

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY**

**DBA PUEBLOPLEX**

**INDEPENDENT AUDITOR'S REPORT**

**AND**

**CERTAIN SUPPLEMENTAL INFORMATION  
PRESENTED FOR PURPOSES OF A SINGLE AUDIT**

**DECEMBER 31, 2017 AND 2016**



**RECEIVED**

Office of the State Auditor

September 26, 2018

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## INDEPENDENT AUDITOR'S REPORT

September 13, 2018

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 Pueblo Depot Activity Development Authority, DBA PuebloPlex as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise 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 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

### **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, 2017, and the respective changes in financial position and cash flows thereof for the year 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 and budgetary comparison information on pages 3 - 9 and 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pueblo Depot Activity Development Authority, DBA PuebloPlex's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018 on our consideration of Pueblo Depot Activity Development Authority, DBA PuebloPlex'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PuebloPlex's 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 Pueblo Depot Activity Development Authority, DBA PuebloPlex's internal control over financial reporting and compliance.

Harren, Ross & DeNardo, LLC

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015**

**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, 2017. 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 2017 to 2016 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, 2017, 2016 AND 2015**

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 2017, 2016 and 2015 is presented below:

**Table 1**

<b>Statement of Net Position</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Total Assets	\$ 3,022,881	\$ 3,112,429	\$ 3,333,683
Total Liabilities	(189,012)	(911,786)	(1,577,881)
Deferred Inflows of Resources	<u>(757,263)</u>	<u>(631,786)</u>	<u>(376,162)</u>
<b>Total Net Position</b>	<b><u>\$ 2,076,606</u></b>	<b><u>\$ 1,568,857</u></b>	<b><u>\$ 1,379,640</u></b>

The Authority's total net position for 2017 increased \$507,749 being 32.4% above 2016.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

**ASSETS AND LIABILITIES**

The 2017 Total Assets of the Authority are \$3,022,881. The majority (73.6%) 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**

<b>Assets</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Current Assets –			
Cash and cash equivalents	\$ 1,182,482	\$ 823,077	\$ 336,295
Certificates of deposit	1,043,535	1,806,415	2,297,714
Interest receivable	1,644	3,129	2,597
Accounts receivable	170,662	342,633	266,055
Intergovernmental receivable	567,783	103,721	402,524
Prepaid expenses	<u>9,471</u>	<u>5,868</u>	<u>6,503</u>
Total Current Assets	<u>2,975,577</u>	<u>3,084,843</u>	<u>3,311,688</u>
Noncurrent Assets –			
Equipment, net of depreciation	<u>47,304</u>	<u>27,586</u>	<u>21,995</u>
<b>Total Assets</b>	<b><u>\$ 3,022,881</u></b>	<b><u>\$ 3,112,429</u></b>	<b><u>\$ 3,333,683</u></b>

Comparing 2017 to 2016 shows the Total Assets of the Authority decreased by \$89,548, being 2.9%. The decrease is largely the result of a decrease in certificates of deposit. 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**

<b>Liabilities</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Current Liabilities –			
Accounts payable	\$ 135,855*	\$ 868,082*	\$ 1,536,497*
Accrued vacation	<u>53,157</u>	<u>43,704</u>	<u>41,384</u>
Total Current Liabilities	<u>189,012</u>	<u>911,786</u>	<u>1,577,881</u>
Deferred Inflows of Resources –			
Unearned revenue	<u>757,263</u>	<u>631,786</u>	<u>376,192</u>
<b>Total Liabilities and Deferred Inflows</b>	<b><u>\$ 946,275</u></b>	<b><u>\$ 1,543,572</u></b>	<b><u>\$ 1,954,073</u></b>
* Portion due the U.S. Army	\$ -	\$ 797,089	\$ 1,328,476

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

The 2017 Total Current Liabilities of the Authority are \$189,012. Comparing 2017 to 2016 shows the Total Current Liabilities of the Authority decreased by \$722,774, being 79.3%. 2017 unearned revenues were \$757,263, an increase of \$125,477 (19.9%), which is again related to the sublease policy and the timing of the invoicing and receiving sublease payments. None of the current liabilities in 2017 is due to the Army whereas the majority (87.4%) of the current liabilities in 2016 was the portion of accounts payable due to the U.S. Army, being \$797,089. Effective December 1, 2017 the Authority gets to keep and use all of the rent income whereas in 2016 and before when a tenant subleased a building from the Authority, a portion of the rent was payable to the Army. The portion payable to the Army was established by the U.S. Army Corps of Engineers and was set forth in the old 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**

