

# Pease Development Authority

Financial Statements and  
Management's Discussion and Analysis

*Years Ended June 30, 2011 and 2010  
With Independent Auditors' Report*



**PEASE DEVELOPMENT AUTHORITY**

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2011 and 2010**

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# PEASE DEVELOPMENT AUTHORITY

## BOARD OF DIRECTORS

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Arthur H. Nickless, Jr., Chairman  
Appointed by the New Hampshire State Governor and Executive Council

Peter J. Loughlin, Vice Chairman  
Appointed by the City of Portsmouth and Town of Newington

Robert A. Allard, Treasurer  
Appointed by the New Hampshire Speaker of the House

John P. Bohenko  
Appointed by the City of Portsmouth

Margaret F. Lamson  
Appointed by the Town of Newington

Robert F. Preston  
Appointed by the New Hampshire Senate President

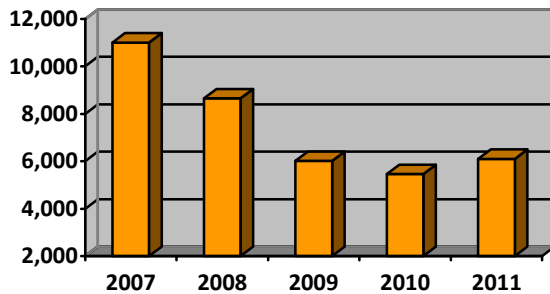
Franklin G. Torr  
Appointed by Strafford County Legislative Delegation

David R. Mullen  
Executive Director and Secretary  
Hired by the Pease Development Authority Board of Directors

**PEASE DEVELOPMENT AUTHORITY  
FINANCIAL HIGHLIGHTS**  
(\$ in Thousands)

	2007	2008	2009	2010	2011
<b>Consolidated Revenues</b>					
<b>Tradeport</b>	\$ 9,435	\$ 8,867	\$ 9,832	\$ 9,034	\$ 9,056
<b>Ports and Harbors</b>	1,818	2,307	2,633	2,503	2,533
<b>Golf Course</b>	1,544	1,654	1,569	1,621	1,749
<b>Aviation Related</b>	1,345	1,763	1,169	1,247	1,110
<b>Total</b>	\$ 14,142	\$ 14,591	\$ 15,203	\$ 14,405	\$ 14,448

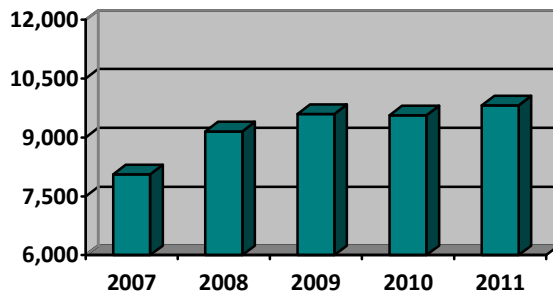
**UNRESTRICTED CASH AND  
CASH EQUIVALENTS**



- Debt outstanding continues to be reduced:

<u>June 30</u>	<u>Amount</u>
2007	\$ 29,567
2008	25,212
2009	17,336
2010	13,693
2011	10,646

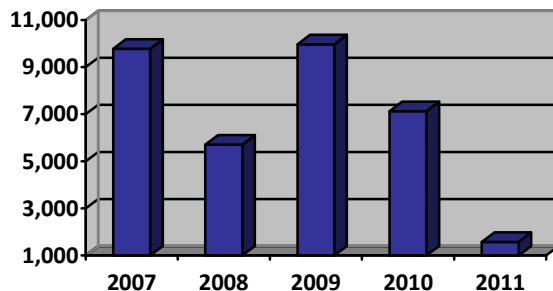
**OPERATING EXPENSES  
(EXCLUDING DEPRECIATION)**



- Capital assets, primarily due to third party grant funding, have continued to increase during the past several years:

<u>June 30</u>	<u>Amount</u>
2007	\$ 107,490
2008	114,235
2009	125,609
2010	135,737
2011	138,519

**CONTRIBUTED CAPITAL**



- Net cash provided by operating activities has remained consistent during the past several years, averaging approximately \$4,600:

<u>June 30</u>	<u>Amount</u>
2007	\$ 4,880
2008	4,740
2009	5,378
2010	3,827
2011	4,167



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
Pease Development Authority:

We have audited the accompanying financial statements of the Pease Development Authority, a component unit of the State of New Hampshire, as of and for the years ended June 30, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the Pease Development Authority's management. Our responsibility is to express an opinion on these financial statements 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pease Development Authority as of June 30, 2011 and 2010, and the changes in its financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2011 on our consideration of the Pease Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

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

Board of Directors  
Pease Development Authority

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pease Development Authority's financial statements as a whole. The financial highlights section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The financial highlights section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, reading "Raymond Weston Ouellette". The signature is written in a cursive, flowing style.

October 4, 2011  
South Portland, Maine

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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This report identifies the Pease Development Authority's (PDA) financial position and describes the PDA's financial activities over the past three fiscal years. This section of the PDA's annual financial report is known as "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" (MD&A) and presents our discussion and analysis of the PDA's financial performance during the fiscal years ended June 30, 2011, 2010 and 2009.

The MD&A is an analysis of the financial condition and operating results of the PDA and is intended to introduce the basic financial statements and notes to those statements. The MD&A must be presented in every financial report that includes basic financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). It is intended to provide an objective and easily readable analysis of the PDA's financial activities based on currently known facts, decisions, or conditions. This MD&A should be read in conjunction with the PDA's financial statements and accompanying notes.

#### **Overview of the Financial Statements**

This annual report consists of two parts: a) management's discussion and analysis; and b) the basic financial statements. The basic financial statements include notes explaining some of the information in the financial statements and provide detailed data.

The PDA is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the accrual basis of accounting. The component unit financial statements offer short and long-term financial information about the activities and operations of the PDA. These statements are presented in a manner similar to a private business.

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

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#### Financial Analysis of the PDA

#### Operating Activities

The PDA charges various types of fees for the rental or usage of its land and facilities.

#### Comparison of 2011 to 2010

#### Changes in Operating Income (\$ in Thousands)

	June 30, <u>2011</u>	June 30, <u>2010</u>	% Increase <u>(Decrease)</u>
<b>Operating Revenues</b>			
Rental of Facilities	\$ 10,095	\$ 10,290	(1.9)
Fee Revenues	2,721	2,676	1.7
Fuel Sales	837	723	15.8
Concession and Other Miscellaneous	668	542	23.2
Interest Income on Loans and Leases	<u>127</u>	<u>174</u>	<u>(27.0)</u>
Total Operating Revenues	<u>14,448</u>	<u>14,405</u>	<u>0.3</u>
<b>Operating Expenses</b>			
Depreciation and Amortization	6,531	6,664	(2.0)
Personnel Services and Benefits	5,398	5,389	0.2
Building and Facilities Maintenance	1,268	1,274	(0.5)
General and Administrative	786	912	(13.8)
Other	<u>2,383</u>	<u>1,986</u>	<u>20.0</u>
Total Operating Expenses	<u>16,366</u>	<u>16,225</u>	<u>0.9</u>
<b>Operating Income (Loss)</b>	(1,918)	(1,820)	(5.4)
<b>Nonoperating Income (Expense)</b>			
Interest Expense	(745)	(930)	(19.9)
Interest Income	12	26	(53.8)
Loss on Disposal of Assets	<u>(1)</u>	<u>(22)</u>	<u>95.5</u>
Total Nonoperating Income Expense	<u>(734)</u>	<u>(926)</u>	<u>(20.7)</u>
Loss Before Contributed Capital	(2,652)	(2,746)	3.4
Contributed Capital	<u>1,544</u>	<u>7,128</u>	<u>(78.3)</u>
Change in Net Assets	\$ <u>(1,108)</u>	\$ <u>4,382</u>	<u>(125.3)</u>

Total operating revenues increased by less than \$0.1 million or 0.3%, primarily due to higher fuel sales and increases in fee and concession related revenues, including that of golf course operations which accelerated by more than \$0.1 million due to increases in rounds of golf played and incremental revenues associated with the new golf simulators. Off-setting these increases were lower revenues linked with reduced wharfage and dockage activities due to the general economic slow-down.

