

PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
AUDITED FINANCIAL STATEMENT
DECEMBER 31, 2016 AND 2015



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INDEPENDENT AUDITOR'S REPORT

August 10, 2017

Board of Directors
Pueblo Depot Activity Development Authority
DBA PuebloPlex
Pueblo, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pueblo Depot Activity Development Authority, DBA PuebloPlex as of and for the years ended December 31, 2016 and 2015, and related notes to the financial statements, which collectively comprise the PuebloPlex'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 the 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 the 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. 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 judgement, 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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the 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
Pueblo Depot Activity Development Authority DBA PuebloPlex

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pueblo Depot Activity Development Authority, DBA PuebloPlex as of December 31, 2016 and 2015, 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 on pages 3-9 and budgetary comparison information on page 20 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Harmon, Ross & DeNardo, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

BACKGROUND

This Management's Discussion and Analysis of the Pueblo Depot Activity Development Authority DBA PuebloPlex's financial performance is a required component of financial reporting under government accounting standards, including the Governmental Accounting Standards Board Statement No. 34 (GASB No. 34). This discussion and analysis was prepared by the Authority's management. It provides an overview of the financial activities of the Authority for the year ending December 31, 2016. It should be read in conjunction with the Authority's financial statements which follow in this report. Because GASB No. 34 is being applied it also includes a comparative analysis of 2016 to 2015 financial statements.

The Pueblo Depot Activity Development Authority is a single purpose government established in 1994 by the Colorado Legislature by House Bill 94-1265. The purpose of the Authority is to promote the reuse of the Pueblo Chemical Depot, thus creating employment opportunities, generating local tax revenue, and utilizing the resources of the Depot. The Authority is a political subdivision of the State of Colorado and a corporation, having only those powers granted to it by the legislature.

The Pueblo Chemical Depot is a U.S. Army installation located in northeast Pueblo County. It was established in 1942 and has served our nation in times of war and peace for over 70 years. The Depot consists of over 23,000 acres of land and more than 1,200 buildings. In 1988, Congress directed the Depot to be "realigned" pursuant to the Base Realignment and Closure Act (BRAC). All but two Army missions at the Depot were either terminated or relocated to other installations. The two missions that remain are: chemical weapons stockpile and environmental cleanup. Most of the Depot's 1,200+ buildings are vacant and considered "unutilized" by the Army.

The Authority was established in 1994 and entered into a Master Lease with the Secretary of the Army in 1996 for some of the vacant buildings on the Depot. The Authority now has 745 buildings, containing 3,077,973 sq. ft., under its Master Lease. There are also numerous open storage areas under the Master Lease whose square footage is not included in the aforementioned 3 million. The Authority has also received many pieces of equipment from the Army via a no-cost economic development conveyance (EDC) for personal property. Note the buildings and storage areas are a lease interest and the equipment is an ownership interest. The Authority's buildings and equipment are rented to tenants, which include individuals, businesses, and other governmental entities.

OVERVIEW OF FINANCIAL STATEMENTS

The Authority's basic financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in the Net Position, Statement of Cash Flows and notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements.

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Authority implemented GASB No. 34 beginning with its 2004 audit. GASB No. 34 requires this Management's Discussion and Analysis.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

The Statement of Net Position presents the financial position of the Authority. It presents information on the Authority's assets and liabilities, with the difference between the two reported as net position.

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The Statement of Cash Flows presents information on the effects changes in assets and liabilities have on cash during the course of the year.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13 through 19 of this report.