<b>Net Position</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Net Position –			
Invested in capital assets (e.g., equipment)			
– net of related debt	\$ 47,304	\$ 27,586	\$ 21,955
Unrestricted	<u>2,029,302</u>	<u>1,541,271</u>	<u>1,357,645</u>
<b>Total Net Position</b>	<b><u>\$ 2,076,606</u></b>	<b><u>\$ 1,568,857</u></b>	<b><u>\$ 1,379,640</u></b>

Total Net Position is a good indicator of the Authority's vitality at a point in time (e.g., December 31<sup>st</sup>) because it consists of mostly "unrestricted" funds the Authority can expend on its operations without restriction other than Colorado law. The Authority had a \$507,749 (32.4%) increase in Total Net Position from 2016 to 2017.

**AUTHORITY REVENUE**

The 2017 Total General Revenue of the Authority is \$2,848,215. This amount consists of operating sublease revenues, federal grant income, interest income, and equipment rental. The Authority had \$1,684,298 grant general revenue. The Authority's Total General Revenue for 2017 increased \$1,679,022, being an increase of 143.6% over 2016. While sublease revenues increased by \$307,167, intergovernmental grant revenue increased by \$1,026,522.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

**Table 5**

<b>Authority General Revenue</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017 Change</u></b>	<b><u>2015</u></b>
Operating Revenues –				
Sublease revenue	\$ 754,805	\$ 447,638	\$ 307,167	\$ 363,323
Equipment rental	1,685	1,768	(83)	1,523
Intergovernmental	1,684,298	657,776	1,026,522	903,858
Miscellaneous	388,854	38,965	349,889	20,231
Other Revenues –				
Interest income	18,573	23,046	(4,473)	17,280
Gain on sale of assets	-	-	-	-
<b>Total Authority General Revenue</b>	<b><u>\$ 2,848,215</u></b>	<b><u>\$ 1,169,193</u></b>	<b><u>\$ 1,679,022</u></b>	<b><u>\$ 1,306,215</u></b>

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**

<b>Property tax escrow</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Property Taxes	<u>\$ 45,277</u>	<u>\$ 37,030</u>	<u>\$ 25,000</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 \$25,964 for 2016 property taxes. In 2017, the Authority paid to the Pueblo County Treasurer \$19,239 for 2016 taxes, leaving a collection overage of \$6,725. This amount was refunded directly to the tenants or will be held in escrow and credited on sublease renewals or refunded on cancellation per the Authority's policy adopted in 2011.

**EXPENDITURES**

The 2017 Total Operating Expenses of the Authority was \$2,340,466 which is \$1,360,490 (138.8%) higher than 2016. The most notable increase is due to expenses associated with the federal grant revenue. Expenses directly related to the federal grant revenue totaled \$1,684,298 for 2017. These grant expenses will continue into 2018 and will probably be higher.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

**Table 7**

<b>Operating Expenses</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u> <u>Change</u></b>	<b><u>2015</u></b>
Salaries	\$ 443,581	\$ 439,582	\$ 3,999	\$ 418,240
Payroll taxes and employee benefits	114,714	101,145	13,569	111,549
Travel	30,162	44,056	(13,894)	50,199
Equipment	17,849	35,871	(18,022)	23,729
Operating supplies and expenses	21,418	20,232	1,186	17,520
Contract	1,478,210	238,878	1,239,332	677,431
Insurance	5,542	4,239	1,303	3,210
Utilities	465	7,030	(6,565)	2,480
Repairs	129,158	23,783	105,375	19,216
Marketing/organization expenses	55,538	54,429	1,109	43,999
Miscellaneous	3,297	3,112	185	3,217
Bad debt expense	26,074	-	26,074	-
Depreciation	<u>14,458</u>	<u>7,619</u>	<u>6,839</u>	<u>7,715</u>
<b>Total Operating Expenses</b>	<b><u>\$ 2,340,466</u></b>	<b><u>\$ 979,976</u></b>	<b><u>\$ 1,360,490</u></b>	<b><u>\$ 1,378,505</u></b>

Expenditures on behalf of the Army for calendar year 2017 were \$1,034,946, compared to \$1,187,868 in 2016, 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 2016 to 2017 by \$797,089. The "offset" requirement ended with the new master lease that became effective December 1, 2017.