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

#### Operating Activities *(continued)*:

Total operating expenses increased by \$0.1 million or 0.9% primarily due to the increase in the cost of goods sold for fuel. All other expenses remained consistent with the prior year with the exception of: a) lower general and administrative costs associated with a reduction in the allowance for doubtful accounts; and b) increases in professional services for technology support as the majority of such expenses in the prior year were capitalized in support of the new accounting system implementation.

Non-operating income (expense) continued to trend lower due to reduced interest expenses paralleling PDA's lower debt service levels.

#### Comparison of 2010 to 2009

#### Changes in Operating Income (\$ in Thousands)

	June 30, <u>2010</u>	June 30, <u>2009</u>	% Increase <u>(Decrease)</u>
<b>Operating Revenues</b>			
Rental of Facilities	\$ 10,290	\$ 10,756	(4.3)
Fee Revenues	2,676	2,922	(8.4)
Fuel Sales	723	863	(16.2)
Concession and Other Miscellaneous	542	437	24.0
Interest Income on Loans and Leases	<u>174</u>	<u>225</u>	<u>(22.7)</u>
Total Operating Revenues	<u>14,405</u>	<u>15,203</u>	<u>(5.2)</u>
<b>Operating Expenses</b>			
Depreciation and Amortization	6,664	4,890	36.3
Personnel Services and Benefits	5,389	5,109	5.5
Building and Facilities Maintenance	1,274	1,433	(11.1)
General and Administrative	912	946	(3.6)
Other	<u>1,986</u>	<u>2,110</u>	<u>(5.9)</u>
Total Operating Expenses	<u>16,225</u>	<u>14,488</u>	<u>12.0</u>
<b>Operating Income (Loss)</b>	(1,820)	715	354.5
<b>Nonoperating Income (Expense)</b>			
Interest Expense	(930)	(1,010)	(7.9)
Interest Income	26	62	(58.1)
Gain (Loss) on Disposal of Assets	<u>(22)</u>	<u>3</u>	<u>(833.3)</u>
Total Nonoperating Income Expense	<u>(926)</u>	<u>(945)</u>	<u>(2.0)</u>
Loss Before Contributed Capital	(2,746)	(230)	1,093.9
Contributed Capital	<u>7,128</u>	<u>10,472</u>	<u>(31.9)</u>
Change in Net Assets	\$ <u>4,382</u>	\$ <u>10,242</u>	<u>(57.2)</u>

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

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#### **Operating Activities** *(continued)*:

Total operating revenues decreased by \$0.8 million or 5.2%, primarily due to lower cost escalation in facility leases and less wharfage and dockage activities. In addition, fiscal year 2009 included several prior period tenant billing adjustments. Golf course operations continued to reflect accelerating fee and concession related revenues which were attributable to improved weather conditions and the corresponding increase in rounds of golf played.

Total operating expenses increased by \$1.7 million or 12.0% primarily due to the increase in depreciation and amortization expense of \$1.8 million. All other expenses remained consistent with the prior year primarily due to a favorable winter season and lower energy costs, with the exception of decreases in professional services for technology support costs, which were capitalized in support of the new accounting system implementation.

Non-operating income (expense) continued to trend lower due to reduced interest expenses paralleling PDA's lower debt service levels.

#### **Current Assets**

Current assets are those assets that are expected to be used (sold or consumed) within a year, unlike non-current assets. Current assets are reflected on the balance sheet, and are listed in order of increasing liquidity. The current asset position of a company is important, both for assessing its financial strength and for gauging its operational efficiency.

#### **Comparison of 2011 to 2010**

##### **Changes in Current Assets** (\$ in Thousands)

	June 30, <u>2011</u>	June 30, <u>2010</u>	% Increase <u>(Decrease)</u>
Cash and Cash Equivalents	\$ 6,099	\$ 5,456	11.8
Tenant and Other Receivables	664	629	5.6
Intergovernmental Receivables	121	687	(82.4)
Loans Receivable	128	217	(41.0)
Other Current Assets	<u>494</u>	<u>474</u>	<u>4.0</u>
	\$ <u>7,506</u>	\$ <u>7,463</u>	<u>0.6</u>

The PDA's current assets increased by \$0.1 million or 0.6%, mainly due an increase of \$0.6 million in cash and cash equivalents attributable to a reclassification of restricted cash balances. Offsetting this increase was a \$0.6 million reduction in Intergovernmental Receivables that was associated with reduced capital expenditure levels at the Portsmouth Airport at the close of the current year.

**PEASE DEVELOPMENT AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS *(continued)*

**Current Assets** (continued):

**Comparison of 2010 to 2009**

**Changes in Current Assets**  
(\$ in Thousands)

	June 30, <u>2010</u>	June 30, <u>2009</u>	% Increase <u>(Decrease)</u>
Cash and Cash Equivalents	\$ 5,456	\$ 6,010	(9.2)
Tenant and Other Receivables	629	560	12.3
Intergovernmental Receivables	687	3,131	(78.1)
Loans Receivable	217	154	40.9
Other Current Assets	<u>474</u>	<u>433</u>	<u>9.5</u>
	\$ <u>7,463</u>	\$ <u>10,288</u>	<u>(27.5)</u>

Current assets decreased by \$2.8 million or 27.5%, mainly due to the \$2.4 million reduction in Intergovernmental Receivables that was driven by reduced capital expenditures at the Portsmouth Airport at the close of the year. In addition, there was a reduction of \$0.6 million in cash and cash equivalents due to construction activity that was ineligible for grant funding.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of debt and adding back any unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations or through constitutional restrictions or enabling legislation.

**Comparison of 2011 to 2010**

**Changes in Net Assets**  
(\$ in Thousands)

	June 30, <u>2011</u>	June 30, <u>2010</u>	% Increase <u>(Decrease)</u>
Current Assets	\$ 7,506	\$ 7,463	0.6
Restricted Assets	1,665	2,516	(33.8)
Capital Assets	76,477	80,098	(4.5)
Bond Issuance Cost and Other Assets	<u>957</u>	<u>932</u>	<u>2.7</u>
Total Assets	<u>86,605</u>	<u>91,009</u>	<u>(4.8)</u>
Current Liabilities	5,958	6,083	(2.1)
Current Liabilities Payable from Restricted Assets	292	110	165.5
Noncurrent Liabilities	<u>6,687</u>	<u>10,041</u>	<u>(33.4)</u>
Total Liabilities	<u>12,937</u>	<u>16,234</u>	<u>(20.3)</u>
Invested in Capital Assets, Net of Related Debt	65,713	66,719	(1.5)
Restricted Net Assets	1,374	2,406	(42.9)
Unrestricted Net Assets	<u>6,581</u>	<u>5,650</u>	<u>16.5</u>
Total Net Assets	\$ <u>73,668</u>	\$ <u>74,775</u>	<u>(1.5)</u>

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

#### Net Assets *(continued)*:

The PDA's total assets decreased by \$4.4 million or 4.8%, primarily due to lower capital construction levels across all business units and a reduction of \$0.6 million in Intergovernmental Receivables. In addition, the leased equipment receivable provided a further reduction of \$1.0 million consistent with the current amortization schedule.

The PDA's total liabilities decreased from fiscal year 2010 by \$3.3 million or 20.3% primarily due to scheduled debt repayments. During the current fiscal year, PDA repaid, in full, the outstanding Skyhaven Airport debt to the State of New Hampshire due to the favorable interest rate environment and its access to the capital markets.

The PDA's net assets decreased by \$1.1 million or 1.5% primarily due to a decrease of \$1.0 million in capital assets, net of related debt which was driven by lower capital expenditures and the continued repayment of capital debt outstanding. In addition, certain assets were reclassified from restricted net assets to unrestricted net assets in order to conform to guidelines established by the Governmental Accounting Standards Board.

