Pease Development Authority

Financial Statements and
Management's Discussion and Analysis

Years Ended June 30, 2016 and 2015
With Independent Auditor's Report

PEASE DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

TABLE OF CONTENTS

	Page(s)
Board of Directors	1
Financial Highlights	2
Independent Auditor’s Report	3-4
Management’s Discussion and Analysis of Financial Condition and Results of Operations	5-14
Audited Financial Statements:	
Statements of Net Position	15
Statements of Revenues, Expenses and Changes in Net Position	16
Statements of Cash Flows	17-18
Notes to the Financial Statements	19-35
Required Supplementary Information	36-37

PEASE DEVELOPMENT AUTHORITY

BOARD OF DIRECTORS

George M. Bald, 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

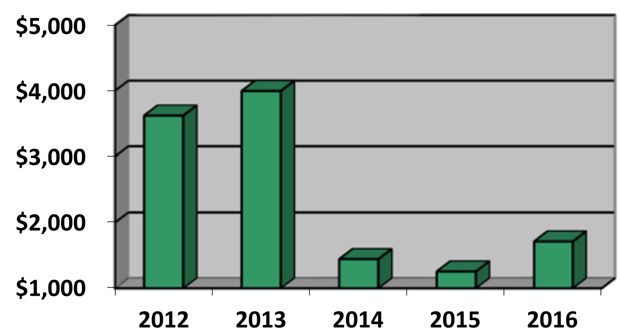
Franklin G. Torr
Appointed by Strafford County Legislative Delegation

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

PEASE DEVELOPMENT AUTHORITY
FINANCIAL HIGHLIGHTS (UNAUDITED)
($ in Thousands)

	2012	2013	2014	2015	2016
Consolidated Revenues					
Tradeport	$ 9,220	$ 7,926	$ 7,631	$ 7,826	$ 8,028
Ports and Harbors	2,848	4,223	2,773	2,762	2,474
Golf Course	1,926	1,658	1,621	2,197	2,420
Aviation	1,124	1,232	1,173	1,117	1,237
Total	$ 15,118	$ 15,039	$ 13,198	$ 13,902	$ 14,159

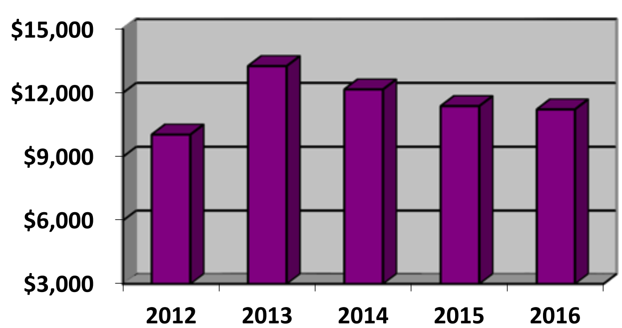
UNRESTRICTED CASH AND CASH EQUIVALENTS



- Debt outstanding has been significantly reduced reflecting lower capital expenditure requirements across all business units:

June 30	Amount
2012	$ 3,359
2013	3,532
2014	4,307
2015	3,345
2016	465

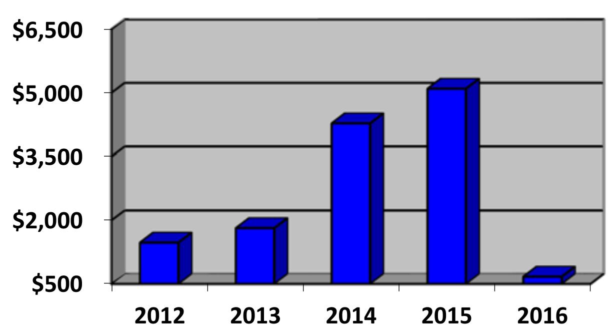
OPERATING EXPENSES
(EXCLUDING DEPRECIATION)



- Capital assets, primarily due to third party grant funding and renovations to the golf course and harbor facilities, have continued to increase during the past several fiscal years:

June 30	Amount
2012	$ 140,678
2013	146,771
2014	153,811
2015	159,556
2016	161,023

CONTRIBUTED CAPITAL



- Net cash provided by operating activities has stabilized during the past several fiscal years due to lower allowances for doubtful accounts:

June 30	Amount
2012	$ 5,035
2013	3,859
2014	40
2015	2,748
2016	4,221

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Pease Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Pease Development Authority (PDA), a component unit of the State of New Hampshire, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise PDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PDA as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Board of Directors of
Pease Development Authority

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 5 to 14 and the required supplementary information on pages 36 to 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 U.S. generally accepted auditing standards, 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements. The financial highlights section is presented for the purpose of additional analysis and is not a required part of the financial statements. The financial highlights section has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Prior Period Adjustments

As described in Note 21, the financial statements of PDA as of June 30, 2015 and June 30, 2014 have been restated to expense amounts previously recorded to construction in progress for which management determined that there was no ongoing useful life. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of PDA's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PDA's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 24, 2016

This report identifies the Pease Development Authority's ("PDA") financial position and describes PDA's financial activities over the past three fiscal years. This section of 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 PDA's consolidated financial performance during the fiscal years ended June 30, 2016, 2015 and 2014.

The MD&A is an analysis of the financial condition and operating results of 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. It is intended to provide an objective and easily readable analysis of PDA's financial activities based on currently known facts, decisions, or conditions. This MD&A should be read in conjunction with PDA's financial statements and accompanying notes.

Overview of the Financial Statements

This annual report consists of three parts: a) Management's discussion and analysis; b) the basic audited financial statements which include notes explaining some of the information in the financial statements and provide detailed data; and c) required supplementary information.

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 PDA. These statements are presented in a manner similar to a private business.

The statements of net position show the financial position of PDA at the end of each fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The total net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Over time, an increase in net position is one indicator of an institution's financial health.

The statements of revenues, expenses and changes in net position reports total operating revenues, operating expenses, nonoperating income (expense), contributed capital and the change in net position for the years ended June 30, 2016 and 2015.

The statements of cash flows summarize transactions involving cash and cash equivalents during each fiscal year. The statements provide an additional tool to assess the financial health of the institution and its ability to generate future cash flows to meet its obligations.

Prior Period Adjustment

The financial statements have been restated to expense amounts previously recorded to construction in progress for which management determined that there was no ongoing useful life. The restatement resulted in a decrease to net position of $599,597 as of June 30, 2015 and 2014.

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 statement of net position and are listed in order of decreasing liquidity. The current asset position of a company is important, both for assessing its financial strength and for gauging its operational efficiency.

Comparison of 2016 to 2015

Changes in Current Assets
($ in Thousands)

	June 30, 2016	June 30, 2015	$ Increase (Decrease)	% Increase (Decrease)
Cash and Cash Equivalents	$ 1,713	$ 1,257	456	36.3
Accounts Receivable - Net	589	1,899	(1,310)	(69.0)
Other Current Assets	467	471	(4)	(0.8)
Total Current Assets	$ 2,769	$ 3,627	(858)	(23.7)

PDA's current assets decreased by $0.9 million or 23.7% primarily due to the decrease in accounts receivable. The resulting increase in cash and cash equivalents was partially offset to reduce debt outstanding and to support construction activities across all business units. Accounts receivable included an allowance for doubtful accounts of approximately 0.4% and 0.9% of total accounts receivable at June 30, 2016 and 2015, respectively.

