

Pease Development Authority

Financial Statements and
Management's Discussion and Analysis

*Years Ended June 30, 2009 and 2008
With Independent Auditors' Report*



PEASE DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Financial Highlights	2
Independent Auditors' Report	3
Management's Discussion and Analysis of Financial Condition and Results of Operations	4-11
Audited Financial Statements:	
Balance Sheets	12-13
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	15-16
Notes to Financial Statements	17-33

PEASE DEVELOPMENT AUTHORITY

BOARD OF DIRECTORS

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

Anthony A. McManus
Appointed by Strafford County Legislative Delegation

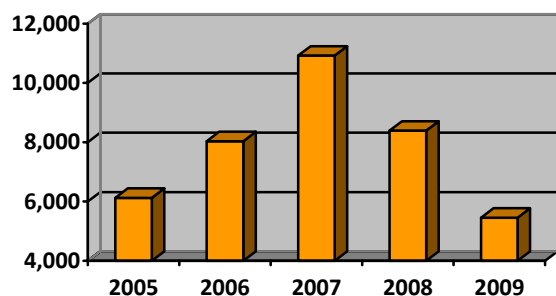
Robert F. Preston
Appointed by the New Hampshire Senate President

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

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

	2005	2006	2007	2008	2009
Consolidated Revenues					
Rental of Facilities	\$ 9,568	\$ 9,852	\$ 10,204	\$ 9,842	\$ 10,567
Ports and Harbors Fees	1,429	1,635	1,793	2,274	2,590
Golf Course	1,518	1,592	1,544	1,654	1,569
Aviation Related Fees	220	120	213	304	239
All Other	552	449	388	517	238
Total	\$13,287	\$ 13,648	\$ 14,142	\$ 14,591	\$ 15,203

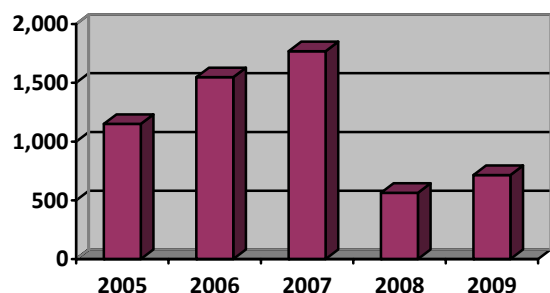
**UNRESTRICTED CASH AND
CASH EQUIVALENTS**



- Debt outstanding continues to be reduced with a significant restructuring taking place during 2009:

<u>June 30</u>	<u>Amount</u>
2005	\$ 38,825
2006	36,339
2007	29,567
2008	25,212
2009	17,336

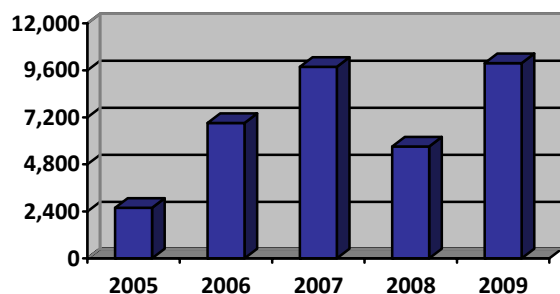
OPERATING INCOME



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

<u>June 30</u>	<u>Amount</u>
2005	\$ 63,095
2006	66,606
2007	67,806
2008	69,698
2009	76,227

CONTRIBUTED CAPITAL



- Total net assets have continued to increase, on average, by approximately 17% per year primarily due to the investment in capital assets:

<u>June 30</u>	<u>Amount</u>
2005	\$ 38,126
2006	44,862
2007	55,093
2008	60,150
2009	70,393



INDEPENDENT AUDITOR'S 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, 2009 and 2008 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pease Development Authority as of June 30, 2009 and 2008, 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 September 18, 2009 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.

The Management's Discussion and Analysis on pages 4-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pease Development Authority's basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Runyon Kersteen Ouellette". The signature is written in a cursive, flowing style.

September 18, 2009
South Portland, Maine

PEASE DEVELOPMENT AUTHORITY

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

This report identifies the Pease Development Authority's (PDA) financial position and describes the PDA's financial activities over the past two 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, 2009 and 2008.

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 – management's discussion and analysis and 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)*

Financial Analysis of the PDA

Net Assets

Changes in net assets over time are one measure of determining whether an organization's financial position is improving or deteriorating. A positive change in net assets means the organization's financial position is improving. A negative change, however, may mean the organization's financial position is deteriorating.

Comparison of 2009 to 2008

Changes in Net Assets (\$ in Thousands)

	June 30, <u>2009</u>	June 30, <u>2008</u>	% Increase <u>(Decrease)</u>
Current Assets	\$ 9,719	\$ 13,454	(27.8)
Restricted Assets	3,890	4,717	(17.5)
Bond Issuance Cost and Other Assets	1,013	1,043	(2.9)
Capital Assets	<u>76,227</u>	<u>69,698</u>	<u>9.4</u>
Total Assets	<u>90,849</u>	<u>88,912</u>	<u>2.2</u>
Current Liabilities	6,465	15,666	(58.7)
Current Liabilities Payable from Restricted Assets	67	65	3.1
Noncurrent Liabilities	<u>13,924</u>	<u>13,031</u>	<u>6.9</u>
Total Liabilities	<u>20,456</u>	<u>28,762</u>	<u>(28.9)</u>
Invested in Capital Assets, Net of Related Debt	59,291	55,052	7.7
Restricted Net Assets	3,823	4,652	(17.8)
Unrestricted Net Assets	<u>7,279</u>	<u>446</u>	<u>1,532.1</u>
Total Net Assets	\$ <u>70,393</u>	\$ <u>60,150</u>	<u>17.0</u>

The PDA's total assets increased by \$1.9 million or 2.2%, primarily due to an increase of \$6.5 million in capital assets associated with construction activities at the Portsmouth International Airport at Pease and at the Division of Ports and Harbors. This increase was offset by a \$3.7 million or 27.8% decrease in current assets associated with the debt repayment to the State of New Hampshire and a decrease of \$0.8 million or 17.5% in restricted assets which was primarily attributable to the reduction in leased equipment receivable.

