Pease Development Authority

Financial Statements and
Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013
With Independent Auditor's Report

PEASE
INTERNATIONAL
PEASE DEVELOPMENT AUTHORITY
PORTSMOUTH, NH

PEASE DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013

TABLE OF CONTENTS

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

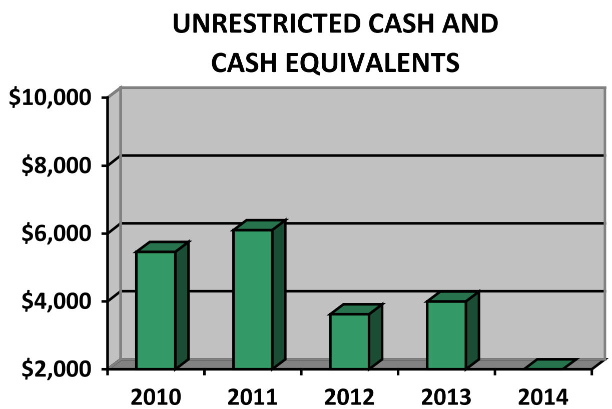
Robert F. Preston
Appointed by the New Hampshire Senate President

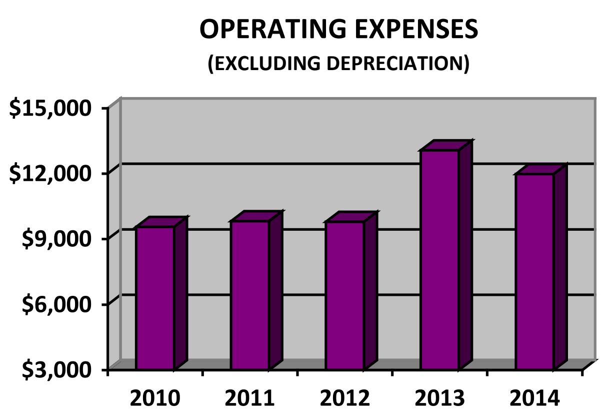
Franklin G. Torr
Appointed by Strafford County Legislative Delegation

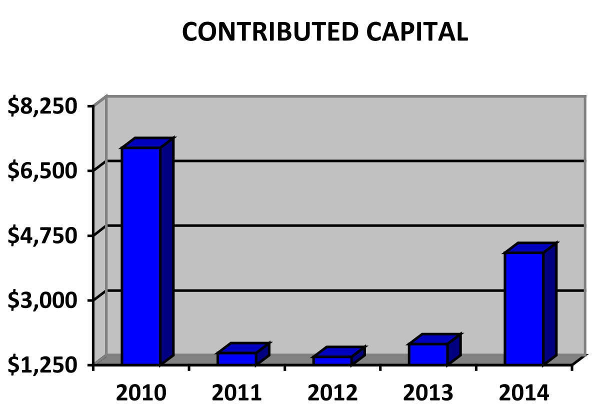
David R. Mullen
Executive Director and Secretary
Hired by the Pease Development Authority Board of Directors

PEASE DEVELOPMENT AUTHORITY
FINANCIAL HIGHLIGHTS
($ in Thousands)

	2010	2011	2012	2013	2014
Consolidated Revenues					
Tradeport	$ 9,034	$ 9,056	$ 9,220	$ 7,926	$ 7,631
Ports and Harbors	2,503	2,533	2,848	4,223	2,773
Golf Course	1,621	1,749	1,926	1,658	1,621
Aviation	1,247	1,110	1,124	1,232	1,173
Total	$ 14,405	$ 14,448	$ 15,118	$ 15,039	$ 13,198







- Debt outstanding continues to be reduced but recent golf course and Tradeport renovations have required new borrowings:

June 30	Amount
2010	$ 13,693
2011	10,646
2012	3,359
2013	3,532
2014	4,268

- 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 years:

June 30	Amount
2010	$ 135,737
2011	138,519
2012	140,678
2013	146,771
2014	154,410

- Net cash provided by operating activities has been impacted during the past several years due to changes in the allowance for doubtful accounts:

June 30	Amount
2010	$ 3,827
2011	4,167
2012	5,035
2013	3,859
2014	211

RKO
Runyon Kersteen Ouellette

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Pease Development Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Pease Development Authority, a component unit of the State of New Hampshire, as of and for the years ended June 30, 2014 and 2013, and the related notes to the 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 accounting principles generally accepted in the United States of America; 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 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 audits 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.

Board of Directors of
Pease Development Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pease Development Authority, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014 on our consideration of Pease Development Authority'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 Pease Development Authority's internal control over financial reporting and compliance.

Runyon Kersteen Ouellette

October 3, 2014
South Portland, Maine

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 three fiscal years. This section of the PDA's annual financial report is known as "*Management's Discussion and Analysis of Financial Condition and Results of Operations"* ("MD&A") and presents our discussion and analysis of the PDA's financial performance during the fiscal years ended June 30, 2014, 2013 and 2012.

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

Overview of the Financial Statements

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

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

Operating Income

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

Comparison of 2014 to 2013

Changes in Operating Income
($ in Thousands)

	June 30, 2014	June 30, 2013	$ Increase (Decrease)	% Increase (Decrease)
Operating Revenues				
Rental of Facilities	$ 8,825	9,067	(242)	(2.7)
Fee Revenues	2,952	3,319	(367)	(11.1)
State Appropriation	-	1,344	(1,344)	(100.0)
Fuel Sales	981	915	66	7.2
Concession and Other Miscellaneous	440	394	46	11.7
Total Operating Revenues	13,198	15,039	(1,841)	(12.2)
Operating Expenses				
Personnel Services and Benefits	6,285	5,904	381	6.5
Depreciation and Amortization	5,992	6,053	(61)	(1.0)
Building and Facilities Maintenance	1,990	3,054	(1,064)	(34.8)
General and Administrative	1,221	1,741	(520)	(29.9)
Other	2,536	2,374	162	6.8
Total Operating Expenses	18,024	19,126	(1,102)	(5.8)
Operating Loss	(4,826)	(4,087)	(739)	18.1
Nonoperating Income (Expense)				
Interest Expense	(136)	(107)	(29)	27.1
Interest Income	6	11	(5)	(45.5)
Gain on Disposal of Assets	2	544	(542)	(99.6)
Total Nonoperating Income (Expense)	(128)	448	(576)	128.6
Loss Before Contributed Capital	(4,954)	(3,639)	(1,315)	36.1
Contributed Capital	4,278	1,818	2,460	135.3
Change in Net Position	$ (676)	(1,821)	1,145	62.9