#### Comparison of 2010 to 2009

#### Changes in Net Assets (\$ in Thousands)

	June 30, <u>2010</u>	June 30, <u>2009</u>	% Increase <u>(Decrease)</u>
Current Assets	\$ 7,463	\$ 9,719	(23.2)
Restricted Assets	2,516	3,890	(35.3)
Capital Assets	80,098	76,227	5.1
Bond Issuance Cost and Other Assets	<u>932</u>	<u>1,013</u>	<u>(8.0)</u>
Total Assets	<u>91,009</u>	<u>90,849</u>	<u>0.2</u>
Current Liabilities	6,083	6,465	(5.9)
Current Liabilities Payable from Restricted Assets	110	67	64.2
Noncurrent Liabilities	<u>10,041</u>	<u>13,924</u>	<u>(27.9)</u>
Total Liabilities	<u>16,234</u>	<u>20,456</u>	<u>(20.6)</u>
Invested in Capital Assets, Net of Related Debt	66,719	59,291	12.5
Restricted Net Assets	2,406	3,254	(26.1)
Unrestricted Net Assets	<u>5,650</u>	<u>7,848</u>	<u>(28.0)</u>
Total Net Assets	<u>\$ 74,775</u>	<u>\$ 70,393</u>	<u>6.2</u>

Total assets increased by \$0.2 million or 0.2%, primarily due to: a) a 5.1% or \$3.9 million increase in capital assets associated with construction activities at the Portsmouth International Airport at Pease; b) the construction of a new golf clubhouse; and c) the transfer of plant assets associated with the Skyhaven Airport. This increase was offset primarily by 1) a \$2.9 million or 30.0% decrease in current assets associated with the reduction in Intergovernmental Receivables and 2) a decrease of \$0.7 million or 18.3% in restricted assets which was primarily attributable to the reduction in leased equipment receivable.

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

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#### **Net Assets** (continued):

Total liabilities decreased from fiscal year 2009 by \$4.2 million or 20.6% primarily due to scheduled debt repayments. The PDA's current liabilities decreased \$0.4 million primarily due to lower construction activities at the end of the fiscal year. In addition, noncurrent liabilities decreased by 27.9% or \$3.9 million associated with scheduled debt repayments including payments to the State of New Hampshire and the City of Portsmouth.

Net assets increased by \$4.4 million or 6.2% primarily due to an increase of \$7.4 million in grant-funded capital projects at the Portsmouth International Airport at Pease and the Division of Ports and Harbors. This increase was offset by a decrease of \$2.2 million in unrestricted net assets associated with ongoing operations and the increase in depreciation expense.

#### **Capital Assets**

The PDA independently develops and maintains the Pease International Tradeport and, within its Division of Ports and Harbors, maintains and develops New Hampshire's ports, harbors, and navigable tidal rivers. Capital expenditures typically extend the useful life of an asset and can be financed through grant related funding and or access to the capital market.

#### **Comparison of 2011 to 2010**

##### **Changes in Capital Assets** (\$ in Thousands)

	June 30, <u>2011</u>	June 30, <u>2010</u>	% Increase <u>(Decrease)</u>
Land	\$ 5,090	\$ 4,732	7.6
Equipment	10,990	10,614	3.5
Buildings and Facilities Improvements	120,451	118,502	1.6
Construction-In-Progress	<u>1,988</u>	<u>1,889</u>	<u>5.2</u>
Gross Capital Assets	138,519	135,737	2.0
Less:			
Accumulated Depreciation	<u>62,042</u>	<u>55,639</u>	<u>11.5</u>
Net Capital Assets	\$ <u>76,477</u>	\$ <u>80,098</u>	<u>(4.5)</u>

The PDA's net capital assets decreased by \$3.6 million or 4.5%, mainly due to lower capital expenditures versus current year depreciation expense. During the year, approximately \$2.8 million were expended on capital projects the majority of which were funded through federal grants.

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

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#### Capital Assets *(continued)*:

#### Comparison of 2010 to 2009

#### Changes in Capital Assets (\$ in Thousands)

	June 30, <u>2010</u>	June 30, <u>2009</u>	% Increase <u>(Decrease)</u>
Land	\$ 4,732	\$ 2,843	66.4
Equipment	10,614	7,919	34.0
Buildings and Facilities Improvements	118,502	113,357	4.5
Construction-In-Progress	<u>1,889</u>	<u>1,490</u>	<u>26.8</u>
Gross Capital Assets	135,737	125,609	8.1
Less:			
Accumulated Depreciation	<u>55,639</u>	<u>49,382</u>	<u>12.7</u>
Net Capital Assets	\$ <u>80,098</u>	\$ <u>76,227</u>	<u>5.1</u>

The PDA's net capital assets increased by \$3.9 million or 5.1%, mainly due to increases of \$5.1 million in buildings and facilities improvements, \$2.7 million in equipment, and \$1.9 million in land. This level of capital asset increases were primarily the result of renovations at the Portsmouth International Airport and the Division of Ports and Harbor, construction of the new golf clubhouse, and the transfer of approximately \$3.6 million in assets associated with the Skyhaven Airport. These increases in capital assets were offset by a 12.7% increase of \$6.3 million associated with accumulated depreciation.

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

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#### Debt Administration

The PDA borrowed money from the State of New Hampshire during its early years to finance its operations. Other monies were borrowed for capital improvements from other sources.

#### Comparison of 2011 to 2010

##### Changes in Noncurrent Liabilities

(\$ in Thousands)

	June 30, <u>2011</u>	June 30, <u>2010</u>	% Increase <u>(Decrease)</u>
Note Payable - State of New Hampshire	\$ 3,070	\$ 5,915	(48.1)
Note Payable - The Provident Bank	1,830	2,833	(35.4)
Line of Credit Note Payable- The Provident Bank	766	-	100.0
Due to City of Portsmouth -			
Waste Water Treatment Facility	930	1,047	(11.2)
State of New Hampshire Advance	-	68	(100.0)
Advance from Tenant	91	117	(22.2)
State of New Hampshire Advance - Skyhaven Airport	-	<u>61</u>	<u>(100.0)</u>
Total Long-term Debt	\$ <u>6,687</u>	\$ <u>10,041</u>	<u>(33.4)</u>

Consistent with current debt amortization schedules, the PDA reduced its total debt outstanding during the fiscal year by \$3.4 million or 33.4%. During the fiscal year, \$4.1 million of debt was repaid including the accelerated retirement of the Skyhaven Airport debt to the State of New Hampshire. At the end of the fiscal year, PDA's overall cost of capital was 3.8%.

#### Comparison of 2010 to 2009

##### Changes in Noncurrent Liabilities

(\$ in Thousands)

	June 30, <u>2010</u>	June 30, <u>2009</u>	% Increase <u>(Decrease)</u>
Note Payable - State of New Hampshire	\$ 5,915	\$ 8,550	(30.8)
Note Payable - The Provident Bank	2,833	3,833	(26.1)
Due to City of Portsmouth -			
Waste Water Treatment Facility	1,047	1,163	(10.0)
State of New Hampshire Advance	68	234	(70.9)
Advance from Tenant	117	144	(18.8)
State of New Hampshire Advance - Skyhaven Airport	<u>61</u>	-	<u>100.0</u>
Total Long-term Debt	\$ <u>10,041</u>	\$ <u>13,924</u>	<u>(27.9)</u>

Consistent with current debt amortization schedules, the PDA reduced its total debt outstanding during the fiscal year by \$3.9 million or 27.9%. During the fiscal year, \$3.8 million of debt was repaid.

## PEASE DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

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#### **Contacting the PDA's Management Team:**

This financial report is designed to provide a general overview of the PDA's finances and to demonstrate the PDA's accountability for the grants that it receives. If you have questions about this report or need additional financial information, contact David R. Mullen, Executive Director at 55 International Drive Portsmouth, NH 03801. Please visit our website at: [www.peasedev.org](http://www.peasedev.org).