The PDA's total liabilities decreased from fiscal year 2008 by \$8.3 million or 28.9% primarily due to the debt repayment to the State of New Hampshire. The PDA's current liabilities decreased \$9.2 million primarily due to the \$10.0 million debt repayment to the State of New Hampshire. This decrease was offset by a \$0.9 million increase in noncurrent liabilities that resulted in the overall debt restructuring which was initiated by the PDA.

The PDA's net assets increased by \$10.2 million or 17.0%, primarily due to grant-funded capital projects at the Portsmouth International Airport at Pease and the Division of Ports and Harbors.

PEASE DEVELOPMENT AUTHORITY

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

Net Assets

Comparison of 2008 to 2007

Changes in Net Assets
(\$ in Thousands)

	June 30, <u>2008</u>	June 30, <u>2007</u>	% Increase <u>(Decrease)</u>
Current Assets	\$ 13,454	\$ 13,834	(2.7)
Restricted Assets	4,717	6,196	(23.9)
Bond Issuance Cost and Other Assets	1,043	526	98.3
Capital Assets	<u>69,698</u>	<u>67,806</u>	<u>2.8</u>
Total Assets	<u>88,912</u>	<u>88,362</u>	<u>0.6</u>
Current Liabilities	15,666	5,817	169.3
Current Liabilities Payable from			
Restricted Assets	65	82	(20.7)
Noncurrent Liabilities	<u>13,031</u>	<u>27,370</u>	<u>(52.4)</u>
Total Liabilities	<u>28,762</u>	<u>33,269</u>	<u>(13.5)</u>
Invested in Capital Assets, Net of			
Related Debt	55,052	50,742	8.5
Restricted Net Assets	4,652	6,114	(23.9)
Unrestricted Net Assets	<u>446</u>	<u>(1,763)</u>	<u>125.3</u>
Total Net Assets	\$ <u>60,150</u>	\$ <u>55,093</u>	<u>9.2</u>

The PDA's total assets increased by \$0.5 million or 0.6%, primarily due to an increase of \$1.9 million in capital assets associated with construction activities at the Portsmouth International Airport at Pease and at the Division of Ports and Harbors and a decrease of \$1.5 million or 23.9% in restricted assets which was primarily attributable to the reduction in leased equipment receivable.

The PDA's total liabilities decreased by approximately \$4.5 million or 13.5% between fiscal year 2008 and fiscal year 2007. The PDA's liabilities decreased \$2.1 million due to the pay-down of a note payable to the State of New Hampshire, \$1.9 million due to the net pay-down of an advance from the State of New Hampshire, \$0.2 million due to the pay-down of a note payable to the Business Finance Authority and a \$0.2 million decrease in accounts and retainage payable primarily due to grant-funded construction projects.

The PDA's net assets increased by \$5.1 million or 9.2%, primarily due to grant-funded capital projects at the Portsmouth International Airport at Pease and the Division of Ports and Harbors.

PEASE DEVELOPMENT AUTHORITY

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

Operating Activities

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

Comparison of 2009 to 2008

Changes in Operating Income
(\$ in Thousands)

	June 30, <u>2009</u>	June 30, <u>2008</u>	% Increase (Decrease)
Operating Revenues			
Rental of Facilities	\$ 10,567	\$ 9,842	7.4
Ports and Harbors Fees	2,590	2,274	13.9
Golf Course	1,569	1,654	(5.1)
Aviation Related Fees	239	304	(21.4)
Other	<u>238</u>	<u>517</u>	<u>(54.0)</u>
Total Operating Revenues	<u>15,203</u>	<u>14,591</u>	<u>4.2</u>
Operating Expenses			
Personnel Services and Benefits	5,117	5,198	(1.6)
Depreciation and Amortization	4,890	4,871	0.4
Building and Facilities Maintenance	1,165	1,308	(10.9)
General and Administrative	1,031	771	33.7
Other	<u>2,285</u>	<u>1,880</u>	<u>21.5</u>
Total Operating Expenses	<u>14,488</u>	<u>14,028</u>	<u>3.3</u>
Operating Income	715	563	27.0
Nonoperating Income (Expense)			
Interest Expense	(1,010)	(1,533)	(34.1)
Interest Income	62	311	(80.1)
Gain (Loss) on Disposal of Assets	<u>3</u>	<u>-</u>	<u>100.0</u>
Total Nonoperating Income (Expense)	<u>(945)</u>	<u>(1,222)</u>	<u>(22.7)</u>
Gain (Loss) Before Contributed Capital	(230)	(659)	65.1
Increase From Contributed Capital	<u>10,472</u>	<u>5,716</u>	<u>83.2</u>
Change in Net Assets	\$ <u>10,242</u>	\$ <u>5,057</u>	<u>102.5</u>

The PDA's total operating revenues increased by \$0.6 million or 4.2%, primarily due to the following: 1) an increase of \$0.7 million in rent revenues due to additional leases and incremental lease rates at the Pease Business Park; 2) a decrease of \$0.1 million in golf course revenues; 3) an increase of \$0.3 million in Division of Ports and Harbors fees resulting from an increase in fuel sales and mooring fee permits, all offset by decreases in aviation related fees and interest income from tenants.

