000 the Port Authority limited the maturity on its future private activity Consolidated Bonds (proceeds of which are used primarily at the airports) to twenty years from the date of issue. Beginning in November 2000, the principal amount of any series of Consolidated Bonds equal to the amount of such series allocated to John F. Kennedy International and/or LaGuardia Airports is scheduled to mature on or before December 31, 2015, while the balance of such series is scheduled to have a final maturity date of up to 35 years. The continuation of the program of accelerated retirements and the maturity limitations, in each case, is subject to change at the discretion of the Port Authority. (See Note G.)

During 2002 the Port Authority refunded \$495,725,000 in outstanding consolidated bonds. Although the refundings resulted in an additional cash outlay (consisting primarily of call premiums) of \$6,899,000, the Port Authority in effect reduced its aggregate debt service payments by approximately \$198,987,000 over the life of the refunded issues. 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) is worth approximately \$78,819,000 in present value savings to the Port Authority.

Notes to Consolidated Financial Statements (continued)

B. COMMERCIAL PAPER NOTES

Commercial paper obligations are issued to provide interim financing for authorized projects at Port Authority facilities and may be issued until December 31, 2005, in an aggregate principal amount outstanding at any one time not in excess of \$500 million in two separate series. Each series includes a standby revolving credit facility and 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.

	Dec. 31, 2001	Issued	Refunded/ Repaid	Dec. 31, 2002
(In thousands)				
Series A*	\$169,986	\$1,087,161	\$1,147,611	\$109,536
Series B	186,894	850,155	966,177	70,872
	\$356,880	\$1,937,316	\$2,113,788	\$180,408

Interest rates for all commercial paper notes ranged in 2002 from 0.9% to 1.7%.

As of February 21, 2003, commercial paper notes outstanding totaled \$223,379,000.

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.

	Dec. 31, 2001	Issued	Refunded/ Repaid	Dec. 31, 2002
(In thousands)				
Agreements 1989-1995*	\$ 94,900	\$ —	\$25,000	\$ 69,900
Agreements 1989-1998	120,090	—	40,000	80,090
	\$214,990	\$ —	\$65,000	\$149,990

Interest rates are determined weekly, based upon specific industry indices (e.g. three-month Treasury bill rate, tax exempt note rate published by Lehman Brothers, JP Morgan Rate published by JP Morgan or the Bond Market Association rate) as stated in each master note agreement, and ranged in 2002 from 0.96% to 1.95%.

Debt service payments on outstanding Variable Rate Master Notes, valued for presentation purposes at the rate in effect on December 31, 2002, would be:

	Principal	Interest	Debt Service
(In thousands)			
2003	\$ —	\$ 2,351	\$ 2,351
2004	—	2,351	2,351
2005	—	2,351	2,351
2006	—	2,351	2,351
2007	—	2,351	2,351
2008-2012	—	11,792	11,792
2013-2017	13,090	11,100	24,190
2018-2022	98,000	7,686	105,686
2023-2025	38,900	928	39,828
	\$149,990	\$43,261	\$193,251

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

Notes to Consolidated Financial Statements (continued)

D. VERSATILE STRUCTURE OBLIGATIONS

	Dec. 31, 2001	Issued	Refunded/ Repaid	Dec. 31, 2002
(In thousands)				
Series 1R*, 4*, 6*	\$285,800	\$ —	\$3,900	\$281,900
Series 2, 3, 5	280,200	—	1,500	278,700
	\$566,000	\$ —	\$5,400	\$560,600

Variable interest rates, set daily by the remarketing agent for each series, ranged in 2002 from 0.7% to 2.25%.

Debt service on outstanding Versatile Structure Obligations, valued for presentation purposes at the rate in effect on December 31, 2002, would be:

	Principal	Interest	Debt Service
(In thousands)			
2003	\$ 6,100	\$ 9,619	\$ 15,719
2004	10,500	9,489	19,989
2005	11,900	9,304	21,204
2006	12,500	9,096	21,596
2007	14,000	8,877	22,877
2008-2012	122,600	39,234	161,834
2013-2017	170,200	26,796	196,996
2018-2022	134,000	12,458	146,458
2023-2027	70,200	3,150	73,350
2028	8,600	88	8,688
	\$560,600	\$128,111	\$688,711

The Port Authority has entered into a separate standby certificate purchase agreement pertaining to each series of versatile structure obligations with certain banks, which provide that during the term of the banks' commitment (generally three years, subject to renewal), if the remarketing agent fails to remarket any obligations that are tendered by the holders, the bank may be required, subject to certain conditions, to purchase such unremarketed portion of the obligations. If not purchased prior thereto at the Port Authority's option, the Port Authority has agreed to purchase such portion of the obligations within 90 business days after the purchase thereof by the bank. Bank commitment fees during 2002 in connection with the agreements were \$1,164,000. No bank was required to purchase any of the obligations under the agreements in 2002.

E. PORT AUTHORITY EQUIPMENT NOTES

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

	Dec. 31, 2001	Issued	Refunded/ Repaid	Dec. 31, 2002
(In thousands)				
Notes 1995-2001*	\$ 24,400	\$ —	\$ —	\$ 24,400
Notes 1995-2001	87,700	—	5,000	82,700
	\$112,100	\$ —	\$5,000	\$107,100

Variable interest rates, set weekly by remarketing agent for each series, ranged in 2002 from 1.1% to 2.2%.

Notes to Consolidated Financial Statements (continued)

E. PORT AUTHORITY EQUIPMENT NOTES (CONTINUED)

Debt service on outstanding Port Authority equipment notes, valued for presentation purposes at the rate in effect on December 31, 2002, would be:

	Principal	Interest	Debt Service
	(In thousands)		
2003	\$ 45,300	\$1,575	\$ 46,875
2004	15,900	874	16,774
2005	18,000	783	18,783
2006	—	486	486
2007	—	486	486
2008	27,900	237	28,137
	\$107,100	\$4,441	\$111,541

F. FUND BUY-OUT OBLIGATION

	Dec. 31, 2001	Accretion (a)	Refunded/ Repaid	Dec. 31, 2002
	(In thousands)			
Obligation outstanding	\$425,606	\$34,122	\$35,215	\$424,513

(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 buy-out obligation outstanding on December 31, 2002 are:

Year ending December 31:	Payments
	(In thousands)
2003	\$ 35,213
2004	35,211
2005	35,213
2006	35,211
2007	43,216
2008-2012	224,058
2013-2017	258,062
2018-2021	213,240
	\$879,424

As of February 21, 2003, the Fund buy-out obligation outstanding totaled \$429,484,000.

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 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.

Notes to Consolidated Financial Statements (continued)

2. AMOUNTS PAYABLE—SPECIAL PROJECT BONDS (CONTINUED)

	Dec. 31, 2001	Issued	Refunded/ Repaid	Dec. 31, 2002
(In thousands)				
Series 1R, Delta Air Lines, Inc. Project (a) 6.95% term bonds, due 2008	\$ 96,500	\$ —	\$ —	\$ 96,500
Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project (b)* 9%-9 1/8%, due 2003-2015	189,305	\$ —	\$7,255	182,050
Less: unamortized discount and premium	6,769			6,283
Total—Series 2	182,536			175,767
Series 4, KIAC Partners Project (c)* 6 1/2%-7% due 2003-2019	237,800	\$ —	\$8,000	229,800
Less: unamortized discount and premium	3,398			3,206
Total—Series 4	234,402			226,594
Series 6, JFK International Air Terminal LLC Project (d)* 5.125%-7% due 2003-2025	934,100	\$ —	\$ —	934,100
Less: unamortized discount and premium	8,026			7,691
Total—Series 6	926,074			926,409
Amounts payable—Special Project Bonds	\$1,439,512			\$1,425,270

(a) Special Project Bonds, Series 1R, Delta Air Lines, Inc. Project, were issued in connection with a project that includes the construction of a passenger terminal building at LaGuardia Airport leased to Delta Air Lines, Inc.