Total operating revenues decreased by $1.8 million or 12.2% primarily due to the State of New Hampshire (the "State") providing $1.3 million in operating funds during the prior fiscal year to assist in the Seabrook and Hampton dredging project. Fuel sales increased by 7.2% reflecting the commencement of fuel operations at Hampton Harbor. Offsetting this increase was a decrease in wharfage and dockage activities at the Pease Development Authority - Division of Ports and Harbors ("PDA-DPH") reflective of the economic climate.

Total operating expenses decreased by $1.1 million or 5.8% primarily due to prior year dredging activities at Seabrook and Hampton Harbor and a $1.0 million decrease in the allowance for doubtful accounts. The 6.5% increase in personnel services and benefits was primarily associated with escalating employee health care costs including retirement contributions, workers compensation, and to a lesser extent, increases in the reserve for employee sick and vacation accruals.

Total non-operating income (expense) trended lower by $0.6 million due to the prior year one time gain on disposal of assets and the increased debt service levels to support construction activities across all business units.

Operating Income (continued)

Comparison of 2013 to 2012

Changes in Operating Income
($ in Thousands)

	June 30, 2013	June 30, 2012	$ Increase (Decrease)	% Increase (Decrease)
Operating Revenues				
Rental of Facilities	$ 9,067	10,271	(1,204)	(11.7)
Fee Revenues	3,319	3,172	147	4.6
State Appropriation	1,344	-	1,344	100.0
Fuel Sales	915	955	(40)	(4.2)
Concession and Other Miscellaneous	394	720	(326)	(45.3)
Total Operating Revenues	15,039	15,118	(79)	(0.5)
Operating Expenses				
Depreciation and Amortization	6,053	6,167	(114)	(1.8)
Personnel Services and Benefits	5,904	5,627	277	4.9
Building and Facilities Maintenance	3,054	1,263	1,791	141.8
General and Administrative	1,741	726	1,015	139.8
Other	2,374	2,184	190	8.7
Total Operating Expenses	19,126	15,967	3,159	19.8
Operating Loss	(4,087)	(849)	(3,238)	381.4
Nonoperating Income (Expense)				
Grant Revenue - New Hampshire Fish and Game Department Funds for Northeast Multispecies Fishing Vessel Permits	-	994	(994)	(100.0)
Grant Expense - Purchase of Federal North-East Multispecies Fishing Vessel Permits	-	(994)	994	(100.0)
Interest Expense	(107)	(394)	287	(72.8)
Interest Income	11	12	(1)	(8.3)
Gain on Disposal of Assets	544	33	511	1,548.5
Total Nonoperating Income (Expense)	448	(349)	797	(228.4)
Loss Before Contributed Capital	(3,639)	(1,198)	(2,441)	203.8
Contributed Capital	1,818	1,476	342	23.2
Change in Net Position	$ (1,821)	278	(2,099)	(755.0)

Total operating revenues decreased by $0.1 million or 0.5% primarily due to a reduction in rental of facilities and lower golf fee revenues associated with the course renovations that were underway. Fuel sales continued to decrease primarily due to a combination of lower consumption and the increased purchasing cost per gallon. Offsetting these decreases, the State provided $1.3 million in operating funds to assist in the Seabrook and Hampton Harbor dredging project.

Total operating expenses increased by $3.2 million or 19.8% primarily due to dredging activities at Seabrook and Hampton Harbor and a $1.0 million increase in the allowance for doubtful accounts. The increase in personnel services and benefits was primarily associated with the initial recognition of a reserve for employee sick time accruals.

Total non-operating income (expense) trended higher by $0.8 million due to the gain on disposal of assets and the continued reduction in debt service levels.

Current Assets

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

Comparison of 2014 to 2013

Changes in Current Assets
($ in Thousands)

	June 30, 2014	June 30, 2013	$ Increase (Decrease)	% Increase (Decrease)
Cash and Investments	$ 1,444	3,995	(2,551)	(63.9)
Accounts Receivable - Net	2,035	1,260	775	61.5
Inventories	360	388	(28)	(7.2)
Other Assets	174	153	21	13.7
Total Current Assets	$ 4,013	5,796	(1,783)	(30.8)

The PDA's current assets decreased by $1.8 million or 30.8% primarily due to the $2.6 million decrease in cash and investments to support construction activities across all business units. Offsetting this decrease was a $0.8 increase in accounts receivable reflective of the grant reimbursement project receivables associated with construction at the Pease International Tradeport (the "Tradeport"), Portsmouth International Airport at Pease ("PSM") and the Skyhaven Airport ("DAW"). Accounts receivables included an allowance for doubtful accounts of approximately $0.01 and $1.1 million at June 30, 2014 and 2013, respectively.