A condensed summary of the Authority's Statement of Net Position for 2016, 2015 and 2014 is presented below:

Table 1

Statement of Net Position	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Assets	\$ 3,112,429	\$ 3,333,683	\$ 3,352,347
Total Liabilities	(911,786)	(1,577,881)	(1,508,834)
Deferred Inflows of Resources	<u>(631,786)</u>	<u>(376,162)</u>	<u>(391,583)</u>
Total Net Position	<u>\$ 1,568,857</u>	<u>\$ 1,379,640</u>	<u>\$ 1,451,930</u>

The Authority's total net position for 2016 increased \$189,217 being 13.7% above 2015.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

ASSETS AND LIABILITIES

The 2016 total assets of the Authority are \$3,112,429. The majority (84.5%) of the total assets is held in the form of cash, cash equivalents and investments. Other assets include prepaid expenses such as insurance premiums, accounts receivable, intergovernmental receivable, interest receivable and depreciable equipment.

Table 2

Assets	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets –			
Cash and cash equivalents	\$ 823,077	\$ 336,295	\$ 749,940
Certificates of deposit	1,806,415	2,297,714	2,282,388
Interest receivable	3,129	2,597	2,141
Accounts receivable	342,633	266,055	234,870
Intergovernmental receivable	103,721	402,524	46,468
Prepaid expenses	<u>5,868</u>	<u>6,503</u>	<u>6,830</u>
Total Current Assets	<u>3,084,843</u>	<u>3,311,688</u>	<u>3,322,637</u>
Noncurrent Assets –			
Equipment, net of depreciation	<u>27,586</u>	<u>21,995</u>	<u>29,710</u>
Total Assets	<u>\$ 3,112,429</u>	<u>\$ 3,333,683</u>	<u>\$ 3,352,347</u>

Comparing 2016 to 2015 shows the total assets of the Authority decreased by \$221,254, being 6.6%. The decrease is largely the result of a decrease in accounts and intergovernmental receivables. Nearly all subleases are now on a calendar year basis and invoices are sent out in December for the upcoming calendar year. The majority of the sublease revenue for the upcoming calendar year is received in December.

Table 3

Liabilities	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Liabilities –			
Accounts payable	\$ 868,082*	\$ 1,536,497*	\$ 1,475,974*
Accrued vacation	<u>43,704</u>	<u>41,384</u>	<u>32,860</u>
Total Current Liabilities	<u>911,786</u>	<u>1,577,881</u>	<u>1,508,834</u>
Deferred Inflows of Resources –			
Unearned revenue	<u>631,786</u>	<u>376,192</u>	<u>391,583</u>
Total Liabilities and Deferred Inflows	<u>\$ 1,543,572</u>	<u>\$ 1,954,073</u>	<u>\$ 1,900,417</u>
* Portion due the U.S. Army	\$ 797,089	\$ 1,328,476	\$ 1,446,815

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

The 2016 total current liabilities of the Authority are \$911,786. Comparing 2016 to 2015 shows the total current liabilities of the Authority decreased by \$666,095, being 42.2%. 2016 unearned revenues were \$631,786, an increase of \$255,594 (67.9%), which is again related to the sublease policy and the timing of the invoicing and receiving sublease payments. The majority (87.4%) of the current liabilities is the portion of accounts payable due to the U.S. Army, being \$797,089. When a tenant subleases a building from the Authority, a portion of the rent is payable to the Army. The portion payable to the Army is established by the U.S. Army Corps of Engineers and is set forth in our Master Lease. Instead of paying the Army with money, the Authority pays with "offsets to consideration", repairs and improvements to the Depot at a dollar-for-dollar rate. Management feels it is important to note that the Authority has no long-term debt.

Table 4

Net Position	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Position –			
Invested in capital assets (e.g., equipment)			
– net of related debt	\$ 27,586	\$ 21,995	\$ 29,710
Unrestricted	<u>1,541,271</u>	<u>1,357,645</u>	<u>1,422,220</u>
Total Net Position	<u>\$ 1,568,857</u>	<u>\$ 1,379,640</u>	<u>\$ 1,451,930</u>

Total net position is a good indicator of the Authority's vitality at a point in time (e.g., December 31st) because it consists of mostly "unrestricted" funds the Authority can expend on its operations without restriction other than Colorado law. The Authority had an \$189,217 (13.7%) increase in total net position from 2015 to 2016.