**PEASE DEVELOPMENT AUTHORITY**  
**BALANCE SHEETS**  
**June 30, 2011 and 2010**

<b>ASSETS</b>		
	<b>2011</b>	<b>2010</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 6,099,231	\$ 5,455,647
Tenant and Other Receivables (Net of Allowance of \$60,000 in 2011 and \$125,000 in 2010)	663,477	629,255
Intergovernmental Receivables	120,949	686,782
Loans Receivable	128,528	216,711
Other Current Assets	493,446	474,646
Total Current Assets	7,505,631	7,463,041
<b>Restricted Assets</b>		
Cash and Cash Equivalents	647,781	532,015
Leased Equipment Receivable	1,018,052	1,983,888
Total Restricted Assets	1,665,833	2,515,903
<b>Capital Assets</b>		
Land	5,090,113	4,731,511
Buildings and Facilities Improvements	120,451,098	118,502,236
Equipment	10,989,864	10,614,480
Construction-In-Progress	1,988,271	1,889,122
	138,519,346	135,737,349
Accumulated Depreciation	(62,042,640)	(55,639,136)
Total Capital Assets	76,476,706	80,098,213
Bond Issuance Costs - Net	59,147	118,667
Other Assets	897,293	813,474
<b>Total Assets</b>	<b>\$ 86,604,610</b>	<b>\$ 91,009,298</b>

**PEASE DEVELOPMENT AUTHORITY**  
**BALANCE SHEETS**  
**June 30, 2011 and 2010**  
**(CONTINUED)**

<b>LIABILITIES AND NET ASSETS</b>		
	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Accounts and Retainage Payable	\$ 520,777	\$ 960,853
Accrued Expenses	712,618	807,529
Deferred Revenues	648,334	518,630
Current Portion of Long-term Debt:		
Note Payable - State of New Hampshire	2,845,000	2,635,000
Note Payable - The Provident Bank	833,333	833,333
Line of Credit Note Payable - The Provident Bank	187,829	-
City of Portsmouth - Waste Water Treatment Facility	116,289	116,289
State of New Hampshire Advance	67,550	166,270
Advance From Tenant	26,109	26,109
State of New Hampshire Advance - Skyhaven Airport	-	19,102
Total Current Liabilities	<u>5,957,839</u>	<u>6,083,115</u>
<b>Current Liabilities Payable</b>		
<b>From Restricted Assets</b>		
Accounts and Retainage Payable	270,405	86,225
Accrued Interest	21,120	23,466
Total Current Liabilities Payable from Restricted Assets	<u>291,525</u>	<u>109,691</u>
<b>Noncurrent Liabilities</b>		
Note Payable - State of New Hampshire	3,070,000	5,915,000
Note Payable - The Provident Bank	1,829,599	2,833,334
Line of Credit Note Payable - The Provident Bank	766,284	-
City of Portsmouth - Waste Water Treatment Facility	930,304	1,046,593
State of New Hampshire Advance	-	67,550
Advance From Tenant	91,380	117,488
State of New Hampshire Advance - Skyhaven Airport	-	60,903
Total Noncurrent Liabilities	<u>6,687,567</u>	<u>10,040,868</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	65,713,029	66,718,665
Restricted Leased Equipment Receivable	1,018,052	1,983,888
Restricted for Specific Purpose	356,256	422,324
Unrestricted	6,580,342	5,650,747
Total Net Assets	<u>73,667,679</u>	<u>74,775,624</u>
<b>Total Liabilities and Net Assets</b>	<u><b>\$ 86,604,610</b></u>	<u><b>\$ 91,009,298</b></u>

*See accompanying notes to financial statements.*

**PEASE DEVELOPMENT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Rental of Facilities	\$ 10,095,424	\$ 10,290,296
Fee Revenues:		
Golf Course Operations	1,524,455	1,459,606
Mooring, Dockage, Pier Usage and Boat Registrations	958,799	947,689
All Other	238,124	269,118
Total Fee Revenues	<u>2,721,378</u>	<u>2,676,413</u>
Fuel Sales	836,900	722,648
Concession and Other Miscellaneous	667,687	541,569
Interest Income on Loans and Leases	127,087	174,185
Total Operating Revenues	<u>14,448,476</u>	<u>14,405,111</u>
<b>Operating Expenses</b>		
Depreciation and Amortization	6,530,854	6,663,649
Personnel Services and Benefits	5,397,910	5,388,967
Building and Facilities Maintenance	1,268,481	1,274,092
General and Administrative	785,842	912,353
Utilities	766,796	711,667
Marketing and Promotion	247,936	214,845
Professional Services	357,063	183,422
Other Operating Expenses	1,011,393	875,934
Total Operating Expenses	<u>16,366,275</u>	<u>16,224,929</u>
<b>Operating Loss</b>	<u>(1,917,799)</u>	<u>(1,819,818)</u>
<b>Nonoperating Income (Expense)</b>		
Interest Expense	(745,051)	(929,819)
Interest Income	11,763	25,979
Loss on Disposal of Assets	(1,220)	(21,945)
Total Nonoperating Expense	<u>(734,508)</u>	<u>(925,785)</u>
Loss Before Contributed Capital	(2,652,307)	(2,745,603)
Contributed Capital	<u>1,544,362</u>	<u>7,128,159</u>
Change in Net Assets	(1,107,945)	4,382,556
Net Assets at Beginning of Year	<u>74,775,624</u>	<u>70,393,068</u>
<b>Net Assets at End of Year</b>	<u><b>\$ 73,667,679</b></u>	<u><b>\$ 74,775,624</b></u>

*See accompanying notes to financial statements.*

**PEASE DEVELOPMENT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2011 and 2010

	2011	2010
<b>Cash Flows From Operating Activities</b>		
Cash Received from Customers	\$ 14,548,961	\$ 14,427,916
Cash Payments to Employees for Services	(5,554,829)	(5,834,558)
Cash Payments to Suppliers of Goods and Services	(4,826,743)	(4,766,428)
Net Cash Provided by Operating Activities	4,167,389	3,826,930
<b>Cash Flows From Capital and Related Financing Activities</b>		
Contributed Capital by Federal Government	1,544,362	5,504,790
Line of Credit Note Payable - The Provident Bank	1,000,000	-
Equipment and Lease Principal Payments	965,836	916,299
Contributed Capital - Skyhaven Airport Transfer	-	4,236,822
Purchase of Capital Assets	(2,845,835)	(10,520,885)
Repayment on Note Payable - State of New Hampshire	(2,635,000)	(2,440,000)
Repayment on Note Payable - The Provident Bank	(1,003,735)	(1,000,000)
Interest Paid on Capital Debt	(677,515)	(698,347)
Repayment on Debt - City of Portsmouth		
Waste Water Treatment Facility	(116,289)	(116,289)
Repayment on Advance - Skyhaven Airport	(80,005)	(20,336)
Repayment on Line of Credit Note Payable - The Provident Bank	(45,887)	-
Other Miscellaneous - Net	474,266	(157,787)
Net Cash Used in Capital and Related Financing Activities	(3,419,802)	(4,295,733)
<b>Cash Flows From Investing Activities</b>		
Interest Income Received	11,763	25,979
Increase (Decrease) in Cash and Cash Equivalents	759,350	(442,824)
Cash and Cash Equivalents - Beginning of Year	5,987,662	6,430,486
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 6,747,012</b>	<b>\$ 5,987,662</b>

**PEASE DEVELOPMENT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2011 and 2010  
(CONTINUED)

	2011	2010
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
<b>Operating Loss</b>	\$ (1,917,799)	\$ (1,819,818)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities</b>		
Depreciation and Amortization	6,530,854	6,663,649
Rental Income from Related Entity	(166,270)	(166,270)
Allowance for Doubtful Accounts	(65,000)	(70,000)
Tenant Rent	(26,108)	(26,109)
All Other - Net	-	(26,861)
<b>Changes in Operating Assets and Liabilities:</b>		
Tenant and Other Receivables	(34,222)	(69,580)
Loans Receivable and Other Current Assets	69,383	(104,061)
Accounts and Retainage Payable <i>(Includes capital asset additions of \$75,465 in 2011 and \$141,953 in 2010)</i>	(255,896)	(366,950)
Accrued Expenses	(97,257)	(175,356)
Deferred Revenues	129,704	(11,714)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 4,167,389</b>	<b>\$ 3,826,930</b>

*See accompanying notes to financial statements.*

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**1. Reporting Entity**

The Pease Development Authority ("PDA") is the successor entity to the Pease Redevelopment Commission ("PRC"). The PRC was created on March 21, 1989 by an act of the General Court of the State of New Hampshire. The mandate of the PRC was to prepare a comprehensive plan for the conversion and redevelopment of Pease Air Force Base. The guiding principles of the plan were job creation, fiscal viability, economic development, and environmental quality.

Effective June 1, 1990, the PRC was dissolved and the PDA was established as its successor with the goals of converting and redeveloping the Pease International Tradeport ("Tradeport"). The PDA is a component unit of the State of New Hampshire (the "State"), and is discretely presented in the Comprehensive Annual Financial Report of the State.

PDA is a body corporate and politic with a governing body of seven members. Four members are appointed by the Governor and state legislative leadership, and three members are appointed by the City of Portsmouth and the Town of Newington.