**Table 8**

<b>Payable Account – U.S. Army "Offsets"</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Balance January 1	\$ 797,089	\$ 1,328,476	\$ 1,466,815
Collections	237,857	656,481	342,659
Expenditures	<u>(1,034,946)</u>	<u>(1,187,868)</u>	<u>(460,998)</u>
Balance December 31	<u>\$ -</u>	<u>\$ 797,089</u>	<u>\$ 1,328,476</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 \$2,076,606, an increase of 32.4% from 2016. The primary reason for this increase is decreased liabilities largely due to the decrease due army and increase in leased space. At December 31, 2017, the Authority's "subleased area" of outdoor storage space totaled 839,215 square feet and the Authority's building leased space totaled 1,636,718 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, 2017, 2016 AND 2015**

**SIGNIFICANT CHANGES**

Management does not believe any transaction was significant.

The Authority's 2017 Budget was initially adopted December 8, 2016. There were no budget amendments for 2017.

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 2017 or 2016. The process may continue into 2018 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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,182,482	\$ 823,077
Investments	1,043,535	1,806,415
Receivables -		
Accounts	170,662	342,633
Intergovernmental	567,783	103,721
Interest	1,644	3,129
Prepaid insurance	9,471	5,868
<b>TOTAL CURRENT ASSETS</b>	<u>2,975,577</u>	<u>3,084,843</u>
<b>CAPITAL ASSETS</b>		
Machinery and equipment	223,434	189,258
Less accumulated depreciation	176,130	161,672
<b>TOTAL CAPITAL ASSETS</b>	<u>47,304</u>	<u>27,586</u>
<b>TOTAL ASSETS</b>	<u>3,022,881</u>	<u>3,112,429</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	135,855	868,082
Accrued compensated absences	53,157	43,704
<b>TOTAL CURRENT LIABILITIES</b>	<u>189,012</u>	<u>911,786</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unearned revenue	757,263	631,786
<b>NET POSITION</b>		
Net investment in capital assets	47,304	27,586
Unrestricted	2,029,302	1,541,271
<b>TOTAL NET POSITION</b>	<u>\$ 2,076,606</u>	<u>\$ 1,568,857</u>

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

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Sublease rentals	\$ 754,805	\$ 447,638
Intergovernmental	1,684,298	657,776
Equipment rental	1,685	1,768
Miscellaneous	388,854	38,965
TOTAL OPERATING REVENUE	<u>2,829,642</u>	<u>1,146,147</u>
OPERATING EXPENSES		
Personnel	443,581	439,582
Payroll taxes and fringe benefits	114,714	101,145
Travel	30,162	44,056
Equipment	17,849	35,871
Operating supplies and expenses	21,418	20,232
Contract	1,478,210	238,878
Insurance	5,542	4,239
Utilities	465	7,030
Repairs	129,158	23,783
Marketing expense	55,538	54,429
Miscellaneous	3,297	3,112
Bad debt expense	26,074	-
Depreciation	14,458	7,619
TOTAL OPERATING EXPENSES	<u>2,340,466</u>	<u>979,976</u>
OPERATING INCOME	<u>489,176</u>	<u>166,171</u>
OTHER REVENUES (EXPENSE)		
Interest earned	18,573	23,046
TOTAL OTHER REVENUE (EXPENSE)	<u>18,573</u>	<u>23,046</u>
CHANGE IN NET POSITION	<u>507,749</u>	<u>189,217</u>
NET POSITION, JANUARY 1	<u>1,568,857</u>	<u>1,379,640</u>
NET POSITION, DECEMBER 31	<u>\$ 2,076,606</u>	<u>\$ 1,568,857</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments from customers	\$ 3,697,975	\$ 2,811,864
Payments to employees	(517,825)	(506,294)
Payments to suppliers	<u>(3,569,507)</u>	<u>(2,319,391)</u>
<b>NET CASH FLOWS PROVIDED (USED) BY         OPERATING ACTIVITIES</b>	<u>(389,357)</u>	<u>(13,821)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	<u>(34,176)</u>	<u>(13,210)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Purchase) maturity of investments	762,880	491,299
Interest received	<u>20,058</u>	<u>22,514</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>782,938</u>	<u>513,813</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<u>359,405</u>	<u>486,782</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>823,077</u>	<u>336,295</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,182,482</u>	<u>\$ 823,077</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	<u>\$ 489,176</u>	<u>\$ 166,171</u>
Adjustments to reconcile net operating income to net cash provided by operating activities -		
Bad debt expense	26,074	-
Depreciation	14,458	7,619
Changes in assets and liabilities -		
(Increase) decrease in accounts receivable	145,897	(76,578)
(Increase) decrease in intergovernmental receivable	(464,062)	298,803
(Increase) decrease in prepaid insurance	(3,603)	635
Increase (decrease) in accounts payable	(732,227)	(668,415)
Increase (decrease) in accrued expenses	9,453	2,320
Increase (decrease) in unearned revenue	<u>125,477</u>	<u>255,624</u>
<b>Total Adjustments</b>	<u>(878,533)</u>	<u>(179,992)</u>
<b>NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (389,357)</u>	<u>\$ (13,821)</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, 2017 AND 2016**

**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 position, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Enterprise Fund (Continued)**

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 prepares 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.

