

The Montevallo Development Cooperative District

Financial Report
September 30, 2017

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Independent Auditor's Report

To the Board of Directors
The Montevallo Development Cooperative District
Montevallo, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of The Montevallo Development Cooperative District, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District'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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of The Montevallo Development Cooperative District, as of September 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 3 through 13 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 audits 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

RSM US LLP

Birmingham, Alabama

January 10, 2018

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2017

The purpose of management's discussion and analysis is to provide readers with an objective and easily readable analysis of the Montevallo Development Cooperative District's ("the District" or "MDCD") financial position and activities based on currently known facts, decisions, and conditions. This discussion has been prepared by MDCD management and should be read in conjunction with the financial statements and related footnotes. The financial statements, footnotes and this discussion are the responsibility of MDCD management.

The MDCD financial reports presents financial information through both government-wide (i.e. the statements of net position and statements of activities), based on the District as a whole, and fund financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

Financial Highlights

- The District's total net position increased by \$55,668 over the course of this year's operations due to decreased use of remaining bond proceeds and receipt of contribution from members.
- During the year, the District's government-wide expenses, including general government, business-type and community and economic development, were \$564,663, which is an increase of \$168,239 from last year, when expenses were \$396,424.
- Government-wide program revenues were \$616,031, which is a decrease of \$35,037 from last year, when program revenues were \$651,068.
- The general fund reported a fund balance deficit this year of \$8,203 and remained unchanged from last year.
- The debt service fund reported a fund balance this year and last year of \$35,722 and \$31,932, respectively, which represents the September tax revenue receivable pledged for debt service.
- The capital projects fund reported a fund balance this year of \$1,592,944 compared to \$961,004 last year. The increase is the net effect of additional bond proceeds from the 2017 bond refinancing, contributions, and community and economic development expenditures.
- The District engaged in business-type activities beginning in fiscal year 2016 with the rental of property for restaurant operations. Enterprise fund net position for 2017 is \$501,225, which increased from \$485,220 in 2016, due to \$27,118 in rental and other revenue less \$11,113 in operating expenses.

Using the Annual Report

The MDCD financial report presents financial information for the District through both government-wide (i.e. the statements of net position and statements of activities), based on the District as a whole, and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. The District is engaged in governmental activities and business-type activities. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (Issued 6/99)*. GASB Statement No. 34 establishes financial reporting requirements for state and local governments throughout the United States and requires that financial statements be presented on government-wide and fund financial statements.

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2017

Financial Statements

Basic financial statements include both government-wide (i.e. the statements of net position and statements of activities), based on the District as a whole, and fund financial statements. The statements of net position are categorized as an investment in capital assets, unrestricted, and restricted. The first category, *invested in capital assets*, represents the portion of net position, which is associated with non-liquid capital assets less outstanding capital asset related debt, if any.

The second category, *unrestricted net position*, represents the net position of the District that is not restricted for any other purposes by third parties. The final category, *restricted net position*, represents net position that is not available for appropriation or is restricted by external parties. As of September 30, 2017, there is \$35,722 in restricted net position for debt service. The District's assets were \$4,426,092, liabilities were \$4,826,849, and net position (deficit) was (\$400,757).

The statements of activities demonstrate the degree to which the direct expenses of a given function or an identifiable activity are offset by program revenues. During the year ended September 30, 2017, the District recognized an increase in net position of \$55,668.

The fund financial statements provide information about the District's funds, with separate statements for each fund category. The emphasis of fund financial statements is on major funds, each displayed in a separate column. The major governmental funds reported are General Fund, Debt Service Fund, and Capital Projects Fund. As of September 30, 2017 the major governmental fund balance was (\$8,203) for General Fund; \$35,722 for Debt Service Fund; and \$1,592,944 for Capital Projects Fund. The total major governmental fund balance for September 30, 2017 totaled \$1,620,463.

Financial Analysis of the District

The assets of the District were less than its liabilities at September 30, 2017, by \$400,757. Total assets of the District were \$4,426,092, while total liabilities were \$4,826,849. The District's net position consists of \$293,127 invested in capital assets, net of related debt; \$35,722 in restricted for debt service; and unrestricted net deficit was \$729,606.

The assets of the District were less than its liabilities at September 30, 2016, by \$456,425. Total assets of the District were \$3,834,384, while total liabilities were \$4,290,809. The District's net position consists of \$207,378 invested in capital assets, net of related debt; \$31,932 in restricted for debt service; and unrestricted net deficit was \$695,735.

Total assets at September 30, 2017, increased by \$591,708, primarily as the net result of the increase in restricted cash due to the bond refinancing and business-type cash receipts, less current year capital assets depreciation.

Total assets at September 30, 2016, decreased by \$368,665, primarily as the net result of the decrease in member contribution receivable of \$663,038 plus the increase of restricted cash totaling \$200,976 from September 30, 2015.

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2017

Financial Highlights

Condensed financial statements for the District as of and for the years ended September 30, 2017, September 30, 2016, and September 30, 2015 are as follows:

Condensed Statement of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current	\$ 516,035	\$ 478,292	\$ 1,071,500
Noncurrent:			
Restricted cash	1,157,714	531,892	330,916
Capital assets	<u>2,752,343</u>	<u>2,824,200</u>	<u>2,800,633</u>
Total assets	<u>4,426,092</u>	<u>3,834,384</u>	<u>4,203,049</u>
Liabilities			
Current	335,450	259,338	640,872
Noncurrent	<u>4,491,399</u>	<u>4,031,471</u>	<u>4,275,036</u>
Total liabilities	4,826,849	4,290,809	4,915,908
Net Position			
Invested in capital assets, net of related debt	293,127	207,378	258,683
Restricted for debt service	35,722	31,932	31,932
Unrestricted	<u>(729,606)</u>	<u>(695,735)</u>	<u>(1,003,474)</u>
Total net position	<u>\$ (400,757)</u>	<u>\$ (456,425)</u>	<u>\$ (712,859)</u>

For the year ended September 30, 2017, program revenues of \$589,259 came from the contributions of the members. Business type revenues of \$26,772 came from rental revenues and other general revenues of \$4,300 came from interest revenue and other income.