Comparison of 2015 to 2014

Changes in Current Assets
($ in Thousands)

	June 30, 2015	June 30, 2014	$ Increase (Decrease)	% Increase (Decrease)
Cash and Cash Equivalents	$ 1,257	$ 1,444	(187)	(13.0)
Accounts Receivable - Net	1,899	2,028	(129)	(6.4)
Other Current Assets	471	535	(64)	(12.0)
Total Current Assets	$ 3,627	$ 4,007	(380)	(9.5)

PDA's current assets decreased by $0.4 million or 9.5% primarily due to decreases in cash and cash equivalents to support construction activities across all business units. Accounts receivable included an allowance for doubtful accounts of approximately 0.9% and 0.2% of total accounts receivable at June 30, 2015 and 2014, respectively.

Restricted Assets

Restricted assets represent amounts that are subject to externally imposed restrictions on their use by creditors, grantors, laws, regulations, or through constitutional restrictions or enabling legislation.

Comparison of 2016 to 2015

Changes in Restricted Assets
($ in Thousands)

	June 30, 2016	June 30, 2015	$ Increase (Decrease)	% Increase (Decrease)
Cash and Cash Equivalents	$ 597	$ 875	(278)	(31.8)
Revolving Loan Fishery Fund Receivable	1,085	781	304	38.9
Accounts Receivable Other- Net	8	206	(198)	(96.1)
Total Restricted Assets	$ 1,690	$ 1,862	(172)	(9.2)

Total restricted assets decreased by approximately 9.2% during the current fiscal year primarily due to the decrease in accounts receivable balances due from the State of New Hampshire. In addition, the $0.3 million decrease in cash and cash equivalents was related to increased loan activity within the Revolving Loan Fishery Fund. Total assets associated with the Revolving Loan Fishery Fund had a composite valuation of approximately $1.2 million at June 30, 2016 and 2015. There were 27 individual loans outstanding at June 30, 2016 versus 24 at June 30, 2015.

Comparison of 2015 to 2014

Changes in Restricted Assets
($ in Thousands)

	June 30, 2015	June 30, 2014	$ Increase (Decrease)	$ Increase (Decrease)
Cash and Cash Equivalents	$ 875	$ 703	172	24.5
Revolving Loan Fishery Fund Receivable	781	935	(154)	(16.5)
Accounts Receivable Other- Net	206	7	199	2,842.9
Total Restricted Assets	$ 1,862	$ 1,645	217	13.2

Total restricted assets increased by approximately 13.2% during the current fiscal year primarily due to the increase in accounts receivable balance due from the State of New Hampshire. Total assets associated with the Revolving Loan Fishery Fund had a composite valuation of approximately $1.2 million at June 30, 2015 and 2014. There were 24 individual loans outstanding at June 30, 2015 versus 25 at June 30, 2014.

Capital Assets

PDA independently develops and maintains the Tradeport. Through the Division of Ports and Harbors (PDA-DPH), PDA 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 internal funds, grant related funding or access to the capital markets.

Comparison of 2016 to 2015

Changes in Capital Assets
($ in Thousands)

	June 30, 2016	June 30, 2015	$ Increase (Decrease)	% Increase (Decrease)
Land	$ 7,521	$ 7,521	-	-
Facilities Improvements	139,271	128,142	11,129	8.7
Equipment	13,696	13,287	409	3.1
Construction in Process	534	10,606	(10,072)	(95.0)
Gross Capital Assets	161,022	159,556	1,466	0.9
Accumulated Depreciation	(92,434)	(86,324)	6,110	7.1
Total Capital Assets	$ 68,588	$ 73,232	(4,644)	(6.3)

PDA's capital acquisitions totaled approximately $1.5 million in the current year primarily in support of either federal or state funded projects. The more significant capital projects included runway reconstruction activities at both the Portsmouth International Airport at Pease (PSM) and Skyhaven Airport (DAW). Additional funds were expended in support of various infrastructure improvements at the Pease Golf Clubhouse. Approximately $1.0 million of the total capital expenditures were associated with either federal or state funded projects.

Comparison of 2015 to 2014

Changes in Capital Assets
($ in Thousands)

	June 30, 2015	June 30, 2014	$ Increase (Decrease)	% Increase (Decrease)
Land	$ 7,521	$ 7,499	22	0.3
Facilities Improvements	128,142	126,492	1,650	1.3
Equipment	13,287	13,158	129	1.0
Construction in Process	10,606	6,661	3,945	59.2
Gross Capital Assets	159,556	153,810	5,746	3.7
Accumulated Depreciation	(86,324)	(80,131)	6,193	7.7
Total Capital Assets	$ 73,232	$ 73,679	(447)	(0.6)

PDA's capital acquisitions totaled approximately $5.8 million during the year ended June 30, 2015, primarily in support of either federal or state funded projects. The more significant capital projects included runway reconstruction activities at both PSM and DAW. Approximately $5.1 million of the total capital expenditures were associated with either federal or state funded projects.

Long-Term Liabilities

PDA borrowed money from the State of New Hampshire (the State) during its early years to finance its operations. Currently, the PDA owes no money to the State. Other monies have been borrowed, on a short-term basis, for capital improvements from local financial and municipal institutions.

Comparison of 2016 to 2015

Changes in Long-Term Liabilities
($ in Thousands)

	June 30, 2016	June 30, 2015	$ Increase (Decrease)	% Increase (Decrease)
Net Pension Liability	$ 4,256	$ 3,687	569	15.4
Due to City of Portsmouth - Waste Water Treatment Facility	349	465	(116)	(24.9)
Compensated Absences	109	111	(2)	(1.8)
Total Long-Term Liabilities	$ 4,714	$ 4,263	451	10.6

The PDA increased its total noncurrent liabilities outstanding during the fiscal year by approximately $0.5 million or 10.6%. The more significant increase was associated with the change in the net pension liability, which reflected PDA's increase of its proportionate share obligation. During the fiscal year, a total of $0.1 million of total long-term debt was retired while the $5.0 million Revolving Line of Credit Facility was repaid in full. During fiscal year 2017, PDA may need to access the capital market to support scheduled capital improvements across all business units. At the end of the 2016 fiscal year, PDA's overall cost of capital was approximately 4.5%.