PEASE DEVELOPMENT AUTHORITY

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

Operating Activities (continued):

Comparison of 2009 to 2008 (continued):

The PDA's total operating expenses increased by \$0.5 million or 3.3%. Personnel services and benefits decreased \$0.1 million or 1.6% due to decreased staffing levels in permanent positions which were slightly offset by increases in employee fringe benefits. General and administrative expenses increased by \$0.3 million or 33.7% primarily due to increases in the reserve for doubtful accounts and insurance expense. Building and facilities maintenance decreased \$0.1 million or 10.9% while other operating expenses increased \$0.4 million primarily due to increased purchases of fuel inventory.

Comparison of 2008 to 2007

Changes in Operating Income
(\$ in Thousands)

	June 30, <u>2008</u>	June 30, <u>2007</u>	% Increase <u>(Decrease)</u>
Operating Revenues			
Rental of Facilities	\$ 9,842	\$ 10,204	(3.5)
Ports and Harbors Fees	2,274	1,793	26.8
Golf Course	1,654	1,544	7.1
Aviation Related Fees	304	213	42.7
Other	<u>517</u>	<u>388</u>	<u>33.2</u>
Total Operating Revenues	<u>14,591</u>	<u>14,142</u>	<u>3.2</u>
Operating Expenses			
Personnel Services and Benefits	5,198	4,359	19.2
Depreciation and Amortization	4,871	4,310	13.0
Building and Facilities Maintenance	1,308	1,038	26.0
General and Administrative	771	1,116	(30.9)
Other	<u>1,880</u>	<u>1,550</u>	<u>21.3</u>
Total Operating Expenses	<u>14,028</u>	<u>12,373</u>	<u>13.4</u>
Operating Income	563	1,769	(68.2)
Nonoperating Income (Expense)			
Interest Expense	(1,533)	(1,767)	(13.2)
Interest Income	311	451	(31.0)
Gain (Loss) on Disposal of Assets	<u>-</u>	<u>(1)</u>	<u>(100.0)</u>
Total Nonoperating Income (Expense)	<u>(1,222)</u>	<u>(1,317)</u>	<u>(7.2)</u>
Gain (Loss) Before Contributed Capital	(659)	452	(245.8)
Increase From Contributed Capital	<u>5,716</u>	<u>9,779</u>	<u>(41.5)</u>
Change in Net Assets	<u>\$5,057</u>	<u>\$ 10,231</u>	<u>(50.6)</u>

PEASE DEVELOPMENT AUTHORITY

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

Operating Activities *(continued)*:

Comparison of 2008 to 2007 *(continued)*:

The PDA's total operating revenues increased by \$0.4 million or 3.2%, primarily due to the following: 1) a decrease of \$0.4 million in rent revenues due to lease terminations offset by incremental lease rates at the Pease Business Park; 2) an increase of \$0.1 million in golf course revenues; 3) an increase of \$0.5 million in Division of Ports and Harbors fees resulting from an increase in fuel sales, all offset by decreases in interest income from tenants and an increase in other revenue, primarily aviation fees.

The PDA's total operating expenses increased by \$1.7 million or 13.4%. Personnel services and benefits increased \$0.8 million or 19.2% due to increased staffing levels in permanent positions and increases in employee fringe benefits. General and administrative expenses decreased by \$0.3 million or 30.9% primarily due to decreases in the reserve for doubtful accounts and insurance expense. Building and facilities maintenance increased \$0.3 million or 26.0% while other operating expenses increased \$0.3 million primarily due to increased purchases of fuel inventory.

Capital Assets

The PDA independently develops and maintains the Pease International Tradeport at Pease and, within its Division of Ports and Harbors, maintains and develops New Hampshire's ports, harbors, and navigable tidal rivers.

Comparison of 2009 to 2008

Changes in Capital Assets (\$ in Thousands)

	June 30, <u>2009</u>	June 30, <u>2008</u>	% Increase <u>(Decrease)</u>
Land	\$ 2,843	\$ 2,673	6.4
Equipment	7,919	5,662	39.9
Buildings and Facilities Improvements	113,357	101,764	11.4
Construction-In-Progress	<u>1,490</u>	<u>4,136</u>	<u>(64.0)</u>
	125,609	114,235	10.0
Less:			
Accumulated Depreciation	<u>49,382</u>	<u>44,537</u>	<u>10.9</u>
Net Capital Assets	\$ <u>76,227</u>	\$ <u>69,698</u>	<u>9.4</u>

The PDA's net capital assets increased by \$6.5 million or 9.4%, mainly due to increases of \$11.6 million in buildings and facilities, \$2.3 in equipment and \$0.2 in land. These increases were offset by a \$2.7 million decrease in construction-in-progress and a \$4.9 million increase in accumulated depreciation.

PEASE DEVELOPMENT AUTHORITY

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

Capital Assets (continued):

Comparison of 2008 to 2007

Changes in Capital Assets

(\$ in Thousands)

	June 30, <u>2008</u>	June 30, <u>2007</u>	% Increase <u>(Decrease)</u>
Land	\$ 2,673	\$ 996	168.4
Equipment	5,662	5,423	4.4
Buildings and Facilities Improvements	101,764	100,107	1.7
Construction-In-Progress	<u>4,136</u>	<u>964</u>	<u>329.0</u>
	114,235	107,490	6.3
Less:			
Accumulated Depreciation	<u>44,537</u>	<u>39,684</u>	<u>12.2</u>
Net Capital Assets	\$ <u>69,698</u>	\$ <u>67,806</u>	<u>2.8</u>

The PDA's net capital assets increased by \$1.9 million or 2.8%, mainly due to an increase of \$1.7 million in land, \$1.7 million in buildings and facilities as a result of grant-funded construction, and an increase of \$3.2 million in construction-in-progress. This was offset by \$4.9 million in depreciation expense in fiscal year 2008.