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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.

**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
-----------------------------------	------------

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 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.

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 2- CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)**

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, 2017 and 2016, the Authority's cash deposits had a bank and corresponding carrying balance of \$2,372,201 and \$3,110,973 as summarized below:

	<u>2017</u>	<u>2016</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>2,122,201</u>	<u>2,860,973</u>
Total Deposits	<u>\$ 2,372,201</u>	<u>\$ 3,110,973</u>

The amount of bank deposits in excess of FDIC insurance of \$2,122,201 and \$2,860,973 at December 31, 2017 and 2016, 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, 2017 and 2016 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 2017 consist of the following:

	Balance January 1 <u>2017</u>	<u>Additions</u>	Retirements and <u>Deletions</u>	Balance December 31 <u>2017</u>
Equipment	\$ 189,258	\$ 34,176	\$ -	\$ 223,434
Accumulated depreciation	<u>(161,672)</u>	<u>(14,458)</u>	<u>-</u>	<u>(176,130)</u>
	<u>\$ 27,586</u>	<u>\$ 19,718</u>	<u>\$ -</u>	<u>\$ 47,304</u>

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 – CAPITAL ASSETS (Continued)**

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>

**NOTE 4 – ACCOUNTS PAYABLE**

Included in accounts payable at December 31, 2016 was \$797,089, which represents amounts owed to the United States Army. Under the terms of the old master lease (expired November 30, 2017) 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, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Balance January 1	\$ 797,089	\$ 1,328,476
Collections on behalf of the United States Army	237,857	656,481
Payments on behalf of the United States Army	<u>(1,034,946)</u>	<u>(1,187,868)</u>
Balance December 31	<u>\$ -</u>	<u>\$ 797,089</u>

The remainder of accounts payable for December 31, 2017 and 2016 are comprised of amounts due to the Pueblo County Treasurer for property taxes of \$25,964 and \$19,239, respectively, and operating expenses of \$109,891 and \$51,754, 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. Effective December 1, 2017, the Authority can use 100% of rents collected for operations. Prior to that date, a portion of all sublease rents received by the Authority was termed an "offset to consideration" and was recognized as a liability to the U.S. Army. At no time was the Army's portion of the sublease rents recognized as revenue by the Authority. The master lease allowed 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.

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, employer contributions totaled \$44,358 and \$42,307, respectively and the Authority recognized pension expense of \$44,358 and \$42,307, respectively.

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

**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 received 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.

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.

**NOTE 8 – SUBSEQUENT EVENTS**

The Authority is subject to the provisions of Financial Accounting Standards Board (FASB) ASC 855-10-50, *Subsequent Events*, which establishes a requirement for disclosing the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date that they were available to be issued. The Authority has evaluated subsequent events through September 13, 2018, the date the financial statements were available to be issued.