Comparison of 2015 to 2014

Changes in Long-Term Liabilities
($ in Thousands)

	June 30, 2015	June 30, 2014	$ Increase (Decrease)	% Increase (Decrease)
Net Pension Liability	$ 3,687	$ -	3,687	100.0
Due to City of Portsmouth - Waste Water Treatment Facility	465	582	(117)	(20.1)
Compensated Absences	111	102	9	8.8
The Provident Bank LCN @ 3.11%	-	928	(928)	(100.0)
The Provident Bank LCN @ 3.46%	-	142	(142)	(100.0)
Advance from Tenant	-	13	(13)	(100.0)
Total Long-Term Liabilities	$ 4,263	$ 1,767	2,496	141.3

PDA increased its total noncurrent liabilities outstanding during the fiscal year by approximately $2.5 million or 141.3%. PDA recorded a net pension liability as of June 30, 2015 amounting to $3.7 million in connection with the adoption of the new accounting standards. During the fiscal year, a total of $1.7 million of long-term debt was retired while $0.8 million in new net borrowings under PDA's Revolving Line of Credit Facility, which went primarily to support working capital requirements, offset the decrease. At the end of the 2015 fiscal year, PDA's overall cost of capital was approximately 3.1%.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of debt and adding back any unspent proceeds.

Comparison of 2016 to 2015

Statements of Net Position
($ in Thousands)

	June 30, 2016	June 30, 2015	$ Increase (Decrease)	% Increase (Decrease)
Current Assets	$ 2,769	$ 3,627	(858)	(23.7)
Restricted Assets	1,690	1,862	(172)	(9.2)
Capital Assets	68,588	73,232	(4,644)	(6.3)
Total Assets	73,047	78,721	(5,674)	(7.2)
Deferred Outflows of Resources	776	413	363	87.9
Current Liabilities	2,847	5,860	(3,013)	(51.4)
Noncurrent Liabilities	4,714	4,263	451	10.6
Total Liabilities	7,561	10,123	(2,562)	(25.3)
Deferred Inflows of Resources	207	472	(265)	(56.1)
Net Investment in Capital Assets	67,845	72,041	(4,196)	(5.8)
Restricted Net Position	1,421	1,590	(169)	(10.6)
Unrestricted Net Position	(3,211)	(5,092)	1,881	(36.9)
Total Net Position	$ 66,055	$ 68,539	(2,484)	(3.6)

PDA's total assets decreased $5.7 million or 7.2% primarily due to depreciation expense being greater than capital asset expenditures. The decrease in current assets was primarily due to reductions in grant related accounts receivable balances. Restricted assets are primarily represented by the Revolving Loan Fishery Fund, which had an approximate value of $1.2 million at June 30, 2016 and 2015.

The increase in deferred outflows of resources related to the pension plan and decrease in deferred inflows of resources are reflective of the overall change in PDA's net pension liability.

PDA's total liabilities decreased by $2.6 million or 25.3% primarily due to the $2.8 million repayment of Revolving Line of Credit. This decrease was offset by the $0.6 million increase in PDA's net pension obligation.

PDA's net position decreased by $2.5 million or 3.6%. This decrease is primarily due to the $4.2 million reduction in Net Investment in Capital Assets.

Net Position *(continued)*

Comparison of 2015 to 2014

Statements of Net Position
($ in Thousands)

	June 30, 2015	June 30, 2014	$ Increase (Decrease)	% Increase (Decrease)
Current Assets	$ 3,627	$ 4,007	(380)	(9.5)
Restricted Assets	1,862	1,645	217	13.2
Capital Assets	73,232	73,679	(447)	(0.6)
Total Assets	78,721	79,331	(610)	(0.8)
Deferred Outflows of Resources	413	-	413	100.0
Current Liabilities	5,860	6,714	(854)	(12.7)
Noncurrent Liabilities	4,263	1,767	2,496	141.3
Total Liabilities	10,123	8,481	1,642	19.4
Deferred Inflows of Resources	472	-	472	100.0
Net Investment in Capital Assets	72,041	69,986	2,055	2.9
Restricted Net Position	1,590	1,638	(48)	(2.9)
Unrestricted Net Position	(5,092)	(345)	(4,747)	1,375.9
Total Net Position	$ 68,539	$ 71,279	(2,740)	(3.8)

PDA's total assets decreased $0.6 million or 0.8% primarily due to depreciation expense being greater than capital asset expenditures. The decrease in cash and cash equivalents was aligned with funding construction expenditures across all business units. Restricted assets are primarily represented by the Revolving Loan Fishery Fund, which had an approximate value of $1.2 million at June 30, 2015 and 2014.

The increase in deferred outflows of resources related to the pension plan and deferred inflows of resources is due to the adoption of the new accounting standards during the year during the year ended June 30, 2015.

PDA's total liabilities increased by $1.6 million or 19.4% primarily due to the adoption of the new accounting standards during the year ended June 30, 2015, net of decreases in long-term debt and lower construction related liabilities at the close of the fiscal year.

PDA's net position decreased by $2.9 million or 4.1%. This decrease is primarily due to the adoption of the new accounting standards offset by an increase in net position after contributed capital during the year ended June 30, 2015.

Change in Net Position

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

Comparison of 2016 to 2015

Statements of Changes in Net Position
($ in Thousands)

	June 30, 2016	June 30, 2015	$ Increase (Decrease)	% Increase (Decrease)
Operating Revenues				
Rental of Facilities	$ 9,488	$ 9,168	320	3.5
Fee Revenues	2,942	2,981	(39)	(1.3)
Fuel Sales	766	904	(138)	(15.3)
Concession and Other Miscellaneous	963	849	114	13.4
Total Operating Revenues	14,159	13,902	257	1.8
Operating Expenses				
Personnel Services and Benefits	6,631	6,556	75	1.1
Depreciation	6,111	6,222	(111)	(1.8)
Building and Facilities Maintenance	1,512	1,414	98	6.9
General and Administrative	750	777	(27)	(3.5)
Other	2,273	2,593	(320)	(12.3)
Total Operating Expenses	17,277	17,562	(285)	(1.6)
Operating Loss	(3,118)	(3,660)	542	14.8
Nonoperating Income (Expense)				
Interest Expense	(39)	(128)	89	(69.5)
Interest Income	3	3	-	-
Gain on Insurance Proceeds	-	220	(220)	(100.0)
Gain on Sale of Capital Assets	-	1	(1)	(100.0)
Total Nonoperating Income (Expense)	(36)	96	(132)	137.5
Loss Before Contributed Capital	(3,154)	(3,564)	410	11.5
Contributed Capital	671	5,096	(4,425)	(86.8)
Change in Net Position	$ (2,483)	$ 1,532	(4,015)	262.1

Total operating revenues increased by $0.3 million or 1.8% primarily due to increases in rental of facilities of 3.5%. To a lesser extent, increases were realized in concession revenues primarily associated with Grill 28 restaurant operations. Offsetting these increases were lower fuel sales at the PDA-DPH due to a continued restrictive regulatory environment for the commercial fishing industry.

Total operating expenses decreased by $0.3 million or 1.6% primarily due to a reduction in certain operating expenses including utilities, professional services and the cost of fuel for resale at PDA-DPH. These decreases were offset by an increase in personnel services and benefits, which reflect escalation in salaries and fringe benefit costs.

Net non-operating expense increased by $0.1 million due to a one-time gain on insurance proceeds realized in the prior year.

The decrease in contributed capital of $4.4 million reflects reduced grant related construction projects at both PSM and DAW. During the year ended June 30, 2016, a total of $1.5 million was spent on the purchase of capital assets of which approximately $0.9 million were either grant funded or supported by the State for purposes of PDA-DPH.