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

(c) Special Project Bonds, Series 4, KIAC Partners Project, were issued to refund the Series 3 bonds, and in connection with a project at John F. Kennedy International Airport, that includes 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.

(d) Special Project Bonds, Series 6, JFK International Air Terminal LLC Project, were issued in connection with a project that includes the development and construction of a new passenger terminal at John F. Kennedy International Airport.

3. INTEREST RATE EXCHANGE CONTRACTS (SWAPS)

The Port Authority records interest rate exchange contracts pursuant to the settlement method of accounting whereby cash paid or received under the terms of the swap is charged or credited to the related interest expense account for the purpose of managing interest rate exposure. Each swap transaction involves the exchange of fixed and variable rate interest payment obligations calculated with respect to an agreed upon nominal principal amount called a "notional amount". As of December 31, 2002, seven interest rate exchange contracts were in place with notional amounts aggregating \$678,760,000, including offsetting swaps with aggregate notional amounts of \$200,000,000.

Entering into interest rate exchange contracts subjects the Port Authority to the possibility of financial loss in the event of nonperformance by the counterparty to the swap and/or with respect to changes in market rates.

Notes to Consolidated Financial Statements (continued)

Note E | Reserves

The General Reserve Fund is pledged in support of Consolidated Bonds and Notes. Statutes which required the Port Authority to create 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, 2002, the General Reserve Fund balance was \$907,075,000 and met the prescribed statutory amount.

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

Other capital asset obligations (versatile structure obligations, commercial paper obligations, and variable rate master notes), and the interest thereon, are not secured by or payable from the General Reserve Fund. Principal of, and interest on, other capital 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 therefore, from other moneys of the Port Authority legally available for such payments. Operating asset obligations (equipment notes and the Fund buy-out obligation) are paid 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, 2002, the Port Authority met the requirements of the Consolidated Bond Resolution to maintain total reserve funds in cash and certain specified securities.

Notes to Consolidated Financial Statements (continued)

Note F | Funding Provided by Others

During 2002 and 2001, the Port Authority received federal and state grants and contributions from other entities for various programs as summarized below:

1. OPERATING PROGRAMS

- > FAA K-9 program—The Federal Aviation Administration (FAA) provided funds used to offset the costs of training and caring for explosive detection dogs. During 2002, \$979,000 was received in connection with this program.
- > TSA funds for airport screening—In 2002, the Transportation Security Administration (TSA) provided \$10,979,000 to reimburse the Port Authority for costs primarily attributable to providing police personnel at the Port Authority's three major airports.

Grant receipts for operating activities are recorded as operating revenues on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets and on Schedule A—Revenues and Reserves.

2. NON-OPERATING GRANTS

- > Security initiatives—In May 2002, the Port Authority entered into a grant agreement with the FAA and received approximately \$8,253,000 to defray a portion of additional airport security costs incurred since September 11, 2001. Additionally, the Port Authority recognized revenue of \$83,000 from the FAA for the upgrade of computerized airport control security systems.
- > Regional ferry pass-through grant program—The Port Authority has acted as a sponsoring agency for \$11,556,000 of Federal Emergency Management Agency (FEMA) funds to expand ferry service to partially make up for the diminished cross-Hudson River public transportation service resulting from the destruction of the PATH-World Trade Center station.

3. CONTRIBUTIONS IN AID OF CONSTRUCTION

The Port Authority receives contributions in aid of construction with respect to its facilities from federal, state and other entities. Federal and state contributions (including amounts receivable) were \$35,458,000 in 2002 and \$37,331,000 in 2001. Contributions from other entities were \$800,000 in 2002 and \$2,739,000 in 2001.

In April 1999 and again in November 2001, the FAA advised the Port Authority that failure to resolve an extension of the New York City lease may preclude future issuance of Airport Improvement Program grants for projects at LaGuardia and John F. Kennedy International Airports. (See Note G-4.)

Notes to Consolidated Financial Statements (continued)

Note G | Lease Commitments

1. OPERATING LEASE REVENUES

Gross operating revenues attributable to fixed rentals associated with operating leases amounted to \$800,579,000 in 2002 and \$917,998,000 in 2001.

2. PROPERTY HELD FOR LEASE

The Port Authority, and/or one of its subsidiaries, 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 World Trade Center and the Newark Legal and Communications Center. Investments in such facilities, as of December 31, 2002, 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. Minimum future rentals scheduled to be received on operating leases in effect on December 31, 2002 are:

Year ending December 31:

	(In Thousands)
2003	\$ 611,294
2004	540,202
2005	513,955
2006	508,638
2007	510,030
Later years	101,357,182
Total minimum future rentals (a)	\$104,041,301

(a) Includes future rentals of approximately \$97.5 billion attributable to World Trade Center leases (see Note K).

Notes to Consolidated Financial Statements (continued)

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 replacement office space due to the destruction of the World Trade Center, aggregated \$110,342,000 in 2002 and \$78,707,000 in 2001. The terms of such leases expire at various times through 2065 and may be renewed for additional periods. Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 2002 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)
2003	\$ 121,597
2004	121,156
2005	121,026
2006	120,826
2007	120,687
2008-2012	588,913
2013-2017	506,401
2018-2022	365,031
2023-2027	355,293
2028-2032	342,396
2033-2065*	2,244,000
Total minimum future rent payments	\$5,007,326

* Minimum future rent payments for years 2033-2065 reflects payments associated with a single lease commitment.

4. INFORMATION ON LEASES AT THE NEW YORK CITY AIRPORTS AND NEWARK LIBERTY INTERNATIONAL AIRPORT AND PORT NEWARK AND CERTAIN AGREEMENTS RELATING TO OTHER PORT AUTHORITY FACILITIES LOCATED IN THE CITY OF NEWARK.

In 1994, the former administration of the City of New York suspended negotiations to extend the lease, scheduled to expire in 2015, under which the Port Authority operates John F. Kennedy International and LaGuardia Airports. In 1995, the City demanded arbitration of certain matters involved in the determination of the amount due as rent under the lease. In 2000, the City amended its demand for arbitration to request that it be awarded at least \$980 million in this matter. Arbitration hearings commenced in February 2001. The Port Authority continues to dispute the City's allegations in the arbitration proceedings.

Subsequently, the City of Newark also demanded arbitration regarding the amount due the City as rent under the lease with the Port Authority pertaining to Newark Liberty International Airport and Port Newark. The demand for arbitration states that such amount, resulting primarily from the exclusion of PFC revenues in the rent calculation, may exceed \$1 billion. Additionally, the City of Newark commenced suit regarding payments under the aforementioned lease and agreements between the City and the Port Authority with respect to the Essex County Resource Recovery Facility and the Newark Legal and Communications Center. The Port Authority continues to dispute the allegations in both the arbitration and the litigation.

In October 2002, the Port Authority and the City of Newark entered into agreements pertaining to Newark Liberty International Airport and Port Newark, providing in part for an extension of the expiration date of the lease for each facility from December 31, 2031 to December 31, 2065. In connection with the lease extension, the City of Newark agreed to withdraw with prejudice its claims in the arbitration and litigation proceedings pertaining to the effect of the receipt of Passenger Facility Charges upon the rent calculation prior to the lease extension. The City of Newark also agreed that the payment of any award in the arbitration or litigation proceedings will be limited to the amount of such award that exceeds the sum of the combined base rental for the first two years of the lease, as extended.

In the first year of the new term, 2002, the combined base rent is \$100 million, consisting of \$65 million annual combined base rent and a \$35 million upfront payment that is being deferred and recognized over the life of the lease. For years two through five, the annual combined base rent would be the greater of \$65 million or 8% of the annual gross revenue. Thereafter, the combined base rent will be 10% of the average annual gross revenue for the preceding five-year period, but for any given year, no less than the greater of 8% of the annual gross revenue for such year or the combined base rental for the previous five year period. In addition, the agreements provide both parties with the opportunity to re-open negotiations with respect to the rental terms of the leases if, after the first 10 years of the terms of the

Notes to Consolidated Financial Statements (continued)

leases, the fixed base rental has not increased. The agreements also provide an annual supplemental rental of \$3 million and an additional rental by the Port Authority to the City of Newark of \$12.5 million for each of the first 35 years of the term of the leases, or alternatively, a lump sum amount of \$165 million.

