

The Montevallo Development Cooperative District

Financial Report
September 30, 2018

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RSM US LLP

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, 2018 and 2017, 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, 2018 and 2017, 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 12 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.

RSM US LLP

Birmingham, Alabama
November 29, 2018

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2018

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 \$25,576 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 \$714,793, which is an increase of \$150,130 from last year, when expenses were \$564,663.
- Government-wide program revenues were \$726,973, which is an increase of \$110,942 from last year, when program revenues were \$616,031.
- 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, which represents the September tax revenue receivable pledged for debt service.
- The capital projects fund reported a fund balance this year of \$1,219,414 compared to \$1,592,944 last year. The decrease is the net effect of increased project expenditures and cash balances.
- 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 2018 is \$560,976, which increased from \$501,225 in 2017, due to \$26,797 in rental and other revenue and \$45,585 in a capital asset contribution from other funds, less \$12,631 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, 2018

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, 2018, there is \$35,722 in restricted net position for debt service. The District's assets were \$4,552,045, liabilities were \$4,927,226, and net position (deficit) was (\$375,181).

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, 2018, the District recognized an increase in net position of \$25,576.

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, 2018 the major governmental fund balance was (\$8,203) for General Fund; \$35,722 for Debt Service Fund; and \$1,219,414 for Capital Projects Fund. The total major governmental fund balance for September 30, 2018 totaled \$1,246,933.

Financial Analysis of the District

The assets of the District were less than its liabilities at September 30, 2018, by \$375,181. Total assets of the District were \$4,552,045, while total liabilities were \$4,927,226. The District's net position consists of \$508,293 invested in capital assets, net of related debt; \$35,722 in restricted for debt service; and unrestricted net deficit was \$919,196.

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.

Total assets at September 30, 2018, increased by \$125,953, primarily as the net result of the increase in restricted cash due to business-type cash receipts and increase in net capital assets.

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.

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2018

Financial Highlights

Condensed financial statements for the District as of and for the years ended September 30, 2018, September 30, 2017, and September 30, 2016 are as follows:

Condensed Statement of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current	\$ 1,079,759	\$ 522,121	\$ 478,292
Noncurrent:			
Restricted cash	668,978	1,151,628	531,892
Capital assets	<u>2,803,308</u>	<u>2,752,343</u>	<u>2,824,200</u>
Total assets	<u>4,552,045</u>	<u>4,426,092</u>	<u>3,834,384</u>
Liabilities			
Current	764,640	335,450	259,338
Noncurrent	<u>4,162,586</u>	<u>4,491,399</u>	<u>4,031,471</u>
Total liabilities	4,927,226	4,826,849	4,290,809
Net Position			
Invested in capital assets, net of related debt	508,293	293,127	207,378
Restricted for debt service	35,722	35,722	31,932
Unrestricted	<u>(919,196)</u>	<u>(729,606)</u>	<u>(695,735)</u>
Total net position	<u>\$ (375,181)</u>	<u>\$ (400,757)</u>	<u>\$ (456,425)</u>

For the year ended September 30, 2018, program revenues of \$700,201 came from the contributions of the members. Business type revenues of \$26,772 came from rental revenues and other general revenues of \$13,396 came from interest revenue.

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.

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 \$190,947 and \$221,963 for the years ended September 30, 2018 and 2017, respectively. Expenses associated with economic development expenditures were \$511,215 and \$331,587 for the years ended September 30, 2018 and 2017, respectively. Expenses associated with the business type activity totaled \$12,631 and \$11,113 for September 30, 2018 and 2017, respectively. At September 30, 2018, the District recognized an increase in the economic development expenditures of \$179,628 from September 30, 2017 due to increased funding for ALDOT Montevallo Main Street project, Bicentennial Park and Owl's Cove Park projects. Total expenses for the fiscal years ended 2018 and 2017 were \$714,793 and \$564,663, respectively.