Change in Net Position *(continued)*

Comparison of 2015 to 2014

Statements of Changes in Net Position
($ in Thousands)

	June 30, 2015	June 30, 2014	$ Increase (Decrease)	% Increase (Decrease)
Operating Revenues				
Rental of Facilities	$ 9,168	$ 8,825	343	3.9
Fee Revenues	2,981	2,506	475	19.0
Fuel Sales	904	981	(77)	(7.8)
Concession and Other Miscellaneous	849	886	(37)	(4.2)
Total Operating Revenues	13,902	13,198	704	5.3
Operating Expenses				
Personnel Services and Benefits	6,556	6,285	271	4.3
Depreciation	6,222	5,992	230	3.8
Building and Facilities Maintenance	1,414	1,990	(576)	(28.9)
General and Administrative	777	1,221	(444)	(36.4)
Other	2,593	2,707	(114)	(4.2)
Total Operating Expenses	17,562	18,195	(633)	(3.5)
Operating Loss	(3,660)	(4,997)	1,337	26.8
Nonoperating Income (Expense)				
Interest Expense	(128)	(136)	8	(5.9)
Interest Income	3	6	(3)	(50.0)
Gain on Insurance Proceeds	220	-	220	100.0
Gain on Sale of Capital Assets	1	2	(1)	(50.0)
Total Nonoperating Income (Expense)	96	(128)	224	175.0
Loss Before Contributed Capital	(3,564)	(5,125)	1,561	30.5
Contributed Capital	5,096	4,278	818	19.1
Change in Net Position	$ 1,532	$ (847)	2,379	280.9

Total operating revenues increased by $0.7 million or 5.3% primarily due to fee revenues associated with golf course operations. Both member and public play has increased from the prior year due to restoration of the irrigation system and course conditions. To a lesser extent, rental of facilities increased by 3.9% due to slight increases in the Consumer Price Index and new lease contracts. Offsetting these increases was a decrease in fuel sales due to increased regulatory compliance associated with commercial fishing activities.

Total operating expenses decreased by $1.1 million or 5.7% primarily due to lower facilities costs and bad debt expenses from the prior year. Offsetting these decreases were increases in personnel services and benefits along with elevated depreciation and other operating costs.

Net non-operating expense increased by $0.2 million due to a one-time gain on insurance proceeds.

The increase in contributed capital of $0.8 million reflects the continued use of grant funding to support capital project initiatives at PSM and or DAW. During the year ended June 30, 2015, a total of $5.8 million was spent on the purchase of capital assets of which approximately $5.1 million were either grant funded or supported by the State for purposes of PDA-DPH.

Contacting the PDA's Leadership Team

This financial report is designed to provide a general overview of PDA's finances and to demonstrate PDA's accountability for the grants that it receives. If you have questions about this report or need additional financial information, please contact David R. Mullen, Executive Director, at 55 International Drive Portsmouth, NH 03801 via email at **d.mullen@peasedev.org** or by telephone at 603.433.6088. (Visit the PDA website at: **www.peasedev.org**)

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

		2016		Restated 2015
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$	1,713,347	$	1,256,867
Accounts Receivable - Net		588,746		1,899,183
Other Current Assets		467,232		471,040
Total Current Assets		2,769,325		3,627,090
Restricted Assets:				
Cash and Cash Equivalents		597,140		875,431
Accounts Receivable - Net		1,092,715		986,602
Total Restricted Assets		1,689,855		1,862,033
Capital Assets		68,588,287		73,231,971
Total Assets		**73,047,467**		**78,721,094**
DEFERRED OUTFLOWS OF RESOURCES				
Pension		**776,349**		**412,837**
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Expenses		1,855,440		1,824,138
Accounts Payable for Capital Assets		278,486		609,171
Unearned Revenues		597,019		547,761
Revolving Line of Credit Facility		-		2,750,000
Current Portion of Long-Term Liabilities		116,290		129,344
Total Current Liabilities		2,847,235		5,860,414
Noncurrent Liabilities:				
Net Pension Liability		4,255,991		3,687,154
Other Noncurrent Liabilities		458,009		576,402
Total Noncurrent Liabilities		4,714,000		4,263,556
Total Liabilities		**7,561,235**		**10,123,970**
DEFERRED INFLOWS OF RESOURCES				
Pension		**207,139**		**471,774**
NET POSITION				
Net Investment in Capital Assets		67,844,642		72,041,352
Restricted For:				
Revolving Loan Fishery Fund		1,159,304		1,152,625
Harbor Dredging and Pier Maintenance		211,815		390,845
Foreign Trade Zone		50,557		46,493
Unrestricted		(3,210,876)		(5,093,128)
Total Net Position	**$**	**66,055,442**	**$**	**68,538,187**

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	2016	*2015*
Operating Revenues		
Rental of Facilities	$ 9,487,497	$ 9,168,399
Fee Revenues:		
Golf Course Operations	1,869,207	1,718,627
Mooring, Dockage, Pier Usage and Boat Registrations	955,138	1,128,829
All Other	117,402	133,940
	2,941,747	2,981,396
Fuel Sales	765,841	904,031
Concession and Other Miscellaneous	963,439	847,934
Total Operating Revenues	14,158,524	13,901,760
Operating Expenses		
Personnel Services and Benefits	6,631,406	6,555,847
Depreciation	6,110,575	6,222,153
Building and Facilities Maintenance	1,511,832	1,414,386
Professional Services	444,272	504,496
Utilities	887,474	964,542
General and Administrative	750,054	776,825
All Other	940,721	1,123,254
Total Operating Expenses	17,276,334	17,561,503
Operating Loss	(3,117,810)	(3,659,743)
Nonoperating Income (Expense)		
Interest Income	3,343	3,474
Interest Expense	(39,406)	(127,638)
Gain on Sale of Capital Assets	-	1,000
Gain on Insurance Proceeds	-	220,036
Total Nonoperating Income (Expense)	(36,063)	96,872
Loss Before Contributed Capital	(3,153,873)	(3,562,871)
Contributed Capital	671,128	5,095,727
Change in Net Position	(2,482,745)	1,532,856
Net Position at Beginning of Year, as Previously Stated	68,538,187	71,450,075
Cumulative Effect of Change in Accounting Principle	-	(3,845,147)
Prior Period Adjustment	-	(599,597)
Net Position at Beginning of Year, as Restated	**68,538,187**	**67,005,331**
Net Position at End of Year	**$ 66,055,442**	**$ 68,538,187**