Additionally, the agreements provide that, if the Port Authority enters into a new lease with the City of New York relating to John F. Kennedy International Airport and LaGuardia Airport, or amends the existing lease with respect to those airports, the City of Newark will have the right to amend the provisions of its lease with the Port Authority to conform to the terms agreed upon with the City of New York. Furthermore, if there is a binding award to the City of New York pursuant to the ongoing arbitration proceeding, or any other dispute between the City of New York and the Port Authority relating to John F. Kennedy International Airport or LaGuardia Airport, or a settlement thereof, the City of Newark has the right to a proportionate award, except where this would result in a double recovery to the City of Newark or where amounts are awarded to the City of New York with respect to an issue unrelated to the leases with the City of Newark.

Note H | Regional Programs

1. The Port Authority has established, at the request of the Governors of New York and New Jersey, several facilities described briefly below under which certain projects, not a part of other Port Authority facilities, have been and/or will be undertaken.
 - > **Regional Development Facility**—This facility was established in conjunction with a program of up to \$250 million for transportation, economic development and infrastructure renewal projects authorized in connection with the Governors' Program of June 1983. Some of the projects in this program have been associated with other existing Port Authority facilities, while a balance of \$139,479,000 was associated with the Regional Development Facility.
 - > **Regional Economic Development Program**—This facility was authorized in 1989 in conjunction with a centralized program of up to \$400 million for transportation, economic development and infrastructure renewal projects authorized pursuant to gubernatorial request. As of December 31, 2002, \$394 million had been authorized of which \$325,650,000 was associated with the Regional Economic Development Program facility and the balance has been associated with other existing Port Authority facilities.
 - > **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, which was authorized in 1980. Approximately \$62,900,000 of the \$101,650,000 Port Authority's share of the total project cost was allocated against moneys made available through the Regional Development Facility and the Regional Economic Development Program.
 - > **The New Jersey Marine Development Program**—This program, authorized in 1989, was undertaken to fund certain fishery, marine or port development projects in the State of New Jersey with a total cost of \$27 million.
 - > **New York Transportation, Economic Development and Infrastructure Renewal Program**—This facility was authorized in 2000 in conjunction with a program of up to \$250 million for transportation, economic development and infrastructure renewal projects in the State of New York to be designated by the Governor. As of December 31, 2002, projects totaling \$247,500,000 have been designated by the Governor.
 - > **Regional Transportation Program**—This facility was authorized in 2002 in conjunction with a program to provide up to \$500 million, with \$250 million to be provided in each of the States of New York and New Jersey, for regional transportation initiatives to be designated by the respective Governor of each state. As of December 31, 2002, the Governor of the State of New Jersey had designated a project totaling approximately \$250 million for the acquisition of bi-level rail cars for New Jersey Transit Corporation as the New Jersey transportation project to be effectuated through this facility.
 - > **Hudson-Raritan Estuary Resources Program**—This facility was authorized in 2001 in conjunction with a program to acquire certain real property in the Port District area of the Hudson-Raritan Estuary, in support of the Port Authority's capital program. The property would be acquired in consultation with the Governor of the State in which the property is located together with the respective State natural resources agencies and environmental organizations. The cost of any real property to be acquired under this program will not exceed \$60 million (with up to \$30 million allocated to property to be acquired in each State).
 - > **Regional Rail Freight Program**—This facility was authorized in 2001 to provide 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 rail freight projects to increase the regional capacity. The Port Authority is authorized to provide up to \$50 million, with \$25 million to be provided for projects in each of the States.

Notes to Consolidated Financial Statements (continued)

As of December 31, 2002, \$1,132,202,000 has been expended for regional programs. Costs for regional programs 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, 2001	Project Expenditures	Amortization	Dec. 31, 2002
(In thousands)				
Regional Development Facility	\$ 90,564	\$ —	\$ 6,037	\$ 84,527
Regional Economic Development Program	287,546	—	20,306	267,240
Oak Point Rail Freight Link	24,449	—	1,630	22,819
New Jersey Marine Development Program	15,250	(2,937)	789	11,524
Total unamortized costs of regional programs	\$417,809	\$(2,937)	\$28,762	\$386,110

2. BI-STATE INITIATIVES

From time to time the Port Authority makes payments to assist various bi-state regional operating initiatives. During 2002, the Port Authority expended \$26 million on regional initiatives.

3. BUY-OUT OF FUND FOR REGIONAL DEVELOPMENT

In 1983, the Fund for Regional Development (Fund) was established to sublease space in the World Trade Center that was previously held by the State of New York as tenant. An agreement between 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 World Trade Center subleased space was approximately \$430,500,000. The liability for payments to the States of New York and New Jersey attributable to the Fund buy-out is further described in Note D.

Notes to Consolidated Financial Statements (continued)

Note I Pension Plans and Other Employee Benefits

1. PENSION PLANS

a. Generally, full-time employees of the Port Authority (but not its subsidiaries) 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 Systems". 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 Systems provide 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 (generally five years), 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. Contributions are not required from police personnel who are members of the PFRS or from those non-police employees who joined the ERS prior to July 27, 1976 or, effective October 1, 2000, members of the ERS with more than ten years of credited service. ERS members with less than ten years of credited service are required to contribute 3% of their annual gross wages to the ERS.

The Port Authority's payroll expense for 2002 was \$564,317,000 of which \$348,175,000 and \$198,211,000 represent the cost for employees covered by ERS and PFRS, respectively.

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

Year Ended	ERS	% of Covered Payroll	PFRS	% of Covered Payroll
(In thousands)				
2002	\$3,350	0.6%	\$7,455	1.4%
2001	\$9,661	2.0%	\$4,720	1.0%
2000	\$5,865	1.3%	\$3,571	0.8%

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

Employee contributions of \$7,908,000 to the ERS represented 1.4% of the total Port Authority covered payroll in 2002.

In 2002, 235 employees retired under New York State authorized retirement incentive programs. The cost for the Port Authority's participation in these retirement incentive programs was estimated to be \$13,826,000, based on an ERS formula and without regard to resulting savings. There were no such programs in 2001.

The Annual Report of the New York State and Local Retirement Systems, 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, NY 12244.

b. Employees of the Port Authority Trans-Hudson Corporation are not eligible to participate in existing New York State Retirement Systems. PATH provides supplemental pension plans for most of its union employees. Annual PATH contributions to these plans are defined in the various collective bargaining agreements; no employee contributions are required. Eligibility for all benefits prior to normal retirement requires the completion of at least five years of vested service and depends upon years of credited service and monthly benefit rates in effect at the time of retirement. Trustees, appointed by the various unions, are responsible for the administration of these pension plans. PATH payroll expense in 2002 for these employees was \$62,181,000. For the year 2002, contributions made by PATH in accordance with the terms of various collective bargaining agreements totaled \$3,569,000, which represented approximately 5.0% of the total PATH covered payroll for 2002. Contributions in 2001 and 2000 were \$3,088,000 and \$3,056,000, respectively.

Notes to Consolidated Financial Statements (continued)

2. OTHER EMPLOYEE BENEFITS

The Port Authority and PATH provide certain group health care, dental, vision and term life insurance benefits for active employees and for employees who have retired from the Port Authority or PATH (and for eligible dependents and survivors of active and retired employees). Contributions towards the costs of some of these benefits are required of certain participants. 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 these benefits is reviewed annually for the purpose of estimating the present value of future benefits for active and retired employees and their dependents. As of December 31, 2002, the actuarially determined value of these benefits is \$847,600,000, consisting of the following:

	Port Authority	PATH	Total
	(In millions)		
Retirees	\$662.3	\$43.6	\$705.9
Active	131.4	10.3	141.7
Total	\$793.7	\$53.9	\$847.6

The obligation accrued as of December 31, 2002 was \$459,172,000. The difference between the actuarial present value of future benefits for prior service and the amount accrued as of December 31, 2002 is being amortized over a 20 year period.