For the year ended September 30, 2016, program revenues of \$630,988 came from the contributions of the members. Business type revenues of \$20,080 came from rental revenues and other general revenues of \$1,790 came from interest revenue.

Program expenses within the District consist of general government expenses, including administration, depreciation and interest, business type activity for maintenance of rental property, and community and economic development expenses. Expenses associated with general government expenditures were \$221,963 and \$248,189 for the years ended September 30, 2017 and 2016, respectively. Expenses associated with economic development expenditures were \$331,587 and \$130,324 for the years ended September 30, 2017 and 2016, respectively. Expenses associated with the business type activity totaled \$11,113 and \$17,911 for September 30, 2017 and 2016, respectively. At September 30, 2017, the District recognized an increase in the economic development expenditures of \$201,263 from September 30, 2016 due to increased funding for ALDOT Montevallo Main Street project and Owl's Cove Park project. Total expenses for the fiscal years ended 2017 and 2016 were \$564,663 and \$396,424, respectively.

The Montevallo Development Cooperative District

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

Condensed Statement of Activities

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Program revenues	\$ 589,259	\$ 630,988	\$ 2,102,823
General revenues	4,300	1,790	7,505
Business-type revenues	26,772	20,080	-
Total revenues	<u>620,331</u>	<u>652,858</u>	<u>2,110,328</u>
Program expenses by function:			
General government	221,963	248,189	247,228
Community and economic development	331,587	130,324	3,316,475
Business type	11,113	17,911	-
Total expenses	<u>564,663</u>	<u>396,424</u>	<u>3,563,703</u>
	55,668	256,434	(1,453,375)
Net Position			
Beginning of year	<u>(456,425)</u>	<u>(712,859)</u>	<u>740,516</u>
End of year	<u>\$ (400,757)</u>	<u>\$ (456,425)</u>	<u>\$ (712,859)</u>

District total revenues for the year ended September 30, 2017, totaled \$620,331 compared to \$652,858 for the year ended September 30, 2016. This was a 5% decrease in revenues. The decrease in revenues is primarily due to less member contributions required in fiscal year 2017.

District total revenues for the year ended September 30, 2016, totaled \$652,858 compared to \$2,110,328 for the year ended September 30, 2015. This was a 69% decrease in revenues. The decrease in revenues is primarily due to less member contributions required in fiscal year 2016 due to the completion of capital projects for ongoing community and economic development projects in fiscal year 2015.

Total program expenses increased \$168,239, or 42%, from \$396,424 for the year ended September 30, 2016, to \$564,663 for the year ended September 30, 2017. This increase is due primarily to the ongoing community and economic development project support for the ALDOT Montevallo Main Street and Owl's Cove Park projects during fiscal year 2017.

Total program expenses decreased \$3,167,279, or 89%, from \$3,563,703 for the year ended September 30, 2015, to \$396,424 for the year ended September 30, 2016. This decrease is due primarily to the completion of ongoing community and economic development projects in fiscal year 2015.

As a result of revenues over expenses, the District's total net position as of September 30, 2017, increased by \$55,668.

As a result of expenses over revenues, the District's total net position as of September 30, 2016, increased by \$256,434.

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017

Condensed Balance Sheet – Governmental Funds
September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total assets	\$ 21,909	\$ 35,722	\$ 1,599,030	\$ 1,656,661
Total liabilities	30,112	-	6,086	36,198
Total fund balances	(8,203)	35,722	1,592,944	1,620,463
Total liabilities and fund balances	\$ 21,909	\$ 35,722	\$ 1,599,030	\$ 1,656,661

Condensed Balance Sheet – Governmental Funds
September 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total assets	\$ 10,198	\$ 31,932	\$ 966,373	\$ 1,008,503
Total liabilities	18,401	-	5,369	23,770
Total fund balances	(8,203)	31,932	961,004	984,733
Total liabilities and fund balances	\$ 10,198	\$ 31,932	\$ 966,373	\$ 1,008,503

Condensed Balance Sheet – Governmental Funds
September 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total assets	\$ 7,300	\$ 31,932	\$ 1,378,643	\$ 1,417,875
Total liabilities	15,503	-	401,956	417,459
Total fund balances	(8,203)	31,932	976,687	1,000,416
Total liabilities and fund balances	\$ 7,300	\$ 31,932	\$ 1,378,643	\$ 1,417,875

Total general fund assets at September 30, 2017 increased by \$11,711, primarily as the result of the net increase in liabilities to pay general government expenditures.

Total general fund assets at September 30, 2016 increased by \$2,898, primarily as the result of the net increase in liabilities to pay general government expenditures.

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2017

Total general fund liabilities at September 30, 2017 increased by \$11,711, primarily as the result of timing of payment of general government expenditures.

Total general fund liabilities at September 30, 2016 increased by \$2,898, primarily as the result of timing of payment of general government expenditures.

The general fund balance reported a deficit of \$8,203 as of September 30, 2017, compared to \$8,203 and \$8,203 as of September 30, 2016 and 2015, respectively. General government expenditures related to administration equaled general contribution revenue for the periods ended September 30, 2017 and 2016.

The debt service fund assets and fund balances increased to \$35,722, at September 30, 2017 due to the 2017 bond refinancing; 2016, and 2015 remained unchanged at \$31,932. The balance of \$35,722 is the receivable for September 2017 tax revenue contributions from the City, which are pledged for debt service.

Total capital projects fund assets at September 30, 2017 increased by \$632,657 primarily as the result of increased restricted cash from the 2017 bond refinancing.

Total capital projects fund assets at September 30, 2016 decreased by \$412,270 primarily as the result of continued community and economic development project expenditures using remaining revenue bond proceeds.

Total capital projects fund liabilities at September 30, 2017 slightly increased by \$717 primarily as the result of timing of payment for community and economic development project expenditures.

Total capital projects fund liabilities at September 30, 2016 decreased by \$396,587, primarily as the result of timing of payment for community and economic development project expenditures.

The capital projects fund balance reported a balance of \$1,592,944 as of September 30, 2017 compared to \$961,004 as of September 30, 2016. The change of \$631,940 is mainly due to increase in restricted cash for capital assets due to 2017 bond refinancing.

The capital projects fund balance reported a balance of \$961,004 as of September 30, 2016 compared to \$976,687 as of September 30, 2015. The slight decrease of \$15,683 was the net result of decreased capital projects fund expenditures being slightly more than capital projects contributions.