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Cash Received from Customers	$ 15,555,389	$ 13,960,133
Cash Payments to Personnel for Services and Benefits	(6,444,784)	(6,622,376)
Cash Payments to Suppliers of Goods and Services	(4,889,680)	(4,590,038)
Net Cash Provided by Operating Activities	4,220,925	2,747,719
Cash Flows From Noncapital Financing Activities		
Net (Repayments) Borrowings on the Provident Bank Revolving Line of Credit Facility	(2,750,000)	750,000
Interest Paid on the Provident Bank Line of Credit Facility	(15,780)	(61,194)
Net Cash (Used) Provided by Noncapital Financing Activities	(2,765,780)	688,806
Cash Flows From Capital and Related Financing Activities		
Contributed Capital by Federal and State Government	671,128	5,095,727
Cash Received from Sale of Capital Assets	-	1,000
Cash Received from Insurance Recoveries	-	220,036
Purchase of Capital Assets	(1,811,512)	(7,019,517)
Interest Paid on Capital Debt	(23,626)	(66,444)
Repayment of Long-Term Liabilities	(116,289)	(1,686,213)
Net Cash Used by Capital and Related Financing Activities	(1,280,299)	(3,455,411)
Cash Flows From Investing Activities		
Interest Income Received	3,343	3,474
Increase (Decrease) in Cash and Cash Equivalents	178,189	(15,412)
Cash and Cash Equivalents - Beginning of Year	2,132,298	2,147,710
Cash and Cash Equivalents - End of Year	**$ 2,310,487**	**$ 2,132,298**

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015
(CONCLUDED)

		2016		2015
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities				
Operating Loss	$	(3,117,810)	$	(3,659,743)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities				
Depreciation		6,110,575		6,222,153
Change in Allowance for Doubtful Accounts		(20,000)		22,000
All Other		(1,222)		(26,109)
Changes in Operating Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources:				
Accounts Receivable		1,224,324		62,482
Other Assets		3,808		62,885
Deferred Outflows of Resources - Pension		(363,512)		(94,156)
Accounts Payable and Accrued Expenses		31,302		158,807
Unearned Revenues		49,258		4,300
Net Pension Liability		568,837		(476,674)
Deferred Inflows of Resources - Pension		(264,635)		471,774
Net Cash Provided by Operating Activities	**$**	**4,220,925**	**$**	**2,747,719**
Reconciliation of Noncash Activity:				
Acquisition of Capital Assets	$	1,480,827	$	5,774,817
Less: Accounts Payable and Accrued Expenses as of Year-end		(278,486)		(609,171)
Add: Payments on Short-Term Trade Accounts to Finance Acquisitions of Capital Assets		609,171		1,853,871
Payments for the Acquisition of Capital Assets	$	1,811,512	$	7,019,517

See accompanying notes to financial statements.

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 "State"). 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 PDA was established as its successor with the goals of converting and redeveloping the Pease International Tradeport ("Tradeport"). PDA is a component unit of 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. The Governor and State legislative leadership appoint four members and the City of Portsmouth ("COP") and the Town of Newington appoint three members.

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 PDA effective July 1, 2001. In doing so, the State authorized the transfer of functions, powers and duties of the Port to PDA, acting through the Division of Ports and Harbors ("PDA-DPH"). 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; 2) foster and stimulate commerce and the shipment of freight; 3) aid in the development of salt water fisheries and associated industries; 4) cooperate with any federal agencies or departments in planning the maintenance, development, and use of the State ports, harbors, and navigable tidal rivers; and 5) plan, develop, maintain, use and operate land transportation facilities within a 15 mile radius of the PDA-DPH headquarters in Portsmouth, New Hampshire.

As a result of the transfer of the Port to PDA, the Harbor Dredging and Pier Maintenance Fund was transferred to PDA. This fund was set up for the purposes of initiating and implementing harbor dredging projects and maintaining public piers. On July 1, 2001, also 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.

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 PDA shall be credited as continuous State service for all purposes; 2) makes PDA fund a nonlapsing fund for the benefit of PDA-DPH; 3) requires a biennial report of DPA-DPH; 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.

1. *Reporting Entity (concluded)*

On May 12, 2008, the State, 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 PDA for the operation of Skyhaven Airport (“DAW”) located in Rochester, New Hampshire. With the passage of Chapter 113, Laws of 2009, enacted on June 22, 2009, the NHDOT was directed to convey ownership of DAW to PDA. The law required that PDA accept ownership of, manage and operate DAW, and act as the official Airport owner, operator, and sponsor. 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.

2. *Summary of Significant Accounting Policies*

Basis of Accounting

The accompanying financial statements of PDA were prepared in accordance with U.S. generally accepted accounting principles (“U.S. 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 principles. PDA uses enterprise fund reporting, which uses the economic resources measurement focus and the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the Statements of Cash Flows, include cash which is either held in demand deposit or short-term money market accounts, and highly liquid savings deposits and investments with original maturities less than three months from the date acquired.

PDA maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. PDA has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are carried at cost, less an allowance for doubtful accounts. Receivable balances also include outstanding loans from the Revolving Loan Fishery Fund, including principal plus accrued interest. 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.

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
Facilities Improvements	20
Equipment	5

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

Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is an estimated amount based on the amount accumulated at the balance sheet date that would be paid upon termination. The liability for both amounts is included in accounts payable and accrued expenses and is calculated based on the pay or salary rates in effect as of the date of the statements of net position.

Unearned Revenues

Unearned revenues include advance greens fees for the golf course, which are based upon a percentage allocation of the total days the course expects to operate. In addition, unearned revenues are recorded for mooring permits for the harbors and tidal waters and are based on the expiration date of the permit. Rental income received in advance is also classified as unearned revenues.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (“NHRS”) and additions to/deductions from the NHRS’s fiduciary net position have been determined on the same basis as they are reported by the NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position is presented in the following categories:

- *Net investment in capital assets* represents capital assets, net of long and short-term debt that relates to the purchase of those assets.
- *Restricted for specific purpose* represents amounts that are expendable but whose use is subject to an externally imposed restriction.
- *Unrestricted* represents the remaining balance of net position after the above net position categories have been determined.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies unrestricted net position first, unless a determination is made to use restricted net position. PDA's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

Revenue Recognition

Income from rental of facilities 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.

2. *Summary of Significant Accounting Policies (concluded)*

Operating and Nonoperating Income and Expenses

PDA distinguishes between operating revenues and expenses from nonoperating items in the preparation of its financial statements. 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 PDA include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating income and expenses.

Contributed Capital and Grants

Federal grants, received on a reimbursement basis, are recorded as contributed capital when the related expenditures are capital related. Non-capital related grants are recognized as grant revenue on the statements of revenues, expenses and changes in net position as other miscellaneous revenues.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

3. *Change in Accounting Principle*

During the year ended June 30, 2015, PDA adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68* (the new accounting standards). The changes made to the basic financial statements to comply with the new accounting standards were reported as an adjustment as of the beginning of the year ended June 30, 2015. Because it was not practical for PDA to determine the amounts of all deferred inflows of resources and outflows of resources related to the pension plan as of June 30, 2014, the beginning balances of deferred inflows of resources and deferred outflows of resources related to pensions have not been reported. The impact of the adoption of the new accounting standards as of the beginning of the year ended June 30, 2015 was as follows:

	July 1, 2015
Net Pension Liability as of the measurement date of June 30, 2013	$ 4,163,828
Contributions made in 2014 after the measurement date included in deferred outflows of resources	(318,681)
Cumulative Effect of Change in Accounting Principle	$ 3,845,147

4. *Cash and Cash Equivalents*

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, PDA's deposits may not be returned to it. State Statute RSA 12-G: 8 (XIII) empowers PDA to invest and reinvest its funds and take and hold property as security for the payment of funds so invested. 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. PDA's policy does not explicitly address custodial credit risk.