The cost of providing health care, dental, vision and life insurance benefits, not including the accrual for prior service costs, totaled \$125,050,000 in 2002 and \$112,495,000 in 2001, of which \$45,681,000 in 2002 and \$38,557,000 in 2001 were the costs associated with providing these benefits to retired employees and their eligible dependents.

Note J | Commitments and Certain Charges to Operations

1. On February 20, 2003, the Board of Commissioners adopted the annual budget for 2003. 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 of the Port Authority consistent with statutory, contractual and other commitments of the Port Authority, including agreements with the holders of its obligations.
2. At December 31, 2002, the Port Authority had entered into various construction contracts totaling approximately \$1.4 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, exceptions, or exclusions of portions of facilities, and the scope of insurable hazards. Insurance coverage as of December 31, 2002, is as follows:
 - a. Property damage and loss of revenue insurance program:
 - > \$500 million per occurrence, with a deductible of \$5 million per occurrence and an exclusion for terrorist acts. At December 31, 2002, \$250.65 million of the coverage in excess of the deductible has been placed with various insurance carriers and the remaining \$244.35 million portion has not yet been placed. Additionally, only \$200.65 million of the coverage which has been placed includes business interruption losses. At December 31, 2001, property damage and loss of revenue insurance on Port Authority facilities totaled \$1.5 billion per occurrence. The Port Authority is continuing discussions with various insurance carriers with respect to the availability of additional property damage and loss of revenue insurance. In view of the current state of the insurance industry, availability of such additional coverage may be constrained and any additional coverage that may be available may not be offered to the Port Authority on an economically acceptable basis.
 - > Coverage for terrorist acts—\$25 million per occurrence and in the aggregate for terrorist acts, with a deductible equal to the greater of \$1 million or 2% of the assets that are subject to the terrorist acts. Additionally, as a result of the provisions of the federal Terrorism Risk Insurance Act of 2002, the Port Authority was able to purchase an additional \$96 million, in various layers, in excess of the first \$30 million of coverage.

Notes to Consolidated Financial Statements (continued)

b. Public liability insurance program:

1. Aviation Facilities

> Coverage of \$1 billion per occurrence, with a deductible of \$3 million per occurrence. Terrorist acts—Coverage of \$50 million per occurrence and in the aggregate. Effective February 2003, additional coverage for terrorist acts of \$450 million per occurrence and in the aggregate was obtained.

2. Non-Aviation Facilities

- > \$750 million per occurrence and in the aggregate, with a deductible of \$5 million per occurrence. In addition, the Port Authority self-insures 10% of the first \$50 million layer of insurance in excess of the \$5 million deductible.
- > Terrorist acts—\$50 million per occurrence and in the aggregate. Additionally, as a result of the provisions of the Federal Terrorism Risk Insurance Act of 2002, the Port Authority was able to purchase an additional \$200 million, in various layers, in excess of the first \$50 million of coverage.

At December 31, 2001 public liability insurance totaled \$750 million per occurrence for aviation facilities and \$600 million for non-aviation facilities per occurrence and in the aggregate.

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

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.

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 unpaid claims is based upon the estimated cost of settling the claims, which includes a review of estimated claims expenses and estimated recoveries. Changes in the liability amounts in 2001 and 2002 were:

	Beginning Balance	Additions and Changes	Payments	Year-end Balance
	(In thousands)			
2001	\$15,555	\$ 9,965	\$12,136	\$13,384
2002	\$13,384	\$(1,322)	\$ 3,356	\$ 8,706

4. The 2002 balance of "Other amounts receivable, net" on the Consolidated Statements of Net Assets consists of the anticipated recovery of the \$1 billion net book value of various assets which comprised components of the World Trade Center complex destroyed on September 11, 2001; \$120 million representing the balance due from the private full service vendor operating the plant at the Essex County Resource Recovery Facility, under the conditional sale agreement through which the vendor financed a portion of the construction costs of the plant; and \$154 million in long-term receivables from Port Authority tenants. The Port Authority has contractual agreements to collect \$78.3 million of the "Other amounts receivable, net" balance during 2003.

5. On January 25, 2001, the Board of Commissioners authorized bridge and tunnel toll increases and the PATH Board of Directors authorized fare increases, which became effective on March 25, 2001.

6. The City of New York commenced several actions in the Supreme Court of the State of New York alleging that the Port Authority breached its agreement to make payments in-lieu-of taxes (PILOTs) relating to the World Trade Center. In each action the City seeks a declaratory judgment pertaining to the methodology for the calculation, collection and payment of PILOTs under the agreement and a judgment to be determined at trial for the alleged underpayment. The first action, commenced in 1999 by the City for the period from 1987 through 1998, was dismissed by the Court on jurisdictional grounds. The City's appeal of the dismissal was denied. The second action was commenced by the City in 2000 for tax year 1999-2000. The third action was commenced by the City in 2001 for the tax year 2000-2001. The City does not request any specific amount of monetary damages in these actions; however, in certain notices of claim the City alleged that while the amount of resultant damages were unknown, they were not less than \$15 million for each of the tax years 1999-2000 and 2000-2001.

The Port Authority believes that it has complied with the PILOT agreement, disputes the City's allegations and is vigorously defending the actions described above.

Notes to Consolidated Financial Statements (continued)

In July 2001, the City of New York notified the World Trade Center net lessees, Silverstein Properties, Inc. and Westfield Corporation, Inc., and the Port Authority that the City believed that the status of the World Trade Center had changed and that the City would impose real property taxes on the entire complex, with the exception of Six World Trade Center. Also in July 2001, the City of New York issued tax bills for approximately \$95 million in real property taxes on the World Trade Center for the 2001-2002 tax year. In November 2001, the Port Authority and the World Trade Center net lessees sued the City of New York in Supreme Court, New York County, seeking a declaration that the tax bills are illegal and void, and that the World Trade Center is exempt from real property taxation, and for other relief. The special proceeding/declaratory judgment action is presently being held in abeyance by the Court at the request of the City and the Port Authority. In the event that there is a final, non-appealable determination that real property taxes are payable with respect to One, Two, Four and Five World Trade Center, and the retail components of the World Trade Center, under the net leases for those properties, the Port Authority would be responsible for the payment of all such amounts. In October 2002, the Port Authority filed a petition in the New York State Supreme Court challenging the amount of the City's assessment of the real property constituting the World Trade Center for the 2002-2003 tax year.

7. In October 2002, the Port Authority and the Newark Legal and Communications Center Urban Renewal Corporation received a tax bill for the calendar year 2001, based on the City of Newark's assessed value for the land upon which the Newark Legal and Communications Center is located. In November 2002, the Port Authority filed a petition of appeal with the Essex County Board of Taxation. The petition was denied in January 2003. The Port Authority intends to continue to dispute the City of Newark's allegation that the land upon which the Newark Legal and Communications Center is located is subject to real property tax.

8. In 1998, the New Jersey Turnpike Authority, as the lead agency of a regional consortium consisting of the Port Authority, the State of Delaware, the New Jersey Turnpike Authority, the South Jersey Transportation Authority and the New Jersey Highway Authority, entered into a project agreement with a private contractor for the purpose of receiving services associated with the implementation of an integrated electronic toll collection system (E-ZPass), a fiber optic system, a customer service center for processing tolls transactions and a related violations processing center.