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 2009 to 2008

The PDA restructured its debt facility during the year, in part, to respond to legislation requiring the early repayment of \$10.0 million to the State of New Hampshire. In doing so, the PDA was successful in lowering its overall cost of capital from 6.39% to 5.46% through June 30, 2009. During the most recent twelve month period, the PDA reduced its total debt outstanding by \$7.9 million or 31.2%.

Changes in Noncurrent Liabilities

(\$ in Thousands)

	June 30, <u>2009</u>	June 30, <u>2008</u>	% Increase <u>(Decrease)</u>
Advances - State of New Hampshire	\$ 234	\$ 566	(58.7)
Note Payable - State of New Hampshire	8,550	10,990	(22.2)
Note Payable- Provident Bank	3,833	-	100.0
Due to City of Portsmouth - Waste Water Treatment Facility	1,163	1,279	(9.1)
Advances from Tenant	<u>143</u>	<u>196</u>	<u>(27.0)</u>
Total Long-term Debt	\$ <u>13,923</u>	\$ <u>13,031</u>	<u>6.8</u>

The PDA's total noncurrent liabilities decreased by \$0.9 million or 6.8%, mainly due to required payments during the year.

PEASE DEVELOPMENT AUTHORITY

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

Debt Administration *(continued)*:

Comparison of 2008 to 2007

Changes in Noncurrent Liabilities

(\$ in Thousands)

	June 30, <u>2008</u>	June 30, <u>2007</u>	% Increase <u>(Decrease)</u>
Advances - State of New Hampshire	\$ 566	\$ 12,503	(95.5)
Note Payable - State of New Hampshire	10,990	13,250	(17.1)
Due to City of Portsmouth - Waste Water Treatment Facility	1,279	1,395	(8.3)
Advances from Tenant	<u>196</u>	<u>222</u>	<u>(11.7)</u>
Total Long-term Debt	\$ <u>13,031</u>	\$ <u>27,370</u>	<u>(52.4)</u>

The PDA's total noncurrent liabilities decreased by \$14.3 million or 52.4%, mainly due to required payments during the year.

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.

PEASE DEVELOPMENT AUTHORITY
BALANCE SHEETS
June 30, 2009 and 2008

ASSETS	2009	2008
Current Assets		
Cash and Cash Equivalents <i>(Notes #3 and #4)</i>	\$ 5,440,854	\$ 8,389,201
Tenant and Other Receivables (Net of Allowance of \$195,000 in 2009 and \$100,000 in 2008)	559,675	760,027
Intergovernmental Receivables	3,131,567	3,679,082
Loans Receivable	154,266	146,142
Other Current Assets	433,030	479,797
Total Current Assets	9,719,392	13,454,249
Restricted Assets		
Cash and Cash Equivalents <i>(Note #3)</i>	989,632	947,646
Leased Equipment Receivable <i>(Note #9)</i>	2,900,186	3,769,488
Total Restricted Assets	3,889,818	4,717,134
Capital Assets <i>(Note #5)</i>		
Land	2,843,030	2,673,099
Equipment	7,918,987	5,662,095
Buildings and Facilities Improvements	113,356,368	101,763,408
Construction-In-Progress	1,490,326	4,136,241
	125,608,711	114,234,843
Accumulated Depreciation	(49,381,584)	(44,537,111)
Total Capital Assets	76,227,127	69,697,732
Bond Issuance Costs - Net	145,529	113,454
Other Assets	867,558	929,877
Total Assets	\$ 90,849,424	\$ 88,912,446

PEASE DEVELOPMENT AUTHORITY
BALANCE SHEETS
June 30, 2009 and 2008
(CONTINUED)

LIABILITIES AND NET ASSETS

	2009	2008
Current Liabilities		
Accounts and Retainage Payable	\$ 1,372,527	\$ 1,738,947
Accrued Expenses	980,537	1,112,790
Deferred Revenues <i>(Note #7)</i>	530,344	438,186
Current Portion of Long-term Debt:		
State of New Hampshire Note Payable <i>(Note #9)</i>	2,440,000	2,260,000
Provident Bank <i>(Note # 11)</i>	833,333	-
State of New Hampshire Advance <i>(Note #8)</i>	166,270	10,000,000
City of Portsmouth <i>(Note #10)</i>	116,289	116,289
Advances From Tenants	26,108	-
Total Current Liabilities	6,465,408	15,666,212
Current Liabilities Payable		
From Restricted Assets		
Accounts and Retainage Payable	41,501	43,933
Accrued Interest	25,814	20,764
Total Current Liabilities Payable from Restricted Assets	67,315	64,697
Noncurrent Liabilities		
State of New Hampshire Note Payable <i>(Note #9)</i>	8,550,000	10,990,000
Provident Bank <i>(Note #11)</i>	3,833,334	-
City of Portsmouth <i>(Note #10)</i>	1,162,881	1,279,171
State of New Hampshire Advance <i>(Note #8)</i>	233,820	566,360
Advances From Tenants	143,598	195,814
Total Noncurrent Liabilities	13,923,633	13,031,345
Net Assets		
Invested in Capital Assets - Net of Related Debt	59,291,289	55,052,272
Restricted Leased Equipment Receivable	2,900,186	3,769,488
Restricted for Specific Purpose	922,317	882,949
Unrestricted	7,279,276	445,483
Total Net Assets	70,393,068	60,150,192
Total Liabilities and Net Assets	\$ 90,849,424	\$ 88,912,446