As of June 30, 2016 and 2015, substantially all of PDA's cash and equivalents were insured by the Federal Deposit Insurance Corporation and the Depositors Insurance Fund. At June 30, 2016 and 2015, cash and cash equivalents of $30,706 and $37,340, respectively, was collateralized by a Stand-by Letter of Credit at the Federal Home Loan Bank of Cleveland Pittsburgh Branch.

5. *Current Accounts Receivable - Net*

Current accounts receivable - net was represented by the following at June 30:

	2016	2015
Tenants	$ 529,608	$ 985,075
Intergovernmental	66,138	931,108
Allowance for Doubtful Accounts	(7,000)	(17,000)
	$ 588,746	$ 1,899,183

6. *Restricted Cash and Cash Equivalents*

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

	2016	2015
Harbor Dredging and Pier Maintenance	$ 473,958	$ 448,856
Revolving Loan Fishery Fund	77,625	372,900
Foreign Trade Zone	45,557	53,675
	$ 597,140	$ 875,431

7. *Restricted Accounts Receivable - Net*

Restricted accounts receivable was represented by the following at June 30:

	2016	2015
Revolving Loan Fishery Fund		
Due Within One Year	$ 130,940	$ 115,457
Due in More Than One Year	953,863	665,625
Tenants	7,912	12,818
Intergovernmental	-	202,702
Allowance for Doubtful Accounts	-	(10,000)
	$ 1,092,715	$ 986,602

8. *Capital Assets*

Capital asset activity for the year ended June 30, 2016 was as follows:

	Restated Balance July 1, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Land	$ 7,520,786	$ -	$ -	$ -	$ 7,520,786
Facilities Improvements	128,141,885	-	-	11,129,950	139,271,835
Equipment	13,286,576	-	-	409,355	13,695,931
Construction in Process	10,606,490	1,480,827	-	(11,553,241)	534,076
	159,555,737	1,480,827	-	(13,936)	161,022,628
Less Accumulated Depreciation	(86,323,766)	(6,110,575)	-	-	(92,434,341)
Total Capital Assets	$ 73,231,971	$ (4,629,748)	$ -	$ (13,936)	$ 68,588,287

Capital asset activity for the year ended June 30, 2015 was as follows:

	Restated Balance July 1, 2014	Additions	Disposals	Transfers	Restated Balance June 30, 2015
Land	$ 7,499,464	$ -	$ -	$ 21,322	$ 7,520,786
Facilities Improvements	126,491,862	-	-	1,650,023	128,141,885
Equipment	13,158,195	-	(29,761)	158,142	13,286,576
Construction in Process	6,661,160	5,774,817	-	(1,829,487)	10,606,490
	153,810,681	5,774,817	(29,761)	-	159,555,737
Less Accumulated Depreciation	(80,131,374)	(6,222,153)	29,761	-	(86,323,766)
Total Capital Assets	$ 73,679,307	$ (447,336)	$ -	$ -	$ 73,231,971

9. Unearned Revenues

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

	2016	2015
Mooring Permits	$ 238,520	$ 246,962
Golf Course Membership Fees	209,405	205,265
All Other	149,094	95,534
	$ 597,019	$ 547,761

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

10. Revolving Line of Credit Facility

PDA currently has a $5,000,000 unsecured Revolving Line of Credit Facility (“RLOC”) secured through The Provident Bank, which matures December 31, 2016. The terms of the RLOC provide that a) the loan shall bear interest at a per annum rate equal to the thirty (30) day Federal Home Loan Bank (Boston) plus 250 basis points; and b) PDA shall maintain various covenants that are to be reported on periodically. As of June 30, 2016 and 2015, the interest rate was 3.11% and 2.86%, respectively. The proceeds of any draw on the RLOC are to be used for general working capital purposes of PDA. The following table reflects a complete reconciliation of the RLOC for the years ended June 30:

	2016	2015
Amount Outstanding at Beginning of Year	$ 2,750,000	$ 2,000,000
Drawdowns	1,000,000	4,250,000
Repayments	(3,750,000)	(3,500,000)
Amount Outstanding at End of Year	$ -	$ 2,750,000

11. Due to City of Portsmouth – Waste Water Treatment Facility

In December 2000, the State Water Pollution Control Revolving Fund program’s debt outstanding of $6,444,630 was assigned to COP. A supplemental loan agreement was entered into between the State Water Pollution Control Revolving Fund program and COP in order to finance the construction of the wastewater treatment plant upgrade. In conjunction with the assignment of the debt to COP, a similar portion of the leasehold improvement for the wastewater treatment facility was also transferred to COP. PDA agreed to pay an amount totaling $2,307,064 to COP. Annual payments plus interest at 4.50% are payable through 2020. Amounts totaling $465,159 and $581,448 were outstanding at June 30, 2016 and 2015, respectively. Debt service requirements at June 30, 2016 are as follows:

Year	Principal	Interest	Total
2017	$ 116,290	$ 20,764	$ 137,054
2018	116,290	15,573	131,863
2019	116,290	10,382	126,672
2020	116,289	5,192	121,481
	$ 465,159	$ 51,911	$ 517,070

12. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due in One Year
Net Pension Liability	$ 3,687,154	$ 568,837	$ -	$ 4,255,991	$ -
City of Portsmouth - Waste Water Treatment Facility	581,448	-	(116,289)	465,159	116,290
Compensated Absences- Net	111,244	-	(2,104)	109,140	-
Advance from Tenant	13,054	-	(13,054)	-	-
	$ 4,392,900	$ 568,837	$ (131,447)	$ 4,830,290	$ 116,290

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due in One Year
Net Pension Liability	$ 4,163,828	$ -	$ (476,674)	$ 3,687,154	$ -
Line of Credit Note The Provident Bank @ 3.11%	1,218,820	-	(1,218,820)	-	-
City of Portsmouth - Waste Water Treatment Facility	697,738	-	(116,290)	581,448	116,290
Line of Credit Note The Provident Bank @ 3.46%	351,103	-	(351,103)	-	-
Compensated Absences- Net	102,032	9,212	-	111,244	-
Advance from Tenant	39,163	-	(26,109)	13,054	13,054
	$ 6,572,684	$ 9,212	$ (2,188,996)	$ 4,392,900	$ 129,344

13. Rental of Facilities

PDA has leasing arrangements with various parties for the rental of land, buildings, office space, and airplane hangars. 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. Lease arrangements are primarily for periods ranging from one to fifty years. These leases meet the criteria for classification as operating leases. PDA-DPH has leases, licenses, and other arrangements with various parties for the use of land, warehouse, and storage facilities.

