

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2014, the District has notes payable outstanding of \$400,000 (Note 2013 B-1) and \$700,000 (Note 2013 B-2, B-3). The notes bear interest rates between 0.43% and 1.378%, and mature July 21, 2014 and August 20, 2014, respectively. Note 2013 B-1 required payments to an irrevocable set-aside account of \$343,985 at June 30, 2014. At year end the balance of these payments are considered defeased debt and are not included in the year-end balance. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
\$ 755,771	\$ 1,100,000	\$ 1,099,756	\$ 756,015

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	General obligation bonds (including deferred charges and discounts)	School loan revolving fund	Van Loan	Compensated absences	Total
Balance July 1, 2013	\$ 10,812,187	\$ 92,137	\$ -	\$ 54,797	\$ 10,959,121
Additions	3,875,850	-	29,418	6,565	3,911,833
Deletions	(1,460,306)	-	-	-	(1,460,306)
Balance June 30, 2014	13,227,731	92,137	29,418	61,362	13,410,648
Due within one year	(665,000)	-	(4,903)	(12,272)	(682,175)
Due in more than one year	\$ 12,562,731	\$ 92,137	\$ 24,515	\$ 49,090	\$ 12,728,473

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NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2014 is comprised of the following:

2005 refunding bonds due in annual installments of \$30,000 to \$830,000 through May 1, 2028 with interest from 3.75% to 4.25%.	\$ 8,265,000
2008 serial bonds due in annual installments of \$75,000 to \$100,000 through May 1, 2028 with interest from 3.00% to 4.50%.	1,125,000
2013 serial bonds due in annual installments of \$800,000 to \$250,000 through May 1, 2033 with interest from 3.00% to 4.50%.	2,960,000
2013 refunding bonds due in annual installments of \$455,000 to \$500,000 through May 1, 2016 with interest at 3.00%.	955,000
Less: issuance discounts	<u>(77,269)</u>
Total bonded debt and other long-term obligations	13,227,731
Borrowings from the State of Michigan under the School Loan Revolving Fund. Interest at June 30, 2014 was 3.52%.	92,137
2013 van loan due in annual installments of \$5,038 to \$5,712 through October 22, 2019 with interest of 2.75%.	29,418
Compensated absences	<u>61,362</u>
Total general long-term debt	<u><u>\$ 13,410,648</u></u>

Interest expense (all funds) for the year ended June 30, 2014 was approximately \$537,000.

Borrowing from the State of Michigan - The school loan revolving fund payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates of 3.52% for the School Loan Revolving Fund notes have been assessed for the year ended June 30, 2014. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.00 mills. The school district is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. The District currently levies 7.00 debt mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the following amortization schedule.

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NOTE 6 - LONG-TERM DEBT (Concluded)

On December 2, 2013, the District issued general obligation bonds of \$3,915,000 with interest rates ranging from 3.00% to 4.50%. Of the \$3,915,000 bonds issued, \$955,000 was used to advance refund the remaining portion of the District's outstanding 2002 bonds with an interest rate of 3.25% to 5.25%. The bonds mature at various times through May 1, 2033. The general obligation bonds were issued at a discount after paying issuance costs of \$57,849, the net proceeds were \$3,875,850. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$11,897, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$11,109.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2014, \$9,185,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term debt outstanding as of June 30, 2014, including interest of \$4,885,841 are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 669,903	\$ 527,117	\$ 1,197,020
2016	694,903	505,596	1,200,499
2017	719,903	483,673	1,203,576
2018	744,903	455,938	1,200,841
2019	769,903	427,204	1,197,107
2020 - 2024	4,334,903	1,664,851	5,999,754
2025 - 2029	4,425,000	707,758	5,132,758
2030 - 2033	975,000	108,352	1,083,352
	<u>13,334,418</u>	<u>4,880,489</u>	<u>18,214,907</u>
Issuance discounts	(77,269)	-	(77,269)
School Loan Revolving Fund	92,137	5,352	97,489
Compensated absences	61,362	-	61,362
	<u>\$ 13,410,648</u>	<u>\$ 4,885,841</u>	<u>\$ 18,296,489</u>

At June 30, 2014, fund balance of \$144,027 is available in the debt service funds to service the general obligation debt.