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total revenues	\$ 20,887	\$ 416,521	\$ 155,805	\$ 593,213
Total expenditures	<u>20,887</u>	<u>428,731</u>	<u>331,587</u>	<u>781,205</u>
Other financing source – refunding bonds	-	5,000,000	-	5,000,000
Other financing use – payment to refund bonds		(4,176,278)	-	(4,176,278)
Transfers	<u>-</u>	<u>(807,722)</u>	<u>807,722</u>	<u>-</u>
Net change in fund Balances	-	3,790	631,940	635,730
Fund balances				
Beginning of year	<u>(8,203)</u>	<u>31,932</u>	<u>961,004</u>	<u>984,733</u>
End of year	<u><u>\$ (8,203)</u></u>	<u><u>\$ 35,722</u></u>	<u><u>\$ 1,592,944</u></u>	<u><u>\$ 1,620,463</u></u>

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds September 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total revenues	\$ 39,525	\$ 383,189	\$ 210,064	\$ 632,778
Total expenditures	<u>39,525</u>	<u>383,189</u>	<u>225,747</u>	<u>648,461</u>
Net change in fund balances	-	-	(15,683)	(15,683)
Fund balances				
Beginning of year	<u>(8,203)</u>	<u>31,932</u>	<u>976,687</u>	<u>1,000,416</u>
End of year	<u><u>\$ (8,203)</u></u>	<u><u>\$ 31,932</u></u>	<u><u>\$ 961,004</u></u>	<u><u>\$ 984,733</u></u>

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2017

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds September 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total revenues	\$ 27,392	\$ 383,189	\$ 1,699,747	\$ 2,110,328
Total expenditures	29,829	383,189	3,370,780	3,783,798
Net change in fund balances	(2,437)	-	(1,671,033)	(1,673,470)
Fund balances				
Beginning of year	(5,766)	31,932	2,647,720	2,673,886
End of year	<u>\$ (8,203)</u>	<u>\$ 31,932</u>	<u>\$ 976,687</u>	<u>\$ 1,000,416</u>

Capital Assets

Capital assets include land, infrastructure, buildings and improvements, equipment, and construction in progress. As of September 30, 2017, 2016, and 2015, capital assets, net of accumulated depreciation, totaled \$2,752,343, \$2,824,200, and \$2,800,633, respectively. Capital additions for the years ended September 30, 2017, 2016, and 2015, totaled \$0, \$95,423, and \$54,305, respectively. Depreciation expense for the years ended September 30, 2017, 2016, and 2015, totaled \$71,857, \$71,856, and \$65,621, respectively.

Ongoing and future projects

The Owl's Cove Park is small oasis along Main Street Montevallo encouraging social interactions through activities of cultural events, lunch breaks, passive recreation, learning spaces, and impromptu meetings. In fiscal year 2017 costs for completion of the first phase of the park totaled \$51,300.

The Orr Park Creek Project was completed in fiscal year 2017. The District contributed \$25,000 to the cost of the restoration of the erosion of the creek banks by building a stone retaining wall and adding erosion-controlling trees and bushes.

The Main Street Renovation and Paving Project will renovate approximately four blocks on the Main Street in Downtown Montevallo for a total bid cost of \$3,775,082. Project funding will include \$3,058,403 in Federal and State grant funds plus the City's match requirement totaling \$716,679. The District previously transferred \$570,000 to the City to date for the required match, engineering costs and utilities. In addition to the transfer to the City, MDCD has incurred \$99,240 in expenses related to utility preparations and power pole relocations for the project. MDCD transferred an additional \$100,000 to the City in fiscal year 2017 to provide additional funding assistance for required City match. The estimated completion date for this project is December 31, 2017.

Long-Term Debt Activity

MDCD Revenue Bond Issue

The District issued a \$5,000,000 Revenue Bond on September 26, 2013 for the purpose of financing the City's share of the cost of various capital improvements by the District. The County and the University have contributed and expect to contribute funds to finance their approved share of the costs, and the City's share of the costs is being financed through the issuance of the Bond. The proceeds of the Bond remaining after the costs of issuance will only be applied to pay the City's share of the costs of the improvements.

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2017

As of September 30, 2017, 2016, and 2015, revenue bond payable totaled \$4,812,743, \$4,277,420, and \$4,513,908, respectively. During the years ended September 30, 2017, 2016, and 2015, total principal payments on the revenue bond payable were \$288,399, \$236,488 and \$231,411, respectively.

The District issued a \$5,000,000 Revenue Bond on March 31, 2017 for the purpose of financing the City's share of the cost of various capital improvements by the District and to pay off the September 26, 2013 Revenue Bond.

As of September 30, 2017, revenue bond payable totaled \$4,812,743. During the year ended September 30, 2017 principal payments on the 2017 revenue bond payable were \$187,257.

Analysis of Known Future Events

Members determine if a project warrants financial participation by their respective entity each time a project is considered. The ownership/investment in each project is determined by the pro-rata investment of each member. Current and/or future net operating income and cash distributions from any project will be shared between the participating members of the District based on a relative contribution by each member to the project or as otherwise defined by the project.

Condensed investment schedule for Governmental Activities by MDCD member for FY2017, FY2016 and FY2015 is as follows:

