

PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY

DBA PUEBLOPLEX

AUDITED FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

September 8, 2022

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Pueblo Depot Activity Development Authority, DBA PuebloPlex (the Authority) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and budgetary comparison information on page 21 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Garrett Ross, Esq., DeMando, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

BACKGROUND

This Management's Discussion and Analysis of the Pueblo Depot Activity Development Authority DBA PuebloPlex's (The Authority'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, 2021. 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 2021 to 2019 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 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, 2021, 2020, AND 2019**

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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 11 through 18 of this report.

A condensed summary of the Authority's Statement of Net Position for 2021, 2020 and 2019 is presented below:

Table 1

Statement of Net Position	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total Assets	\$ 8,359,843	\$ 7,122,916	\$6,009,789
Total Liabilities	<u>(1,155,582)</u>	<u>(1,044,792)</u>	<u>(1,082,671)</u>
Total Net Position	<u>\$ 7,204,261</u>	<u>\$ 6,078,124</u>	<u>\$4,927,118</u>

The Authority's total net position for 2021 increased \$1,126,137 being 18.5% above 2020.

ASSETS AND LIABILITIES

The 2021 total assets of the Authority are \$8,359,843. The majority (73.8%) of the total assets are held in the form of cash, cash equivalents and investments (certificates of deposit). Other assets include prepaid expenses such as insurance premiums and prepaid water fee, accounts receivable, intergovernmental receivable, note receivable, interest receivable, investment in AGRA, and depreciable equipment and leasehold improvements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

ASSETS AND LIABILITIES (Continued)

Table 2

Assets	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current Assets –			
Cash and cash equivalents	\$ 903,081	\$ 1,027,069	\$ 699,554
Certificates of deposit	3,146,307	2,306,029	2,579,748
Interest receivable	6,513	7,009	9,598
Accounts and note receivable	955,199	636,587	575,098
Intergovernmental receivable	86,894	49,657	372,239
Prepaid expenses	41,203	2,306	252,483
Total Current Assets	<u>5,139,197</u>	<u>4,028,657</u>	<u>4,488,720</u>
Noncurrent Assets –			
Certificates of deposit	2,123,753	2,097,627	502,999
AGRA stock	96,800	96,800	96,800
Capital assets, net of depreciation	1,000,093	899,832	921,270
Total Noncurrent Assets	<u>3,220,646</u>	<u>3,094,259</u>	<u>1,521,069</u>
Total Assets	<u>\$ 8,359,843</u>	<u>\$ 7,122,916</u>	<u>\$ 6,009,789</u>

Comparing 2021 to 2020 shows the total assets of the Authority increased by \$1,236,927, being 17.4%. The increase is primarily the result of an increase in certificates of deposit, account receivable and capital asset purchases. 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>2021</u>	<u>2020</u>	<u>2019</u>
Current Liabilities –			
Accounts payable	\$ 151,519	\$ 75,919	\$ 142,898
Accrued compensated absences	55,985	57,169	59,585
Advances from others	948,078	911,704	880,188
Total Current Liabilities	<u>1,155,582</u>	<u>1,044,792</u>	<u>1,082,671</u>
Total Liabilities	<u>\$ 1,155,582</u>	<u>\$ 1,044,792</u>	<u>\$ 1,082,671</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

ASSETS AND LIABILITIES (Continued)

The 2021 total current liabilities of the Authority are \$1,155,582. Comparing 2021 to 2020 shows the total current liabilities of the Authority increased by \$110,790, being 10.6%. 2021 advances from others were \$948,078, an increase of \$36,374 (4.0%), which is again related to the sublease policy and the timing of the invoicing and receiving sublease payments. None of the current liabilities in 2021 and 2020 is due to the Army. 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.

NET POSITION

Table 4

Net Position	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net Position –			
Invested in capital assets (e.g., equipment)			
– net of related debt	\$ 1,000,093	\$ 899,832	\$ 921,270
Unrestricted	<u>6,204,168</u>	<u>5,178,292</u>	<u>4,005,848</u>
Total Net Position	<u>\$ 7,204,261</u>	<u>\$ 6,078,124</u>	<u>\$ 4,927,118</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 \$1,126,137 (18.5%) increase in total net position from 2020 to 2021.