AUTHORITY REVENUE

The 2016 total general revenue of the Authority is \$1,169,193. This amount consists of operating sublease revenues, federal grant income, interest income, equipment rental, and gain on sales of obsolete assets. The Authority had \$657,776 grant general revenue. The Authority's total general revenue for 2016 decreased \$137,022, being a decrease of 9.9% under 2015. While sublease revenues increased, intergovernmental grant revenue decreased by \$246,082.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

Table 5

Authority General Revenue	<u>2016</u>	<u>2015</u>	<u>2016 Change</u>	<u>2014</u>
Operating Revenues –				
Sublease revenue	\$ 447,638	\$ 363,323	\$ 84,315	\$ 313,810
Equipment rental	1,768	1,523	245	1,855
Intergovernmental	657,776	903,858	(246,082)	46,468
Miscellaneous	38,965	20,231	18,734	44,897
Other Revenues –				
Interest income	23,046	17,280	5,766	15,335
Gain on sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,770</u>
Total Authority General Revenue	<u>\$ 1,169,193</u>	<u>\$ 1,306,215</u>	<u>\$ (137,022)</u>	<u>\$ 497,135</u>

In addition to the above total Authority general revenue, we collected rent from our tenants on behalf of the U.S. Army, plus property taxes and insurance from some tenants as noted in Tables 7 and 8.

Table 6

Property tax escrow	<u>2016</u>	<u>2015</u>	<u>2014</u>
Property Taxes	<u>\$ 37,030</u>	<u>\$ 25,000</u>	<u>\$ 25,443</u>

Although the Authority is a political subdivision of the State of Colorado, the Authority does not have the power to levy taxes. For their buildings subleased on the depot, our tenants do pay the local property taxes of the county, school district, and library district. The Authority collects the estimated property tax concurrent with the rent payment. The Authority collected \$25,000 for 2015 property taxes. In 2016, the Authority paid to the Pueblo County Treasurer \$16,864 for 2015 taxes, leaving a collection overage of \$8,136. Of this amount, \$6,401 was refunded directly to the tenants and \$1,735 will be held in escrow and credited on sublease renewals or refunded on cancellation per the Authority's policy adopted in 2011.

EXPENDITURES

The 2016 total operating expenses of the Authority was \$979,976 which is \$398,529 (28.9%) lower than 2015. The most notable decrease is due to expenses associated with the federal grant revenue. Expenses directly related to the federal grant revenue totaled \$687,282 for 2016. These grant expenses will continue into 2017 and will probably be higher.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

Table 7

Operating Expenses	<u>2016</u>	<u>2015</u>	<u>2016 Change</u>	<u>2014</u>
Salaries	\$ 439,582	\$ 418,240	\$ 21,342	\$ 338,768
Payroll taxes and employee benefits	101,145	111,549	(10,404)	97,636
Travel	44,056	50,199	(6,143)	34,475
Equipment	35,871	23,729	12,142	10,340
Operating supplies and expenses	20,232	17,520	2,712	17,278
Contract	238,878	677,431	(438,553)	38,758
Insurance	4,239	3,210	1,029	3,813
Utilities	7,030	2,480	4,550	1,338
Repairs – reimbursable	23,783	19,216	4,567	7,365
Marketing/organization expenses	54,429	43,999	10,430	25,661
Miscellaneous	3,112	3,217	(105)	3,323
Depreciation	<u>7,619</u>	<u>7,715</u>	<u>(96)</u>	<u>8,262</u>
Total Operating Expenses	<u>\$ 979,976</u>	<u>\$ 1,378,505</u>	<u>\$ (398,529)</u>	<u>\$ 587,017</u>

Expenditures on behalf of the Army for calendar year 2016 were \$1,187,868, compared to \$460,998 in 2015, as shown in Table 8. These expenditures represent various maintenance activities and improvements made to buildings and facilities throughout the Depot. A detailed reporting of these payments, termed “offsets”, is certified annually (March 1 – February 28) by the Authority to the U.S. Army Corps of Engineers. The year-end balance decreased from 2015 to 2016 by \$531,387.