Pursuant to Chapter 290, Laws of 2001, the New Hampshire State Port Authority ("Port"), a former department of the primary state government, was transferred to the PDA effective July 1, 2001. In doing so, the State of New Hampshire authorized the transfer of functions, powers and duties of the Port to the PDA, acting through the Division of Ports and Harbors ("PDA-DPH"). The PDA-DPH is charged with the responsibility to: 1) plan for the maintenance and development of the ports, harbors and navigable tidal rivers of the State to foster and stimulate commerce and the shipment of freight; 2) aid in the development of salt water fisheries and associated industries; 3) cooperate with any federal agencies or departments in planning the maintenance, development and use of the State ports, harbors, and navigable tidal rivers; and 4) plan, develop, maintain, use and operate land transportation facilities within a 15 mile radius of the PDA-DPH headquarters in Portsmouth, New Hampshire.

Pursuant to Chapter 356 Laws of 2008, House Bill 65 was enacted by the State Legislature on July 11, 2008. The bill: 1) provides that service of non-classified employees of the PDA shall be credited as continuous state service for all purposes; 2) makes the PDA fund a nonlapsing fund for the benefit of the Division of Ports and Harbors; 3) requires a biennial report of the Division of Ports and Harbors; and 4) repeals provisions relative to coordination with the Department of Resources and Economic Development, reports on economic development programs and the Harbor Management Fund.

On May 12, 2008, the State of New Hampshire, through House Bill 1168-FN-LOCAL, passed legislation that requires the New Hampshire Department of Transportation (NHDOT) to negotiate a lease, which became effective November 1, 2008, with the PDA for the operation of the Skyhaven Airport located in Rochester, New Hampshire. With the passage Chapter 113 Laws of 2009, enacted on June 22, 2009, the NHDOT was directed to convey ownership of the Skyhaven Airport to the PDA. The law required that the PDA accept ownership of, manage and operate Skyhaven Airport, and act as the official Airport owner, operator and sponsor. The PDA accepted this transfer of ownership, from and after July 1, 2009 with no liability relative to any regulatory matters or causes of action arising prior to November 1, 2008.

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**2. Summary of Significant Accounting Policies**

Basis of Accounting

The accompanying financial statements of the PDA have been prepared in accordance with accounting principles generally accepted in the United States of America and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting.

Cash Equivalents

For purposes of the Statements of Cash Flows, cash equivalents represent short-term investments with original maturities less than three months from the date acquired.

Tenant and Other Receivables

Tenant and other receivables are carried at cost, less an allowance for doubtful accounts. Management provides an allowance for doubtful accounts based on an analysis of accounts that are delinquent based on payment terms. Accounts are written-off when deemed uncollectible.

Loans Receivable

Loans receivable balances include the current portion of outstanding loans from the Revolving Loan Fishery Fund, including principal plus accrued interest.

Capital Assets

Land, equipment, and buildings and facilities improvements are stated at cost. Depreciation is computed using a straight-line method over the estimated useful lives of the assets, which is principally five to thirty-five years. Capital asset acquisitions that equal or exceed \$5,000 are capitalized. The cost of maintenance and repairs is charged against income as incurred, while significant renewals and betterments are capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Capital Asset	Years
Buildings	35
Buildings and Facilities Improvements	20
Equipment	5
Computer Software	5

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**2. Summary of Significant Accounting Policies** (continued):

Bond Issuance Costs

Bond issuance costs are capitalized and amortized over the term of the bonds using the straight-line method.

Deferred Revenues

Advance greens fees for the golf course have been deferred based upon a percentage allocation of the total days the course expects to operate. Mooring fees for the harbors have been deferred based on the expiration date of the fee. In addition, rental income received in advance has been deferred.

Net Assets

Net assets are presented in the following categories:

- *Invested in capital assets, net of related debt* represents capital assets, net of long-term debt that relates to these assets.
- *Restricted leased equipment receivable* represents the amount of leased equipment receivable at year-end.
- *Restricted for specific purpose* represents amounts whose use is subject to an externally imposed restriction.
- *Unrestricted* represents the remaining balance of net assets after the above net asset categories have been determined.

Operating and Nonoperating Revenues and Expenses

The PDA distinguishes between operating revenues and expenses from nonoperating items in the preparation of its financial statements. The PDA's principal operating revenues result from charges to tenants for the lease or license of property, providing services, and delivering goods. Operating expenses for the PDA include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**2. Summary of Significant Accounting Policies** (continued):

Revenue Recognition

Rental income is recognized over the term of the lease net of provisions for uncollectible accounts. Various other revenues are recorded when earned which is generally when the related services are performed.

Grants

Federal grants, received on a reimbursement basis, are recorded as receivables and contributed capital when the related expenditures are incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**3. Cash and Cash Equivalents**

Cash and cash equivalents consisted of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash on Hand	\$ 2,665	\$ -	\$ 2,665
Cash in Bank:			
Carrying Amount	6,096,566	647,781	6,744,347
Bank Balance	6,319,803	678,902	6,998,705
Bank Balance Covered by Federal Deposit Insurance			\$ 867,132
Bank Balance Covered by Depositors Insurance Fund			6,129,690
Bank Balance Collateralized by Securities			1,883
Bank Balance Uncollateralized and Uninsured			-
			<u>\$ 6,998,705</u>

Cash and cash equivalents consisted of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash on Hand	\$ 2,665	\$ -	\$ 2,665
Cash in Bank:			
Carrying Amount	5,452,982	532,015	5,984,997
Bank Balance	6,049,006	475,570	6,524,576
Bank Balance Covered by Federal Deposit Insurance			\$ 5,259,832
Bank Balance Collateralized by Securities			1,264,744
Bank Balance Uncollateralized and Uninsured			-
			<u>\$ 6,524,576</u>

The total bank balance represents the total amounts on deposit as reported by the banks. The carrying amount represents the balances per PDA's records. The principal differences are outstanding checks and deposits-in-transit that have not cleared the bank as of June 30, 2011 and or 2010. The collateralized amounts above represent United States agency mortgage backed securities that are held in the PDA's name by a third-party custodian.

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**3. Cash and Cash Equivalents** (continued):

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the PDA's deposits may not be returned to it. State of New Hampshire Statute RSA 12-G: 8 (XIII) empowers the PDA to invest and reinvest its funds and take and hold property as security for the payment of funds so invested. The PDA's investment policy is more restrictive than applicable New Hampshire law in that it restricts investments to the following: New Hampshire public deposit investment pool, federal agency securities, repurchase agreements, commercial paper, money market funds, and certificates of deposit. The PDA's policy does not explicitly address custodial credit risk.

Restricted Cash

Restricted cash and cash equivalents are represented by the following at June 30:

	<u>2011</u>	<u>2010</u>
Harbor Dredging and Pier Maintenance	\$ 510,208	\$ 391,360
State of New Hampshire - Revolving Loan Fishery Fund	76,804	84,629
Foreign Trade Zone	60,769	56,026
	<u>\$ 647,781</u>	<u>\$ 532,015</u>

In accordance with State of New Hampshire Chapter 339, Laws of 1994, a sum not to exceed \$5,000,000 is available to the PDA only for purposes of providing matching funds for Federal Aviation Administrative grants, Economic Development Administration grants and other available grants. The PDA received the \$5,000,000 in fiscal 1995, which is to be paid back by the PDA, with interest, when operations permit. At June 30, 2011 and 2010, matching funds totaled \$0 and \$0, respectively.

On July 1, 2001, as a result of the transfer of the DPH to the PDA, the Harbor Dredging and Pier Maintenance Fund was transferred to the PDA. This fund was set up for the purposes of initiating and implementing harbor dredging projects and maintaining public piers. Also on July 1, 2001, as a result of the transfer of the Port to the PDA, the Revolving Loan Fishery Fund was transferred to the PDA. The Revolving Loan Fishery Fund was established in July 1994 by the Port through a Federal Economic Development Administration grant in the amount of \$810,000. The grant funds, and related interest earned thereon, provide a revolving loan fund to offer direct assistance to the fishing industry and to aid in the creation of economic opportunities within the industry. At June 30, 2011 and 2010, loans outstanding totaled \$1,021,934 and \$1,007,513, respectively.

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**4. Revolving Loan Facility Agreements**

The PDA currently has a Line of Credit Agreement (LCA) secured through The Provident Bank. The \$1,500,000 credit facility matures December 31, 2011. The terms of the LCA provide that a) the loan shall bear interest at a per annum rate equal to the Wall Street Journal Prime Rate plus 0.25% provided that the minimum interest shall not be less than four percent (4.00%) and b) the PDA shall maintain various covenants that are to be reported on periodically. The proceeds of any draw on the LCA are to be used for general working capital purposes of the PDA. To date, the PDA has not accessed any funds made available under the LCA.