Comparison of 2013 to 2012

Changes in Current Assets
($ in Thousands)

	June 30, 2013	June 30, 2012	$ Increase (Decrease)	% Increase (Decrease)
Cash and Investments	$ 3,995	3,621	374	10.3
Accounts Receivable - Net	1,260	1,340	(80)	(6.0)
Inventories	388	363	25	6.9
Other Assets	153	169	(16)	(9.5)
Total Current Assets	$ 5,796	5,493	303	5.5

The PDA's current assets increased $0.3 million or 5.5% primarily due to the increase in cash and investments as related to the $1.5 million drawdown from the Provident Bank that occurred on June 28, 2013. Offsetting this increase, accounts receivables decreased by $0.1 million due to the reduced grant funded capital construction activities at PSM at the close of the current fiscal year. Accounts receivables included an allowance for doubtful accounts of $1.1 million and $0.1 million at June 30, 2013 and 2012, 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 2014 to 2013

Changes in Restricted Assets
($ in Thousands)

	June 30, 2014	June 30, 2013	$ Increase (Decrease)	% Increase (Decrease)
Cash and Investments	$ 703	695	8	1.2
Revolving Loan Fishery Fund Receivable	936	922	14	1.5
Current Liabilities	-	(1)	1	100.0
Total Restricted Assets	$ 1,639	1,616	23	1.4

Total restricted assets increased by approximately 1.4% during the current fiscal year. Total assets associated with the Revolving Loan Fishery Fund had a composite valuation of $1.2 million and $1.1 million at June 30, 2014 and 2013 respectively. There were 25 individual loans outstanding at June 30, 2014 versus 23 at June 30, 2013.

Comparison of 2013 to 2012

Changes in Restricted Assets
($ in Thousands)

	June 30, 2013	June 30, 2012	$ Increase (Decrease)	% Increase (Decrease)
Cash and Investments	$ 695	900	(205)	(22.8)
Revolving Loan Fishery Fund Receivable	922	805	117	14.5
Current Liabilities	(1)	-	(1)	(100.0)
Total Restricted Assets	$ 1,616	1,705	(89)	(5.2)

Total restricted assets decreased by approximately $0.1 million or 5.2% primarily due to the decrease in cash and investments, which were associated with the repairs to the Seabrook and Hampton Harbors along with renovations to the water quality system at the Market Street Terminal. Offsetting this decrease was a slight increase in assets of the Revolving Loan Fishery Fund as there were 23 individual loans outstanding at June 30, 2013 versus 21 at June 30, 2012.

Capital Assets

The PDA independently develops and maintains the Tradeport. Within its Division of Ports and Harbors, the 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 through access to the capital markets.

Comparison of 2014 to 2013

Changes in Capital Assets
($ in Thousands)

	June 30, 2014	June 30, 2013	$ Increase (Decrease)	% Increase (Decrease)
Land	$ 7,500	5,139	2,361	45.9
Buildings and Facilities Improvements	126,491	121,965	4,526	3.7
Equipment	13,158	12,527	631	5.0
Construction in Process	7,261	7,140	121	1.7
Gross Capital Assets	154,410	146,771	7,639	5.2
Accumulated Depreciation	(80,131)	(74,140)	(5,991)	8.1
Total Capital Assets	$ 74,279	72,631	1,648	2.3

The PDA's total capital assets increased by approximately $1.6 million or 2.3%, mainly due to accelerated capital expenditures versus current year depreciation expense. During the current fiscal year, approximately $7.6 million was expended on capital projects primarily in support of golf course renovations, repairs to the Hampton Harbor, and improvements at PSM. Approximately $4.8 million of the total capital expenditures were associated with either federal or state funded projects.

Comparison of 2013 to 2012

Changes in Capital Assets
($ in Thousands)

	June 30, 2013	June 30, 2012	$ Increase (Decrease)	% Increase (Decrease)
Land	$ 5,139	5,129	10	0.2
Buildings and Facilities Improvements	121,965	120,810	1,155	1.0
Equipment	12,527	12,069	458	3.8
Construction in Process	7,140	2,670	4,470	167.4
Gross Capital Assets	146,771	140,678	6,093	4.3
Accumulated Depreciation	(74,140)	(68,123)	(6,017)	8.8
Total Capital Assets	$ 72,631	72,555	76	0.1

The PDA's total capital assets increased by approximately $0.1 million or 0.1%, mainly due to accelerated capital expenditures versus current year depreciation expense. During the current fiscal year, approximately $6.1 million was expended on capital projects primarily in support of golf course renovations, repairs to the Hampton Harbor, and improvements to the water quality system at the Market Street Terminal. Approximately $5.1 million of the total capital expenditures were associated with either federal or state funded projects.

Long-term Liabilities

The PDA borrowed money from the State during its early years to finance its operations. Currently, the PDA owes no money to the State. Other monies were borrowed for capital improvements from local financial and municipal institutions.

Comparison of 2014 to 2013

Changes in Long-term Liabilities
($ in Thousands)

	June 30, 2014	June 30, 2013	$ Increase (Decrease)	% Increase (Decrease)
The Provident Bank LCN @ 3.11%	$ 928	1,218	(290)	(23.8)
Due to City of Portsmouth - Waste Water Treatment Facility	582	698	(116)	(16.6)
The Provident Bank LCN @ 3.46%	142	352	(210)	(59.7)
Advance from Tenant	13	39	(26)	(66.7)
Total Long-term Debt	$ 1,665	2,307	(642)	(27.8)

The PDA decreased its total noncurrent liabilities outstanding during the fiscal year by approximately $0.6 million or 27.8%. During the fiscal year, a total of $1.3 million of total long-term debt was retired. The decrease was offset by $2.0 million in new net borrowings under PDA's Revolving Credit Facility, which went primarily to support working capital requirements. It is anticipated that during fiscal year 2015, the PDA will need to continue to access the capital market to support scheduled capital improvements at both PSM and DAW. At the end of the 2014 fiscal year, PDA's overall cost of capital remained at approximately 3.6%.