To finance certain of the costs of this project, the New Jersey Economic Development Authority issued \$300 million of taxable economic development transportation bonds (EDA bonds). The EDA bonds are payable from amounts other than tolls, including certain amounts received by the consortium members principally consisting of administrative fees resulting from toll violations and rents from the leasing of portions of the fiber optic system developed as a part of the project and, subject to the requirements of each consortium member's bond covenants, paid to a project fund. To the extent that amounts in the project fund are not sufficient to pay approved expenses relating to principal and interest on the EDA bonds, each consortium member has agreed, under a true-up agreement with the New Jersey Economic Development Authority, generally, subject to the requirements of such member's bond covenants, to pay its allocated share of the amount of the deficiency at the maturity of the EDA bonds on March 7, 2008.

The Port Authority's share of the deficiency payments related to the project is currently estimated to be \$46,323,000, of which \$25,298,000 was included in operating expenses in 2002 and \$21,025,000 in prior years.

In November 2002, the New Jersey Turnpike Authority advised the other members that it would withdraw from the consortium. Consortium members are currently in discussion with respect to the termination of the project agreements. It is presently expected that in March 2003 the Port Authority will pay the full amount of its share of the liability for the EDA bonds.

9. Employees of PATH are not eligible to participate in existing New York State Retirement Systems. However, for PATH employees who are not covered by collective bargaining agreements, the Port Authority has recognized, as a matter of policy, an obligation to provide supplemental payments resulting in amounts generally comparable to benefits available to similarly situated Port Authority employees. Such payments for PATH exempt employees totaled \$1,945,000 in 2002 and \$1,837,000 in 2001.

Notes to Consolidated Financial Statements (continued)

10. The 2002 balance of "Other non-current liabilities" consists of the following:

	Dec. 31, 2001	Additions	Deductions	Dec. 31, 2002
(In thousands)				
Workers' compensation liability	\$ 38,278	\$17,995	\$13,869	\$ 42,404
E-ZPass true-up liability	21,025	25,298	—	46,323
PATH exempt employee supplemental	17,666	2,510	1,945	18,231
Surety and security deposits	11,167	4,333	5,823	9,677
Claims liability	13,384	—	4,678	8,706
Other	17,744	3,655	2,973	18,426
Gross non-current liabilities	\$119,264	\$53,791	\$29,288	143,767
Less current portion				62,137
Total other non-current liabilities				\$ 81,630

Note K | Information with Respect to the Events of September 11, 2001

The World Trade Center's components, which included two 110-story office towers (One and Two World Trade Center), two nine-story office buildings (Four and Five World Trade Center), an eight-story office building (Six World Trade Center), a 22-story hotel (Three World Trade Center), a 47-story office building (Seven World Trade Center), an electrical sub-station under Seven World Trade Center, a retail shopping mall, and a six level sub-grade area located below the World Trade Center complex, together with the PATH-World Trade Center rail station (PATH-WTC station) were destroyed as a result of the terrorist attacks of September 11, 2001. There was substantial loss of life and personal property.

On July 24, 2001, the Port Authority entered into net leases with respect to One, Two, Four and Five World Trade Center with single purpose entities established by Silverstein Properties, Inc., and with respect to the retail components of the World Trade Center, with a single purpose entity established by Westfield America, Inc. The terms of the 99-year net leases generally required the net lessees to pay in the aggregate \$616 million upon commencement of the net leases, base rent starting at \$102 million annually and, when applicable, a graduating percentage of gross revenues. The net leases do not provide for rent abatement before or during the restoration period.

The terms of the net leases establish 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.

Under the provisions of the federal Air Transportation Safety and System Stabilization Act, as amended, the Port Authority's liability for claims arising from the terrorist attacks of September 11, 2001 is limited, generally, to the extent of the Port Authority's insurance coverage. The administrative procedures for the application of this limitation to individual claims have not yet been determined.

Various litigation has commenced against the Port Authority and some of the firms involved in the design and construction of the World Trade Center, generally alleging negligence in the design, construction, repair, inspection and maintenance of the World Trade Center and seeking damages for personal injuries to and/or wrongful death of certain individuals on September 11, 2001. In addition, certain insurance companies together with certain tenants of Seven World Trade Center, have commenced litigation generally alleging that the collapse of Seven World Trade Center was the result of the Port Authority's breach of contract and negligence in connection with the construction of diesel fuel tanks in Seven World Trade Center and seeking to recover amounts attributable to losses sustained. The Port Authority disputes the allegations in these actions and intends to vigorously defend these actions.

Notes to Consolidated Financial Statements (continued)

ACCOUNTING

In 2001, the Port Authority reclassified and recognized as 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 World Trade Center 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 2002, the Port Authority recognized insurance advances of \$613.5 million and FEMA proceeds of \$38.3 million, together totaling \$651.8 million. Of this total amount, \$64.4 million was applied by the Port Authority to reduce the receivables established for certain assets and ancillary equipment destroyed on September 11, 2001. The balance of \$587.4 million was included in "Recoverables (expenses) related to the events of September 11, 2001". The insurance advances were received as a part of an ongoing adjustment process.

Other Port Authority facility operations were impacted to varying degrees by the terrorist attacks on September 11, 2001. The PATH-WTC station and the Exchange Place PATH station continue to be out of service and are not expected to be in use until January 2004 and June 2003, respectively. Some or all of the lost revenue from these business disruptions will be recovered through insurance. Recovery of amounts for loss of revenue will not be recognized until such amounts are received. It is anticipated that the Port Authority's insurance and various federal funding programs will be sufficient to cover property damage applicable to Six World Trade Center, the Con Ed Substation and PATH components, as well as other Port Authority costs associated with the terrorist attacks, such as the cost of emergency response, police overtime, replacement office space, etc., and the business interruption costs resulting from the events of September 11, 2001.

Future minimum rentals (see Note G) include future rentals of approximately \$97.5 billion attributable to the World Trade Center net leases described above. The inclusion of this amount in future rentals is predicated upon the assumption that the net lessees of various components of the World Trade Center 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 outcome of certain pending and future litigation involving insurance and other matters, 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.

Schedule A — Revenues and Reserves

(Pursuant to Port Authority bond resolutions)

	Year ended December 31, 2002			2001
	Operating Fund	Reserve Funds	Combined Total	Combined Total
(In thousands)				
GROSS OPERATING REVENUES:				
Rentals	\$ 832,527	\$ —	\$ 832,527	\$ 976,054
Tolls and fares	774,337	—	774,337	750,782
Aviation fees	672,175	—	672,175	560,951
Parking and other	197,912	—	197,912	202,864
Utilities	97,184	—	97,184	126,956
Rentals associated with Special Project Bonds	96,448	—	96,448	97,195
Total gross operating revenues	2,670,583	—	2,670,583	2,714,802
OPERATING EXPENSES:				
Employee compensation, including benefits	777,146	—	777,146	654,074
Contract services	622,781	—	622,781	600,686
Rents and amounts in-lieu-of-taxes	140,614	—	140,614	96,401
Materials, equipment and other	135,321	—	135,321	157,004
Utilities	113,880	—	113,880	140,436
Interest on Special Project Bonds	96,448	—	96,448	97,195
Total operating expenses	1,886,190	—	1,886,190	1,745,796
Amounts in connection with operating asset obligations	(35,960)	—	(35,960)	(36,696)
Net recoverables (expenses) related to the events of September 11, 2001	474,663	—	474,663	(270,334)
Net operating revenues	1,223,096	—	1,223,096	661,976
FINANCIAL INCOME:				
Income on investments	43,072	22,976	66,048	76,460
Net increase in fair value of investments	21,254	8,660	29,914	66,921
Contributions in aid of construction	36,258	—	36,258	40,070
Grants	19,892	—	19,892	—
Regional ferry program pass-through payments	(11,556)	—	(11,556)	—
Net revenues available for debt service and reserves	1,332,016	31,636	1,363,652	845,427
DEBT SERVICE:				
Interest on bonds and other capital asset obligations	282,635	15,828	298,463	294,908
Debt maturities and retirements	181,250	—	181,250	171,340
Debt retirement acceleration	—	283,502	283,502	25,000
Repayment of capital asset obligations	—	5,863	5,863	6,390
Total debt service	463,885	305,193	769,078	497,638
Transfers to reserves	\$ (868,131)	868,131	—	—
Revenues after debt service and transfers to reserves		594,574	594,574	347,789
Direct investment in facilities		(433,747)	(433,747)	(462,129)
Appropriations for self-insurance		(19,017)	(19,017)	14,270
Increase (decrease) in reserves		141,810	141,810	(100,070)
Reserve balances, January 1		1,575,305	1,575,305	1,675,375
Reserve balances, December 31		\$1,717,115	\$1,717,115	\$1,575,305

See Notes to Consolidated Financial Statements.