	University	County	City	Total
<u>Fiscal Year 2017</u>				
Revenues	\$ 33,098	\$ 6,198	\$ 549,963	\$ 589,259
Expenses	(56,287)	(38,202)	(459,061)	(553,550)
Non-operating	<u>5,332</u>	<u>5,332</u>	<u>9,295</u>	<u>19,959</u>
Change in net position	<u>(17,857)</u>	<u>(26,672)</u>	<u>100,197</u>	<u>55,668</u>
Net position, beginning of year	<u>1,153,600</u>	<u>1,369,134</u>	<u>(2,979,159)</u>	<u>(456,425)</u>
Net position, end of year	<u><u>\$ 1,135,743</u></u>	<u><u>\$ 1,342,462</u></u>	<u><u>\$ (2,878,962)</u></u>	<u><u>\$ (400,757)</u></u>
<u>Fiscal Year 2016</u>				
Revenues	\$ 28,718	\$ 91,862	\$ 510,408	\$ 630,988
Expenses	(35,742)	(107,700)	(235,071)	(378,513)
Non-operating	<u>723</u>	<u>723</u>	<u>2,513</u>	<u>3,959</u>
Change in net position	<u>(6,301)</u>	<u>(15,115)</u>	<u>277,850</u>	<u>256,434</u>
Net position, beginning of year	<u>1,159,901</u>	<u>1,384,249</u>	<u>(3,257,009)</u>	<u>(712,859)</u>
Net position, end of year	<u><u>\$ 1,153,600</u></u>	<u><u>\$ 1,369,134</u></u>	<u><u>\$ (2,979,159)</u></u>	<u><u>\$ (456,425)</u></u>
<u>Fiscal Year 2015</u>				
Revenues	\$ 912,022	\$ 712,889	\$ 485,417	\$ 2,110,328
Expenses	(931,712)	(746,893)	(1,885,098)	(3,563,703)
Change in net position	<u>(19,690)</u>	<u>(34,004)</u>	<u>(1,399,681)</u>	<u>(1,453,375)</u>
Net position, beginning of year	<u>1,179,591</u>	<u>1,418,253</u>	<u>(1,857,328)</u>	<u>740,516</u>
Net position, end of year	<u><u>\$ 1,159,901</u></u>	<u><u>\$ 1,384,249</u></u>	<u><u>\$ (3,257,009)</u></u>	<u><u>\$ (712,859)</u></u>

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2017

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the District, including written (as outlined above) or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than the statements of historical fact, which address future activities, events, or developments that the District expects or anticipates will or may occur, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The District does not update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions, or changes in other factors.

Contacting the District's Management

This financial report is designed to provide our readers with a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives. If readers have any questions about this report or need additional information, contact DeAnna M. Smith, UM Board Director, University of Montevallo, Station 6010, Montevallo, Alabama 35115, or you may email to dsmith23@montevallo.edu.

The Montevallo Development Cooperative District

Statement of Net Position
September 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash	\$ 364,022	\$ 34,968	\$ 398,990
Contributions receivable	41,589	-	41,589
Accounts receivable	47,984	-	47,984
Accrued rental income	-	12,232	12,232
Due from enterprise fund	8,020	-	8,020
Prepaid items	7,220	-	7,220
Total current assets	468,835	47,200	516,035
Restricted cash	1,157,714	-	1,157,714
Noncurrent assets:			
Capital assets:			
Depreciable capital assets, net	2,091,281	395,709	2,486,990
Non-depreciable capital assets	199,017	66,336	265,353
Total noncurrent assets	2,290,298	462,045	2,752,343
Total assets	3,916,847	509,245	4,426,092
Liabilities and Net Position (Deficit)			
Current liabilities:			
Accounts payable, capital projects	6,086	-	6,086
Due to capital projects fund	-	8,020	8,020
Current portion of revenue bond payable	321,344	-	321,344
Total current liabilities	327,430	8,020	335,450
Noncurrent liabilities:			
Revenue bond payable, less current portion	4,491,399	-	4,491,399
Total noncurrent liabilities	4,491,399	-	4,491,399
Total liabilities	4,818,829	8,020	4,826,849
Net position (deficit):			
Net investment in capital assets	232,830	462,045	293,127
Restricted for debt service	35,722	-	35,722
Unrestricted (deficit)	(1,170,534)	39,180	(729,606)
Total net position (deficit)	\$ (901,982)	\$ 501,225	\$ (400,757)

See notes to financial statements.

The Montevallo Development Cooperative District

Statement of Net Position
September 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash	\$ 349,390	\$ 6,926	\$ 356,316
Contributions receivable	49,571	-	49,571
Accounts receivable	44,109	-	44,109
Accrued rental income	-	13,156	13,156
Due from enterprise fund	8,020	-	8,020
Prepaid items	7,120	-	7,120
Total current assets	458,210	20,082	478,292
Restricted cash	531,892	-	531,892
Noncurrent assets:			
Capital assets:			
Depreciable capital assets, net	2,152,025	406,822	2,558,847
Non-depreciable capital assets	199,017	66,336	265,353
Total noncurrent assets	2,351,042	473,158	2,824,200
Total assets	3,341,144	493,240	3,834,384
Liabilities and Net Position (Deficit)			
Current liabilities:			
Accounts payable, capital projects	5,369	-	5,369
Due to capital projects fund	-	8,020	8,020
Current portion of revenue bond payable	245,949	-	245,949
Total current liabilities	251,318	8,020	259,338
Noncurrent liabilities:			
Revenue bond payable, less current portion	4,031,471	-	4,031,471
Total noncurrent liabilities	4,031,471	-	4,031,471
Total liabilities	4,282,789	8,020	4,290,809
Net position (deficit):			
Net investment in capital assets	161,716	473,158	207,378
Restricted for debt service	31,932	-	31,932
Unrestricted (deficit)	(1,135,293)	12,062	(695,735)
Total net position (deficit)	\$ (941,645)	\$ 485,220	\$ (456,425)

See notes to financial statements.

The Montevallo Development Cooperative District

Statement of Activities
Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary government:						
Governmental activities:						
General government	\$ 221,963	\$ -	\$ 47,787	\$ (174,176)	\$ -	\$ (174,176)
Community and economic development	331,587	-	541,472	209,885	-	209,885
Total governmental activities	553,550	-	589,259	35,709	-	35,709
Business-type activities:						
Rental	11,113	26,772	-	-	15,659	15,659
Total business-type activities	11,113	26,772	-	-	15,659	15,659
Total primary government	\$ 564,663	\$ 26,772	\$ 589,259	35,709	15,659	51,368
General revenue:						
Interest revenue				3,954	10	3,964
Other income				-	336	336
Total general revenue				3,954	346	4,300
Change in net position				39,663	16,005	55,668
Net position (deficit):						
Beginning of year				(941,645)	485,220	(456,425)
End of year				\$ (901,982)	\$ 501,225	\$ (400,757)

See notes to financial statements.