## **ADDITIONAL INFORMATION**

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
STATEMENT OF REVENUES AND EXPENDITURES  
AS COMPARED WITH BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual
	<u>Original</u>	<u>Final</u>		Over (Under) <u>Budget</u>
<b>REVENUES</b>				
General revenues -				
Sublease revenues	\$ 739,672	\$ 739,672	\$ 754,805	\$ 15,133
Interest	12,000	12,000	18,573	6,573
Miscellaneous	1,480	1,480	357,365	355,885
EDC equipment rent	1,700	1,700	1,685	(15)
Cleaning and repairs	9,000	9,000	31,489	22,489
Intergovernmental grant revenue	<u>2,051,580</u>	<u>2,051,580</u>	<u>1,684,298</u>	<u>(367,282)</u>
<b>TOTAL REVENUES</b>	<u>2,815,432</u>	<u>2,815,432</u>	<u>2,848,215</u>	<u>32,783</u>
<b>EXPENDITURES</b>				
Fund and project activities -				
Personnel	421,842	421,842	443,581	21,739
Fringe benefits	127,345	127,345	114,714	(12,631)
Travel	55,000	55,000	30,162	(24,838)
Equipment	7,000	7,000	17,849	10,849
Operating supplies	40,000	40,000	21,418	(18,582)
Marketing/development expense	99,500	99,500	55,538	(43,962)
Contract	1,855,000	1,855,000	1,478,210	(376,790)
Insurance	4,175	4,175	5,542	1,367
Utilities	2,500	2,500	465	(2,035)
Repairs - non-offset	9,000	9,000	129,158	120,158
Miscellaneous	-	-	3,297	3,297
<b>TOTAL EXPENDITURES</b>	<u>2,621,362</u>	<u>2,621,362</u>	<u>2,299,934</u>	<u>(321,428)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>\$ 194,070</u>	<u>\$ 194,070</u>	548,281	
<b>GAAP BASIS ADJUSTMENT</b>				
Bad debt expense			(26,074)	
Depreciation			<u>(14,458)</u>	
<b>CHANGE IN NET POSITION</b>				
			<u>\$ 507,749</u>	

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

## COMPLIANCE SECTION

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2017**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity's Identifying Number</u>	<u>Pass- through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF DEFENSE OFFICE OF ECONOMIC ADJUSTMENT Direct assistance - Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607	-	-	<u>\$ 1,684,298</u>
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>				<u><b>\$ 1,684,298</b></u>

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

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2017**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Pueblo Depot Activity Development Authority, DBA Pueblo\_Plex under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Pueblo Depot Activity Development Authority, DBA PuebloPlex it is not intended to and does not present the financial position or changes in net position or cash flows of the Pueblo Depot Activity Development Authority, DBA PuebloPlex.

**NOTE 2 – RISK BASED AUDIT APPROACH**

The dollar threshold used to distinguish between Type A and Type B programs is \$750,000. The Authority does not qualify as a low-risk auditee.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in *OMB Circular A-87; Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in Title 2, U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Pueblo Depot Activity Development Authority has elected to use the 10 percent de minimus indirect cost rate allowed under Uniform Guidance.

# Garren, Ross & DeNardo, Inc.

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September 13, 2018

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

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Pueblo Depot Activity Development Authority DBA PuebloPlex as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise Pueblo Depot Activity Development Authority, DBA PuebloPlex's basic financial statements, and have issued our report thereon dated September 13, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pueblo Depot Activity Development Authority, DBA PuebloPlex's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pueblo Depot Activity Development Authority, DBA PuebloPlex's internal control. Accordingly, we do not express an opinion on the effectiveness of Pueblo Depot Activity Development Authority, DBA PuebloPlex's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pueblo Depot Activity Development Authority, DBA PuebloPlex's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pueblo Depot Activity Development Authority, DBA PuebloPlex's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Garrett Ross | DeNardo, Inc.

# Garren, Ross & DeNardo, Inc.

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September 13, 2018

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

## **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance**

### **Report on Compliance for Each Major Federal Program**

We have audited Pueblo Depot Activity Development Authority, DBA PuebloPlex's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect each of Pueblo Depot Activity Development Authority, DBA PuebloPlex's major federal programs for the year ended December 31, 2017. Pueblo Depot Activity Development Authority, DBA PuebloPlex's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for Pueblo Depot Activity Development Authority, DBA PuebloPlex's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pueblo Depot Activity Development Authority, DBA PuebloPlex's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Pueblo Depot Activity Development Authority, DBA PuebloPlex's compliance.

### Opinion on the Major Federal Program

In our opinion, Pueblo Depot Activity Development Authority, DBA PuebloPlex, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

### Report on Internal Control over Compliance

Management of Pueblo Depot Activity Development Authority, DBA PuebloPlex is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pueblo Depot Activity Development Authority, DBA PuebloPlex's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance on its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pueblo Depot Activity Development Authority, DBA PuebloPlex's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barry, Ross & DeNardo, Inc.

**PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY  
DBA PUEBLOPLEX  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDING DECEMBER 31, 2017**

**SECTION I – SUMMARY OF AUDIT RESULTS**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_ X \_\_\_ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes \_\_\_ X \_\_\_ No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_ X \_\_\_ No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_ X \_\_\_ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes \_\_\_ X \_\_\_ No

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes \_\_\_ X \_\_\_ No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation

Dollar amount used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee: \_\_\_\_\_ Yes \_\_\_ X \_\_\_ No

**SECTION II – FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**SECTION III–FINDINGS AND QUESTIONED COSTS–MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None