Schedule B – Assets and Liabilities

(Pursuant to Port Authority bond resolutions)

	Year Ended December 31, 2002				2001
	Operating Fund	Capital Fund	Reserve Funds	Combined Total	Combined Total
(In thousands)					
ASSETS					
Current assets:					
Cash	\$ 39,563	\$ —	\$ 1,000	\$ 40,563	\$ 36,842
Investments	979,557	150,139	533,778	1,663,474	2,064,680
Current receivables, net	266,852	8,442	—	275,294	271,213
Other current assets	28,940	22,204	—	51,144	62,862
Total current assets	1,314,912	180,785	534,778	2,030,475	2,435,597
Restricted assets:					
Cash	9,362	—	—	9,362	9,893
PFC receivables	16,505	—	—	16,505	11,162
Total restricted assets	25,867	—	—	25,867	21,055
Noncurrent assets:					
Investments	147,500	—	1,182,337	1,329,837	896,985
Other amounts receivable, net	36,397	1,237,842	—	1,274,239	1,317,440
Deferred charges and other noncurrent assets	354,134	17,180	—	371,314	168,715
Amounts receivable – Special Project Bonds	—	1,425,270	—	1,425,270	1,439,512
Invested in facilities	—	17,947,787	—	17,947,787	16,425,060
Total noncurrent assets	538,031	20,628,079	1,182,337	22,348,447	20,247,712
Total assets	1,878,810	20,808,864	1,717,115	24,404,789	22,704,364
LIABILITIES					
Current liabilities:					
Accounts payable	206,887	358,808	—	565,695	534,946
Accrued interest and other current liabilities	420,063	10,912	—	430,975	246,411
Accrued payroll and other employee benefits	105,162	—	—	105,162	80,690
Deferred income in connection with PFCs	16,505	—	—	16,505	11,162
Current portion bonds and other asset financing obligations	80,513	534,778	—	615,291	798,735
Total current liabilities	829,130	904,498	—	1,733,628	1,671,944
Noncurrent liabilities:					
Accrued pension and other noncurrent employee benefits	465,547	—	—	465,547	412,184
Other noncurrent liabilities	78,873	2,757	—	81,630	119,264
Amounts payable – Special Project Bonds	—	1,442,450	—	1,442,450	1,457,705
Bonds and other asset financing obligations	451,100	6,986,424	—	7,437,524	6,969,576
Total noncurrent liabilities	995,520	8,431,631	—	9,427,151	8,958,729
Total liabilities	1,824,650	9,336,129	—	11,160,779	10,630,673
NET ASSETS	\$ 54,160	\$11,472,735	\$1,717,115	\$13,244,010	\$12,073,691
Net assets are composed of:					
Facility infrastructure investment	\$ —	\$11,472,735	\$ —	\$11,472,735	\$10,463,245
Reserves	—	—	—	1,717,115	1,575,305
Appropriated reserves for self-insurance	54,160	—	—	54,160	35,141
Net assets	\$ 54,160	\$11,472,735	\$1,717,115	\$13,244,010	\$12,073,691

See Notes to Consolidated Financial Statements.

Schedule C – Analysis of Reserve Funds

(Pursuant to Port Authority bond resolutions)

	Year Ended December 31, 2002			2001
	General Reserve Fund	Consolidated Bond Reserve Fund	Combined Total	Combined Total
(In thousands)				
Balance, January 1	\$880,041	\$ 695,264	\$1,575,305	\$1,675,375
Income on investments	12,892	10,084	22,976	46,436
Net increase in fair value of investments	7,527	1,133	8,660	38,733
Transfer from operating fund	6,615	861,516	868,131	321,974
	907,075	1,567,997	2,475,072	2,082,518
APPLICATIONS:				
Repayment of capital asset obligations	—	5,863	5,863	6,390
Interest on capital asset obligations	—	15,828	15,828	27,964
Debt retirement acceleration	—	283,502	283,502	25,000
Direct investment in facilities	—	433,747	433,747	462,129
Self-insurance	—	19,017	19,017	(14,270)
Total applications	—	757,957	757,957	507,213
Balance, December 31	\$907,075	\$ 810,040	\$1,717,115	\$1,575,305

Schedule D — Selected Statistical Financial Data

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
(In thousands)										
REVENUES AND EXPENSES										
Gross operating revenues (a)	\$ 2,670,583	\$ 2,714,802	\$ 2,648,328	\$ 2,547,512	\$ 2,361,202	\$ 2,205,647	\$ 2,154,120	\$ 2,082,624	\$ 1,979,674	\$ 1,920,904
Operating expenses	1,886,190	1,745,796	1,772,361	1,677,264	1,569,258	1,461,264	1,469,309	1,469,881	1,407,938	1,340,283
Net recoverables (expenses) related to the events of September 11, 2001	474,663	(270,334)	—	—	—	—	—	—	—	—
Amounts in connection with operating asset obligations	35,960	36,696	37,188	35,957	35,605	34,675	33,126	32,254	32,103	32,774
Net operating revenues	1,223,096	661,976	838,779	834,291	756,339	709,708	651,685	580,489	539,633	547,847
Financial income	95,962	143,381	162,811	104,657	118,362	103,873	98,707	70,830	73,723	76,404
Grants and contributions in aid of construction, net	44,594	40,070	—	—	—	—	—	—	—	—
Gain on purchase of Port Authority bonds	—	—	—	—	—	11	—	439	4,797	146
Net amounts associated with the 1993 WTC bombing	—	—	—	—	—	29,450	—	—	—	(32,500)
Net revenues available for debt service and reserves	1,363,652	845,427	1,001,590	938,948	874,701	843,042	750,392	651,758	618,153	591,897
DEBT SERVICE - OPERATIONS										
Interest on bonds and other capital asset obligations	(282,635)	(266,944)	(318,912)	(323,954)	(310,107)	(291,765)	(292,987)	(266,903)	(259,400)	(258,458)
Times, interest earned (b)	4.82	3.17	3.14	2.90	2.82	2.89	2.56	2.44	2.38	2.29
Debt maturities and retirements	(181,250)	(171,340)	(158,435)	(138,225)	(123,395)	(105,450)	(87,443)	(86,865)	(75,745)	(67,675)
Times, debt service earned (b)	2.94	1.93	2.10	2.03	2.02	2.12	1.97	1.84	1.84	1.81
DEBT SERVICE - RESERVES										
Direct investment in facilities	(433,747)	(462,129)	(404,388)	(233,260)	(242,311)	(246,232)	(162,471)	(268,711)	(224,622)	(185,071)
Payments in connection with leasehold acquisition	—	—	—	—	—	—	—	—	—	(35,687)
Debt retirement acceleration	(283,502)	(25,000)	(60,000)	—	—	—	(100,000)	(112,680)	(27,062)	(3,458)
Application from PFC program	—	—	—	—	—	—	—	105,000	—	—
Appropriations for self-insurance	(19,017)	14,270	(5,101)	(4,247)	(3,785)	(3,749)	5,057	(3,444)	710	7,081
Interest on capital asset obligations	(15,828)	(27,964)	—	—	—	—	—	—	—	—
Repayment of capital asset obligations	(5,863)	(6,390)	(10)	(172)	(757)	(395)	(780)	(878)	(343)	(178)
Net increase (decrease) in reserves	141,810	(100,070)	54,744	239,090	194,346	195,451	111,768	17,277	31,691	48,451
RESERVE BALANCES										
January 1	1,575,305	1,675,375	1,620,631	1,381,541	1,187,195	991,744	879,976	862,699	831,008	782,557
December 31	\$ 1,717,115	\$ 1,575,305	\$ 1,675,375	\$ 1,620,631	\$ 1,381,541	\$ 1,187,195	\$ 991,744	\$ 879,976	\$ 862,699	\$ 831,008
Reserve fund balances represented by:										
General Reserve	907,075	880,041	848,095	839,671	823,581	754,619	618,960	605,167	579,329	534,011
Consolidated Bond Reserve	810,040	695,264	827,280	780,960	557,960	432,576	372,784	274,809	283,370	296,997
Total	\$ 1,717,115	\$ 1,575,305	\$ 1,675,375	\$ 1,620,631	\$ 1,381,541	\$ 1,187,195	\$ 991,744	\$ 879,976	\$ 862,699	\$ 831,008
OBLIGATIONS AT DECEMBER 31										
Consolidated Bonds and Notes	\$ 6,630,205	\$ 6,092,735	\$ 5,889,613	\$ 5,916,804	\$ 5,747,387	\$ 5,077,133	\$ 4,723,335	\$ 4,795,207	\$ 4,650,350	\$ 4,286,668
Fund buy-out obligation	424,513	425,606	419,696	414,246	409,219	404,582	400,305	396,360	392,722	389,366
Amounts payable— Special Project Bonds	1,442,450	1,457,705	1,468,965	1,477,275	1,479,975	1,482,675	548,575	472,675	473,575	473,575
Variable rate master notes	149,990	214,990	214,990	215,990	215,990	202,900	233,000	308,000	283,000	270,000
Commercial paper notes	180,408	356,880	251,885	123,595	124,910	124,445	163,850	176,955	187,106	189,963
Versatile structure obligations	560,600	566,000	571,300	575,900	580,400	584,200	484,700	285,200	185,700	100,000
Operating equipment-lease financing obligations	—	—	—	—	—	—	—	—	13,563	19,903
Port Authority equipment notes	107,100	112,100	84,200	87,150	87,150	74,838	36,138	13,638	—	—
Total obligations	\$ 9,495,266	\$ 9,226,016	\$ 8,900,649	\$ 8,810,960	\$ 8,645,031	\$ 7,950,773	\$ 6,589,903	\$ 6,448,035	\$ 6,186,016	\$ 5,729,475
INVESTED IN FACILITIES AT DECEMBER 31	\$17,947,787	\$16,425,060	\$16,113,699	\$14,910,982	\$13,927,378	\$13,069,084	\$12,370,806	\$11,752,783	\$11,118,503	\$10,432,103
DEBT RETIRED THROUGH INCOME:										
Annual	\$ 470,615	\$ 202,730	\$ 218,445	\$ 138,396	\$ 124,153	\$ 105,845	\$ 188,223	\$ 95,423	\$ 103,150	\$ 104,523
Cumulative	\$ 4,634,892	\$ 4,164,277	\$ 3,961,547	\$ 3,743,102	\$ 3,604,706	\$ 3,480,553	\$ 3,374,708	\$ 3,186,485	\$ 3,091,062	\$ 2,987,912