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Rental of Facilities <i>(Notes #7 and #13)</i>	\$ 10,566,829	\$ 9,841,815
Ports and Harbors Fees	2,590,251	2,273,828
Golf Course	1,569,262	1,653,741
Aviation Related Fees	239,391	303,619
Interest Income on Loans and Leases <i>(Notes #7 and #9)</i>	225,159	260,916
Terminal Fees and Other	11,863	257,371
Total Operating Revenues	<u>15,202,755</u>	<u>14,591,290</u>
Operating Expenses		
Personnel Services and Benefits <i>(Notes #17 and #18)</i>	5,117,342	5,197,527
Depreciation and Amortization	4,890,438	4,871,440
Building and Facilities Maintenance	1,164,762	1,307,598
General and Administrative	1,031,127	771,026
Utilities	775,207	535,279
Professional Services	211,054	236,507
Marketing and Promotion	90,250	82,099
Legal	57,140	100,171
Other Operating Expenses	1,150,377	926,137
Total Operating Expenses	<u>14,487,697</u>	<u>14,027,784</u>
Operating Income	<u>715,058</u>	<u>563,506</u>
Nonoperating Income (Expense)		
Interest Expense <i>(Notes #8, #9, #10, #11 and #12)</i>	(1,009,794)	(1,532,931)
Interest Income	62,144	311,088
Gain on Disposal of Assets	3,015	-
Total Nonoperating Income (Expense)	<u>(944,635)</u>	<u>(1,221,843)</u>
Gain (Loss) Before Contributed Capital	(229,577)	(658,337)
Contributed Capital <i>(Notes #13 and #14)</i>	<u>10,472,453</u>	<u>5,715,978</u>
Change in Net Assets	10,242,876	5,057,641
Net Assets at Beginning of Year	<u>60,150,192</u>	<u>55,092,551</u>
Net Assets at End of Year	<u>\$ 70,393,068</u>	<u>\$ 60,150,192</u>

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 15,761,299	\$ 13,686,628
Cash Payments to Employees for Services	(5,657,979)	(5,026,730)
Cash Payments to Suppliers of Goods and Services	(4,725,788)	(3,919,788)
Net Cash Provided by Operating Activities	<u>5,377,532</u>	<u>4,740,110</u>
Cash Flows From Noncapital Financing Activities		
Repayments on Advances	<u>(10,000,000)</u>	<u>(2,210,000)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of Capital Assets	(11,403,868)	(7,046,449)
Contributed Capital by Federal Government	8,651,810	3,792,277
Bond Anticipation Notes- The Provident Bank	5,000,000	-
Contributed Capital- Pan American	2,185,700	-
Equipment and Lease Principal Payments	869,302	824,715
Interest Paid on Capital Debt	(691,664)	(1,169,690)
Repayment on Note Payable- State of New Hampshire	(2,260,000)	(2,090,000)
Repayment on Debt- City of Portsmouth	(116,289)	(116,289)
Repayment on Debt- The Provident Bank	(333,333)	-
Repayment on Note Payable- Business Finance Authority	-	(212,059)
Other Miscellaneous- Net	(247,695)	(43,643)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>1,653,963</u>	<u>(6,061,138)</u>
Cash Flows From Investing Activities		
Interest Income Received	<u>62,144</u>	<u>311,088</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,906,361)	(3,219,940)
Cash and Cash Equivalents- Beginning of Year	<u>9,336,847</u>	<u>12,556,787</u>
Cash and Cash Equivalents- End of Year	<u>\$ 6,430,486</u>	<u>\$ 9,336,847</u>

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008
(CONTINUED)

	2009	2008
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 715,058	\$ 563,506
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	4,890,438	4,871,440
Allowance for Doubtful Accounts	95,000	(150,000)
Tenant Rent <i>(Note #9)</i>	(26,108)	(26,110)
Rental Income from Related Entity <i>(Note #13)</i>	(166,270)	(166,270)
All Other- Net	34,316	(27,522)
Changes in Operating Assets and Liabilities:		
Tenant Receivable	200,352	(96,900)
Loans Receivable and Other Assets	38,643	(162,042)
Accounts and Retainage Payable <i>(Includes capital asset additions of \$288,849 in 2009 and \$321,283 in 2008)</i>	(368,852)	(174,040)
Accrued Expenses	(127,203)	72,787
Deferred Revenue	92,158	35,261
Net Cash Provided by Operating Activities	\$ 5,377,532	\$ 4,740,110

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

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 of New Hampshire Senate and House of Representatives 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.

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 (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting.

Government Accounting Standards Board

The PDA follows GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Under the provisions of this statement, the PDA applies all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

2. Summary of Significant Accounting Policies (continued):

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.

Loans Receivable

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

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.

Bond Issuance Costs

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

Capital Assets

Land, equipment and building and facilities 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, subsequent to July 1, 2007, that equal or exceed \$5,000 are capitalized. Previously, the capitalization threshold was \$500. 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:

<u>Capital Asset</u>	<u>Years</u>
Equipment	5
Buildings	35
Buildings and Facilities Improvements	20
Computer Software	5

Deferred Revenue

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.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

2. Summary of Significant Accounting Policies (continued):

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 for 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, and 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.