Comparison of 2013 to 2012

Changes in Long-term Liabilities
($ in Thousands)

	June 30, 2013	June 30, 2012	$ Increase (Decrease)	% Increase (Decrease)
The Provident Bank LCN @ 3.11%	$ 1,218	-	1,218	100.0
Due to City of Portsmouth - Waste Water Treatment Facility	698	814	(116)	(14.3)
The Provident Bank LCN @ 3.46%	352	572	(220)	(38.5)
Advance from Tenant	39	65	(26)	(40.0)
The Provident Bank Note Payable	-	829	(829)	(100.0)
Total Long-term Debt	$ 2,307	2,280	27	1.2

The PDA increased its total noncurrent liabilities outstanding during the fiscal year by approximately $0.1 million or 1.2%. During the fiscal year, a total of $1.4 million of total debt was retired. This decrease was offset by $1.5 million in new borrowings, which went primarily to support the golf course renovations. The PDA will continue to access the capital market to support capital improvements at both the golf course and DAW. At the end of the 2013 fiscal year, PDA's overall cost of capital was reduced to 3.6%.

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 2014 to 2013

Changes in Net Position
($ in Thousands)

	June 30, 2014	June 30, 2013	$ Increase (Decrease)	% Increase (Decrease)
Current Assets	$ 4,013	5,796	(1,783)	(30.8)
Restricted Assets	1,639	1,616	23	1.4
Capital Assets	74,279	72,631	1,648	2.3
Total Assets	79,931	80,043	(112)	(0.1)
Current Liabilities	6,816	5,610	1,206	21.5
Noncurrent Liabilities	1,665	2,307	(642)	(27.8)
Total Liabilities	8,481	7,917	564	7.1
Net Investment in Capital Assets	69,972	69,034	938	1.4
Restricted Net Position	1,638	1,616	22	1.4
Unrestricted Net Position	(160)	1,476	(1,636)	(110.8)
Total Net Position	$ 71,450	72,126	(676)	(0.9)

The PDA's total assets decreased $0.1 million or 0.1% primarily due to lower cash and investments that were used to absorb 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 and $1.1 million at June 30, 2014 and 2013, respectively.

The PDA's total liabilities increased by $0.6 million or 7.1% primarily due to the $2.0 million outstanding under the Revolving Line of Credit Facility. This increase was offset by decreases in accounts and retainage payable associated with construction activities at the PSM and Tradeport and the reduction in long-term debt.

The PDA's net position decreased by $0.7 million or 0.9%. This decrease was directly attributable to the reduction in unrestricted net position associated with the results of operations during the current fiscal year.

Net Position (continued):

Comparison of 2013 to 2012

Changes in Net Position
($ in Thousands)

	June 30, 2013	June 30, 2012	$ Increase (Decrease)	% Increase (Decrease)
Current Assets	$ 5,796	5,493	303	5.5
Restricted Assets	1,616	1,705	(89)	(5.2)
Capital Assets	72,631	72,555	76	0.1
Total Assets	80,043	79,753	290	0.4
Current Liabilities	5,610	3,527	2,083	59.1
Noncurrent Liabilities	2,307	2,280	27	1.2
Total Liabilities	7,917	5,807	2,110	36.3
Net Investment in Capital Assets	69,034	69,105	(71)	(0.1)
Restricted Net Position	1,616	1,705	(89)	(5.2)
Unrestricted Net Position	1,476	3,136	(1,660)	(52.9)
Total Net Position	$ 72,126	73,946	(1,820)	(2.5)

The PDA's total assets increased $0.3 million or 0.4% primarily due to higher cash levels that were associated with the $1.5 million drawdown from the Provident Bank that occurred on June 28, 2013. Restricted assets are primarily represented by the Revolving Loan Fishery Fund, which had an approximate value of $1.1 million at June 30, 2013 and 2012, respectively.

The PDA's total liabilities increased by $2.1 million or 36.3% primarily due to the increases in accounts and retainage payable associated with construction activities at the golf course and, to a lesser extent, Rye and Hampton Harbors.

The PDA's net position decreased by $1.8 million or 2.5%. This decrease was directly attributable to the reduction in unrestricted net position associated with the results of operations during the current fiscal year.

Contacting the PDA's Leadership 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 via email at d.mullen@peasedev.org or by telephone at 603.433.6088. Please visit our website at: www.peasedev.org.

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and Investments	$ 1,444,356	$ 3,995,508
Accounts Receivables - Net	2,034,851	1,259,730
Inventories	360,109	387,675
Other Assets	173,816	153,032
Total Current Assets	4,013,132	5,795,945
Restricted Assets:		
Cash and Investments	703,354	695,248
Accounts Receivable - Revolving Loan Fishery Fund:		
Due Within One Year	125,901	107,358
Due in More Than One Year	809,515	814,054
Total Restricted Assets	1,638,770	1,616,660
Capital Assets:		
Land	7,499,464	5,139,351
Construction in Process	7,260,757	7,140,140
Other Capital Assets - Net	59,518,683	60,351,198
Total Capital Assets	74,278,904	72,630,689
Total Assets	**79,930,806**	**80,043,294**
LIABILITIES		
Accounts Payable and Accrued Expenses	3,630,446	3,858,956
Unearned Revenues	543,461	461,570
Revolving Line of Credit Facility	2,000,000	-
Long-term Liabilities:		
Due Within One Year	641,551	1,289,688
Due in More Than One Year	1,665,273	2,307,197
Total Liabilities	**8,480,731**	**7,917,411**
NET POSITION		
Net Investment in Capital Assets	69,972,080	69,033,804
Restricted For:		
Revolving Loan Fishery Fund	1,135,864	1,117,907
Harbor Dredging and Pier Maintenance	442,909	435,775
Foreign Trade Zone	59,057	61,841
Unrestricted	(159,835)	1,476,556
Total Net Position	**$ 71,450,075**	**$ 72,125,883**