AUTHORITY REVENUE

The 2021 total revenue of the Authority is \$2,909,711. This amount consists of operating sublease revenues, federal grant income, interest income, equipment rental, and insurance claims. The Authority had \$740,855 grant revenue. The Authority's total revenue for 2021 decreased \$140,764, being a decrease of 5.1% compared to 2020. While sublease revenues decreased by \$263,339, intergovernmental grant revenue increased by \$43,831.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

AUTHORITY REVENUE (Continued)

Table 5

Authority Revenue	<u>2021</u>	<u>2020</u>	<u>2021 Change</u>	<u>2019</u>
Operating Revenues –				
Sublease revenue	\$ 1,751,587	\$ 2,014,926	\$ (263,339)	\$ 2,014,242
Equipment rental	740	500	240	1,586
Intergovernmental	740,855	697,024	43,831	790,642
Miscellaneous	372,642	267,155	105,487	380,562
Other Revenues –				
Interest income	<u>43,887</u>	<u>70,870</u>	<u>(26,983)</u>	<u>64,674</u>
Total Authority Revenue	<u>\$ 2,909,711</u>	<u>\$ 3,050,475</u>	<u>\$ (140,764)</u>	<u>\$ 3,251,706</u>

In addition to the above total Authority revenue, we collected property taxes and insurance from some tenants as noted in Table 6.

Table 6

Property tax escrow	<u>2021</u>	<u>2020</u>	<u>2019</u>
Property Taxes	<u>\$ 61,448</u>	<u>\$ 65,713</u>	<u>\$ 52,379</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 \$61,448 for 2021 property taxes and insurance. In 2022, the Authority paid to the Pueblo County Treasurer \$38,488 for 2021 taxes. Any overages will be 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 2021 total operating expenses of the Authority was \$1,783,574 which is \$115,895 (6.1%) lower than 2020. The most notable decreases are related to repairs and maintenance and bad debt expense.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

EXPENDITURES (Continued)

Table 7

Operating Expenses	<u>2021</u>	<u>2020</u>	<u>2021</u> <u>Change</u>	<u>2019</u>
Salaries	\$ 562,725	\$ 495,344	\$ 67,381	\$ 572,876
Payroll taxes and employee benefits	158,128	146,839	11,289	132,627
Travel	4,999	5,398	(399)	41,970
Equipment	16,203	11,186	5,017	22,733
Operating supplies and expenses	27,919	22,018	5,901	26,884
Contract	259,482	192,654	66,828	222,346
Insurance	38,168	30,467	7,701	24,142
Utilities/office rent	229,068	253,291	(24,223)	239,153
Repairs	345,851	483,555	(137,704)	509,956
Marketing/organization expenses	16,906	27,460	(10,554)	23,415
Miscellaneous	-	260	(260)	643
Bad debt expense	-	117,000	(117,000)	92,838
Depreciation	<u>124,125</u>	<u>113,997</u>	<u>10,128</u>	<u>78,695</u>
Total Operating Expenses	<u>\$ 1,783,574</u>	<u>\$ 1,899,469</u>	<u>\$ (115,895)</u>	<u>\$ 1,988,278</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 \$7,204,261 an increase of 18.5% from 2020. The primary reason for this increase is rental income remains strong and expenses for 2021 were less which can partially be attributed to COVID-19. At December 31, 2021, the Authority's "subleased area" of outdoor storage space totaled 35,850,895 square feet and the Authority's building and ingloos leased space totaled 1,496,672 square feet. The trend towards increasing subleased building space continues to remain positive. The large increase in outdoor space in 2021 is largely attributable to subleases with MxV Rail (formerly TTCI).

SIGNIFICANT CHANGES

Management does not believe any transaction was significant.

The Authority's 2021 Budget was initially adopted December 10, 2020. There were no budget amendments for 2021.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PUEBLO DEPOT ACTIVITY DEVELOPMENT AUTHORITY
DBA PUEBLOPLEX
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

SIGNIFICANT CHANGES (Continued)