The Montevallo Development Cooperative District

Statement of Activities
Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenue			Business-Type Activities	Total	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities			
Primary government:							
Governmental activities:							
General government	\$ 248,189	\$ -	\$ 123,660	\$ (124,529)	\$ -	\$ (124,529)	
Community and economic development	130,324	-	507,328	377,004	-	377,004	
 Total governmental activities	378,513	-	630,988	252,475	-	252,475	
Business-type activities:							
Rental	17,911	20,080	-	-	2,169	2,169	
 Total business-type activities	17,911	20,080	-	-	2,169	2,169	
 Total primary government	\$ 396,424	\$ 20,080	\$ 630,988	252,475	2,169	254,644	
General revenue:							
Interest revenue				1,790	-	1,790	
Transfers							
				(483,051)	483,051	-	
 Total general revenue and transfers				(481,261)	483,051	1,790	
 Change in net position				(228,786)	485,220	256,434	
Net position (deficit):							
Beginning of year				(712,859)	-	(712,859)	
End of year				\$ (941,645)	\$ 485,220	\$ (456,425)	

See notes to financial statements.

The Montevallo Development Cooperative District

Balance Sheet – Governmental Funds
September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash	\$ -	\$ -	\$ 364,022	\$ 364,022
Restricted cash	-	-	1,157,714	1,157,714
Contributions receivable	14,689	-	26,900	41,589
Accounts receivable	-	35,722	12,262	47,984
Due from other funds	-	-	38,132	38,132
Prepaid expenses	7,220	-	-	7,220
Total assets	\$ 21,909	\$ 35,722	\$ 1,599,030	\$ 1,656,661
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 6,086	\$ 6,086
Due to capital projects fund	30,112	-	-	30,112
Total liabilities	30,112	-	6,086	36,198
Fund balances:				
Restricted for debt service	-	35,722	-	35,722
Committed to:				
Capital projects	-	-	1,592,944	1,592,944
Unassigned (deficit)	(8,203)	-	-	(8,203)
Total fund balances	(8,203)	35,722	1,592,944	1,620,463
Total liabilities and fund balances	\$ 21,909	\$ 35,722	\$ 1,599,030	\$ 1,656,661

(Continued)

The Montevallo Development Cooperative District

Balance Sheet – Governmental Funds (Continued)
September 30, 2017

Fund balances – total governmental funds	\$ 1,620,463
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,290,298
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,812,743)</u>
Net position of governmental activities	<u><u>\$ (901,982)</u></u>

See notes to financial statements.

The Montevallo Development Cooperative District

Balance Sheet – Governmental Funds
September 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash	\$ -	\$ -	\$ 349,390	\$ 349,390
Restricted cash	-	-	531,892	531,892
Contributions receivable	3,078	-	46,493	49,571
Accounts receivable	-	31,932	12,177	44,109
Due from other funds	-	-	26,421	26,421
Prepaid expenses	7,120	-	-	7,120
Total assets	\$ 10,198	\$ 31,932	\$ 966,373	\$ 1,008,503
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 5,369	\$ 5,369
Due to capital projects fund	18,401	-	-	18,401
Total liabilities	18,401	-	5,369	23,770
Fund balances:				
Restricted for debt service	-	31,932	-	31,932
Committed to:				
Capital projects	-	-	961,004	961,004
Unassigned (deficit)	(8,203)	-	-	(8,203)
Total fund balances	(8,203)	31,932	961,004	984,733
Total liabilities and fund balances	\$ 10,198	\$ 31,932	\$ 966,373	\$ 1,008,503

(Continued)

The Montevallo Development Cooperative District

Balance Sheet – Governmental Funds (Continued)
September 30, 2016

Fund balances – total governmental funds	\$ 984,733
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,351,042
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,277,420)</u>
Net position of governmental activities	<u><u>\$ (941,645)</u></u>

See notes to financial statements.

The Montevallo Development Cooperative District

Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenue:				
General contribution – City of Montevallo	\$ 2,293	\$ -	\$ -	\$ 2,293
General contribution – Shelby County	6,198	-	-	6,198
General contribution – University of Montevallo	6,198	-	-	6,198
Interest	-	-	3,954	3,954
Tax revenue contribution – City of Montevallo	6,198	416,521	124,951	547,670
Capital projects contribution – University of Montevallo	-	-	26,900	26,900
Total revenue	20,887	416,521	155,805	593,213
Expenditures:				
Current expenditures:				
General government	20,887	-	-	20,887
Community and economic development	-	-	331,587	331,587
Debt service:				
Principal	-	288,399	-	288,399
Interest and fees	-	140,332	-	140,332
Total expenditures	20,887	428,731	331,587	781,205
Other financing source – refunding bonds	-	5,000,000	-	5,000,000
Other financing use – payment to refund bonds	-	(4,176,278)	-	(4,176,278)
Transfers	-	(807,722)	807,722	-
Net change in fund balances	-	3,790	631,940	635,730
Fund balances:				
Beginning of year	(8,203)	31,932	961,004	984,733
End of year	\$ (8,203)	\$ 35,722	\$ 1,592,944	\$ 1,620,463

(Continued)

The Montevallo Development Cooperative District

**Statement of Revenue, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended September 30, 2017**

Net change in fund balances – total governmental funds	\$	635,730
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.

Depreciation expense	(60,744)
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Repayments on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.

Additional debt proceeds	(823,722)
Principal payments on revenue bond payable	<u>288,399</u>

Change in net position of governmental activities	\$	<u>39,663</u>
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See notes to financial statements.

The Montevallo Development Cooperative District

**Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2016**

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenue:				
General contribution – City of Montevallo	\$ 3,078	\$ -	\$ -	\$ 3,078
General contribution – Shelby County	12,149	-	-	12,149
General contribution – University of Montevallo	12,149	-	-	12,149
Interest	-	-	1,790	1,790
Tax revenue contribution – City of Montevallo	12,149	383,189	111,990	507,328
Capital projects contribution – Shelby County	-	-	79,713	79,713
Capital projects contribution – University of Montevallo	-	-	16,571	16,571
Total revenue	39,525	383,189	210,064	632,778
Expenditures:				
Current expenditures:				
General government	39,525	-	-	39,525
Community and economic development	-	-	130,324	130,324
Debt service:				
Principal	-	236,488	-	236,488
Interest	-	146,701	-	146,701
Capital outlays	-	-	95,423	95,423
Total expenditures	39,525	383,189	225,747	648,461
Net change in fund balances	-	-	(15,683)	(15,683)
Fund balances:				
Beginning of year	(8,203)	31,932	976,687	1,000,416
End of year	\$ (8,203)	\$ 31,932	\$ 961,004	\$ 984,733

(Continued)

The Montevallo Development Cooperative District

**Statement of Revenue, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended September 30, 2016**

Net change in fund balances – total governmental funds	\$	(15,683)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.

