

NORTH CENTRAL MICHIGAN COLLEGE

Notes to Financial Statements

During the year ended June 30, 2013, the College entered into an agreement with the State of Michigan as part of the Capital Outlay program offered by the Michigan State Building Authority (MSBA). The State appropriated approximately \$5,200,000 toward the construction of the College's Health Education and Science Center. The appropriations were funded by the issuance of bonds financed by the MSBA. The MSBA bond issue is secured by a pledge of rentals to be received from the State of Michigan pursuant to a lease agreement among the MSBA, the State of Michigan and the College. During the lease term, which is not to exceed 40 years, the MSBA will hold title to the building, the State of Michigan will make all lease payments to the MSBA and the College will pay all operating and maintenance costs. These lease payments are made out of the State of Michigan general operating budget. The cost and accumulated depreciation for the building is included in the College's capital assets as the College will obtain title to the building at the end of the lease. No corresponding obligations have been recorded since there are no payments due by the College under this lease agreement. At the expiration of the lease, which is when bonds are paid off, the MSBA has agreed to convey the title to the College for one dollar.

6. LONG-TERM OBLIGATIONS

Long-term obligation activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Bonds payable					
Series 2010	\$ 285,000	\$ -	\$ (285,000)	\$ -	\$ -
Series 2017	3,790,000	-	(40,000)	3,750,000	340,000
Other long-term obligations					
Accrued employee benefits payable	155,831	41,447	(25,306)	171,972	17,000
Total long-term obligations	\$ 4,230,831	\$ 41,447	\$ (350,306)	\$ 3,921,972	\$ 357,000

Long-term obligation activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
Bonds payable					
Series 2010	\$ 560,000	\$ -	\$ (275,000)	\$ 285,000	\$ 285,000
Series 2017	3,830,000	-	(40,000)	3,790,000	40,000
Other long-term obligations					
Accrued employee benefits payable	155,831	18,699	(18,699)	155,831	13,000
Total long-term obligations	\$ 4,545,831	\$ 18,699	\$ (333,699)	\$ 4,230,831	\$ 338,000

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Bond Defeasance

In November 2017, the College issued \$3,830,000 of Refunding Bonds, Series 2017 with an interest rate of 2.198 percent, which, in conjunction with a debt service fund contribution, were used to refund \$3,590,000 of outstanding Building and Site and Refunding Bonds, Series 2010. The net proceeds of \$3,785,203 (after payment of \$44,797 in underwriting fees and other issuance costs), plus an additional \$38,000 of prior debt retirement fund monies, were used to purchase U.S. treasury securities which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the College's long-term obligations. At June 30, 2020 no amounts remain in escrow and the defeased bonds have been paid in full. At June 30, 2019, \$3,590,000 of bonds outstanding were considered defeased.

College Building and Site and Refunding Bonds, Series 2017 and 2010

At June 30, 2020, general obligation bonds totaling \$3,750,000 were outstanding with an interest rate of 2.198 percent. Principal payments are due annually in May with payments for the upcoming year of \$340,000. Interest payments are due semiannually in May and November ranging from approximately \$4,500 to \$41,000. These bonds are insured and mature in 2030. The Series 2010 general obligation bonds were paid in full during fiscal year 2020.

Future debt service requirements on bonds payable for years ending after June 30, 2020 are as follows:

Year Ending June 30,	Debt Obligations		
	Principal	Interest	Total
2021	\$ 340,000	\$ 82,425	\$ 422,425
2022	345,000	74,952	419,952
2023	355,000	67,369	422,369
2024	365,000	59,566	424,566
2025	370,000	51,543	421,543
2026-2030	1,975,000	131,990	2,106,990
Totals	\$3,750,000	\$ 467,845	\$4,217,845

Interest expense was \$106,792 and \$118,164 for the years ended June 30, 2020 and 2019, respectively.

7. NET POSITION CLASSIFICATIONS

Net Investment in Capital Assets

This represents capital assets, net of accumulated depreciation, unspent bond proceeds and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position

Nonexpendable - This represents the portion of net position whose use by the College and Foundation is subject to externally imposed constraints that require the amounts be retained in perpetuity.

Expendable - This represents the portion of net position whose use by the College and Foundation is subject to externally imposed constraints that can be fulfilled by actions of the College and Foundation pursuant to those constraints or that expire by the passage of time.