At June 30, 2016, the projected minimum future revenue from noncancelable rental agreements is approximately:

Year	*Amount*
2017	$ 9,542,000
2018	8,489,000
2019	7,765,000
2020	7,617,000
2021	7,193,000
Thereafter	81,580,000
	$ 122,186,000

14. Municipal Service Fees

Effective July 1, 1998, PDA entered into an amended municipal services agreement with COP and the Town of Newington 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 PDA and any space for public use in the PSM Terminal. The agreement includes completed facilities other than PDA's golf course or airport terminals within the Airport District operated by 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.

15. Airport Joint Use Agreement

The Department of the Air Force and PDA are parties to 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. 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. The current Agreement is effective through September 30, 2018.

16. Risk Management

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

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. Other insurance coverage includes 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 2016 and 2015.

In addition to purchasing insurance coverages, PDA maintains a risk transfer program. The PDA's agreements and leases include requirements to provide insurance coverage and coverage provisions, which include: 1) naming PDA as an additional insured; 2) naming PDA as loss payee on property coverage; 3) a waiver of subrogation; and 4) providing that such coverages be primary and non-contributing with respect to coverage PDA maintains.

17. Defined Benefit Pension Plan

Plan Description

PDA participates in the NHRS, which, as governed by RSA 100-A, is a cost-sharing multiple-employer contributory public employee defined benefit pension plan qualified under section 401(a) of the Internal Revenue Code ("Code") and funded through a trust, which is exempt from tax under Code section 501(a). NHRS is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. NHRS retired members receive a lifetime pension. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State are eligible and required to participate in NHRS. RSA 100-A specifies the benefit terms provided to the members of NHRS.

Although benefits are funded by member contributions, employer contributions and trust fund assets, NHRS computes benefits on the basis of members' Average Final Compensation ("AFC") and years of creditable service. Unlike a defined contribution plan, NHRS benefits provided to members are not dependent upon the amount of contributions paid into NHRS or the investment return on trust assets.

To qualify for a normal service retirement, members must have attained the age of 60 years old. However, a member who commenced service on or after July 1, 2011 shall not receive a service retirement allowance until attaining the age of 65. The member may receive a reduced allowance after age 60 if the member has at least 30 years of creditable service. The allowance shall be reduced based on a formula, for each month by which the date on which benefits commence precedes the month after which the member attains 65 years of age, by ¼ of one percent.

For members retiring prior to the age of 65, the yearly pension amount is 1.67% of AFC, multiplied by years of creditable service. For members retiring at 65 or older, the yearly pension amount is 1.52% of AFC, multiplied by years of creditable service. For members vested prior to January 1, 2012, AFC is based on the highest three years of creditable service. For members not vested prior to January 1, 2012, or hired on or after July 1, 2011, AFC is based on a member's highest five years of creditable service. At age 65, the yearly pension amount is recalculated

17. Defined Benefit Pension Plan (continued)

Plan Description (concluded)

with an appropriate graduated reduction based on years and months of creditable service that the member has at the time of retirement.

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. By statute, the Board of Trustees of NHRS is responsible for the certification of employer and member contribution rates.

Commencing July 1, 2011, all Group I employees are responsible to accrue contributions at 7.00% while Group II (Police) employees accrue contributions at a rate of 11.55%.

In terms of the employer share of contributions made to the Retirement Plan, the pension contribution rate for Group I employees was 10.51% for the two-year period ending June 30, 2015. Effective July 1, 2015, the employer share was increased to 10.86% and will remain fixed through June 30, 2017.

For Group II employees, effective July 1, 2015, the contribution rate increased from 21.45% to 22.54% and will remain fixed through June 30, 2017.

For the years ended June 30, 2016 and 2015, contributions to NHRS were $417,908 and $360,425, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, PDA reported a liability of $4,255,991 for its proportionate share of the net pension liability. The net pension liability is based on an actuarial valuation performed as of June 30, 2014 and a measurement date of June 30, 2015. The net pension liability was rolled forward from June 30, 2014 to June 30, 2015. PDA's proportion of the net pension liability was based on a projection of the PDA's long-term share of contributions to NHRS relative to the projected contributions of all participating employers as actuarially determined. At June 30, 2015, PDA's proportion of the net pension liability was 0.1074%.

At June 30, 2015, PDA reported a liability of $3,687,154 for its proportionate share of the net pension liability. The net pension liability is based on an actuarial valuation performed as of June 30, 2013 and a measurement date of June 30, 2014. The net pension liability was rolled forward from June 30, 2013 to June 30, 2014. PDA's proportion of the net pension liability was based on a projection of PDA's long-term share of contributions to NHRS relative to the projected contributions of all participating employers as actuarially determined. At June 30, 2014, PDA's proportion of the net pension liability was 0.0982%.

For the years ended June 30, 2016 and 2015, PDA recognized pension expense of $358,598 and $261,369, respectively.

17. Defined Benefit Pension Plan (continued)

Plan Description (continued)

At June 30, 2016, PDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Net differences between projected and actual investment earnings on pension plan investments	$ -	$ 113,746
Differences between expected and actual experience	-	93,393
Changes in proportion and differences between employer contributions and share of contributions	358,441	-
Contributions subsequent to the measurement date	417,908	-
Balances as of June 30, 2016	$ 776,349	$ 207,139

At June 30, 2015 PDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Net differences between projected and actual investment earnings on pension plan investments	$ -	$ 471,774
Changes in proportion and differences between employer contributions and share of contributions	52,412	-
Contributions subsequent to the measurement date	360,425	-
Balances as of June 30, 2015	$ 412,837	$ 471,774

Amounts reported as deferred outflows related to pensions resulting from PDA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	***Amount***
2017	$ 1,670
2018	1,670
2019	1,670
2020	126,200
2021	20,092
	$ 151,302

17. *Defined Benefit Pension Plan* *(continued)*

Actuarial Assumptions

The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions, which apply to 2015 measurements:

Investment Rate of Return	7.75% net of investment expenses, including inflation
Wage Inflation Rate	3.75 – 3.80% average, including inflation
Price Inflation	3.00%

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period of July 1, 2005 – June 30, 2010.

Long-Term Rates of Return

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table present target allocations and the geometric long-term rates of return for 2015 and 2014:

			Weighted Average Long-Term Expected Real Rate of Return	
Asset Class	***Target Allocation 2014***	***Target Allocation 2015***	**2014**	**2015**
Large Cap Equities	22.50%	22.50%	3.25%	3.00%
Small/Mid Cap Equities	7.50	7.50	3.25	3.00
Total Domestic Equity	30.00	30.00		
International Equities (Unhedged)	13.00	13.00	4.25	4.00
Emerging International Equities	7.00	7.00	6.50	6.00
Total International Equity	20.00	20.00		
Core Bonds	18.00	4.50	(0.47)	(0.70)
Short Duration	-	2.50	-	(1.00)
Global Multi-Sector Fixed Income	-	11.00	-	0.28
Unconstrained Fixed Income	-	7.00	-	0.16
High-Yield Bonds	1.50	-	1.50	-
Global Bonds (Unhedged)	5.00	-	(1.75)	-
Emerging Market Debt (External)	0.50	-	2.00	-
Total Fixed Income	25.00	25.00		
Private Equity	5.00	5.00	5.75	5.50
Private Debt	5.00	5.00	5.00	4.50
Real Estate	10.00	10.00	3.25	3.50
Opportunistic	5.00	5.00	2.50	2.75
Total Alternative Investments	25.00	25.00		
Total	100.00%	100.00%		

17. Defined Benefit Pension Plan (concluded)

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the pension plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following presents PDA's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what PDA's proportionate share of the pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
PDA's proportionate share of the net pension liability	$ 5,602,458	$ 4,255,991	$ 3,108,119

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NHRS annual report available from NHRS' website at https://www.nhrs.org.