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 revenues 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, 2009 and 2008 (continued)**

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash on Hand	\$ 2,415	\$ -	\$ 2,415
Cash in Bank:			
Carrying Amount	5,438,439	989,632	6,428,071
Bank Balance	5,591,170	983,241	6,574,411
Bank Balance Covered by Federal Deposit Insurance			622,976
Bank Balance Collateralized by Securities			5,951,435
Bank Balance Uncollateralized and Uninsured			-
			<u>\$ 6,574,411</u>

Cash and cash equivalents consisted of the following at June 30, 2008:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash on Hand	\$ 2,290	\$ -	\$ 2,290
Cash in Bank:			
Carrying Amount	8,386,911	947,646	9,334,557
Bank Balance	9,306,564	108,138	9,414,702
Bank Balance Covered by Federal Deposit Insurance			132,004
Bank Balance Collateralized by Securities			9,282,698
Bank Balance Uncollateralized and Uninsured			-
			<u>\$ 9,414,702</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 which have not cleared the bank as of June 30, 2009 and or 2008. The collateralized amounts above represent U.S. agency mortgage backed securities which are held in the Authority's name by a third-party custodian.

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.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

3. Cash and Cash Equivalents (continued):

Restricted Cash

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

	<u>2009</u>	<u>2008</u>
Harbor Management	\$ 331,987	\$ 173,600
Harbor Dredging and Pier Maintenance	265,382	398,598
Marketing Escrow Fund	152,391	147,592
State of New Hampshire	120,011	87,154
Tenant Escrow	36,501	37,333
Foreign Trade Zone	35,463	28,490
All Other	<u>47,897</u>	<u>74,879</u>
	\$ <u>989,632</u>	\$ <u>947,646</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, 2009 and 2008, matching funds totaled \$0 and \$0, respectively.

On July 1, 2001, as a result of the transfer of the Port 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.

4. Revolving Loan Facility Agreements

During the current fiscal year, the PDA secured a \$2,500,000 Line of Credit Agreement (LCA) from the Provident Bank.

The LCA is a two year credit facility, maturing November 13, 2010. The terms of the LCA provide that a) the interest rate shall be at a fluctuating per annum rate equal to the one month Classic Advance Federal Home Land Bank (FHLB) Rate plus 1.50% 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 qualifying capital expenditures of the PDA. To date, the PDA has not accessed any funds made available under the LCA.

In addition, the State of New Hampshire has unconditionally guaranteed the payment of the principal of and interest on the LCA.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

4. Revolving Loan Facility Agreements (continued):

During the period ending June 30, 2008, PDA secured a \$1,500,000 revolving credit and security agreement (the Agreement) with TD Bank, N.A. that extends through July 15, 2010. The terms of the Agreement provide that a) the interest rate shall be at a fluctuating per annum rate equal to the one month London InterBank Offered Rate (LIBOR) plus 1.10% per annum and b) the PDA shall maintain various covenants that are to be reported on periodically. Proceeds of this credit facility are to be used for bridge financing of capital improvements. During the current fiscal year, the PDA accessed \$1,000,000 under this credit facility all of which had been paid back by June 30, 2009.

5. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Disposals	Transfers	Balance June 30, 2009
Land	\$ 2,673,099	\$ 169,931	\$ -	\$ -	\$ 2,843,030
Equipment	5,662,095	2,272,419	(15,527)	-	7,918,987
Buildings and Facilities					
Improvements	101,763,408	11,592,960	-	-	113,356,368
Construction-in-Progress	4,136,241	10,889,395	-	(13,535,310)	1,490,326
	<u>114,234,843</u>	<u>24,924,705</u>	<u>(15,527)</u>	<u>(13,535,310)</u>	<u>125,608,711</u>
Less Accumulated Depreciation	<u>(44,537,111)</u>	<u>(4,860,000)</u>	<u>15,527</u>	<u>-</u>	<u>(49,381,584)</u>
Net Capital Assets	<u>\$ 69,697,732</u>	<u>\$ 20,064,705</u>	<u>\$ -</u>	<u>\$ (13,535,310)</u>	<u>\$ 76,227,127</u>

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
Land	\$ 996,221	\$ -	\$ -	\$ 1,676,878	\$ 2,673,099
Equipment	5,422,755	239,340	-	-	5,662,095
Buildings and Facilities					
Improvements	100,107,552	-	-	1,655,856	101,763,408
Construction-in-Progress	963,484	6,505,491	-	(3,332,734)	4,136,241
	<u>107,490,012</u>	<u>6,744,831</u>	<u>-</u>	<u>-</u>	<u>114,234,843</u>
Less Accumulated Depreciation	<u>(39,684,278)</u>	<u>(4,852,833)</u>	<u>-</u>	<u>-</u>	<u>(44,537,111)</u>
Net Capital Assets	<u>\$ 67,805,734</u>	<u>\$ 1,891,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,697,732</u>

**PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)**

6. Airport Joint Use Agreement

On October 1, 2002, the Department of 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 FAA requirements. The current Agreement expires as of September 30, 2009. Discussions are currently underway relative to a one-year extension.

7. Deferred Revenue

Deferred revenue consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Mooring Fees	\$ 274,639	\$ 208,273
Golf Course Fees	208,507	212,868
All Other-Net	<u>47,198</u>	<u>17,045</u>
	<u>\$ 530,344</u>	<u>\$ 438,186</u>

In fiscal 2006, the PDA reached an agreement with Pan American Airways Corporation (the Corporation) to dismiss a lawsuit brought by the Corporation. Under the terms of the agreement, the PDA issues monthly rent credits to the Corporation of approximately \$27,500 for a period of two years beginning in August 2005. The present value of such amounts has been recorded as deferred revenue on the accompanying balance sheets at June 30, 2008. For the year ended June 30, 2008, \$27,431 was recognized as rental income and \$91 was recognized as interest income.