Transfers out of capital assets	\$	(483,051)	
Depreciation expense		(61,963)	
Capital outlays		<u>95,423</u>	(449,591)

Repayments on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.

Principal payments on revenue bond payable		<u>236,488</u>
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Change in net position of governmental activities	\$	<u><u>(228,786)</u></u>
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See notes to financial statements.

The Montevallo Development Cooperative District

Statements of Net Position
 Proprietary Fund
 September 30, 2017 and 2016

Assets	Enterprise Fund	
	2017	2016
Current assets:		
Cash	\$ 34,968	\$ 6,926
Accrued rental income	12,232	13,156
Total current assets	47,200	20,082
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net	395,709	406,822
Non-depreciable capital assets	66,336	66,336
Total noncurrent assets	462,045	473,158
Total assets	509,245	493,240
Liabilities and Net Position		
Current liabilities:		
Due to capital projects fund	8,020	8,020
Total current liabilities	8,020	8,020
Net position:		
Unrestricted	501,225	485,220
Total net position	\$ 501,225	\$ 485,220

See notes to financial statements.

The Montevallo Development Cooperative District

Statements of Revenue, Expenses and Changes in Fund Net Position
 Proprietary Fund
 Years Ended September 30, 2017 and 2016

	Enterprise Fund	
	2017	2016
Operating revenue:		
Rental revenue	\$ 26,772	\$ 20,080
Interest	10	-
Other income	336	-
Total operating revenue	27,118	20,080
Operating expenses:		
Depreciation	11,113	9,893
Repairs and maintenance	-	8,018
Total operating expenses	11,113	17,911
Operating income	16,005	2,169
Transfer from other funds	-	483,051
Increase in net position	16,005	485,220
Net position:		
Beginning of year	485,220	-
End of year	\$ 501,225	\$ 485,220

See notes to financial statements.

The Montevallo Development Cooperative District

**Statements of Cash Flows
Proprietary Fund
Years Ended September 30, 2017 and 2016**

	Enterprise Fund	
	2017	2016
Cash flows from operating activities:		
Rental receipts	\$ 27,696	\$ 6,926
Interest	10	-
Other income	336	-
	28,042	6,926
Net cash provided by operating activities	28,042	6,926
Net increase in cash	28,042	6,926
Cash:		
Beginning of year	6,926	-
End of year	\$ 34,968	\$ 6,926
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 16,005	\$ 2,169
Depreciation	11,113	9,893
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accrued rental income	924	(13,156)
Due to capital projects fund	-	8,020
	28,042	6,926
Net cash provided by operating activities	\$ 28,042	\$ 6,926

See notes to financial statements.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accompanying basic financial statements of The Montevallo Development Cooperative District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. A summary of the District's more significant accounting policies follows.

Reporting entity: The District was incorporated by its Members (City of Montevallo, Alabama, University of Montevallo and Shelby County, Alabama) on April 10, 2012, in accordance with Alabama Code 11-99B, Capital Improvement Cooperative Districts. The purpose of the District is to promote economic development, tourism, education, recreation, the arts, historic preservation, livability, and a healthy and active lifestyle in Montevallo, Alabama. In addition, the District is to undertake the acquisition, construction and installation of capital improvements consisting of: (a) real and personal property (i) for use by the City for general municipal purposes, and (ii) for use by the County for the development, support and promotion of economic development and tourism and (iii) for use by the University for educational and administrative purposes; (b) roads, streets, sidewalk and related facilities for pedestrian and vehicular traffic; (c) public utilities; (d) public park, recreation, and safety facilities; (e) center for cultural and educational exhibitions and facilities; and (f) accommodations for visitors. The District is supported primarily by its members from member contributions, including contributions from the City of Montevallo, Alabama of 90% of a one-cent sales tax implemented by the City of Montevallo, Alabama. The District is governed by a board of directors, which is comprised of one director elected by each of the Members. The District may acquire and construct projects within the corporate limits, as at any time in effect, of the City. The District cannot levy taxes.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. GAAP requires that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards has been considered and as a result, the District has no component units. Additionally, the District is not a component unit of any other entity.

Government-wide and fund financial statements: Basic financial statements include government-wide statements (i.e. the statements of net position and statements of activities), based on the District as a whole, and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities, which normally are supported by taxes and intergovernmental revenues, or business-type activities, which rely to a significant extent on fees and charges for support. The District is engaged in both governmental and business-type activities. Eliminations have been made to minimize the double-counting of internal activities.

The statements of activities demonstrate the degree to which the direct expenses of a given function or identifiable activity (i.e., public safety, public services, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include revenues from fines and forfeitures, licenses and permit fees, service assessments, and charges for services provided by the given function or identifiable activity and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The fund financial statements provide information about the District's funds, with separate statements presented for each fund category—governmental and proprietary. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. The District has no non-major funds.

Proprietary fund operating revenue, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of presentation – fund accounting: The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The District's funds are grouped into two categories for financial statement presentation purposes, governmental funds and proprietary funds. Governmental funds are used to account for the District's expendable financial resources and related liabilities. Governmental funds include the general, debt service and capital projects funds. Proprietary funds include one enterprise fund that accounts for the operation and maintenance of a building that is being leased to a restaurant.

A percentage of assets, liabilities, revenues or expenditures/expenses of the government fund category are used for the determination of major funds. The District has three major governmental funds, one major proprietary fund, and no non-major governmental or proprietary funds.

The District reports the following major governmental funds:

General fund: The general fund accounts for all financial resources of the District except those required legally or by sound financial management to be accounted for in another fund.

Debt service fund: The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital projects fund: The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. For this purpose, capital outlays on capital projects financed by the District for its members are included, and reported as community and economic development expenditures.

The District reports the following major proprietary fund:

Enterprise fund: The enterprise fund accounts for the operation and maintenance of a building that is being leased to a restaurant.