The pension plan's fiduciary net position has been determined on the same basis used by NHRS. NHRS's financial statements are prepared using the accrual basis of accounting. Both plan member and employer contributions are recognized in the period in which contributions are legally due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Investments in both domestic and non-U.S. securities are valued at current market prices and expressed in U.S. dollars. NHRS uses a trade-date accounting basis for these investments. Investments in non-registered commingled funds are valued at net asset value as a practical expedient to estimate fair value.

18. Other Post-Employment Benefits

In addition to providing pension benefits, NHRS administers four cost-sharing multiple-employer defined postemployment medical subsidiary healthcare plans designated in statute by membership type. The four plans are Group II Police Officer and Firefighters, Group I Teachers, Group I Political Subdivision Employees and Group I State Employees. Collectively, they are referred to as the "OPEB Plans".

18. Other Post-Employment Benefits (concluded)

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 Legislature has indicated it 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 No. 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 30 years.

Plan members are not required to contribute to the OPEB Plans. PDA makes annual contributions to the OPEB Plans equal to the amount required by RSA 100-a:52, which was 1.64% of covered compensation during the year ended June 30, 2016 and 1.62% for the year ended June 30, 2015. PDA's contributions to NHRS for the OPEB Plans for the years ended June 30, 2016 and 2015 were $55,827 and $55,556, respectively, which were equal to its ARC.

Detailed information about the OPEB Plans' fiduciary net position is available in the separately issued NHRS annual report available from NHRS' website at https://www.nhrs.org.

19*. Commitments and Contingencies*

Subsurface Investigation

During site subsurface investigations conducted at the Market Street Terminal (performed, in part, to support storm water system improvements), the PDA-DPH's environmental consultant found several areas of subsurface soils contaminated with significant levels of the heavy metal mercury. Initial investigations reveal that this contamination is most likely associated with a commercial wood preservation process that was located on a portion of the site and probably operated on the site sometime after 1875 and terminated operations before the State acquired title to the property in the 1960's and prior to July 1, 2001 when PDA-DPH operations were transferred from the State to the PDA. The completed study has been submitted to the New Hampshire Department of Environmental Services and management is awaiting its review and comment. As of June 30, 2016, no liability has been recorded for future pollution remediation obligations.

Grant Administration

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.

19. *Commitments and Contingencies (concluded)*

Construction Contracts

PDA had commitments under construction contracts associated with federal grants totaling approximately $881,000 and $1,614,000 at June 30, 2016 and 2015, respectively.

Litigation

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

20. Subsequent Events

GASB Statement No. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reported for all OPEB with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement will be effective for PDA beginning with its year ending June 30, 2018. Management has not currently determined what impact the implementation of this Statement will have on the financial statements.

NHRS

On July 1, 2016, the Board of Trustees of NHRS announced a change to adopt revised actuarial assumptions based on the results of a five-year experience study conducted by the retirement systems consulting actuary. Included in these changes will be the lowering of the assumed rate of return from 7.75% to 7.25%. This rate will be used in September to set employer contribution rates for fiscal years 2018 and 2019. This information will also be used to determine the June 30, 2017 net pension liability.

Potential Liability

In September 2016, PDA received notice of the Conservation Law Foundation's intent to sue under the Citizen Suit provisions of the Clean Water Act (CWA) and the Resource Conservation and Recovery Act (RCRA), respectively. The CWA Notice alleges that PDA is illegally discharging stormwater from the Pease International Tradeport into the waters of the United States without a National Pollutant Discharge Elimination System permit. The RCRA Notice includes allegations relative to the storage and disposal of perfluorooctanoic acid and perfluorooctanesulfonic acid and contamination to the surface water and ground water. At this time, a lawsuit has not been filed against the PDA. Further, management believes there is presently insufficient information to express any opinion as to the likely outcome of these matters or to otherwise determine their financial impact, if any.

20. Subsequent Events (concluded)

Revolving Line of Credit

On September 15, 2016, PDA's Board of Directors approved a Loan Modification Agreement with The Provident Bank to extend the $5,000,000 RLOC through December 31, 2017.

21. Prior Period Adjustment

The 2014 financial statements have been restated to expense amounts previously recorded to construction in progress for which management determined that there was no ongoing useful life. The restatement resulted in a decrease to net position of $599,597 as of June 30, 2015 and 2014.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Collective Net Pension Liability

	JUNE 30,		
	2015	**2014**	**2013**
Employer Proportion of the Collective Net Pension Liability	0.1074%	0.0982%	0.0967%
Employer's Proportionate Share of the Collective Net Pension Liability	$ 4,255,991	$ 3,687,154	$ 4,163,828
Employer's Covered-Employee Payroll	$ 3,430,000	$ 3,029,000	$ 2,843,000
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered-Employee Payroll	124.08%	121.73%	146.46%
Plan Fiduciary Net Position as a % of the Total Pension Liability	65.47%	66.32%	59.81%

Schedule is intended to show 10 years. Additional years will be added as they become available.

Schedule of Employer Contributions

	JUNE 30,			
	2016	**2015**	**2014**	**2013**
Required Employer Contribution	$ 417,908	$ 360,425	$ 318,681	$ 241,055
Actual Employer Contributions	$ 417,908	$ 360,425	$ 318,681	$ 241,055
Excess/(Deficiency) of Employer Contributions	$ -	$ -	$ -	$ -
Employer's Covered Employee Payroll	$ 3,848,140	$ 3,430,000	$ 3,029,000	$ 2,843,000
Employer Contribution as a % of the Employer's Covered-Employee Payroll	10.86%	10.51%	10.52%	8.48%

Schedule is intended to show 10 years. Additional years will be added as they become available.

Notes to the Required Supplementary Information

Valuation Date: June 30, 2009 for determining for Fiscal Year 2013 contributions
June 30, 2011 for determining the Fiscal Year 2014 contributions
June 30, 2013 for determining the Fiscal Year 2015 contributions
June 30, 2014 for determining the Net Pension Liability

Notes: The roll-forward of total pension liability from June 30, 2014 to June 30, 2015 reflects expected service cost and interest reduced by actual benefit payments.

Actuarial determined contribution rates for the 2012-2013 biennium were determined based on the June 30, 2009 actuarial valuation. Actuarial determined contribution rates for the 2014-2015 biennium were determined based on the June 30, 2011 actuarial valuation. Actuarial determined contribution rates for the 2015-2016 biennium were determined based on the June 30, 2013 actuarial valuation.