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Rental of Facilities	$ 8,824,515	$ 9,067,401
State of New Hampshire Appropriation	-	1,343,908
Fee Revenues:		
Golf Course Operations	1,212,592	1,306,923
Mooring, Dockage, Pier Usage and Boat Registrations	987,820	1,155,657
All Other	751,721	855,955
	2,952,133	3,318,535
Fuel Sales	980,890	914,837
Concession and Other Miscellaneous	440,539	394,135
Total Operating Revenues	13,198,077	15,038,816
Operating Expenses		
Personnel Services and Benefits	6,285,213	5,904,231
Depreciation and Amortization	5,991,422	6,053,081
Building and Facilities Maintenance	1,990,014	3,053,843
General and Administrative	1,220,616	1,741,063
Utilities	871,681	836,703
Professional Services	476,411	416,683
All Other	1,188,373	1,120,534
Total Operating Expenses	18,023,730	19,126,138
Operating Loss	(4,825,653)	(4,087,322)
Nonoperating Income (Expense)		
Gain on Disposal of Assets	1,500	543,934
Interest Income	6,423	11,715
Interest Expense	(135,795)	(107,218)
Total Nonoperating Income (Expense)	(127,872)	448,431
Loss Before Contributed Capital	(4,953,525)	(3,638,891)
Contributed Capital	4,277,717	1,818,291
Change in Net Position	(675,808)	(1,820,600)
Net Position at Beginning of Year	72,125,883	73,946,483
Net Position at End of Year	**$ 71,450,075**	**$ 72,125,883**

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Cash Received from Customers	$ 12,011,644	$ 13,441,001
Cash Payments to Employees for Services and Benefits	(6,202,919)	(5,793,030)
Cash Payments to Suppliers of Goods and Services	(5,598,027)	(5,132,794)
Cash Received from State of New Hampshire	-	1,343,908
Net Cash Provided by Operating Activities	210,698	3,859,085
Cash Flows From Capital and Related Financing Activities		
Contributed Capital by Federal and State Government	4,277,717	1,818,291
Revolving Line of Credit Facility - The Provident Bank	2,000,000	-
Line of Credit Note Advance @ 3.11% The Provident Bank	-	1,500,000
Gain on Disposal of Assets	1,500	550,800
Purchase of Capital Assets	(7,639,637)	(6,135,480)
Repayment on 3.74% Note Payable - The Provident Bank	(664,325)	(997,633)
Repayment on Line of Credit Note @ 3.46% The Provident Bank	(202,172)	(213,086)
Repayment on Debt - City of Portsmouth Waste Water Treatment Facility	(116,275)	(116,290)
Interest Paid on Capital Debt	(135,795)	(107,218)
Repayment on 3.11% Line of Credit Note Advance - The Provident Bank	(281,180)	-
Net Cash Used in Capital and Related Financing Activities	(2,760,167)	(3,700,616)
Cash Flows From Investing Activities		
Interest Income Received	6,423	11,715
Increase (Decrease) in Cash and Investments	(2,543,046)	170,184
Cash and Investments - Beginning of Year	4,690,756	4,520,572
Cash and Investments - End of Year	**$ 2,147,710**	**$ 4,690,756**

See accompanying notes to financial statements.

PEASE DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013
(CONTINUED)

	2014	2013
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating Loss	$ (4,825,653)	$ (4,087,322)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation and Amortization	5,991,422	6,053,081
Allowance for Doubtful Accounts	(1,050,000)	999,000
Tenant Rent	(26,109)	(26,108)
Changes in Operating Assets and Liabilities:		
Accounts Receivables	260,875	(1,034,741)
Inventories	27,566	(24,875)
Other Assets	(20,784)	16,469
Accounts Payable and Accrued Expenses	(228,510)	2,062,837
Unearned Revenues	81,891	(99,256)
Net Cash Provided by Operating Activities	**$ 210,698**	**$ 3,859,085**

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 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 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 the PDA effective July 1, 2001. In doing so, the State 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; 2) to 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.

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

On May 12, 2008, the State, through House Bill 1168-FN-LOCAL, passed legislation that requires the New Hampshire Department of Transportation ("NHDOT") to negotiate a lease, which became effective November 1, 2008, with the PDA for the operation of Skyhaven Airport ("DAW") located in Rochester, New Hampshire. With the passage Chapter 113, Laws of 2009, enacted on June 22, 2009, the NHDOT was directed to convey ownership of DAW to the PDA. The law required that the PDA accept ownership of, manage and operate, 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.

2. *Summary of Significant Accounting Policies*

Basis of Accounting

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

Investments

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

Accounts Receivables

Accounts receivables 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.

Inventories

Inventories for materials and supplies are determined by physical count. All inventories are valued at cost utilizing the first-in/first-out cost method for business-type transactions.

Capital Assets

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

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

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

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

Bond Issuance Costs

Bond issuance costs are directly expensed as incurred.

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 calculated based on the pay or salary rates in effect at the balance sheet date.

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 are based on the expiration date of the permit. Rental income received in advance at DAW is also classified as unearned revenues.

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 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.

Operating and Nonoperating Income and Expenses

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

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

Revenue Recognition

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

Grants

Federal grants, received on a reimbursement basis, are recorded as 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.

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.