Table 8

Payable Account – U.S. Army “Offsets”	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balance January 1	\$ 1,328,476	\$ 1,446,815	\$ 1,276,830
Collections	656,481	342,659	508,496
Expenditures	<u>(1,187,868)</u>	<u>(460,998)</u>	<u>(338,511)</u>
Balance December 31	<u>\$ 797,089</u>	<u>\$ 1,328,476</u>	<u>\$ 1,446,815</u>

FINANCIAL POSITION

The Authority’s overall financial position is strong. We have no long-term debt. There are liquid assets in the form of cash and certificates of deposit. Our net position is \$1,568,857, an increase of 13.7% from 2015. The primary reason for this increase is decreased liabilities largely due to the decrease due army and increase in leased space. At December 31, 2016, the Authority’s “subleased area” of outdoor storage space totaled 316,495 square feet and the Authority’s building leased space totaled 1,001,119 square feet. The trend towards increasing subleased building space continues to remain positive.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

SIGNIFICANT CHANGES

Management does not believe any transaction was significant.

The Authority's 2016 Budget was initially adopted December 10, 2015. There were no budget amendments for 2016.

No infrastructure asset is owned by the Authority; therefore, there is no change to report.

In 2012, the Authority began a program to auction a portion of the surplus personal property received from the Army through No-Cost Economic Development Conveyances (EDC), which began in 2001 and ended in 2009. The surplus personal property has been stored at the Depot and since much of the equipment is, or will be, obsolete, the Authority decided it would be a prudent decision to conduct an online auction program through a third party, Government Liquidations. The auctions began in October 2012 and generated a net income of \$205,662 in 2013 and a net income of \$74,770 in 2014. There were no sales of personal property in 2016 or 2015. The process may continue into 2017 depending on the remaining personal property inventory on hand.

The Army provides many support services (e.g., fire department, security), utilities (e.g., potable water, sanitary sewer) and maintains much of the Depot's infrastructure. If the Army were to cease providing these items or charge fees for their provision, it could significantly alter and harm the financial stability of the Authority. Also, the loss of a major tenant could adversely affect the Authority's long-term viability.

REQUEST FOR INFORMATION

If you have questions, please contact the Accounting Manager, PuebloPlex, P. O. Box 11467, Pueblo, Colorado 81001-0467.

BASIC FINANCIAL STATEMENTS

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 823,077	\$ 336,295
Investments	1,806,415	2,297,714
Receivables -		
Accounts	342,633	266,055
Intergovernmental	103,721	402,524
Interest	3,129	2,597
Prepaid insurance	5,868	6,503
TOTAL CURRENT ASSETS	<u>3,084,843</u>	<u>3,311,688</u>
CAPITAL ASSETS		
Machinery and equipment	189,258	178,323
Less accumulated depreciation	161,672	156,328
TOTAL CAPITAL ASSETS	<u>27,586</u>	<u>21,995</u>
TOTAL ASSETS	<u>3,112,429</u>	<u>3,333,683</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	868,082	1,536,497
Accrued compensated absences and other payroll liabilities	43,704	41,384
TOTAL CURRENT LIABILITIES	<u>911,786</u>	<u>1,577,881</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	631,786	376,162
NET POSITION		
Net investment in capital assets	27,586	21,995
Unrestricted	1,541,271	1,357,645
TOTAL NET POSITION	<u>\$ 1,568,857</u>	<u>\$ 1,379,640</u>

The accompanying notes to financial statements are an integral part of this statement.