The Montevallo Development Cooperative District

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2018**

Condensed Statement of Activities

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Program revenues	\$ 700,201	\$ 589,259	\$ 630,988
General revenues	13,396	4,300	1,790
Business-type revenues	<u>26,772</u>	<u>26,772</u>	<u>20,080</u>
Total revenues	<u>740,369</u>	<u>620,331</u>	<u>652,858</u>
Program expenses by function:			
General government	190,947	221,963	248,189
Community and economic development	511,215	331,587	130,324
Business type	<u>12,631</u>	<u>11,113</u>	<u>17,911</u>
Total expenses	<u>714,793</u>	<u>564,663</u>	<u>396,424</u>
	25,576	55,668	256,434
Net Position			
Beginning of year	<u>(400,757)</u>	<u>(456,425)</u>	<u>(712,859)</u>
End of year	<u>\$ (375,181)</u>	<u>\$ (400,757)</u>	<u>\$ (456,425)</u>

District total revenues for the year ended September 30, 2018, totaled \$740,369 compared to \$620,331 for the year ended September 30, 2017. This was a 19%, increase in revenues. The increase in revenues is primarily due to increased member contributions required in fiscal year 2018.

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.

Total program expenses increased \$150,130, or 27%, from \$564,663 for the year ended September 30, 2017, to \$714,793 for the year ended September 30, 2018. This increase is due primarily to the ongoing community and economic development project support for the ALDOT Montevallo Main Street, Bicentennial Park and Owl's Cove Park projects during fiscal year 2018.

Total program expenses decreased \$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 decrease is due primarily to the ongoing community and economic development project support for ALDOT Montevallo Main Street and Owl's Cove Park projects during fiscal year 2017.

As a result of revenues over expenses, the District's total net position as of September 30, 2018, increased by \$25,576.

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

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2018

Condensed Balance Sheet – Governmental Funds
September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total assets	\$ 19,642	\$ 35,722	\$ 1,647,221	\$ 1,702,585
Total liabilities	27,845	-	427,807	455,652
Total fund balances	(8,203)	35,722	1,219,414	1,246,933
Total liabilities and fund balances	\$ 19,642	\$ 35,722	\$ 1,647,221	\$ 1,702,585

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

Total general fund assets at September 30, 2018 decreased by \$2,267, primarily as the result of the net decrease in liabilities to pay general government expenditures.

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.

The Montevallo Development Cooperative District

**Management’s Discussion and Analysis (Unaudited)
Year Ended September 30, 2018**

Total general fund liabilities at September 30, 2018 decreased by \$2,267, primarily as the result of timing of payment of general government expenditures.

Total general fund liabilities at September 30, 2017 increased by \$11,711, 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, 2018, compared to \$8,203 and \$8,203 as of September 30, 2017 and 2016, respectively. General government expenditures related to administration equaled general contribution revenue for the periods ended September 30, 2018 and 2017.

The debt service fund assets and fund balances remained at \$35,722 at September 30, 2018, compared to September 30, 2017. The balance of \$35,722 is the receivable for September 2018 tax revenue contributions from the City, which are pledged for debt service.

Total capital projects fund assets at September 30, 2018 increased by \$48,191 primarily as the result of increased cash from the member contributions.

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 liabilities at September 30, 2018 increased by \$421,721 primarily as the result of timing of payment for community and economic development project expenditures.

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.

The capital projects fund balance reported a balance of \$1,219,414 as of September 30, 2018 compared to \$1,592,944 as of September 30, 2017. The decrease of \$373,530 is mainly due to the increase in accounts payable restricted for capital assets.

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.

**Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds September 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Total revenues	\$ 20,863	\$ 428,664	\$ 264,045	\$ 713,572
Total expenditures	<u>20,863</u>	<u>428,664</u>	<u>637,575</u>	<u>1,087,102</u>
Net change in fund balances	-	-	(373,530)	(373,530)
Fund balances				
Beginning of year	<u>(8,203)</u>	<u>35,722</u>	<u>1,592,944</u>	<u>1,620,463</u>
End of year	<u>\$ (8,203)</u>	<u>\$ 35,722</u>	<u>\$ 1,219,414</u>	<u>\$ 1,246,933</u>

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2018

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	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	<u>\$ (8,203)</u>	<u>\$ 35,722</u>	<u>\$ 1,592,944</u>	<u>\$ 1,620,463</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	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	<u>\$ (8,203)</u>	<u>\$ 31,932</u>	<u>\$ 961,004</u>	<u>\$ 984,733</u>

Capital Assets

Capital assets include land, infrastructure, buildings and improvements, equipment, and construction in progress. As of September 30, 2018, 2017, and 2016, capital assets, net of accumulated depreciation, totaled \$2,803,308, \$2,752,343, and \$2,824,200, respectively. Capital additions for the years ended September 30, 2018, 2017, and 2016, totaled \$126,360, \$0, and \$95,423, respectively. Depreciation expense for the years ended September 30, 2018, 2017, and 2016, totaled \$75,395, \$71,857, and \$71,856, respectively.