Measurement focus: The government-wide and proprietary fund financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included in the statements of net position.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the statements of net position. The statements of revenues, expenditures and changes in fund balances – governmental funds reports the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government-wide financial statements are prepared; therefore, governmental activities of the government-wide financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

Basis of accounting: Basis of accounting determines when transactions are recorded in the financial reports and reported on the financial statements. Government-wide and proprietary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognitions of revenue and in the presentation of expenses versus expenditures.

Under the accrual method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). Revenues are measurable when the amount of the transaction can be determined. Revenues are available when collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days following September 30. Major revenue sources susceptible to accrual include special assessments, licenses, interest revenue, and charges for services. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except for revenue bond principal and interest which are reported as expenditures in the year due.

Cash and cash equivalents: Cash includes amounts in demand and time deposits. Cash equivalents are defined by the District as liquid investments purchased with an original maturity of three months or less. The District had no cash equivalents as of September 30, 2017 and 2016. Cash as of September 30, 2017 and 2016, was deposited with financial institutions.

The District's deposits are covered by Federal Depository Insurance Corporation insurance or secured by collateral pledged to the State of Alabama. The Security for Alabama Funds Enhancement Program, or SAFE Program, became law January 1, 2001. The SAFE Program eliminates the need for an individual bank to collateralize deposits. Under the program, a bank designated by the State Treasurer as a qualified public depository will pledge securities to the State Treasurer for the SAFE collateral pool. This program is mandatory for all banks that hold public deposits. The financial institutions that held the District's deposits at September 30, 2017 and 2016, are qualified public depositories.

Contributions and accounts receivable: Accounts receivable from member contributions, including allocated sales tax revenue, are reduced by the amount of such billings deemed by management to be ultimately uncollectible. At September 30, 2017 and 2016, the District considers all such receivables to be fully collectible.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Accrued rental income: The District leases a building to a restaurant. Rental income is recognized on a straight-line basis over the term of the related lease. Accrued rental income includes the difference between rental income recognized and rental income billed to the tenant. At September 30, 2017 and 2016, accrued rental income was \$12,232 and \$13,156, respectively.

Prepaid items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted cash: The District has cash that is restricted to its use. Restricted cash related to the District's operations includes cash from the issuance of the revenue bond that is temporarily restricted for capital improvement projects and expenditures and member contributions for specific capital improvement projects not yet spent. Restricted cash related to capital improvement projects amounted to \$1,157,714 and \$531,892 as of September 30, 2017 and 2016, respectively.

Capital assets: Purchased or constructed capital assets are reported at cost. Donated fixed assets are stated at their acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed when incurred. A capitalization threshold of \$5,000 is used.

Capital assets used in governmental fund type operations (general capital assets) are accounted for in the government-wide statements.

Community and economic development expenditures accounted for in the capital projects fund include capital improvements to member properties, which are accounted for on each member's respective financial statements.

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

	<u>Years</u>
Buildings and improvements	40

Capital assets are not reported in the governmental fund financial statements; instead, capital outlays are reported as expenditures.

Capital assets used in operations are accounted for in the proprietary fund financial statements and in the government wide statements.

Non-depreciable capital assets: Non-depreciable capital assets include land purchased by the District and are reported at cost.

Long-term debt: Long-term debt to be repaid from governmental resources is reported as a liability in the government-wide financial statements. The District's long-term debt consists of a revenue bond. Long-term debt is not reported in the governmental fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund equity: As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance: This category includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts and long-term notes receivable.

Restricted fund balance: This category includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed fund balance: This category includes amounts that can only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority, the Board of Directors. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally, such as a resolution or ordinance.

Assigned fund balance: This category includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board of Directors or (b) a body to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds, except negative amounts, that are not classified as nonspendable, restricted or committed.

Unassigned fund balance: This category’s residual classification is used for all negative fund balances and includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Net position: The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, unrestricted and restricted. The District first applies unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Net investment in capital assets: This category is intended to reflect the portion of net position that is associated with non-liquid capital assets less outstanding capital asset related debt, if any.

Restricted net position: This category presents net position that is not available for appropriation or is restricted by external parties.

Unrestricted net position: This category represents the net position of the District that is not restricted for any other purpose by third parties. While District management may have categorized and segmented portions for various purposes, the Board of Directors has the unrestricted authority to revisit or alter these managerial decisions.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with GAAP 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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Member contributions: The District receives member contributions from The University of Montevallo, City of Montevallo, Alabama (City), and Shelby County, Alabama. The District uses these contributions for purchases or capital improvement projects for the promotion of tourism and economic development actions, educational purposes, administrative purposes, or enhancement of infrastructure. The City provides the applicable tax revenues from an imposed one-cent sales tax to the District that is recorded as a member contribution to the District. Shelby County, Alabama provides funds for purchases or capital improvement projects for the promotion of tourism and economic development actions. The University of Montevallo provides funds toward projects applicable to the University's use for educational and administrative purposes or enhancement of its infrastructure. The amount of member contributions for the years ended September 30, 2017 and 2016, were \$589,259 and \$630,988, respectively.

Transfers: The District engaged in business-type activities beginning in the year ended September 30, 2016 with the rental of property for restaurant operations. As a result, \$483,051 in net capital assets were transferred from the general capital assets to the enterprise fund in 2016.

Subsequent events: Subsequent events have been evaluated through January 10, 2018, which is the date the financial statements were available for issuance.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheets include reconciliations between fund balances—total governmental funds and net position of governmental activities reported in the government-wide statements of net position. One element of that reconciliation explains that "some liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of these amounts as of September 30, 2017 and 2016, are as follows:

	2017	2016
Revenue bond payable	\$ 4,812,743	\$ 4,277,420

Note 3. Contributions Receivable

Contributions receivable consist of the following at September 30:

	2017	2016
University of Montevallo	\$ 33,098	\$ 17,773
Shelby County, Alabama	6,198	28,720
City of Montevallo, Alabama	2,293	3,078
	<u>\$ 41,589</u>	<u>\$ 49,571</u>

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 5. Capital Assets (Continued)