(a) Gross operating revenues reflect increased tolls and increased PATH fares adopted in 2001.

(b) Debt service ratios excluding net recoverables (expenses) related to the events of September 11, 2001 and net amounts associated with the 1993 WTC bombing are as follows:

Times, interest earned	3.15	4.18	—	—	—	2.79	—	—	—	2.42
Times, debt service earned	1.92	2.55	—	—	—	2.05	—	—	—	1.91

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

See Notes to Consolidated Financial Statements.

Schedule E – Information on Port Authority Operations

	Year Ended December 31, 2002						2001	
	Gross Operating Revenues	Operating Expenses(a)	Depreciation & Amortization	Income (Loss) from Operations	Interest & Other Expenses(b)	PFC Revenues & Grants	Net Income (Loss)	Net Income (Loss)
(In thousands)								
INTERSTATE TRANSPORTATION NETWORK								
G.W. Bridge & Bus Station	\$ 333,658	\$ 111,936	\$ 21,100	\$ 200,622	\$ 15,808	\$ —	\$ 184,814	\$ 183,505
Holland Tunnel	80,194	70,646	8,778	770	6,881	—	(6,111)	(1,533)
Lincoln Tunnel	110,917	86,278	17,614	7,025	12,650	—	(5,625)	4,544
Bayonne Bridge	21,350	18,187	3,994	(831)	3,348	—	(4,179)	(2,226)
Goethals Bridge	94,570	25,540	6,626	62,404	2,365	—	60,039	34,824
Outerbridge Crossing	72,039	22,728	7,370	41,941	2,721	—	39,220	47,844
P. A. Bus Terminal	24,223	87,462	11,752	(74,991)	8,192	—	(83,183)	(63,486)
Subtotal — Tunnels, Bridges & Terminals	736,951	422,777	77,234	236,940	51,965	—	184,975	203,472
PATH	72,531	204,112	40,496	(172,077)	27,405	—	(199,482)	(151,237)
Journal Square Transportation Center	1,981	6,419	4,550	(8,988)	2,291	—	(11,279)	(10,329)
Subtotal — PATH	74,512	210,531	45,046	(181,065)	29,696	—	(210,761)	(161,566)
Ferry Service	—	4,120	158	(4,278)	264	—	(4,542)	(2,086)
Total Interstate Transportation Network	811,463	637,428	122,438	51,597	81,925	—	(30,328)	39,820
AIR TERMINALS								
LaGuardia	259,659	199,785	36,793	23,081	13,796	(13,454)	22,739	48,104
JFK International	685,964	435,838	102,344	147,782	39,008	(21,450)	130,224	140,286
Newark Liberty International	553,549	369,756	79,297	104,496	52,179	(6,532)	58,849	139,860
Teterboro	20,602	9,777	1,258	9,567	570	(2,511)	11,508	9,612
Heliport	85	1,869	701	(2,485)	130	—	(2,615)	(1,464)
Total Air Terminals	1,519,859	1,017,025	220,393	282,441	105,683	(43,947)	220,705	336,398
PORT COMMERCE								
Port Newark	53,116	50,448	12,663	(9,995)	7,266	—	(17,261)	(2,823)
Elizabeth Marine Terminal	49,964	21,033	11,932	16,999	9,420	—	7,579	5,757
Brooklyn	4,691	11,928	3,251	(10,488)	5,260	—	(15,748)	(13,181)
Red Hook	2,049	8,744	2,458	(9,153)	—	—	(9,153)	(9,028)
Howland Hook	7,485	8,959	3,446	(4,920)	3,287	(647)	(7,560)	(4,736)
Greenville Yard	281	8	1	272	—	—	272	264
Auto Marine	8,228	1,840	2,245	4,143	1,799	—	2,344	2,679
Total Port Commerce	125,814	102,960	35,996	(13,142)	27,032	(647)	(39,527)	(21,068)
ECONOMIC & WATERFRONT DEVELOPMENT								
Essex County Resource Recovery	52,034	60,462	1,430	(9,858)	(4,079)	—	(5,779)	(1,930)
Industrial Park at Elizabeth	823	(3,310)	203	3,930	344	—	3,586	(1,632)
Bathgate	3,313	2,098	1,851	(636)	736	—	(1,372)	(16)
Teleport	18,342	15,710	2,361	271	1,169	—	(898)	3,116
Newark Legal & Communications Center	3,315	2,015	3,781	(2,481)	2,041	—	(4,522)	(1,243)
Subtotal — Economic Development	77,827	76,975	9,626	(8,774)	211	—	(8,985)	(1,705)
Queens West	—	—	884	(884)	872	—	(1,756)	(1,563)
Hoboken South	5,110	5	1,342	3,763	1,069	—	2,694	206
Subtotal — Waterfront Development	5,110	5	2,226	2,879	1,941	—	938	(1,357)
Total Economic & Waterfront Development	82,937	76,980	11,852	(5,895)	2,152	—	(8,047)	(3,062)
WORLD TRADE CENTER	130,510	18,734	—	111,776	(26,007)	—	137,783	92,511
Regional Programs	—	25,510	28,762	(54,272)	48,128	—	(102,400)	(65,054)
Net recoverables (expenses) related to the events of September 11, 2001	—	—	—	474,663	—	—	474,663	(270,334)
Total Port Authority Operations	2,670,583	1,878,637	419,441	847,168	238,913	(44,594)	652,849	109,211
PFC Program	—	7,553	15,805	(23,358)	—	(110,471)	87,113	106,551
Combined Total	\$2,670,583	\$1,886,190	\$435,246	\$ 823,810	\$238,913	\$(155,065)	\$ 739,962	\$ 215,762

(a) Amounts include all direct operating expenses and allocated expenses.