Completed Projects

The Owl's Cove Park is a small urban oasis along Main Street Montevallo encouraging social interactions through activities of cultural events, lunch breaks, passive recreation, learning spaces, and impromptu meetings. The Owl's Cove Park project was completed in fiscal year 2018 with a total cost of \$81,371 funded by the City of Montevallo, University of Montevallo, private individuals and a grant from the CFFGB (Community Foundation of Greater Birmingham).

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2018

The Bicentennial Park is a small "pocket park" on the corner of North Boundary Street, outside the Main Street Tavern. The park was completed in fiscal year 2018 and includes a bicentennial clock that cradles a stainless steel time capsule inside a brick cube to be sealed until 2118. The total cost of the Bicentennial Park was \$45,585 and was funded by the City of Montevallo, a State Bicentennial grant, and private donations raised by the Bicentennial Committee.

Ongoing Projects and Future Projects

The Main Street Renovation and Paving Project Phase II incurred total costs of \$557,303 in fiscal years 2017 & 2018. Remaining funding of \$131,045 will be used for expected completion of this project in fiscal year 2019. This project has renovated 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 and the City of Montevallo transferred an additional \$30,000 in funding in fiscal year 2018.

Future projects on the horizon include Highway 25 crosswalk at Main Street and Lucky's, paving phase III, Highway 10 crosswalk improvements (in conjunction with improvements on University land near Shelby St. and Middle St.), Center for the Arts at the University in conjunction with a jobs certification program, wayfinding signage, and Shoal Creek Park bridge.

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 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, 2018, 2017, and 2016, revenue bond payable totaled \$4,491,399, \$4,812,743, and \$4,277,420, respectively. During the years ended September 30, 2018, 2017, and 2016, total principal payments on the revenue bond payable were \$321,344, \$288,399 and \$236,488, respectively.

The Montevallo Development Cooperative District

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2018**

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 FY2018, FY2017 and FY2016 is as follows:

	<u>University</u>	<u>County</u>	<u>City</u>	<u>Total</u>
<u>Fiscal Year 2018</u>				
Revenues	\$ 6,211	\$ 6,211	\$ 687,779	\$ 700,201
Expenses	(29,530)	(37,708)	(634,924)	(702,162)
Non-operating	4,714	4,714	18,109	27,537
Change in net position	<u>(18,605)</u>	<u>(26,783)</u>	<u>70,964</u>	<u>25,576</u>
Net position, beginning of year	<u>1,135,743</u>	<u>1,342,462</u>	<u>(2,878,962)</u>	<u>(400,757)</u>
Net position, end of year	<u><u>\$ 1,117,138</u></u>	<u><u>\$ 1,315,679</u></u>	<u><u>\$ (2,807,998)</u></u>	<u><u>\$ (375,181)</u></u>
<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	5,332	5,332	9,295	19,959
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	723	723	2,513	3,959
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>

The Montevallo Development Cooperative District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2018

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 Mary Ellen Heuton, UM Board Director, University of Montevallo, Station 6010, Montevallo, Alabama 35115, or you may email to mheuton@montevallo.edu.