3. *Cash and Investments*

Cash and investments consisted of the following at June 30, 2014:

	Unrestricted	*Restricted*	*Total*
Cash on Hand	$ 2,665	$ -	$ 2,665
Cash in Bank:			
Carrying Amount	1,441,691	703,354	2,145,045
Bank Balance	2,143,403	704,751	2,848,154
Bank Balance Covered by Federal Deposit Insurance			$ 790,487
Bank Balance Covered by Depositors Insurance Fund			1,993,555
Bank Balance Collateralized by Stand-by Letter of Credit-FHLB			64,112
Bank Balance Uncollateralized and Uninsured			-
			$ 2,848,154

Cash and investments consisted of the following at June 30, 2013:

	Unrestricted	*Restricted*	*Total*
Cash on Hand	$ 2,665	$ -	$ 2,665
Cash in Bank:			
Carrying Amount	3,992,843	695,248	4,688,091
Bank Balance	4,668,235	693,046	5,361,281
Bank Balance Covered by Federal Deposit Insurance			$ 391,776
Bank Balance Covered by Depositors Insurance Fund			4,969,505
Bank Balance Collateralized by Stand-by Letter of Credit- FHLB			-
Bank Balance Uncollateralized and Uninsured			-
			$ 5,361,281

The total bank balance represents the total amounts on deposit as reported by the banks. The carrying amount represents the balances per PDA's records. The principal differences are outstanding checks and deposits-in-transit that have not cleared the bank as of June 30, 2014 and or 2013. The collateralized amounts above represent United States agency mortgage backed securities that are held in the PDA'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 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.

4. *Accounts Receivable - Net*

Accounts receivable-net are represented by the following at June 30:

	2014	*2013*
Intergovernmental	$ 1,544,946	$ 615,190
Tenants	494,905	1,699,540
Allowance for Doubtful Accounts	(5,000)	(1,055,000)
	$ 2,034,851	$ 1,259,730

5. *Inventories*

Inventories consisted of the following at June 30:

	2014	*2013*
Snow Removal Chemicals and Supplies	$ 115,773	$ 157,170
Fuels (Diesel and Gasoline)	106,652	103,727
Golf Merchandise	102,348	91,302
Electrical	35,336	35,476
	$ 360,109	$ 387,675

6. *Restricted Cash and Investments*

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

	2014	*2013*
Harbor Dredging and Pier Maintenance	$ 442,909	$ 435,775
Revolving Loan Fishery Fund	201,388	197,632
Foreign Trade Zone	59,057	61,841
	$ 703,354	$ 695,248

In accordance with State 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 (“FAA”) grants, Economic Development Administration grants, and other available grants. At June 30, 2014 and 2013, there were no matching funds outstanding.

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. At June 30, 2014 and 2013, loans outstanding totaled $935,416 and $921,412, respectively.

7. *Capital Assets*

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Disposals	Transfers	Balance June 30, 2014
Land	$ 5,139,351	$ 2,360,113	$ -	$ -	$ 7,499,464
Buildings and Facilities Improvements	121,964,570	4,527,292	-	-	126,491,862
Equipment	12,526,580	631,615	-	-	13,158,195
Construction in Process	7,140,140	7,914,997	-	(7,794,380)	7,260,757
	146,770,641	15,434,017		(7,794,380)	154,410,278
Less Accumulated Depreciation	(74,139,952)	(5,991,422)	-	-	(80,131,374)
Total Capital Assets	$ 72,630,689	$ 9,442,595	$ -	$ (7,794,380)	$ 74,278,904

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Disposals	Transfers	Balance June 30, 2013
Land	$ 5,129,135	$ 10,216	$ -	$ -	$ 5,139,351
Buildings and Facilities Improvements	120,810,093	1,162,688	(8,211)	-	121,964,570
Equipment	12,069,272	492,285	(34,977)	-	12,526,580
Construction in Process	2,669,849	6,158,921	-	(1,688,630)	7,140,140
	140,678,349	7,824,110	(43,188)	(1,688,630)	146,770,641
Less Accumulated Depreciation	(68,123,193)	(6,053,081)	36,322	-	(74,139,952)
Total Capital Assets	$ 72,555,156	$ 1,771,029	$ (6,866)	$ (1,688,630)	$ 72,630,689

8. 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:

	2014	*2013*
Mooring Permits	$ 250,827	$ 260,663
Golf Course Membership Fees	179,780	121,233
All Other	112,854	79,674
	$ 543,461	$ 461,570

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

9. Revolving Line of Credit Facility

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

	2014	*2013*
Amount Outstanding at Beginning of Period	$ -	$ -
Drawdowns	3,500,000	-
Repayments	(1,500,000)	-
Amount Outstanding at End of Period	$ 2,000,000	$ -

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

In December 2000, the State Water Pollution Control Revolving Fund program debt outstanding of $6,444,630 was assigned to the 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. The 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 $697,738 and $814,013 were outstanding at June 30, 2014 and 2013, respectively. Debt service requirements at June 30, 2014 are as follows:

Year	*Principal*	*Interest*	*Total*
2015	$ 116,290	$ 31,147	$ 147,437
2016	116,290	25,956	142,246
2017	116,290	20,764	137,054
2018	116,290	15,573	131,863
2019	116,290	10,382	126,672
2020	116,288	5,192	121,480
	$ 697,738	$ 109,014	$ 806,752

11. Note Payable – The Provident Bank

During fiscal year 2010, the PDA secured a $5,000,000 State Guaranteed Bond Anticipation Note (“BAN”) through The Provident Bank.

The proceeds of the BAN were used to make a portion of the PDA’s payment to the State pursuant to New Hampshire RSA Chapter 12-G (the Act). The BAN, which is designated as a “qualified tax-exempt obligation” for the purposes of Section 265(b) (3) of the Internal Revenue Code, is a general obligation of the PDA under the Act, payable from all revenues of the PDA. The terms of the BAN provide; a) 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 has unconditionally guaranteed both the payment of the principal of and interest on the BAN and the LCA. Amounts totaling $664,325 were outstanding at June 30, 2013 but were fully repaid during the current year.