8. State of New Hampshire Funding

The State of New Hampshire approved loans to the PDA for operating purposes, as needed, which 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, 2009 and 2008. Total outstanding advances payable to the State of New Hampshire, which represents appropriations received, plus accrued interest, less repayments, totaled \$400,090 and \$10,566,360 at June 30, 2009 and 2008, respectively.

On May 9, 2008, the State of New Hampshire, through House Bill 1-FN-A, passed legislation that amended RSA 12-G:31. In doing so, such legislation required the PDA to repay, no later than December 1, 2008, \$10,000,000 to the State of New Hampshire. The legislation also provides that if PDA was to secure external financing to support the repayment requirement, that the State of New Hampshire would provide its unconditional guarantee of the payment of the whole of the principal and interest thereon. In addition, as consideration for the early repayment of the \$10,000,000, the State suspended any further interest expense accruals effective July 1, 2008.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

9. Note Payable to the 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, which must 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, 2009 and 2008, the PDA has offset \$409,790 and \$383,681 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 reduce the liability owed to CBI to \$169,706 and \$195,815 at June 30, 2009 and 2008, respectively.

The sublease is for a base term of twenty years, which commenced January 7, 1996, with four options exercisable by CBI at its sole discretion, each of which options, 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 Aluisse-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 \$17.0 million, has been recorded as a PDA capital asset, and is being depreciated over a 35 year life. The equipment cost of \$11,300,784 has been 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, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 916,299	\$ 135,698	\$ 1,051,997
2011	965,836	86,161	1,051,997
2012	1,018,051	33,945	1,051,996
2013	-	-	-
2014	-	-	-
	<u>\$ 2,900,186</u>	<u>\$ 255,804</u>	<u>\$ 3,155,990</u>

**PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)**

9. Note Payable to the 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% 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>
2010	\$ 2,440,000	\$ 752,290	\$ 3,192,290
2011	2,635,000	556,902	3,191,902
2012	2,845,000	345,923	3,190,923
2013	3,070,000	118,195	3,188,195
2014	-	-	-
	<u>\$ 10,990,000</u>	<u>\$ 1,773,310</u>	<u>\$ 12,763,310</u>

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 of \$116,289, plus interest at 4.5%, are payable through 2020. Amounts totaling \$1,279,170 and \$1,395,460 were outstanding at June 30, 2009 and 2008, respectively.

**PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)**

10. Due to City of Portsmouth – Waste Water Treatment Facility (continued):

Debt service requirements per the above debt at June 30, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 116,289	\$ 57,103	\$ 173,392
2011	116,289	51,912	168,201
2012	116,289	46,720	163,009
2013	116,289	41,529	157,818
2014	116,289	36,338	152,627
2015-2019	581,448	103,823	685,271
2020-2024	<u>116,277</u>	<u>5,191</u>	<u>121,468</u>
	<u>\$ 1,279,170</u>	<u>\$ 342,616</u>	<u>\$ 1,621,786</u>

11. Note Payable- Provident Bank

During the current 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 Authority's payment to the State of New Hampshire pursuant to New Hampshire RSA Chapter 12-G (the Act). The BAN's, which are designated as a "qualified tax-exempt obligation" for the purposes of Section 265(b)(3) of the Internal Revenue Code, are general obligations 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's and the LCA.

Debt service requirements per the above debt at June 30, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 833,333	\$ 162,352	\$ 995,685
2011	833,333	131,185	964,518
2012	833,333	100,274	933,607
2013	833,333	68,851	902,184
2014	833,333	37,685	871,018
2015	<u>500,002</u>	<u>7,827</u>	<u>507,829</u>
	<u>\$ 4,666,667</u>	<u>\$ 508,174</u>	<u>\$ 5,174,841</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.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

12. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due in One Year
City of Portsmouth - Waste Water Treatment Facility	\$ 1,395,460	\$ -	\$ (116,289)	\$ 1,279,171	\$ 116,289
Note Payable - State of New Hampshire	13,250,000	-	(2,260,000)	10,990,000	2,440,000
Advances - State of New Hampshire	10,566,360	-	(10,166,270)	400,090	166,270
The Provident Bank Advances from Tenant	-	5,000,000	(333,333)	4,666,667	833,333
	195,814	-	(26,108)	169,706	26,108
	<u>\$ 25,407,634</u>	<u>\$ 5,000,000</u>	<u>\$ (12,902,000)</u>	<u>\$ 17,505,634</u>	<u>\$ 3,582,000</u>

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due in One Year
City of Portsmouth - Waste Water Treatment Facility	\$ 1,511,749	\$ -	\$ (116,289)	\$ 1,395,460	\$ 116,289
Business Finance Authority	212,059	-	(212,059)	-	-
Note Payable - State of New Hampshire	15,340,000	-	(2,090,000)	13,250,000	2,260,000
Advances - State of New Hampshire	12,503,031	439,599	(2,376,270)	10,566,360	10,000,000
Advances from Tenant	221,924	-	(26,110)	195,814	-
	<u>\$ 29,788,763</u>	<u>\$ 439,599</u>	<u>\$ (4,820,728)</u>	<u>\$ 25,407,634</u>	<u>\$ 12,376,289</u>

13. Rental of Facilities

The PDA has leasing arrangements with various parties for the rental of land, buildings, office space and airplane hangers 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.

**PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)**

13. Rental of Facilities (continued):

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 2008 and 2009, are to be applied to the note payable to the State of New Hampshire until such time as the debt obligation is satisfied.

