

Southwestern Michigan College

Notes to Financial Statements

June 30, 2020 and 2019

Note 7 - Long-term Obligations

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

	July 1, 2019	Additions	Reductions	June 30, 2020	Current Portion
Bonds Payable					
2009 Community College Build America Bonds	\$ 6,475,000	\$ -	\$ (6,475,000)	\$ -	\$ -
2014 Community College Improvement Bonds	4,800,000	-	(125,000)	4,675,000	125,000
2017 Community College Improvement Bonds	11,760,000	-	(485,000)	11,275,000	480,000
2019 Community College Improvement Bonds	-	5,885,000	(95,000)	5,790,000	195,000
Total bonds payable	23,035,000	5,885,000	(7,180,000)	21,740,000	800,000
Unamortized Bond Premium	116,333	886,000	(41,591)	960,742	48,736
Total long-term obligations	<u>\$ 23,151,333</u>	<u>\$ 6,771,000</u>	<u>\$ (7,221,591)</u>	<u>\$ 22,700,742</u>	<u>\$ 848,736</u>

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

	July 1, 2018	Additions	Reductions	June 30, 2019	Current Portion
Bonds Payable					
2009 Community College Build America Bonds	\$ 6,625,000	\$ -	\$ (150,000)	\$ 6,475,000	\$ 175,000
2014 Community College Improvement Bonds	4,900,000	-	(100,000)	4,800,000	125,000
2017 Community College Improvement Bonds	12,250,000	-	(490,000)	11,760,000	485,000
Total bonds payable	23,775,000	-	(740,000)	23,035,000	785,000
Unamortized Bond Premium	122,197	-	(5,864)	116,333	5,865
Total long-term obligations	<u>\$ 23,897,197</u>	<u>\$ -</u>	<u>\$ (745,864)</u>	<u>\$ 23,151,333</u>	<u>\$ 790,865</u>

Bond principal and interest are payable from the proceeds of ad valorem taxes levied on all taxable properties in the College taxing district without limitation as to rate or amount.

Community College Build America Bonds, 2009 - The College issued \$7,500,000 of 5.25 to 7.25 percent General Obligation - Limited Tax Build America Bonds authorized by Section 1531 of the American Recovery and Revitalization Act of 2009. The College will receive payments from the federal Treasury equal to 35 percent of the total coupon interest paid by the College. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in amounts ranging from \$150,000 to \$500,000 through 2040. Proceeds from this issuance were used for the purpose of paying all or a portion of the cost of purchasing, erecting, and equipping a new student residence hall and developing and improving sites.

In September 2019, the College issued an additional series of bonds for the purpose of advance refunding a portion of the 2009 Community College Build America Bonds that were callable as of May 1, 2020. The refunded bonds, with an outstanding principal balance of \$6,300,000, were originally maturing from 2021 through 2040. The College used the proceeds of the new bond issue to establish an escrow fund that was used to pay the principal and interest of the 2009 Community College Build America Bonds when the bonds were called on May 1, 2020.

Note 7 - Long-term Obligations (Continued)

Community College Improvement Bonds, 2014 - The College issued \$5,000,000 of 3.00 to 3.75 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in amounts ranging from \$100,000 to \$375,000 beginning 2018 through 2039. Proceeds from this issuance were used for the purpose of paying a portion of the cost of renovating and re-equipping two existing college classroom buildings.

Community College Improvement Bonds, 2017 - The College issued \$12,250,000 of 2.00 to 4.00 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in amounts ranging from \$490,000 to \$780,000 beginning 2019 through 2039. Proceeds from this issuance were for the purpose of advance refunding a portion of the 2008 Community College Improvement Bonds. The bonds were sold at a premium of \$130,018. The bond refunding resulted in a capitalized loss on defeasance of \$603,240. The capital loss is being amortized and recognized at \$27,214 for the years ended June 30, 2020 and 2019, respectively. The refunding resulted in a total reduction of future debt service of \$1,990,561, with a net present value reduction of \$1,412,805.

Community College Improvement Bonds, 2019 - The College issued \$5,885,000 of 4.00 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in amounts ranging from \$95,000 to \$435,000 beginning 2020 through 2040. Proceeds from this issuance were for the purpose of advance refunding a portion of the 2009 Community College Build America Bonds. The bonds were sold at a premium of \$886,000. The bond refunding resulted in a capitalized loss on defeasance of \$260,911. The capital loss is being amortized and recognized at \$10,520 for the year ended June 30, 2020. The refunding resulted in a total reduction of future debt service of \$1,441,701, with a net present value reduction of \$1,176,747.

Total principal and interest maturities on the debt obligations as of June 30, 2020 are as follows:

Years Ending June 30	Debt Obligations		
	Principal	Interest	Total
2021	\$ 800,000	\$ 811,200	\$ 1,611,200
2022	875,000	780,450	1,655,450
2023	870,000	746,950	1,616,950
2024	910,000	713,650	1,623,650
2025	955,000	679,000	1,634,000
2026-2030	5,235,000	2,837,687	8,072,687
2031-2035	5,895,000	1,852,113	7,747,113
2036-2040	6,200,000	650,250	6,850,250
Total	\$ 21,740,000	\$ 9,071,300	\$ 30,811,300

For the years ended June 30, 2020 and 2019, interest charged was \$842,622 and \$1,090,551, respectively. In addition, there was a Build America Bonds subsidy of \$51,519 and \$151,274 received during the years ended June 30, 2020 and 2019, resulting in a net expense of \$791,103 and \$939,277, respectively.