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE		
Sublease rentals	\$ 447,638	\$ 363,323
Intergovernmental	657,776	903,858
Equipment rental	1,768	1,523
Miscellaneous	38,965	20,231
TOTAL OPERATING REVENUE	<u>1,146,147</u>	<u>1,288,935</u>
 OPERATING EXPENSES		
Personnel	439,582	418,240
Payroll taxes and fringe benefits	101,145	111,549
Travel	44,056	50,199
Equipment	35,871	23,729
Operating supplies and expenses	20,232	17,520
Contract	238,878	677,431
Insurance	4,239	3,210
Utilities	7,030	2,480
Repairs	23,783	19,216
Marketing expense	54,429	43,999
Miscellaneous	3,112	3,217
Depreciation	7,619	7,715
TOTAL OPERATING EXPENSES	<u>979,976</u>	<u>1,378,505</u>
 OPERATING INCOME (LOSS)	 <u>166,171</u>	 <u>(89,570)</u>
 OTHER REVENUES (EXPENSE)		
Interest earned	23,046	17,280
TOTAL OTHER REVENUE (EXPENSE)	<u>23,046</u>	<u>17,280</u>
 CHANGE IN NET POSITION	 <u>189,217</u>	 <u>(72,290)</u>
 NET POSITION, JANUARY 1	 <u>1,379,640</u>	 <u>1,451,930</u>
 NET POSITION, DECEMBER 31	 <u>\$ 1,568,857</u>	 <u>\$ 1,379,640</u>

The accompanying notes to financial statements are an integral part of this statement.

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from customers	\$ 2,811,864	\$ 1,347,271
Payments to employees	(506,294)	(521,264)
Payments to suppliers	<u>(2,319,391)</u>	<u>(1,241,150)</u>
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(13,821)</u>	<u>(415,143)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(13,210)</u>	<u>-</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) maturity of investments	491,299	(15,326)
Interest received	<u>22,514</u>	<u>16,824</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>513,813</u>	<u>1,498</u>
 NET INCREASE (DECREASE) IN CASH	<u>486,782</u>	<u>(413,645)</u>
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>336,295</u>	<u>749,940</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 823,077</u>	<u>\$ 336,295</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$ 166,171</u>	<u>\$ (89,570)</u>
Adjustments to reconcile net operating income to net cash provided by operating activities -		
Depreciation	7,619	7,715
Changes in assets and liabilities -		
(Increase) decrease in accounts receivable	(76,578)	(31,185)
(Increase) decrease in intergovernmental receivable	298,803	(356,056)
(Increase) decrease in prepaid insurance	635	327
Increase (decrease) in accounts payable	(668,415)	60,523
Increase (decrease) in accrued expenses	2,320	8,524
Increase (decrease) in unearned revenue	<u>255,624</u>	<u>(15,421)</u>
Total Adjustments	<u>(179,992)</u>	<u>(325,573)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (13,821)</u>	<u>\$ (415,143)</u>

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Pueblo Depot Activity Development Authority (the Authority) was created in 1994 under the laws of the State of Colorado as an independent political subdivision of the State of Colorado. It operates under the jurisdiction of a board of directors consisting of seven members, three of which are appointed by the City Council of the City of Pueblo, Colorado, three are appointed by the County Commissioners of the County of Pueblo, Colorado, and one is jointly appointed by the City Council and the County Commissioners. The Authority was created to secure land, buildings and equipment from the United States Army in an attempt to develop the Pueblo Chemical Depot facility which has been realigned under provisions of federal law.

Effective January 1, 2013, the Authority officially began doing business as “PuebloPlex”.

Summary of Significant Accounting Policies

The accompanying summary of the Authority’s more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and reporting principles.

As required by GAAP, management has considered all potential component units in defining its reporting entity. Based on the criteria established by GAAP, the Authority has no component units.