12. Line of Credit Note – The Provident Bank

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

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

The initial LCN drawdown of $1,000,000 was made on March 14, 2011 and carries a five-year maturity at an interest rate of 3.46%. Amounts totaling $351,103 and $553,275 were outstanding at June 30, 2014 and 2013, respectively. Debt service requirements at June 30, 2014 are as follows:

Year	*Principal*	*Interest*	*Total*
2015	$ 208,727	$ 9,656	$ 218,383
2016	142,376	2,378	144,754
	$ 351,103	$ 12,034	$ 363,137

The final LCN drawdown of $1,500,000 was made on June 28, 2013 and carries a five-year maturity at an interest rate of 3.11%. Amounts totaling $1,218,820 and $1,500,000 were outstanding at June 30, 2014 and 2013, respectively. Debt service requirements at June 30, 2014 are as follows:

Year	*Principal*	*Interest*	*Total*
2015	$ 290,425	$ 34,259	$ 324,684
2016	301,653	23,031	324,684
2017	309,303	15,381	324,684
2018	317,439	5,487	322,926
	$ 1,218,820	$ 78,158	$ 1,296,978

13. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	*Additions*	*Reductions*	*Balance June 30, 2014*	*Due in One Year*
Note Payable - The Provident Bank @ 3.74%	$ 664,325	$ -	$ (664,325)	$ -	$ -
Line of Credit Note The Provident Bank @ 3.11%	1,500,000	-	(281,180)	1,218,820	290,425
City of Portsmouth - Waste Water Treatment Facility	814,013	-	(116,275)	697,738	116,290
Line of Credit Note The Provident Bank @ 3.46%	553,275	-	(202,172)	351,103	208,727
Advance from Tenant	65,272	-	(26,109)	39,163	26,109
	$ 3,596,885	$ -	$ (1,290,061)	$ 2,306,824	$ 641,551

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	*Additions*	*Reductions*	*Balance June 30, 2013*	*Due in One Year*
Note Payable - The Provident Bank @ 3.74%	$ 1,661,958	$ -	$ (997,633)	$ 664,325	$ 664,325
Line of Credit Note The Provident Bank @ 3.11%	-	1,500,000	-	1,500,000	281,422
City of Portsmouth - Waste Water Treatment Facility	930,303	-	(116,290)	814,013	116,290
Line of Credit Note The Provident Bank @ 3.46%	766,361	-	(213,086)	553,275	201,542
Advance from Tenant	91,380	-	(26,108)	65,272	26,109
	$ 3,450,002	$1,500,000	$ (1,353,117)	$ 3,596,885	$ 1,289,688

14. Rental of Facilities

The 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. The PDA-DPH has leases, licenses, and other arrangements with various parties for the use of land, warehouse, and storage facilities.

At June 30, 2014, the projected minimum future revenue from noncancelable rental agreements is approximately:

Year	*Amount*
2015	$ 8,171,000
2016	7,323,000
2017	6,152,000
2018	5,674,000
2019	5,201,000
Thereafter	86,550,000
	$ 119,071,000

15. Contributed Capital

Contributed capital consisted of the following at June 30:

	2014	*2013*
Federal and State Grants Capitalized as Capital Assets	$ 4,277,717	$ 1,818,291

16. Municipal Service Fees

Effective July 1, 1998, the 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 the 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 and any space for public use in the PSM Terminal. The agreement does include completed facilities other than the PDA's golf course or airport terminals within the Airport District operated by the PDA for public or other use. Any tenant located outside the Airport District, unless otherwise exempt from taxation, shall pay to the 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.

17. Airport Joint Use Agreement

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

The federal government is responsible for the functions detailed in the Agreement, including, but not limited to the following: air traffic control services, fire protection, and crash rescue. The PDA is responsible for certain services and functions, including, but not limited to the following: maintenance of certain facilities, utilities, and other related services in connection with maintaining an airport facility in accordance with FAA requirements. The current Agreement is effective through September 30, 2018.

18. Risk Management

The 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.

The PDA has a comprehensive airport liability insurance policy that will provide coverage generally up to $25,000,000 for each occurrence and in the aggregate in any one annual period of insurance. Other insurance coverage is carried for general insurance, including automotive, crime, employment practices, fire, general liability, pollution, theft, and workers' compensation. There have been no significant changes in insurance coverage during the past fiscal year. Settlements did not exceed coverage amounts during fiscal years 2014 and 2013.

In addition to purchasing insurance coverages, the PDA maintains an aggressive risk transfer program. The PDA's agreements and leases include requirements to provide insurance coverage and coverage provisions, which include; 1) naming the PDA as an additional insured; 2) naming the 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 the PDA maintains.

19. Employee Benefit Plans

Plan Description

The PDA participates in the New Hampshire Retirement System ("NHRS"), which, as governed by RSA 100-A, is a contributory public employee defined benefit pension plan qualified under section 401(a) of the Internal Revenue Code and funded through a trust, which is exempt from tax under Code section 501(a). NHRS provides benefits to its eligible members and their beneficiaries upon retirement, disability, or death. NHRS retired members receive a lifetime pension.

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

The PDA's covered payroll for the years ended June 30, 2014 and 2013 was approximately $3,029,000 and $2,843,000, respectively. The total payroll for the years ended June 30, 2014 and 2013 was $4,269,000 and $4,061,000, respectively.

Contributions Required and Made

The Retirement Plan is financed by contributions from the members, the PDA, and investment earnings. Contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the Retirement Plan's actuary. Commencing July 1, 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 contribution rate for Group I employees was 10.08% for the two-year period ending June 30, 2013. Effective July 1, 2013, and for the two year period ending June 30, 2015, the employer share was increased to 12.13%.

For Group II employees, effective July 1, 2013, the contribution rate increased from 19.95% to 25.40% and will remain fixed for the two-year period ending June 30, 2015.

19. Employee Benefit Plans (continued):

Funding Status

The PDA's fiscal year 2014 and 2013 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.

As of June 30, 2014, the retirement system's net position available for benefits was $7.35 billion, an increase of approximately $900 million over the prior fiscal year. For the twelve-month period ending June 30, 2014, the NHRS realized a 17.6% return on investments. The three-year, five-year, 10-year and 20-year returns for the periods ended June 30, 2014, were 10.7%, 13.5%, 7.5% and 8.7%, respectively.