On June 25, 2008, the PDA and Pan American Airways Corp. (Pan American), who was serving as a Fixed Base Operator at the Portsmouth International Airport, entered into a Release and Settlement Agreement which terminated future lease obligations specific to facilities Pan American had occupied. In consideration, Pan American surrendered all buildings and improvements which had become permanent fixtures including the fuel farm which consists of six tanks each having a capacity of 20,000 gallons.

At June 30, 2009, the projected minimum future revenue from noncancelable rental agreements is approximately:

<u>Year</u>	<u>Amount</u>
2010	\$ 10,430,000
2011	8,974,000
2012	8,768,000
2013	5,703,000
2014	5,725,000
Thereafter	<u>78,549,000</u>
	<u>\$ 118,149,000</u>

14. Contributed Capital

Contributed capital consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Federal and State Grants		
Capitalized as Capital Assets	\$ 8,286,753	\$ 5,715,978
Release and Settlement		
Agreement- Pan American	<u>2,185,700</u>	<u>-</u>
	<u>\$ 10,472,453</u>	<u>\$ 5,715,978</u>

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

15. Municipal Service Fees

Effective July 1, 1998, the PDA entered into an amended municipal services agreement with the City of Portsmouth, New Hampshire ("COP") 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 COP 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. COP 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 not 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 COP 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.

16. 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 which 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 fire, theft and general liability and workers' compensation. There have been no significant changes in insurance coverage during the past fiscal year other than that associated with the SkyHaven Airport (*Note #19*). Settlements did not exceed coverage amounts during each of the past three fiscal years.

17. 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 (1.5%) 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.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

17. Employee Benefit Plans (continued):

Members are entitled to disability allowances and also 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, 2009 and 2008 were approximately \$2,550,000 and \$2,338,000, respectively. The total payroll for the years ended June 30, 2009 and 2008 were \$2,976,000 and \$3,005,000, 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.

The percentage of covered payroll contributed to the Retirement Plan was as follows: employee share 5.00% and employer share of 8.74% for each of the years ended June 30, 2009 and 2008. Commencing July 1, 2009 the PDA matching share will escalate to 11.05%. All new employees will be responsible to accrue contributions at 7.00% while current employees will remain obligated at the 5.00% accrual contribution rate. Contributed amounts from the employees were approximately \$130,000 and \$120,000 for the years ended June 30, 2009 and 2008, respectively. The contributed amounts from the PDA were approximately \$265,000 and \$331,000 for the years ended June 30, 2009 and 2008, respectively.

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 2009 and 2008 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 2009, and as of June 30, 2009 and 2008, respectively, the Retirement Plan held no securities issued by the State or other related parties.

PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)

17. Employee Benefit Plans (continued):

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. Participant's 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.

18. Other Post Employment Benefits

The GASB recently promulgated its Statement 45 which addresses the reporting and disclosure requirements for Other Post Employment Benefits (OPEB). 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. Under this pronouncement, it 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, state law provides health care benefits for certain retired employees. Substantially all employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the PDA, have 10 years of service and receive their pensions on a periodic basis rather than a lump sum. During fiscal 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 State's Employee and Retiree Benefit Risk Management Fund (the Fund), which finances the State's self-funded employee and retiree health benefit program. The Fund, which acts as a cost-sharing multiple-employer defined OPEB plan was established in October 2003 and is in turn financed through payments by the State of actuarially determined working rates. The State paid approximately \$41,100,000 of insurance contributions for approximately 9,500 retirees and covered dependents receiving a periodic pension benefit for the fiscal year end June 30, 2008 (latest information available). 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 \$15,500,000 for the fiscal year ended June 30, 2008.

**PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)**

18. Other Post Employment Benefits (continued):

In September 2006, the Department of Administrative Services renewed its contract with an external consultant to assist in the determination and valuation of the State's OPEB liability under GASB Statement Number 45. An OPEB liability actuarial valuation was initially completed by the consultant in August 2007 and subsequently updated in July 2008 and 2009. The report has provided evidence the OPEB covering State employees has operated in a deficit status since January 1, 2002. At present, the State is reviewing the most recent actuarial valuation and hopes to have identified future funding requirements prior to January 2010.

GASB Statement Number 45 does not mandate the prefunding of post employment benefit liabilities. The State Legislature currently plans to only partially fund (on a pay-as-you-go) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement Number 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 OPEB costs, the amount contributed and changes in the OPEB plan for fiscal years ending June 30, 2009 and 2008 respectively:

	<u>2009</u>	<u>2008</u>
Annual Required Contribution / OPEB Cost	\$ 195,777,000	\$ 207,142,000
Contributions Made (Pay-As-You-Go)	<u>(59,090,000)</u>	<u>(51,735,000)</u>
Increase in Net OPEB Obligation	136,687,000	155,407,000
Net OPEB Obligation- Beginning of Year	155,407,000	-
Net OPEB Obligation- End of Year	\$ <u>292,094,000</u>	\$ <u>155,407,000</u>

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ending June 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Annual Required Contribution	\$ 195,777,000	\$ 207,142,000
Actual Contributions (Pay-As-You-Go)	<u>59,090,000</u>	<u>51,735,000</u>
Percentage Contributed	30.18%	24.98%

Additional information is available in the State of New Hampshire's Comprehensive Annual Financial Report for the year ended June 30, 2009.

**PEASE DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008 (continued)**

19. 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.

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 \$2,985,000 and \$11,600,000 at June 30, 2009 and 2008, respectively.

On May 16, 2008, the State of New Hampshire, through House Bill 168-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 which is located in Rochester, New Hampshire. With the passage of New Hampshire 2009 Laws, Chapter 112, enacted on June 22, 2009, the NHDOT was directed to convey ownership of the Skyhaven Airport to the PDA. The law requires 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.