Enterprise Fund

The Authority is operated as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to those benefited be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net revenue, financial position and cash flows is appropriate for capital maintenance, management control, accountability or other purposes. The acquisition, maintenance and improvement of the physical plant facilities, required to provide these goods or services are financed from existing cash resources, Federal or State grants, capital leases, etc. The generally accepted accounting principles here are those applicable to similar businesses in the private sector and, therefore, are recognized on the flow of economic resources measurement focus, using the accrual basis of accounting. Under this method all assets and liabilities associated with operations are included on the statements of net assets, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

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Net position, i.e., total assets net of total liabilities, is segregated into three components, if applicable. These components are invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net position – This component of net position consists of restrictions placed on net position use through external constraints, imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted net position” or “invested in capital assets, net of related debt”.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budget

The Authority annually adopts a budget for the following year. This process begins in October when the President and CEO prepare a preliminary budget of the following year’s expenses and capital asset needs. The preliminary budget is presented to the personnel and budget committee. The committee solicits additional guidance from the board chair. The committee’s recommendations are used in the preparation of the draft budget. Early in December, the budget is presented to the board of directors and upon formal adoption, is submitted to the State of Colorado, the City of Pueblo, Colorado, and the County of Pueblo, Colorado.

The current year budget is reviewed by the committee to assess the need for formal amendment, if necessary. The current year budget amendment follows a parallel and concurrent approval schedule with the next year’s budget.

The budget is prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The use of this measurement focus generally provides that revenues are recognized when received and expenditures are recognized when paid. The legal level of control for expenditures is at the total level, which is to say any modifications which change the budget in total requires the board of directors’ approval.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid accounts, including cash in checking and certificates of deposit with a maturity of three months or less to be cash equivalents.

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Receivables

Accounts receivable include amounts due from tenants and, where appropriate, are reduced by an estimated amount expected to be uncollectible.

Capital Assets

Capital assets are stated at cost or estimated historical cost, net of accumulated depreciation. Donated assets are recorded at their estimated fair value on the date contributed. Effective January 1, 2011, the Authority established a capitalization level of \$2,500 for acquired capital assets and contributed assets. Prior to that date, the capitalization level was \$100. Normal maintenance and repairs are expensed when incurred.

Depreciation of capital assets is computed on the straight-line method based on estimated lives of assets. Estimated useful lives used in computing depreciation are as follows:

Furniture, fixtures and equipment	5-20 years
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The difference between the cost of assets removed from service and the amount of accumulated depreciation at the time of removal is written off as loss on abandonment of assets.

Unearned Revenues

Unearned revenues represent billed or cash received by the Authority in advance of the revenue being earned. The unearned revenue generally consists of cash received for prepayments on sublease agreements.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees are allowed to accumulate vacation benefits and are compensated for these accumulated vacation benefits through paid time off or at termination or retirement. Employees are compensated for accumulated sick leave only when sick days are taken and, thus, accrued sick leave is not recorded as a liability.

Revenues and Expenses

The Authority distinguishes between operating and nonoperating revenues in the statement of revenues, expenses and changes in net position. For this purpose, revenues generated by leasing arrangements are reported as operating revenues, while operating expenses principally include administrative expenses. Nonoperating revenues represent interest earned and gain on sales of assets.

Retirement Plan

The system has established a retirement plan for the benefit of all eligible employees. The contribution to the plan is based on a percentage of each employee's gross compensation.

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Risk Exposure

The Authority is exposed to various risks of loss related to torts, property and casualty losses, errors and omissions, injuries to employees and natural disasters. It is the policy of the Authority to purchase commercial insurance, including worker's compensation, for the risks of loss to which it is exposed. Under this arrangement, the Authority assumes the risk for the amount of loss where sound risk management principles and prior loss experience indicate a premium savings greater than exposures assumed.

Under the terms of the master lease with the U.S. Army, the Authority may be liable to clean up costs associated with any environmental damage caused by the Authority or any of its sub lessees.