The Montevallo Development Cooperative District

Statement of Net Position
September 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash	\$ 500,529	\$ 64,420	\$ 564,949
Restricted cash	427,807	-	427,807
Contributions receivable	12,422	-	12,422
Accounts receivable	49,764	-	49,764
Accrued rental income	-	9,577	9,577
Due from enterprise fund	8,020	-	8,020
Prepaid items	7,220	-	7,220
Total current assets	1,005,762	73,997	1,079,759
Restricted cash	668,978	-	668,978
Noncurrent assets:			
Capital assets:			
Depreciable capital assets, net	2,109,292	428,663	2,537,955
Non-depreciable capital assets	199,017	66,336	265,353
Total noncurrent assets	2,308,309	494,999	2,803,308
Total assets	3,983,049	568,996	4,552,045
Liabilities and Net Position (Deficit)			
Current liabilities:			
Accounts payable, capital projects	427,807	-	427,807
Due to capital projects fund	-	8,020	8,020
Current portion of revenue bond payable	328,813	-	328,813
Total current liabilities	756,620	8,020	764,640
Noncurrent liabilities:			
Revenue bond payable, less current portion	4,162,586	-	4,162,586
Total noncurrent liabilities	4,162,586	-	4,162,586
Total liabilities	4,919,206	8,020	4,927,226
Net position (deficit):			
Net investment in capital assets	388,218	494,999	508,293
Restricted for debt service	35,722	-	35,722
Unrestricted (deficit)	(1,360,097)	65,977	(919,196)
Total net position (deficit)	\$ (936,157)	\$ 560,976	\$ (375,181)

See notes to financial statements.

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
Restricted cash	6,086	-	6,086
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	474,921	47,200	522,121
Restricted cash	1,151,628	-	1,151,628
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 Activities
Year Ended September 30, 2018

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	\$ 190,947	\$ -	\$ 124,000	\$ (66,947)	\$ -	\$ (66,947)
Community and economic development	511,215	-	576,201	64,986	-	64,986
Total governmental activities	702,162	-	700,201	(1,961)	-	(1,961)
Business-type activities:						
Rental	12,631	26,772	-	-	14,141	14,141
Total business-type activities	12,631	26,772	-	-	14,141	14,141
Total primary government	\$ 714,793	\$ 26,772	\$ 700,201	(1,961)	14,141	12,180
General revenue:						
Interest revenue				13,371	25	13,396
Transfers				(45,585)	45,585	-
Total general revenue and transfers				(32,214)	45,610	13,396
Change in net position				(34,175)	59,751	25,576
Net position (deficit):						
Beginning of year				(901,982)	501,225	(400,757)
End of year				\$ (936,157)	\$ 560,976	\$ (375,181)

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		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
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

Balance Sheet – Governmental Funds
September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash	\$ -	\$ -	\$ 500,529	\$ 500,529
Restricted cash	-	-	1,096,785	1,096,785
Contributions receivable	12,422	-	-	12,422
Accounts receivable	-	35,722	14,042	49,764
Due from other funds	-	-	35,865	35,865
Prepaid expenses	7,220	-	-	7,220
Total assets	\$ 19,642	\$ 35,722	\$ 1,647,221	\$ 1,702,585
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 427,807	\$ 427,807
Due to capital projects fund	27,845	-	-	27,845
Total liabilities	27,845	-	427,807	455,652
Fund balances:				
Restricted for debt service	-	35,722	-	35,722
Restricted for capital projects	-	-	668,978	668,978
Committed to capital projects	-	-	550,436	550,436
Unassigned (deficit)	(8,203)	-	-	(8,203)
Total fund balances	(8,203)	35,722	1,219,414	1,246,933
Total liabilities and fund balances	\$ 19,642	\$ 35,722	\$ 1,647,221	\$ 1,702,585

(Continued)

The Montevallo Development Cooperative District

Balance Sheet – Governmental Funds (Continued)
September 30, 2018

Fund balances – total governmental funds	\$ 1,246,933
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,308,309
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,491,399)</u>
Net position of governmental activities	<u><u>\$ (936,157)</u></u>

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
Restricted for capital projects	-	-	1,151,628	1,151,628
Committed to capital projects	-	-	441,316	441,316
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 position 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

Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenue:				
General contribution – Shelby County	\$ 6,211	\$ -	\$ -	\$ 6,211
General contribution – University of Montevallo	6,211	-	-	6,211
Interest	8,441	-	4,930	13,371
Tax revenue contribution – City of Montevallo	-	428,664	147,537	576,201
Capital projects contributions – City of Montevallo	-	-	51,578	51,578
Capital projects contributions – others	-	-	60,000	60,000
Total revenue	20,863	428,664	264,045	713,572
Expenditures:				
Current expenditures:				
General government	20,863	-	-	20,863
Community and economic development	-	-	511,215	511,215
Debt service:				
Principal	-	321,344	-	321,344
Interest and fees	-	107,320	-	107,320
Capital outlays	-	-	126,360	126,360
Total expenditures	20,863	428,664	637,575	1,087,102
Net change in fund balances	-	-	(373,530)	(373,530)
Fund balances:				
Beginning of year	(8,203)	35,722	1,592,944	1,620,463
End of year	\$ (8,203)	\$ 35,722	\$ 1,219,414	\$ 1,246,933