	2016				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Governmental activities:					
Depreciable capital assets:					
Buildings	\$ 830,976	\$ -	\$ -	\$ (190,184)	\$ 640,792
Building improvements	1,719,357	243,192	-	(243,192)	1,719,357
	<u>2,550,333</u>	<u>243,192</u>	<u>-</u>	<u>(433,376)</u>	<u>2,360,149</u>
Accumulated depreciation:					
Buildings	70,970	17,877	-	(16,661)	72,186
Building improvements	91,852	44,086	-	-	135,938
	<u>162,822</u>	<u>61,963</u>	<u>-</u>	<u>(16,661)</u>	<u>208,124</u>
Depreciable capital assets, net	<u>2,387,511</u>	<u>181,229</u>	<u>-</u>	<u>(416,715)</u>	<u>2,152,025</u>
Nondepreciable capital assets:					
Land	265,353	-	-	(66,336)	199,017
Construction in progress	147,769	-	(147,769)	-	-
	<u>413,122</u>	<u>-</u>	<u>(147,769)</u>	<u>(66,336)</u>	<u>199,017</u>
Governmental activities capital assets, net	<u>\$ 2,800,633</u>	<u>\$ 181,229</u>	<u>\$ (147,769)</u>	<u>\$ (483,051)</u>	<u>\$ 2,351,042</u>
	2016				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Business-type activities:					
Depreciable capital assets:					
Buildings	\$ -	\$ -	\$ -	\$ 190,184	\$ 190,184
Building improvements	-	-	-	243,192	243,192
	<u>-</u>	<u>-</u>	<u>-</u>	<u>433,376</u>	<u>433,376</u>
Accumulated depreciation:					
Buildings	-	3,658	-	16,661	20,319
Building improvements	-	6,235	-	-	6,235
	<u>-</u>	<u>9,893</u>	<u>-</u>	<u>16,661</u>	<u>26,554</u>
Depreciable capital assets, net	<u>-</u>	<u>(9,893)</u>	<u>-</u>	<u>416,715</u>	<u>406,822</u>
Nondepreciable capital assets:					
Land	-	-	-	66,336	66,336
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ (9,893)</u>	<u>\$ -</u>	<u>\$ 483,051</u>	<u>\$ 473,158</u>

Depreciation expense is included in governmental activities general government expenses and business-type activities rental expenses in the government-wide statements of activities and in the proprietary fund financial statements.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 6. Accounts Payable

All accounts payable at September 30, 2017 and 2016, were payable to vendors.

Note 7. Long-Term Debt

Revenue bond payable: On March 7, 2017, the District issued a \$5,000,000 revenue bond with an interest rate of 2.30%. The proceeds of the bond were used to currently refund the District's outstanding 2013 revenue bond with a principal balance of \$4,176,278. The net proceeds of \$807,722 (after payment of \$16,000 bond issuance costs) were deposited into a money market account to provide for future community and economic development projects. As a result, the 2013 revenue bond has been repaid and the liability for the 2013 bond has been removed from the District's long-term debt.

The District's reason for the current refunding of the 2013 revenue bond was to take advantage of lower interest rates and obtain additional proceeds for future community and economic development projects while paying the bond obligation off over the same term. There was no gain or loss on the refunding.

In September 2013, the District previously issued the \$5,000,000 revenue bond with a fixed interest rate of 3.25%. The bond was issued to finance the City of Montevallo's portion of the costs of acquisition and construction of certain capital improvements within the City. Principal and interest was paid monthly and the bond was due on September 27, 2030. The current refunding bond issued on March 7, 2017 has a fixed interest rate of 2.30% with principal and interest payments due monthly through September 27, 2030. The balance of these bonds at September 30, 2017 and 2016, was \$4,812,743 and \$4,277,420, respectively, and is included on the accompanying statements of net position.

The bond is to be repaid solely by the City of Montevallo's assignment of, and is secured by a pledge of, 90% of the revenues from a one-cent increase in the sales and use tax levied by the City of Montevallo. The City acknowledges that the proceeds of the dedicated tax are being pledged to secure the bond and covenants and agrees that so long as the bond is outstanding it shall not modify or rescind the sales tax ordinance or reduce the percentage of the dedicated tax hereby assigned and pledged to the District. The bond is not a general obligation of the District.

The District refunded the 2013 revenue bond to reduce its total debt service payments applicable to the refunding over the remaining term of the bond obligation by \$341,627 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new bond obligation) of \$293,364.

As of September 30, 2017, the scheduled debt service requirements on long-term debt were as follows:

	Principal	Interest	Total
2018	\$ 321,344	\$ 107,320	\$ 428,664
2019	328,814	99,850	428,664
2020	336,456	92,208	428,664
2021	344,277	84,387	428,664
2022	352,279	76,385	428,664
2023-2027	1,888,096	255,221	2,143,317
2028-2030	1,241,477	44,514	1,285,991
Total	<u>\$ 4,812,743</u>	<u>\$ 759,885</u>	<u>\$ 5,572,628</u>

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 8. Community and Economic Development Expenditures

Community and economic development expenditures accounted for in the capital projects fund include capital improvements to member properties, which are accounted for on each member's respective financial statements. These expenditures for the years ended September 30, 2017 and 2016 were for the benefit of the members as follows:

	2017	2016
University of Montevallo	\$ 26,900	\$ -
Shelby County, Alabama	-	63,142
City of Montevallo	304,687	67,182
	<u>\$ 331,587</u>	<u>\$ 130,324</u>

Note 9. Lease Agreements

The University leases a building from the District for classrooms and administrative offices under a lease agreement with an initial one-year term that automatically renews for successive one-year terms through August 2033. Rent received by the District under this lease is \$1 annually.

During fiscal year 2016, the District entered into an agreement to lease a District-owned building to the Main Street Tavern restaurant, which expires in December 2020. The lease agreement includes scheduled rent increases over the five-year term of the lease. Rent recognized by the District under this lease during the years ended September 30, 2017 and 2016 was \$26,772 and \$20,080, respectively, and has been recognized as revenue on a straight-line basis over the lease term in the accompanying statements of activities and statements of revenue, expenses, and changes in fund net position—proprietary fund. Future minimum rental receipts under the lease agreement for the years ended September 30 are as follows:

2018	\$ 29,427
2019	30,004
2020	31,735
2021	8,078

Note 10. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settlement amounts, if any, have not exceeded insurance coverage for the years ended September 30, 2017 and 2016.