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Land	\$ 4,731,511	\$ 358,602	\$ -	\$ -	\$ 5,090,113
Buildings and Facilities Improvements	118,502,236	1,948,862	-	-	120,451,098
Equipment	10,614,480	419,337	(43,953)	-	10,989,864
Construction-in- Progress	<u>1,889,122</u>	<u>2,825,950</u>	<u>-</u>	<u>(2,726,801)</u>	<u>1,988,271</u>
	135,737,349	5,552,751	(43,953)	(2,726,801)	138,519,346
Less Accumulated Depreciation	(55,639,136)	(6,443,080)	39,576	-	(62,042,640)
Total Capital Assets	\$ <u>80,098,213</u>	\$ <u>(890,329)</u>	\$ <u>(4,377)</u>	\$ <u>(2,726,801)</u>	\$ <u>76,476,706</u>

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**5. Capital Assets** (continued)

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Disposals	Transfers	Balance June 30, 2010
Land	\$ 2,843,030	\$ 1,888,481	\$ -	\$ -	\$ 4,731,511
Buildings and Facilities Improvements	113,356,368	5,252,142	(106,274)	-	118,502,236
Equipment	7,918,987	2,981,466	(285,973)	-	10,614,480
Construction-in- Progress	<u>1,490,326</u> 125,608,711	<u>6,284,063</u> 16,406,152	<u>-</u> (392,247)	<u>(5,885,267)</u> (5,885,267)	<u>1,889,122</u> 135,737,349
Less Accumulated Depreciation	(49,381,584)	(6,626,287)	368,735	-	(55,639,136)
Total Capital Assets	\$ <u>76,227,127</u>	\$ <u>9,779,865</u>	\$ <u>(23,512)</u>	\$ <u>(5,885,267)</u>	\$ <u>80,098,213</u>

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**6. Airport Joint Use Agreement**

On October 1, 2002, the Department of the Air Force and the PDA entered into an Airport Joint Use Agreement ("Agreement") regarding the required use of the airport facilities at the Tradeport by the New Hampshire Air National Guard as well as for other occasional government aircraft. Subject to the terms and conditions of the Agreement, the federal government has the use of the airport facilities in common with other users of the airport together with all necessary and conventional rights of ingress and egress to and from the related facilities located at the airport.

The federal government is responsible for the functions detailed in the Agreement, including, but not limited to the following: air traffic control services, fire protection, and crash rescue. The PDA is responsible for certain services and functions, including, but not limited to the following: maintenance of certain facilities, utilities, and other related services in connection with maintaining an airport facility in accordance with Federal Aviation Administration requirements. Discussions are ongoing relative to extending the current agreement which expired on September 30, 2009.

**7. Deferred Revenues**

Deferred revenues, which are recognized when cash, receivables or other assets are recorded prior to their being earned, consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Mooring Fees	\$ 266,895	\$ 272,538
Golf Course Fees	212,443	221,638
All Other-Net	168,996	24,454
	<u>\$ 648,334</u>	<u>\$ 518,630</u>

Mooring fees and golf course fees are collected primarily during the months of January through March and amortized ratably over the corresponding seasons.

**8. State of New Hampshire Advance**

The State of New Hampshire approved loans to the PDA for operating purposes, as needed, that are to be paid back by the PDA with interest when its operations permit. Such appropriations totaled \$18,420,026, including \$5,000,000 for matching funds (*Note #3*), at June 30, 2011 and 2010. Total outstanding advances payable to the State of New Hampshire, that represent appropriations received plus accrued interest less repayments, totaled \$67,550 and \$233,820 at June 30, 2011 and 2010, respectively.

**PEASE DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**9. Note Payable - State of New Hampshire**

On April 8, 1993, Lonza Biologics, Inc. (formerly Celltech Biologics, Inc.) ("CBI"), entered into a sublease with the PDA for the sublease of land and any and all improvements constructed or under construction, or otherwise acquired by CBI. CBI also assigned to the PDA all of its rights, title and interest with respect to purchases or other contracts in connection with the facility assets. In addition, the PDA also granted to CBI an exclusive option to lease a designated ten acre parcel of land adjacent to the initial leased land that had to be exercised during the first five years of the base term of the sublease. CBI has exercised this option.

Also in 1993, CBI advanced \$2,000,000 to the PDA for costs to be incurred relating to PDA improvements, including, without limitation, engineering, labor and materials relating to the initial site preparation. As of the years ended June 30, 2011 and 2010, the PDA has offset \$462,007 and \$435,899 of these funds relating to rent owed by CBI, \$193,135 for site preparation costs, and returned \$1,201,260 to CBI, respectively. These amounts have reduced the liability owed to CBI to \$117,489 and \$143,597 at June 30, 2011 and 2010, respectively.

The sublease, with a base term of twenty years that began on January 7, 1996, included four options to extend the term exercisable by CBI as its sole discretion. Each option, if exercised, shall extend the base term for an additional five year period. In no event shall the base term and all option periods extend beyond forty years. Ground rent of \$0.75 per square foot of land area per year will be charged based upon 217,800 square feet. However, CBI shall receive a credit against the ground rent for \$6,527 per quarter to offset amounts advanced to the PDA until such amounts are utilized. Commencing on December 22, 1995, CBI began paying PDA a facility fee according to terms disclosed in the sublease agreement. This facility fee mirrors the required debt service payments due on the note payable to the State of New Hampshire. Beginning June 21, 2008, these payments were adjusted to reflect changes in the consumer price index through the end of the lease term. In consideration of the PDA entering into the sublease, Celltech Biologics, PLC and Alusuisse-Lonza America guarantee the prompt payment, when due, of all payments of rent, additional rent and all other charges, including the facility fees.

In January 1996, CBI completed construction on its facility and began leasing both the facility and related equipment from the PDA. The building cost, approximating \$17,000,000, was recorded as a PDA capital asset, and is being depreciated over a 35 year life. The equipment cost of \$11,300,784 was recorded as leased equipment receivable by the PDA.

Future principal and interest receivable from the equipment lease agreement, exclusive of the annual facility fee, at June 30, 2011 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ <u>1,018,052</u>	\$ <u>33,945</u>	\$ <u>1,051,997</u>

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**9. Note Payable - State of New Hampshire** (continued):

Also, the sublease stipulates that CBI will provide or cause to be provided at the subleased premises a minimum of 100 full-time jobs at all times during the remaining term of the sublease. Failure of CBI to achieve these required employment levels will result, at the request of the PDA, in the development of a mutually acceptable plan pursuant to which CBI will rectify any employment shortfalls and maintain the required minimum. In the event that CBI fails to develop and implement a plan to rectify any employment shortfalls, such failure will constitute an event of default by CBI giving rise to various remedies available to the PDA for breach, as set forth in the sublease agreement.

The State of New Hampshire issued \$29,990,000 of general obligation taxable bonds (Pease Development Authority – 1993 Series) on April 18, 1993. Issued were \$16,740,000 of serial bonds and \$13,250,000 of term bonds at interest rates ranging from 5.0% to 7.7%, due semi-annually, on January 1 and July 1, in varying installments from July 1, 1996 to July 1, 2012. Proceeds of these bonds were loaned to the PDA pursuant to a Loan Agreement between the State, the PDA and CBI, in order to finance the construction of a pharmaceutical manufacturing facility and the acquisition of certain manufacturing equipment, all of which will be located at the Tradeport. These bonds may be redeemed in whole or in part, at the option of the State, at a premium not to exceed 2.00% of the bonds redeemed.