(Continued)

The Montevallo Development Cooperative District

**Statement of Revenue, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended September 30, 2018**

Net change in fund balances – total governmental funds	\$	(373,530)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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 capital outlays exceeded transfers out of capital assets and depreciation expense in the current year.</p>		
Transfers out of capital assets	(45,585)	
Depreciation expense	(62,764)	
Capital outlays	126,360	18,011
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		321,344
Change in net position of governmental activities	\$	(34,175)

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	-	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 of refunding bonds, net	(823,722)
Principal payments on revenue bond payable	288,399

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

The Montevallo Development Cooperative District

Statements of Net Position
 Proprietary Fund
 September 30, 2018 and 2017

Assets	Enterprise Fund	
	2018	2017
Current assets:		
Cash	\$ 64,420	\$ 34,968
Accrued rental income	9,577	12,232
Total current assets	73,997	47,200
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net	428,663	395,709
Non-depreciable capital assets	66,336	66,336
Total noncurrent assets	494,999	462,045
Total assets	568,996	509,245
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	560,976	501,225
Total net position	\$ 560,976	\$ 501,225

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, 2018 and 2017

	Enterprise Fund	
	2018	2017
Operating revenue:		
Rental revenue	\$ 26,772	\$ 26,772
Other income	-	336
Total operating revenue	26,772	27,108
Operating expenses:		
Depreciation	12,631	11,113
Total operating expenses	12,631	11,113
Operating income	14,141	15,995
Nonoperating revenue:		
Interest	25	10
Income before capital assets contribution	14,166	16,005
Capital assets contribution from other funds	45,585	-
Increase in net position	59,751	16,005
Net position:		
Beginning of year	501,225	485,220
End of year	\$ 560,976	\$ 501,225

See notes to financial statements.

The Montevallo Development Cooperative District

Statements of Cash Flows

Proprietary Fund

Years Ended September 30, 2018 and 2017

	Enterprise Fund	
	2018	2017
Cash flows from operating activities:		
Rental receipts	\$ 29,427	\$ 27,696
Other income	-	336
	29,427	28,032
Cash flows from investing activities:		
Interest	25	10
	25	10
	29,452	28,042
Cash:		
Beginning of year	34,968	6,926
End of year	\$ 64,420	\$ 34,968
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 14,141	\$ 15,995
Depreciation	12,631	11,113
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accrued rental income	2,655	924
	\$ 29,427	\$ 28,032
Noncash capital activity		
Capital assets contribution from other funds	\$ 45,585	\$ -

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) Districts for which the primary government is financially accountable and (3) other Districts 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 considered 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 balance sheet. 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 fund totals of the governmental funds statements include a reconciliation with brief explanations to better identify the relationship between the statements of governmental funds and the government-wide statements.

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 and claims and judgements 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, 2018 and 2017. Cash as of September 30, 2018 and 2017, was deposited with financial institutions.

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 \$1,096,785 and \$1,157,714 as of September 30, 2018 and 2017, respectively.

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, 2018 and 2017, are qualified public depositories.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Contributions and accounts receivable: Accounts receivable and 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, 2018 and 2017, the District considers all such receivables to be fully collectible.

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, 2018 and 2017, accrued rental income was \$9,577 and \$12,232, respectively.

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

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
Land improvements	10

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 governmental activities portion of 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. All members can make general contributions. 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, 2018 and 2017, were \$640,201 and \$589,259, respectively.

Transfers: The District engaged in business-type activities during the years ended September 30, 2018 and 2017 with the rental of property for restaurant operations. During the year ended September 30, 2018, \$45,585 in capital outlays related to enterprise fund land improvements were transferred from the general capital assets to the enterprise fund.