During 2014, and as of June 30, 2014 and 2013, respectively, the Retirement Plan held no securities issued by the State or other related parties.

Deferred Compensation Plan

The State 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's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the State'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 believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

20. Other Post Employment Benefits

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

In addition to providing pension benefits, RSA 21-I: 30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of State service in order to qualify for health coverage benefits. These and similar benefits for active employees are authorized by RSA 21-I: 30 and provided through the Employee and Retiree Benefit Risk Management Fund (the "Fund"), which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing benefits by paying actuarially determined insurance contributions into the fund. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees, which totaled approximately $12,300,000 and $12,400,000 at June 30, 2014 and 2013, respectively.

GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. However, the pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements. The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table represents the State's OPEB cost for the year, the amount contributed and charges in the OPEB plan for fiscal years 2014 and 2013:

	2014	***2013***
Annual Required Contribution / OPEB Cost	$ 139,139,000	$ 132,331,000
Interest on net OPEB Obligation	34,456,000	30,565,000
Adjustment to Annual Required Contribution	(28,278,000)	(25,084,000)
Annual OPEB Cost	145,317,000	137,812,000
Contributions Made	(52,647,000)	(51,332,000)
Increase in Net OPEB Obligation	92,670,000	86,480,000
Net OPEB Obligation - Beginning of Year	765,699,000	679,219,000
Net OPEB Obligation - End of Year	$ 858,369,000	$ 765,699,000

21. Commitments and Contingencies

Division of Ports and Harbors

Water Quality Improvement

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

In accordance with the Order, Grimmel submitted an engineering plan to the EPA to address the Order requirements and a detailed schedule for implementing the proposed control measures. On July 12, 2011, the EPA approved Grimmel’s moving forward with its plan of remediation in accordance with the schedule presented subject to four clarifying revisions. On or about June 18, 2012, the EPA and Grimmel entered into a Consent Decree relative to the EPA’s Order.

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

Consistent with and in addition to Grimmel’s remediation plan, the PDA-DPH has now completed construction of the Storm Water Management System Modifications and Improvements, including the installation shore side of new drainage lines and catch basins and the addition of primary storm water treatment devices. The PDA-DPH sought and received from the State the release of $1,000,000 for construction of these improvements and modifications as well as potential additional costs associated with permitting and additional environmental investigations and review.

Subsurface Investigation

In addition, during site subsurface investigations conducted at the Market Street Terminal, (performed, in part, to support the foregoing 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 the 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 (DES) and we are awaiting its review and comment.

21. Commitments and Contingencies *(continued):*

Division of Ports and Harbors (continued):

Air Quality Study

At the request by COP, the DES conducted limited air monitoring in the area of the Market Street Terminal. The monitoring, conducted from September 2013 through May 2014, was intended to determine if fugitive dust and or particulate emissions associated with site operations leave the site and impacting adjacent residential areas and or commercial establishments. In its preliminary report dated June 17, 2014, DES concluded that, in fact, the existing best management practices program was not effective in preventing off-site impacts of fugitive dust emissions from the scrap metal operations at the Market Street Terminal. DES also indicated that it was still awaiting additional laboratory results and is planning to conduct further data analysis in order to more fully develop its findings once these additional laboratory results are received.

While the full scope of the water quality improvement, the subsurface contamination and the air quality study remains unknown, and is still under investigation, it is likely that investigation and remediation will require a significant expenditure of funds, which are likely to be in excess of anticipated available PDA-DPH revenues. If additional funding is required, the PDA-DPH will seek further funding authorization from the State. If however, the State does not authorize the release of additional funds, the PDA-DPH would have to evaluate alternative revenue streams and / or the possible suspension of certain operations to fund these obligations. Due to the statutory regulations that govern the operations of the PDA-DPH and existing federal regulation to which the PDA is subject, the PDA is not authorized to provide any financial assistance to supplement PDA-DPH operations.

Based on the cost/benefit of continuing scrap metal operations and the associated environmental impact at the Market Street Terminal, on May 15, 2014 the PDA Board of Directors directed that the License and Operating Agreement (LOA) between the PDA and Grimmel be allowed to expire by its terms on December 31, 2014. It is anticipated that over the balance of the current calendar year that Grimmel will conduct an orderly termination of all bulk cargo activities, remove all stored materials and equipment while also restoring the pier deck, terminal pavement, and storage area as required by their current LOA.

Lease Negotiations - United States Department of State

Beginning in September 2011, the PDA contacted the United States Department of State (DOS) to advise them that its lease agreement with the PDA was scheduled to expire in May 2012 and that the a new lease agreement had to be consummated. To date, there has been no new lease agreement and the DOS has allowed its month-to-month tenancy to terminate as of September 30, 2012. As of June 30, 2014, the DOS continues in its hold over status and is in arrears toward their Municipal Services Fee obligation to COP. It is anticipated that a new long-term lease with the United States General Services Administration will commence October 1, 2014.

21. Commitments and Contingencies *(continued):*

Grant Administration

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.

Construction Contracts

The PDA had commitments under construction contracts associated with federal grants totaling approximately $5,797,000 and $697,000 at June 30, 2014 and 2013, respectively.

Litigation

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.

22. Subsequent Events

On August 21, 2014, the PDA Board of Directors approved and authorized the PDA and its DPH to complete negotiations and enter into a contract with the Maine Department of Transportation (MDOT) in an amount not to exceed $1,400,000 for use of portions of the Market Street Terminal for staging, lay-down, pre-casting and other construction activities deemed necessary or appropriate in support of the construction of the Sarah Mildred Long Bridge. The anticipated monthly revenue stream to the PDA-DPH of approximately $38,889 is anticipated to commence on or about January 1, 2015 and extend for 36 months. The peak MDOT use during the first 12 months will gradually scale back and potentially permit additional third party use and an additional revenue stream.