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 \$93,979 in 2012, \$205,662 in 2013 and \$81,715 in 2014 (total \$381,356). There were no sales of personal property in 2021 or 2020. The process may continue into 2022 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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 903,081	\$ 1,027,069
Certificates of deposit	3,146,307	2,306,029
Receivables -		
Accounts and note, net of allowance	955,199	636,587
Intergovernmental	86,894	49,657
Interest	6,513	7,009
Prepaid expenses	41,203	2,306
TOTAL CURRENT ASSETS	<u>5,139,197</u>	<u>4,028,657</u>
NONCURRENT ASSETS		
Certificates of deposit	2,123,753	2,097,627
AGRA stock	96,800	96,800
TOTAL NONCURRENT ASSETS	<u>2,220,553</u>	<u>2,194,427</u>
CAPITAL ASSETS		
Machinery and equipment	326,727	326,727
Leasehold improvements	1,189,875	965,489
Less accumulated depreciation	(516,509)	(392,384)
TOTAL CAPITAL ASSETS	<u>1,000,093</u>	<u>899,832</u>
TOTAL ASSETS	<u>8,359,843</u>	<u>7,122,916</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	151,519	75,919
Accrued compensated absences	55,985	57,169
Advances from others	948,078	911,704
TOTAL CURRENT LIABILITIES	<u>1,155,582</u>	<u>1,044,792</u>
NET POSITION		
Net investment in capital assets	1,000,093	899,832
Unrestricted	6,204,168	5,178,292
TOTAL NET POSITION	<u>\$ 7,204,261</u>	<u>\$ 6,078,124</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUE		
Sublease rentals	\$ 1,751,587	\$ 2,014,926
Intergovernmental	740,855	697,024
Equipment rental	740	500
Miscellaneous	372,642	267,155
TOTAL OPERATING REVENUE	<u>2,865,824</u>	<u>2,979,605</u>
OPERATING EXPENSES		
Personnel	562,725	495,344
Payroll taxes and fringe benefits	158,128	146,839
Travel	4,999	5,398
Equipment	16,203	11,186
Operating supplies and expenses	27,919	22,018
Contract	259,482	192,654
Insurance	38,168	30,467
Utilities	226,068	250,291
Office rent	3,000	3,000
Repairs	345,851	483,555
Marketing expense	16,906	27,460
Miscellaneous	-	260
Bad debt expense	-	117,000
Depreciation	124,125	113,997
TOTAL OPERATING EXPENSES	<u>1,783,574</u>	<u>1,899,469</u>
OPERATING INCOME	<u>1,082,250</u>	<u>1,080,136</u>
OTHER REVENUE (EXPENSE)		
Interest earned	<u>43,887</u>	<u>70,870</u>
TOTAL OTHER REVENUE (EXPENSE)	<u>43,887</u>	<u>70,870</u>
CHANGE IN NET POSITION	<u>1,126,137</u>	<u>1,151,006</u>
NET POSITION, JANUARY 1	<u>6,078,124</u>	<u>4,927,118</u>
NET POSITION, DECEMBER 31	<u>\$ 7,204,261</u>	<u>\$ 6,078,124</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from customers	\$ 2,546,349	\$ 3,272,215
Payments to employees	(719,239)	(641,256)
Payments to suppliers	<u>(904,691)</u>	<u>(963,435)</u>
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>922,419</u>	<u>1,667,524</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(224,386)</u>	<u>(92,559)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) maturity of investments	(866,404)	(1,320,909)
Interest received	<u>44,383</u>	<u>73,459</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(822,021)</u>	<u>(1,247,450)</u>
 NET INCREASE (DECREASE) IN CASH	<u>(123,988)</u>	<u>327,515</u>
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,027,069</u>	<u>699,554</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 903,081</u>	<u>\$ 1,027,069</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	<u>\$ 1,082,250</u>	<u>\$ 1,080,136</u>
Adjustments to reconcile net operating income to net cash provided by operating activities -		
Bad debt expense	-	117,000
Depreciation	124,125	113,997
Changes in assets and liabilities -		
(Increase) decrease in accounts and notes receivable	(318,612)	(178,489)
(Increase) decrease in intergovernmental receivable	(37,237)	322,582
(Increase) decrease in prepaid expenses	(38,897)	250,177
Increase (decrease) in accounts payable	75,600	(66,979)
Increase (decrease) in accrued expenses	(1,184)	(2,416)
Increase (decrease) in advances from others	<u>36,374</u>	<u>31,516</u>
Total Adjustments	<u>(159,831)</u>	<u>587,388</u>
 NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 922,419</u>	<u>\$ 1,667,524</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, 2021 AND 2020**

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.

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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.

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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. Allowance for uncollectible accounts netted with accounts and note receivables were \$138,000 and \$217,000 for the years ended December 31, 2021 and 2020, respectively.