Budgetary comparison information: Budgetary comparison information for the general fund normally required by GAAP to be presented to supplement the basic financial statements has not been included because the District is not legally required to include such information.

Reclassifications: Certain reclassifications have been made in the previously reported financial statements to make prior year classifications comparable to those of the current year. Such reclassifications had no effect on previously reported change in net position.

Pending GASB standards: GASB Statement No. 87, *Leases*, is effective for the District beginning with its year ending September 30, 2021. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

Subsequent events: Subsequent events have been evaluated through November 29, 2018, which is the date the financial statements were available for issuance.

The Montevallo Development Cooperative District

Notes to Financial Statements

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, 2018 and 2017, are as follows:

	2018	2017
Revenue bond payable	\$ 4,491,399	\$ 4,812,743

Note 3. Contributions Receivable

Contributions receivable consist of the following at September 30:

	2018	2017
University of Montevallo	\$ 6,211	\$ 33,098
Shelby County, Alabama	6,211	6,198
City of Montevallo, Alabama	-	2,293
	\$ 12,422	\$ 41,589

Note 4. Accounts Receivable

Accounts receivable consist of the following at September 30:

	2018	2017
City of Montevallo, Alabama	\$ 49,764	\$ 47,984

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 5. Capital Assets

Capital asset activity consists of the following at September 30:

	2018				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
Governmental activities:					
Depreciable capital assets:					
Buildings	\$ 640,792	\$ -	\$ -	\$ -	\$ 640,792
Building improvements	1,719,357	-	-	-	1,719,357
Land improvements	-	126,360	-	(45,585)	80,775
	<u>2,360,149</u>	<u>126,360</u>	<u>-</u>	<u>(45,585)</u>	<u>2,440,924</u>
Accumulated depreciation:					
Buildings	88,844	16,658	-	-	105,502
Building improvements	180,024	44,087	-	-	224,111
Land improvements	-	2,019	-	-	2,019
	<u>268,868</u>	<u>62,764</u>	<u>-</u>	<u>-</u>	<u>331,632</u>
Depreciable capital assets, net	<u>2,091,281</u>	<u>63,596</u>	<u>-</u>	<u>(45,585)</u>	<u>2,109,292</u>
Nondepreciable capital assets:					
Land	199,017	-	-	-	199,017
Governmental activities capital assets, net	<u>\$ 2,290,298</u>	<u>\$ 63,596</u>	<u>\$ -</u>	<u>\$ (45,585)</u>	<u>\$ 2,308,309</u>

	2018				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
Business-type activities:					
Depreciable capital assets:					
Buildings	\$ 190,184	\$ -	\$ -	\$ -	\$ 190,184
Building improvements	243,192	-	-	-	243,192
Land improvements	-	-	-	45,585	45,585
	<u>433,376</u>	<u>-</u>	<u>-</u>	<u>45,585</u>	<u>478,961</u>
Accumulated depreciation:					
Buildings	25,196	4,876	-	-	30,072
Building improvements	12,471	6,236	-	-	18,707
Land improvements	-	1,519	-	-	1,519
	<u>37,667</u>	<u>12,631</u>	<u>-</u>	<u>-</u>	<u>50,298</u>
Depreciable capital assets, net	<u>395,709</u>	<u>(12,631)</u>	<u>-</u>	<u>45,585</u>	<u>428,663</u>
Nondepreciable capital assets:					
Land	66,336	-	-	-	66,336
Business-type activities capital assets, net	<u>\$ 462,045</u>	<u>\$ (12,631)</u>	<u>\$ -</u>	<u>\$ 45,585</u>	<u>\$ 494,999</u>

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 5. Capital Assets (Continued)

	2017				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
Governmental activities:					
Depreciable capital assets:					
Buildings	\$ 640,792	\$ -	\$ -	\$ -	\$ 640,792
Building improvements	1,719,357	-	-	-	1,719,357
	<u>2,360,149</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,360,149</u>
Accumulated depreciation:					
Buildings	72,186	16,658	-	-	88,844
Building improvements	135,938	44,086	-	-	180,024
	<u>208,124</u>	<u>60,744</u>	<u>-</u>	<u>-</u>	<u>268,868</u>
Depreciable capital assets, net	<u>2,152,025</u>	<u>(60,744)</u>	<u>-</u>	<u>-</u>	<u>2,091,281</u>
Nondepreciable capital assets:					
Land	199,017	-	-	-	199,017
Governmental activities capital assets, net	<u>\$ 2,351,042</u>	<u>\$ (60,744)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,290,298</u>