Debt service requirements per the above loan agreement are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,845,000	\$ 345,923	\$ 3,190,923
2013	3,070,000	118,195	3,188,195
	<u>\$ 5,915,000</u>	<u>\$ 464,118</u>	<u>\$ 6,379,118</u>

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**10. Due to City of Portsmouth – Waste Water Treatment Facility**

In December 2000, the State of New Hampshire – Water Pollution Control Revolving Fund program debt outstanding of \$6,444,630 was assigned to the City of Portsmouth, New Hampshire. A supplemental loan agreement was entered into between the State of New Hampshire, Water Pollution Control Revolving Fund program and the City of Portsmouth in order to finance the construction of the wastewater treatment plant upgrade. In conjunction with the assignment of the debt to the City of Portsmouth, a similar portion of the leasehold improvement for the wastewater treatment facility was also transferred to the City of Portsmouth. The PDA agreed to pay an amount totaling \$2,307,064 to the City of Portsmouth. Annual payments plus interest at 4.50%, are payable through 2020. Amounts totaling \$1,046,593 and \$1,162,882 were outstanding at June 30, 2011 and 2010, respectively. Debt service requirements per the above debt at June 30, 2011 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 116,289	\$ 46,720	\$ 163,009
2013	116,289	41,529	157,818
2014	116,289	36,338	152,627
2015	116,289	31,147	147,436
2016	116,289	25,956	142,245
2017-2021	465,148	51,912	517,060
	<u>\$ 1,046,593</u>	<u>\$ 233,602</u>	<u>\$ 1,280,195</u>

**11. Note Payable – The Provident Bank**

During the prior fiscal year, the PDA secured a \$5,000,000 State of New Hampshire Guaranteed Bond Anticipation Note (BAN) through The Provident Bank.

The proceeds of the BAN were used to make a portion of the PDA's payment to the State of New Hampshire pursuant to New Hampshire RSA Chapter 12-G (the Act). The BAN, which is designated as a "qualified tax-exempt obligation" for the purposes of Section 265(b) (3) of the Internal Revenue Code, is a general obligation of the PDA under the Act, payable from all revenues of the PDA. The terms of the BAN provide for a) six-year fixed interest rate of 3.74% and b) the PDA shall maintain various covenants that are to be reported on periodically. In addition, the State of New Hampshire has unconditionally guaranteed both the payment of the principal of and interest on the BAN and the LCA.

Debt service requirements per the above debt at June 30, 2011 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 833,333	\$ 100,274	\$ 933,607
2013	833,333	68,851	902,184
2014	833,333	37,685	871,018
2015	162,933	7,827	170,760
	<u>\$ 2,662,932</u>	<u>\$ 214,637</u>	<u>\$ 2,877,569</u>

At the election of the PDA Board of Directors, the loan repayment is to be conducted over an accelerated 60 month period through February 25, 2014.

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**12. Line of Credit Note Payable – The Provident Bank**

During the current fiscal year, the PDA secured a \$2,500,000 State of New Hampshire Guaranteed Line of Credit Note (LCN) through The Provident Bank. The State of New Hampshire has unconditionally guaranteed both the payment of the principal and interest on the LCN.

The proceeds of the LCN are made available to finance capital expenditures. The LCN, which is designated as a “qualified tax-exempt obligation” for the purposes of Section 265(b) (3) of the Internal Revenue Code, is a general obligation of the PDA, payable from all revenues of the PDA. The terms of the LCN provide that the interest rate, as associated with each drawdown, shall be based on the five year Municipal Market Data interest rate for the then prevailing Moody’s rating of the State of New Hampshire, plus 1.50%. In addition, the PDA shall maintain various covenants that are to be reported on periodically.

The initial drawdown of \$1,000,000 was made on March 14, 2011 and carries a five year maturity at an interest rate of 3.46%.

Debt service requirements per the above debt at June 30, 2011 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 187,829	\$ 30,554	\$ 218,383
2013	194,604	23,779	218,383
2014	201,542	16,841	218,383
2015	208,727	9,656	218,383
2016	161,411	2,378	163,789
	<u>\$ 954,113</u>	<u>\$ 83,208</u>	<u>\$ 1,037,321</u>

**13. State of New Hampshire Advance- Skyhaven Airport**

During the prior fiscal year, the PDA accepted the transfer of ownership of the Skyhaven Airport from the New Hampshire Department of Transportation. As a component of this transfer, the PDA became obligated to the current debt outstanding which had been previously secured through the State of New Hampshire. The original principal obligation, which carried an interest rate of 6.25%, totaled approximately \$440,000 with a maturity scheduled through July 1, 2014. The proceeds of this financing were used to support capital improvements including the construction of several airplane storage hangars.

Given the favorable interest rate environment and the PDA’s overall cost of capital, the PDA Board elected to pay-off the outstanding debt obligation, in full, during the current fiscal year.

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**14. Changes in Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due in One Year
Note Payable - State of New Hampshire	\$ 8,550,000	\$ -	\$ (2,635,000)	\$ 5,915,000	\$ 2,845,000
Note Payable - The Provident Bank	3,666,667	-	(1,003,735)	2,662,932	833,333
City of Portsmouth - Waste Water Treatment Facility	1,162,882	-	(116,289)	1,046,593	116,289
Line of Credit Note Payable - The Provident Bank	-	1,000,000	(45,887)	954,113	187,829
State of New Hampshire Advance	233,820	-	(166,270)	67,550	67,550
Advance from Tenant	143,597	-	(26,108)	117,489	26,109
State of New Hampshire Advance -Skyhaven Airport	80,005	-	(80,005)	-	-
	<u>\$ 13,836,971</u>	<u>\$ 1,000,000</u>	<u>\$ (4,073,294)</u>	<u>\$ 10,763,677</u>	<u>\$ 4,076,110</u>

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due in One Year
Note Payable - State of New Hampshire	\$ 10,990,000	\$ -	\$ (2,440,000)	\$ 8,550,000	\$2,635,000
Note Payable - The Provident Bank	4,666,667	-	(1,000,000)	3,666,667	833,333
City of Portsmouth - Waste Water Treatment Facility	1,279,171	-	(116,289)	1,162,882	116,289
State of New Hampshire Advance	400,090	-	(166,270)	233,820	166,270
Advance from Tenant	169,706	-	(26,109)	143,597	26,109
State of New Hampshire Advance -Skyhaven Airport	-	100,341	(20,336)	80,005	19,102
	<u>\$ 17,505,634</u>	<u>\$ 100,341</u>	<u>\$ (3,769,004)</u>	<u>\$ 13,836,971</u>	<u>\$ 3,796,103</u>

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**15. Rental of Facilities**

The PDA has leasing arrangements with various parties for the rental of land, buildings, and office space and airplane hangars within the boundaries of the Tradeport. Rentals are generally based upon set rental fees with additional payments based upon gallons of fuel sold or dispensed, ramp parking fees per aircraft and concession fees based upon a stated percentage of car rentals. Sublease arrangements are primarily for periods ranging from one to fifty years. These leases meet the criteria for classification as operating leases. The PDA-DPH has leasing, licenses and other arrangements with various parties for the use of land, warehouse, and storage facilities.

During fiscal year 2004, the PDA entered into an arrangement with the Great Bay Community College (formally the New Hampshire Community Technical College), an agency of the State of New Hampshire, for the rental of the facilities. During fiscal year 2007, the College purchased the building from the PDA for \$3,800,000; the proceeds of which were applied to the note payable to the State of New Hampshire that had been issued to support capital improvements at the Tradeport. Concurrent with the sale of the building, the PDA entered into a 50 year land lease with the College. The rental payments, which totaled \$166,270 in both fiscal year 2011 and 2010, are to be applied to the note payable to the State of New Hampshire until such time as the debt obligation is satisfied. The remaining debt obligation was \$67,550 and \$233,820 at June 30, 2011 and 2010, respectively.

At June 30, 2011, the projected minimum future revenue from noncancelable rental agreements is approximately:

<u>Year</u>	<u>Amount</u>
2012	\$ 10,094,000
2013	6,560,000
2014	6,137,000
2015	5,828,000
2016	5,306,000
Thereafter	90,985,000
	<u>\$ 124,910,000</u>

**16. Contributed Capital**

Contributed capital consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Federal and State Grants Capitalized as Capital Assets	\$ 1,544,362	\$ 2,891,337
Assignment of Skyhaven Airport Capital Assets	-	4,236,822
	<u>\$ 1,544,362</u>	<u>\$ 7,128,159</u>

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**17. Municipal Service Fees**

Effective July 1, 1998, the PDA entered into an amended municipal services agreement with the City of Portsmouth and the Town of Newington, New Hampshire to provide various municipal services, including police, fire and public works, at the Tradeport. This agreement specifies that PDA shall pay the City of Portsmouth a fee for the cost of services equal to the amount that would have been paid annually as ad valorem taxes, excluding any school tax component in respect to such property within the Airport District. The City of Portsmouth is responsible for service costs owed to the Town of Newington. This agreement excludes as part of the allocated area the space occupied by the PDA, any space for public use in the Airport Terminal, but does include completed facilities other than the PDA's golf course or airport terminals within the Airport District operated by the PDA for public or other use. Any tenant located outside the Airport District, unless otherwise exempt from taxation, shall pay to the City of Portsmouth a payment in lieu of taxes in accordance with the provisions of the New Hampshire law. This agreement shall continue to be in force until one of the parties terminates the agreement in writing.