(b) Amounts include net interest (interest expense less financial income) expense and gain or loss generated by the disposition of assets, if any.

See Notes to Consolidated Financial Statements.

Schedule F — Information on Port Authority Capital Program Components

	Facilities, net Dec. 31, 2001	Net Capital Expenditures	Depreciation	Facilities, net Dec. 31, 2002
(In thousands)				
INTERSTATE TRANSPORTATION NETWORK				
G.W. Bridge & Bus Station	\$ 557,412	\$ 76,159	\$ 21,100	\$ 612,471
Holland Tunnel	229,811	22,200	8,778	243,233
Lincoln Tunnel	404,976	41,972	17,614	429,334
Bayonne Bridge	109,184	12,428	3,994	117,618
Goethals Bridge	82,984	19,055	6,626	95,413
Outerbridge Crossing	98,919	34,663	7,370	126,212
P. A. Bus Terminal	282,738	26,558	11,752	297,544
Subtotal—Tunnels, Bridges & Terminals	1,766,024	233,035	77,234	1,921,825
PATH	883,789	70,651	40,496	913,944
Downtown Restoration Program	—	156,655	—	156,655
Journal Square Transportation Center	72,646	13,382	4,550	81,478
Subtotal—PATH	956,435	240,688	45,046	1,152,077
Ferry Service	11,506	1,255	158	12,603
Total Interstate Transportation Network	2,733,965	474,978	122,438	3,086,505
AIR TERMINALS				
LaGuardia	459,742	43,658	36,793	466,607
JFK International	1,752,602	268,479	102,344	1,918,737
Newark Liberty International	1,677,972	363,381	79,297	1,962,056
Teterboro	32,689	11,618	1,258	43,049
Heliport	4,084	—	701	3,383
PFC Program	1,017,226	97,575	15,805	1,098,996
Total Air Terminals	4,944,315	784,711	236,198	5,492,828
PORT COMMERCE				
Port Newark	238,092	43,798	12,663	269,227
Elizabeth Marine Terminal	342,748	126,127	11,932	456,943
Brooklyn	113,444	8,340	3,251	118,533
Red Hook	59,728	(467)*	2,458	56,803
Howland Hook	105,888	32,053	3,447	134,494
Auto Marine & Greenville Yards	53,190	91	2,245	51,036
Total Port Commerce	913,090	209,942	35,996	1,087,036
ECONOMIC & WATERFRONT DEVELOPMENT				
Essex County Resource Recovery	25,356	—	1,430	23,926
Industrial Park at Elizabeth	9,455	—	203	9,252
Bathgate	22,067	988	1,851	21,204
Teleport	34,564	2,085	2,361	34,288
Newark Legal & Communications Center	59,172	—	3,781	55,391
Subtotal—Economic Development	150,614	3,073	9,626	144,061
Queens West	58,376	35,139	884	92,631
Hoboken South	75,411	3,654	1,342	77,723
Subtotal—Waterfront Development	133,787	38,793	2,226	170,354
Total Economic & Waterfront Development	284,401	41,866	11,852	314,415
WORLD TRADE CENTER	77,469	18,827	—	96,296
FACILITIES, NET	\$8,953,240	\$1,530,324	\$406,484	\$10,077,080
REGIONAL PROGRAMS	\$ 417,809	\$ (2,937)*	\$ 28,762	\$ 386,110

* Includes adjustments for prior period costs.

See Notes to Consolidated Financial Statements.

Facility Traffic *

TUNNELS AND BRIDGES

(Eastbound Traffic)	2002	2001
All Crossings		
Automobiles	114,005,000	110,753,000
Buses	3,121,000	2,842,000
Trucks	8,118,000	8,287,000
Total vehicles	125,244,000	121,882,000
George Washington Bridge		
Automobiles	49,921,000	48,788,000
Buses	598,000	481,000
Trucks	4,155,000	4,198,000
Total vehicles	54,674,000	53,467,000
Lincoln Tunnel		
Automobiles	17,750,000	18,024,000
Buses	2,042,000	1,992,000
Trucks	1,139,000	971,000
Total vehicles	20,931,000	20,987,000
Holland Tunnel		
Automobiles	15,227,000	13,774,000
Buses	213,000	138,000
Trucks	324,000	704,000
Total vehicles	15,764,000	14,616,000
Staten Island Bridges		
Automobiles	31,107,000	30,167,000
Buses	268,000	231,000
Trucks	2,500,000	2,414,000
Total vehicles	33,875,000	32,812,000
Cumulative PA Investment in Tunnels and Bridges		
(In thousands)	\$ 2,424,316	\$ 2,223,117

PATH

	2002	2001
Total passengers	51,290,000	69,791,000
Passenger weekday average	174,000	241,000
Cumulative PA Investment in PATH		
(In thousands)	\$ 1,506,965	\$ 1,436,419

MARINE TERMINALS

	2002	2001
All Terminals		
Ship arrivals	3,405	3,421
General cargo (a) (Metric tons)	21,633,000	19,811,000
New Jersey Marine Terminals		
Ship arrivals	2,729	2,652
New York Marine Terminals		
Ship arrivals	676	769
Cumulative PA Investment in Marine Terminals		
(In thousands)	\$ 1,845,964	\$ 1,638,652

AIR TERMINALS

	2002	2001
Totals at the Three Major Airports		
Plane movements	1,052,300	1,101,000
Passenger traffic	80,137,100	82,975,500
Cargo-tons	2,504,800	2,451,000
Revenue mail-tons	147,200	238,700
Kennedy International Airport		
Plane movements	287,000	294,000
Passenger traffic		
Domestic	14,603,000	13,361,500
International	15,344,000	15,989,000
Cargo-tons	1,661,600	1,521,500
LaGuardia Airport		
Plane movements	361,300	368,000
Passenger traffic		
Domestic	20,870,000	21,380,400
International	1,117,100	1,144,600
Cargo-tons	11,700	16,500
Newark Liberty International Airport		
Plane movements	404,000	439,000
Passenger traffic		
Domestic	20,850,000	23,483,000
International	7,353,000	7,617,000
Cargo-tons	831,500	913,000
Cumulative PA Investment in Air Terminals		
(In thousands)	\$ 8,891,298	\$ 8,108,203

TERMINALS

	2002	2001
All Bus Facilities		
Passengers	69,235,600	71,560,000
Bus movements	3,560,550	3,515,000
Port Authority Bus Terminal		
Passengers	56,576,600	57,000,000
Bus movements	2,263,000	2,200,000
George Washington Bridge Bus Station		
Passengers	5,059,000	5,460,000
Bus movements	244,550	262,000
PATH Journal Square Transportation Center Bus Station		
Passengers	7,600,000	9,100,000
Bus movements	1,053,000	1,053,000
Cumulative PA Investment in Bus Facilities		
(In thousands)	\$ 663,961	\$ 618,348

	2002	2001
Total Port Authority Cumulative Invested in Facilities, including the above		
(In thousands)	\$ 17,946,725	\$16,425,060

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

* Some 2001 numbers reflect revised data.

2002 Annual Report

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Downtown Transportation Hub - artist rendering.