	2017				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
Business-type activities:					
Depreciable capital assets:					
Buildings	\$ 190,184	\$ -	\$ -	\$ -	\$ 190,184
Building improvements	243,192	-	-	-	243,192
	<u>433,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>433,376</u>
Accumulated depreciation:					
Buildings	20,319	4,877	-	-	25,196
Building improvements	6,235	6,236	-	-	12,471
	<u>26,554</u>	<u>11,113</u>	<u>-</u>	<u>-</u>	<u>37,667</u>
Depreciable capital assets, net	<u>406,822</u>	<u>(11,113)</u>	<u>-</u>	<u>-</u>	<u>395,709</u>
Nondepreciable capital assets:					
Land	66,336	-	-	-	66,336
Business-type activities capital assets, net	<u>\$ 473,158</u>	<u>\$ (11,113)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462,045</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.

Note 6. Accounts Payable

All accounts payable at September 30, 2018 and 2017, were payable to vendors.

The Montevallo Development Cooperative District

Notes to Financial Statements

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 the refunding bond at September 30, 2018 and 2017, was \$4,491,399 and \$4,812,743, 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, 2018, the scheduled future debt service requirements on long-term debt are as follows:

	Principal	Interest	Total
2019	\$ 328,813	\$ 99,851	\$ 428,664
2020	336,456	92,208	428,664
2021	344,277	84,387	428,664
2022	352,279	76,385	428,664
2023	360,468	68,196	428,664
2024-2028	1,931,982	211,336	2,143,318
2029-2030	837,124	20,203	857,327
Total	\$ 4,491,399	\$ 652,566	\$ 5,143,965

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 8. Net Investment in Capital Assets

GASB requires net investment in capital assets to include only the portion of the remaining bond payable proceeds used to purchase capital assets. Net investment in capital assets is calculated as follows as of September 30, 2018 and 2017:

	Governmental Activities	Business-Type Activities	Total
Cost of capital assets paid with bond proceeds	\$ 2,559,166	\$ 499,712	\$ 3,058,878
Original bond proceeds	5,000,000	5,000,000	5,000,000
Percentage of bond proceeds used to pay for capital assets	51.18%	9.99%	61.18%
2018			
	Governmental Activities	Business-Type Activities	Total
Original bond payable at new terms as of September 30, 2018	\$ 3,751,400	\$ 3,751,400	\$ 3,751,400
Percentage of bond proceeds used to pay for capital assets	51.18%	9.99%	61.18%
Revenue bond payable related to capital assets	1,920,091	374,924	2,295,015
Capital assets, net	2,308,309	494,999	2,803,308
Less revenue bond payable related to capital assets **	(1,920,091)	**	(2,295,015)
Net investment in capital assets	\$ 388,218	\$ 494,999	\$ 508,293
2017			
	Governmental Activities	Business-Type Activities	Total
Original bond payable at new terms as of September 30, 2017	\$ 4,019,800	\$ 4,019,800	\$ 4,019,800
Percentage of bond proceeds used to pay for capital assets	51.18%	9.99%	61.18%
Revenue bond payable related to capital assets	2,057,467	401,748	2,459,216
Capital assets, net	2,290,298	462,045	2,752,343
Less revenue bond payable related to capital assets **	(2,057,467)	**	(2,459,216)
Net investment in capital assets	\$ 232,831	\$ 462,045	\$ 293,127

** Business-type activities included in the proprietary fund do not include the related bond payable, which is included in the total.

The Montevallo Development Cooperative District

Notes to Financial Statements

Note 9. 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, 2018 and 2017 were for the benefit of the members as follows:

	2018	2017
University of Montevallo	\$ -	\$ 26,900
City of Montevallo	511,215	304,687
	<u>\$ 511,215</u>	<u>\$ 331,587</u>

Note 10. 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, 2018 and 2017 was \$26,772, 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:

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

Note 11. 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, 2018 and 2017.