Prepaid Expenses

Prepaid expenses include amounts paid for items that benefit the next year; insurance and water replacement. Prepaid expenses at December 31, 2021 and 2020 were \$41,203 and \$2,306.

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. Effective January 1, 2019, the Authority adopted the following for assets to be capitalized: (a) normal maintenance and repairs are expensed when incurred, (b) must have an estimated useful life of more than one year, (c) equipment purchased with a value of more than \$5,000, (d) an item acquired by no-cost economic development conveyance (EDC) with a value of more than \$5,000 per item, and (e) substantial improvements made to purchased or leased buildings and real estate in the amount of \$25,000 or greater is capitalized.

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, equipment, and leasehold improvements	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 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.

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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.

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.

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 CERTIFICATES OF DEPOSIT

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
- 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
- Local government investment pools

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NOTE 2- CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT (Continued)

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned. The Authority does not have a deposit risk policy for credit risk. At December 31, 2021 and 2020, the Authority’s cash deposits with a bank balance of \$5,990,199 and \$5,191,152, respectively, are uninsured but are not exposed to custodial credit risk because they are collateralized with securities held by the pledging financial institution’s agent in the institution’s name.

Cash and cash equivalents and certificates of deposit are reported as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 903,081	\$ 1,027,069
Certificates of deposits	<u>5,270,060</u>	<u>4,403,656</u>
Total Deposits	<u>\$ 6,173,141</u>	<u>\$ 5,430,725</u>

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, 2021 and 2020 respectively.

The Authority is subject to the provisions of Colorado Revised Statutes 24-75-601 which is titled “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 – NOTES RECEIVABLE

On September 16, 2021, the Authority settled a past due accounts receivable balance of \$181,920 by obtaining a fixed convertible promissory note in the amount of \$115,000. The note carries an interest rate of 6% and is due in full on September 16, 2022. The Authority has the right, at any time on or before the maturity date but not thereafter, to convert in whole or in part the outstanding and unpaid principal amount of the note into shares of common stock at the qualified financing conversion price. The conversion price shall be equal to \$0.60 per share which was the closing price of the stock on the last trading day before the note was issued.

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NOTE 4 – CAPITAL ASSETS

Capital assets for 2021 consist of the following:

	Balance January 1 <u>2021</u>	<u>Additions</u>	Retirements and <u>Deletions</u>	Balance December 31 <u>2021</u>
Machinery and equipment	\$ 326,727	\$ -	\$ -	\$ 326,727
Leasehold improvements	965,489	224,386	-	1,189,875
Accumulated depreciation	<u>(392,384)</u>	<u>(124,125)</u>	<u>-</u>	<u>(516,509)</u>
	<u>\$ 899,832</u>	<u>\$ 100,261</u>	<u>\$ -</u>	<u>\$ 1,000,093</u>

Capital assets for 2020 consist of the following:

	Balance January 1 <u>2020</u>	<u>Additions</u>	Retirements and <u>Deletions</u>	Balance December 31 <u>2020</u>
Machinery and equipment	\$ 263,284	\$ 63,443	\$ -	\$ 326,727
Leasehold improvements	936,373	29,116	-	965,489
Accumulated depreciation	<u>(278,387)</u>	<u>(113,997)</u>	<u>-</u>	<u>(392,384)</u>
	<u>\$ 921,270</u>	<u>\$ (21,438)</u>	<u>\$ -</u>	<u>\$ 899,832</u>

NOTE 5 – AGRA STOCK

Legal Requirement for Water Augmentation – The concept of augmentation was developed with the passage of a Colorado law in 1969 called the “Adjudication and Administration Act”. This law integrated under Colorado Doctrine of Appropriation surface water and tributary ground water so that both sources of water would be administered according to long established system of priority, which is “first in time is first in right”. In the Arkansas River drainage, an over appropriated system, judicially decreed water rights are seldom allowed to divert if the date of first use, as decreed, is later than 1890. The system was designed to give surety to the owner of a decreed water right that water would be available when needed for beneficial use. However, with the passage of “1969 Act”, a system was designed to allow for use of water “out of priority” of the user agrees to replace all water consumed. This replacement is called an Augmentation Plan. An Augmentation Plan requires the amount of water consumed must be placed into the stream impacted by water use, by amount and time. This requires an elaborately engineered system that measures and records use, and replacement water from a senior source. Pueblo Chemical Depot has water wells, of which PuebloPlex will receive when facilities are transferred, which is the source of the water it uses to replace water used from the Pueblo Board of Waterworks. To assist with PuebloPlex’s elaborately engineered system, they purchased 1 share of stock in Arkansas Groundwater and Reservoir Association (AGRA) (formerly Arkansas Groundwater Users Association – AGUA) for each of the 11 wells located on the facilities. This status gives the shareholder priority over participants for an allocation in a drier year. The share is tied to the well and cannot be transferred or sold separately. These shares were purchased in December 2016 for \$8,800 per share. The stock is recorded at cost, \$96,800.