NOTE 2- CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Authority does not have a formal investment policy. Cash received by the Authority is deposited in a bank or invested in certificates of deposit. The Colorado Public Deposit Protection Act requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state legislators. Amounts on deposit in excess of Federal insurance must be collateralized. The eligible collateral is determined by the Public Deposit Protection Act. This act allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Colorado law authorizes the Authority to invest in the following types of obligations:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptance of certain banks
- Commercial paper limited to securities with highest rating category by at least one nationally recognized rating agency at time of purchase
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit risk policy for credit risk. At December 31, 2016 and 2015, the Authority's cash deposits had a bank and corresponding carrying balance of \$3,110,973 and \$2,668,820 as summarized below:

	<u>2016</u>	<u>2015</u>
Insured (FDIC)	\$ 250,000	\$ 250,000
Uninsured and collateralized –		
Collateral securities held by financial institution's trust department or agent not in the Authority's name	<u>2,860,973</u>	<u>2,418,820</u>
Total Deposits	<u>\$ 3,110,973</u>	<u>\$ 2,668,820</u>

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The amount of bank deposits in excess of FDIC insurance of \$2,860,973 and \$2,418,820 at December 31, 2016 and 2015, respectively, are not exposed to custodial credit risk because they are collateralized with securities held by the pledging financial institution's agent not in the Authority's name.

The Authority only invests idle funds in institutions and instruments that are permitted by the State of Colorado and thus places no limit on the amount the Authority may invest in any one issuer. More than 5 percent of the Authority's deposits are in a checking account and certificates of deposit with Legacy Bank – Pueblo.

Based on the amounts reported on the Statements of Net Position, these deposits are 100.00% of the Authority's total deposits at December 31, 2016 and 2015 respectively.

The Authority is subject to the provisions of Colorado Revised Statutes 24-75-601 which is entitled "Concerning Investment in Securities by Public Entities". This law, among other things, outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include those items listed above. The statute also includes a provision limiting any investment to a five year maturity unless the governing body authorizes a longer period.

The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 – CAPITAL ASSETS

Capital assets for 2016 consist of the following:

	Balance January 1 <u>2016</u>	<u>Additions</u>	Retirements and <u>Deletions</u>	Balance December 31 <u>2016</u>
Equipment	\$ 178,323	\$ 13,210	\$ (2,275)	\$ 189,258
Accumulated depreciation	<u>(156,328)</u>	<u>(7,619)</u>	<u>2,275</u>	<u>(161,672)</u>
	<u>\$ 21,995</u>	<u>\$ 5,591</u>	<u>\$ -</u>	<u>\$ 27,586</u>

Capital assets for 2015 consist of the following:

	Balance January 1 <u>2015</u>	<u>Additions</u>	Retirements and <u>Deletions</u>	Balance December 31 <u>2015</u>
Equipment	\$ 178,323	\$ -	\$ -	\$ 178,323
Accumulated depreciation	<u>(148,613)</u>	<u>(7,715)</u>	<u>-</u>	<u>(156,328)</u>
	<u>\$ 29,710</u>	<u>\$ (7,715)</u>	<u>\$ -</u>	<u>\$ 21,995</u>

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NOTE 4 – ACCOUNTS PAYABLE

Included in accounts payable at December 31, 2016 and 2015, is \$797,089 and \$1,328,476, respectively, which represents amounts owed to the United States Army. Under the terms of the master lease with the U.S. Army, the Authority can satisfy this liability by paying for certain repair and maintenance type work performed on the U.S. Army’s buildings. Upon the approval of the U.S. Army, the repair expenditures reduce the liability.

The change in the amount due to the United States Army as of December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Balance January 1	\$ 1,328,476	\$ 1,446,815
Collections on behalf of the United States Army	656,481	342,659
Payments on behalf of the United States Army	<u>(1,187,868)</u>	<u>(460,998)</u>
Balance December 31	<u>\$ 797,089</u>	<u>\$ 1,328,476</u>

The remainder of accounts payable for December 31, 2016 and 2015 are comprised of amounts due to the Pueblo County Treasurer for property taxes of \$19,239 and \$16,865, respectively, and operating expenses of \$51,754 and \$191,156, respectively.