**18. Risk Management**

The PDA is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; and natural disaster for which the PDA carries insurance.

The PDA has a comprehensive airport liability insurance policy that will provide coverage generally up to \$25,000,000 for each occurrence and in the aggregate in any one annual period of insurance. In addition, other insurance coverage is carried for general insurance, including automotive, crime, employment practices, fire, general liability, pollution, theft, and workers' compensation. There have been no significant changes in insurance coverage during the past fiscal year. Settlements did not exceed coverage amounts during fiscal years 2011 and 2010.

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**19. Employee Benefit Plans**

Plan Description

The PDA participates in the New Hampshire Retirement System (the "Retirement Plan"). The Retirement Plan is a defined benefit Retirement Plan and covers all full-time employees of the PDA who elect to participate. The Retirement Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated ("RSA"), Chapter 100-A established the Retirement Plan and the contribution requirements. The Retirement Plan is a cost sharing, multiple-employer Public Employees Retirement System ("PERS").

Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is 1/60 (1.67%) of average final compensation ("AFC"), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.50%) of AFC multiplied by years of creditable service. Members in service with 10 or more years creditable service who are between age 50 and 60 are entitled to retirement allowance with appropriate graduated reduction based on years of creditable service.

Members are entitled to disability allowances and death benefit allowances subject to various requirements and rates based on AFC or earnable compensation.

The PDA's covered payroll for the years ended June 30, 2011 and 2010 were approximately \$2,669,000 and \$2,641,000, respectively. The total payroll for the years ended June 30, 2011 and 2010 were \$3,893,000 and \$3,470,000, respectively.

Contributions Required and Made

The Retirement Plan is financed by contributions from the members, the PDA, and investment earnings. Contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the Retirement Plan's actuary.

Commencing July 1, 2010, all new employees were responsible to accrue contributions at 7.00%, while existing employees remained obligated at the 5.00% accrual contribution rate. Prior to that, all employees made contributions based on 5.00% of their eligible earnings. Commencing July 1, 2011, all employees were obligated to accrue contributions at 7.00% of their eligible earnings.

In terms of the employer share of contributions made to the Retirement Plan, the contribution rate was 11.05% for the two year period ending June 30, 2011. Commencing July 1, 2011, the employer share has been reduced to 10.08%.

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**19. Employee Benefit Plans** (continued):

Funding Status

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers* that, with some exceptions, must be used by a PERS. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date, and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefit obligation was adopted by the GASB to enable readers to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due and (c) make comparisons among other PERS. The PDA's portion of the total pension obligation and net assets of the Retirement Plan are not separately determinable. Additional information on the Retirement Plan is available through the New Hampshire Retirement System office or website.

The PDA's fiscal year 2011 and 2010 required contribution to the Retirement Plan represents less than one percent of the total current year actuarially determined contribution requirements for all employees covered by the Retirement Plan.

During 2011, and as of June 30, 2011 and 2010, respectively, the Retirement Plan held no securities issued by the State or other related parties.

Deferred Compensation Plan

The State of New Hampshire offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all qualified PDA employees who elect to participate, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provision of benefits under the Plan), subject only to the claims of the State of New Hampshire's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State of New Hampshire in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the State of New Hampshire's legal counsel that the State has no liability for losses under the Plan and does not have a duty with regard to the investment decisions made by the individual employees who possess an expectancy in receiving funds equivalent to the balance in their specific plan accounts. The State of New Hampshire believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

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**20. Other Post Employment Benefits**

GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented, as required, by the PDA on July 1, 2007. This pronouncement requires that the long-term cost of retirement health care and obligations for other postemployment benefits be determined on an actuarial basis and reported similar to pension plans.

In addition to providing pension benefits, RSA 21-I: 30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health coverage benefits. These and similar benefits for active employees are authorized by RSA 21-I: 30 and provided through the Employee and Retiree Benefit Risk Management Fund (the Fund), which is the state's self-insurance fund implemented in October 2003 for active state employees and retirees. The state recognizes the cost of providing benefits by paying actuarially determined insurance contributions into the fund. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees, which totaled approximately \$14,000,000 for the fiscal year ended June 30, 2011.

GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. However, the pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements. The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table represents the State's OPEB cost for the year, the amount contributed and charges in the OPEB plan for fiscal year 2011:

	<u>2011</u>	<u>2010</u>
Annual Required Contribution / OPEB Cost	\$ 156,863,000	\$ 204,948,000
Interest on net OPEB Obligation	20,277,000	13,192,000
Adjustment to Annual Required Contribution	<u>(15,020,000)</u>	<u>(9,989,000)</u>
Annual OPEB Cost	<u>162,120,000</u>	<u>208,151,000</u>
Contributions Made	55,778,000	(52,790,000)
Increase in Net OPEB Obligation	106,342,000	155,361,000
 Net OPEB Obligation- Beginning of Year	 <u>450,602,000</u>	 <u>295,241,000</u>
 Net OPEB Obligation- End of Year	 \$ <u>556,944,000</u>	 \$ <u>450,602,000</u>

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**20. Other Post Employment Benefits** (continued):

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Annual OPEB Cost	\$ 162,120,000	\$ 208,151,000
Actual Contributions (Pay-As-You-Go)	<u>(55,778,000)</u>	<u>(52,790,000)</u>
Net OPEB Obligation	\$ 106,342,000	\$ 155,361,000
Percentage Contributed	<u>34.41%</u>	<u>25.36%</u>

**21. Commitments and Contingencies**

The PDA is involved in a number of pending or threatened lawsuits encountered in the normal course of business. Management of the PDA believes that the ultimate outcome of these matters, to the extent not covered by insurance, will not have a material impact on the PDA's financial position or operations.

On April 5, 2011, Grimmel Industries, LLC ("Grimmel") a tenant of the Division of Ports and Harbors, received an Administrator Order (Order), issued by the United States Environmental Protection Agency (EPA) pursuant to Section 308(a) and 309(a)(3) of the Clean Water Act, as amended. The Order required Grimmel to stop discharges resulting from spraying scrap metal piles with water for dust suppression purposes. Further, the Order required Grimmel to submit an engineering plan to eliminate mercury and PCB discharges to the Piscataqua River to meet the effluent limits of the 2008 Multi Sector General Permit (MSGP) and to comply with inspection and sampling requirements of the MSGP.

In accordance with the Order, Grimmel did submit an engineering plan to the EPA to address the Order requirements and a detailed schedule for implementing the proposed control measures. On July 12, 2011, the EPA approved Grimmel's moving forward with its plan of remediation in accordance with the schedule presented subject to four clarifying revisions.

The PDA's Division of Ports and Harbors and Grimmel have reached agreement on an Amendment to Grimmel's current License and Operating Agreement to reflect implementation of the plan of remediation and to further document the obligations imposed by the EPA for the interim and long-term plan.

Consistent with and in addition to Grimmel's remediation plan, the DPH is moving forward with its Stormwater management System Modifications and Improvements, including the installation shore side of new drainage lines and catch basins and the addition of primary storm water treatment devices. The DPH is seeking from the State of New Hampshire the release of \$700,000 for construction of these improvements and modifications to the storm water management system.

If the State of New Hampshire does not authorize release of these funds, the DPH would have to evaluate alternative revenue streams to fund this obligation. Due to the statutory regulations that govern the operations of the DPH, the PDA is not authorized to provide any financial assistance to supplement DPH operations.

At this time, it is the expectation of the PDA and its DPH that Grimmel and the DPH will continue to work cooperatively to complete the interim and long term plans for storm water management and that no further EPA Orders will be issued. As such, the PDA believes that the ultimate outcome of these matters will not have a material impact on the PDA's financial position or operations.

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**21. Commitments and Contingencies** (continued):

The PDA receives federal grants which are subject to review and audit by the grantor agencies. Although these audits could result in expenditure disallowances under the terms of the grants, it is believed that any required reimbursements would not have a material effect on the financial statements.

The PDA had commitments under construction contracts totaling approximately \$768,000 and \$2,556,000 at June 30, 2011 and 2010, respectively.

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