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NOTE 6 – ACCOUNTS PAYABLE

Accounts payable for December 31, 2021 and 2020 are comprised of amounts due to the Pueblo County Treasurer for property taxes of \$38,488 and \$43,435, respectively, and operating expenses of \$113,031 and \$32,484, respectively.

NOTE 7 – LINE OF CREDIT

The Company opened a line of credit with Legacy Bank in October 2021 with a 36 month term. The available credit line is \$2,500,000. The line carries a variable interest rate of 2.0% over the blended rate of the two certificates of deposit that are pledged as collateral. The interest rate will be adjusted annually. The initial rate for the first year is 2.62%. The Company had no line of credit balance as of December 31, 2021. The Authority drew \$765,408 on the line of credit in 2022 before the financial statements were issued. There was no interest paid on the line for the year ended December 31, 2021.

NOTE 8 – 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.

NOTE 9 – 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, 2021 and 2020, employer contributions totaled \$59,431 and \$52,269, respectively and the Authority recognized pension expense of \$59,431 and \$52,269, respectively.

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

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NOTE 10 – 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 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 the granting agency would become a liability to the Authority. There are no such proceedings presently in progress.

NOTE 11 – RISK AND UNCERTAINTIES

COVID-19 Pandemic – The United States and global markets have experienced significant declines in value resulting from the uncertainty caused by the world-wide coronavirus pandemic. The Authority has been affected by the coronavirus pandemic in a number of ways.

Due to the pandemic the Authority had to close its facilities for a period of time. Different protocols had to be arrived at before the doors to facilities were reopened. The Authority has been fortunate that most funding has continued, and no employees have been laid off.

At this time, the extent to which COVID-19 may impact our financial condition is uncertain and may be significant.

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, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
REVENUES				
General revenues -				
Sublease revenues	\$ 1,985,018	\$ 1,985,018	\$ 1,751,587	\$ (233,431)
Interest	40,000	40,000	43,887	3,887
PCD water revenues	237,651	237,651	219,210	(18,441)
Late fees & EDC equipment rent	6,000	6,000	1,671	(4,329)
Miscellaneous	1,240	1,240	14,855	13,615
Cleaning and repairs & miscellaneous	18,750	18,750	83,424	64,674
Tenant reimbursements	25,000	25,000	54,222	29,222
Intergovernmental grant revenue	1,183,346	1,183,346	740,855	(442,491)
TOTAL REVENUES	<u>3,497,005</u>	<u>3,497,005</u>	<u>2,909,711</u>	<u>(587,294)</u>
EXPENDITURES				
Fund and project activities -				
Personnel	623,505	623,505	562,725	60,780
Fringe benefits	210,677	210,677	158,128	52,549
Travel	45,000	45,000	4,999	40,001
Equipment	7,500	7,500	16,203	(8,703)
Operating supplies	40,800	40,800	27,919	12,881
Marketing/development expense	38,500	38,500	16,906	21,594
Contract	665,000	665,000	259,482	405,518
Insurance	35,350	35,350	38,168	(2,818)
Utilities	2,500	2,500	226,068	(223,568)
Office rent	3,000	3,000	3,000	-
Property maintenance & repairs	1,051,651	1,051,651	570,237	481,414
Contingency	150,000	150,000	-	150,000
TOTAL EXPENDITURES	<u>2,873,483</u>	<u>2,873,483</u>	<u>1,883,835</u>	<u>989,648</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>\$ 623,522</u>	<u>\$ 623,522</u>	1,025,876	
GAAP BASIS ADJUSTMENT				
Depreciation			(124,125)	
Capitalized leasehold improvements and equipment			<u>224,386</u>	
CHANGE IN NET POSITION			<u>\$ 1,126,137</u>	

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