NOTE 5 – SUBLEASE RENTS

The Authority has entered into a master lease with the United State Army which allows the Authority to sublease certain buildings and other equipment located at the Pueblo Chemical Depot. A portion of all sublease rents received by the Authority is termed an “offset to consideration” and is recognized as a liability to the U.S. Army. At no time is the Army’s portion of the sublease rents recognized as revenue by the Authority. The master lease allows the Authority to use the Army’s portion of the rents received to make approved repairs or other improvements depot-wide or to specific sublease property or other leased property. The value of the repairs offsets the Authority’s liability to the Army. The remaining amount of sublease rent revenues received, rental of equipment (EDC) and other repairs and improvements reimbursed by the tenants are considered revenues to the Authority.

NOTE 6 – DEFINED CONTRIBUTION PENSION PLAN

The Authority contributes to an Internal Revenue Code (IRC) 408(k) plan (the Plan) for all of its full time employees and the Plan is administered by E-Trade Securities.

Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Board of Directors. The Authority has elected to contribute 10% of each employee’s salary with no employee contributions allowed. For the years ended December 31, 2016 and 2015, employer contributions totaled \$42,307 and \$39,801, respectively and the Authority recognized pension expense of \$42,307 and \$39,801, respectively.

The employees are fully vested in the Authority’s contributions and the earnings on those contributions.

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NOTE 7 – COMMITMENTS AND CONTINGENCIES

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments except those which meet the definition of an enterprise. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

The amendment is complex and subject to judicial interpretation. The Authority believes it is in compliance with the requirements of the amendment. The Authority has made certain interpretations of the amendment's language in order to determine its compliance.

The Authority is economically dependent on the United States Army since substantially all sublease revenues of the Authority are generated from property owned by the Army.

The Authority receives funding from a Federal grant which may be subject to regulatory or other oversight by the granting agencies. Such oversight may include audit or other compliance procedures. Any adjustments made by a granting agency would become a liability to the Authority

ADDITIONAL INFORMATION

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
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STATEMENT OF REVENUES AND EXPENDITURES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Budget</u>
REVENUES				
General revenues -				
Sublease revenues	\$ 419,465	\$ 419,465	\$ 447,638	\$ 28,173
Interest	15,000	15,000	23,046	8,046
Miscellaneous	1,240	1,240	15,579	14,339
EDC equipment rent	1,700	1,700	1,768	68
Cleaning and repairs	6,250	6,250	23,386	17,136
Intergovernmental grant revenue	674,326	674,326	657,776	(16,550)
TOTAL REVENUES	<u>1,117,981</u>	<u>1,117,981</u>	<u>1,169,193</u>	<u>51,212</u>
EXPENDITURES				
Fund and project activities -				
Personnel	436,761	436,761	439,582	2,821
Fringe benefits	127,753	127,753	101,145	(26,608)
Travel	55,000	55,000	44,056	(10,944)
Equipment	10,000	10,000	35,871	25,871
Operating supplies	45,500	45,500	20,232	(25,268)
Marketing/development expense	72,000	72,000	54,429	(17,571)
Contract	306,632	306,632	238,878	(67,754)
Insurance	3,375	3,375	4,239	864
Utilities	2,500	2,500	7,030	4,530
Repairs - non-offset	6,250	6,250	23,783	17,533
Miscellaneous	-	-	3,112	3,112
TOTAL EXPENDITURES	<u>1,065,771</u>	<u>1,065,771</u>	<u>972,357</u>	<u>(93,414)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>\$ 52,210</u>	<u>\$ 52,210</u>	196,836	
GAAP BASIS ADJUSTMENT				
Depreciation			<u>(7,619)</u>	
CHANGE IN NET POSITION				
			<u>\$ 189,217</u>	

The accompanying notes to financial statements are an integral part of this statement.