

MI Connection Communications System (A North Carolina Interlocal Agency)

**Financial Statements and
Supplementary Information**

Year Ended June 30, 2020

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Independent Auditors' Report

Board of Directors
MI Connection Communications System
 Mooresville, North Carolina

We have audited the accompanying financial statements of MI Connection Communications System ("MI Connection"), a North Carolina Interlocal Agency, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise MI Connection'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit 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 auditors' 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 financial statement 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 opinion.

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of MI Connection as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 3 through 6, and the Local Government Employees' Retirement System's Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 20 and 21, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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 audit 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The budgetary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
November 5, 2020**

Management's Discussion and Analysis

As management of MI Connection Communications System ("MI Connection"), we offer readers of MI Connection's financial statements this narrative overview and analysis of the financial activities of MI Connection for the year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in MI Connection's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of MI Connection were less than its liabilities and deferred inflows of resources at the close of the fiscal year by \$601,955.
- The government's total net position (deficit) decreased by \$6,837,097.
- MI Connection's total installment financing contract debt was paid in full during the year as a result of the asset purchase agreement dated December 31, 2019.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MI Connection's basic financial statements. MI Connection's basic financial statements consist of two components: (1) the financial statements of MI Connection's only fund and (2) the notes to financial statements.

Basic Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MI Connection, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes. MI Connection has only one fund, a proprietary fund which is also an *Enterprise Fund*. *Enterprise Funds* are used to report business-type activities. MI Connection uses its only fund to account for its cable system operations.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to financial statements explain in detail some of the data contained in those statements.

**MI Connection Communications System
Management's Discussion and Analysis (Continued)**

**MI Connection's Net Position (Deficit)
As of June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 1,787,035	\$ 4,876,026
Capital assets	<u>-</u>	<u>29,903,927</u>
Total assets	<u>1,787,035</u>	<u>34,779,953</u>
Deferred outflows of resources	<u>781,426</u>	<u>22,269,517</u>
Current liabilities	1,539,238	6,878,683
Long-term liabilities outstanding	<u>1,601,685</u>	<u>57,563,853</u>
Total liabilities	<u>3,140,923</u>	<u>64,442,536</u>
Deferred inflows of resources	<u>29,493</u>	<u>45,986</u>
Net position (deficit)		
Invested in property, plant and equipment	-	4,625,077
Unrestricted net assets (deficit)	<u>(601,955)</u>	<u>(12,064,129)</u>
Total net position (deficit)	<u>\$ (601,955)</u>	<u>\$ (7,439,052)</u>

Net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of MI Connection were less than its liabilities and deferred inflows of resources by \$601,955 as of June 30, 2020. MI Connection's net position (deficit) decreased for the fiscal year ending June 30, 2020 by \$6,837,097.

**MI Connection Changes in Net Assets
For the Fiscal Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues:		
Charges for services	<u>\$ 11,004,018</u>	<u>\$ 21,739,894</u>
Expenses:		
Interest on long-term debt	1,370,382	2,740,062
Cable system	<u>11,001,265</u>	<u>23,541,047</u>
Total expenses	<u>12,371,647</u>	<u>26,281,109</u>
Other financing sources (uses):		
Capital contributions	5,567,430	3,246,028
Capital distributions	(80,254,450)	-
Gain on sale of assets	<u>82,891,746</u>	<u>-</u>
Change in net position (deficit)	<u>\$ 6,837,097</u>	<u>\$ (1,295,187)</u>

**MI Connection Communications System
Management's Discussion and Analysis (Continued)**

Financial Analysis of MI Connection's Fund

As noted earlier, MI Connection uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Fund. MI Connection's proprietary fund provides detailed information of the fund's activities. Unrestricted net position (deficit) of MI Connection decreased by \$6,837,097 and amounts to (\$601,955) at the end of the fiscal year. The key factor related to the change in net position was the sale of MI Connection's assets and liabilities as outlined in the agreed upon asset purchase agreement executed on December 31, 2019.

Capital Assets. MI Connection's investment in capital assets as of June 30, 2019, totaled \$29,903,927 (net of accumulated depreciation). These assets included buildings, cable system infrastructure, land, machinery and equipment, and vehicles. On December 31, 2019, all capital assets were sold as part of the asset purchase agreement. As of June 30, 2020, MI Connection held no capital assets.

**MI Connection's Capital Assets
As of June 30, 2019**

Land	\$	225,000
Buildings and systems		1,271,221
Furniture and equipment		1,646,448
Infrastructure		52,868,592
Vehicles and motorized equipment		801,250
Construction in progress		817,877
Accumulated depreciation		<u>(27,726,461)</u>
Total	\$	<u>29,903,927</u>

Additional information on MI Connection's capital assets can be found in the basic financial statements and the notes to financial statements.

Long-Term Debt. As of June 30, 2019, MI Connection had total installment financing contract debt outstanding of \$58,127,768. The debt, in its entirety, was backed by the full faith and credit of the towns of Mooresville, North Carolina and Davidson, North Carolina under the Interlocal Agency Agreement. On December 31, 2019, the remaining portion of the outstanding debt was paid in full as part of the asset purchase agreement. As of June 30, 2020, MI Connection held no outstanding balances to the town of Mooresville.

**MI Connection's Outstanding Debt
As of June 30, 2019**

Due to town of Mooresville, North Carolina	\$	<u>58,127,768</u>
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The town of Mooresville issued bonds for the purchase of MI Connection's cable system infrastructure. The bonds issued by the town of Mooresville were paid in full as part of the asset purchase agreement on December 31, 2019.

Additional information regarding MI Connection's debt can be found in the basic financial statements and the notes to financial statements.

**MI Connection Communications System
Management's Discussion and Analysis (Continued)**

Budget Highlights for the Fiscal Year Ending June 30, 2021

On December 31, 2019, MI Connection assets were purchased and liabilities assumed as outlined in the asset purchase agreement. As a result of the sale, operations providing video, internet and phone services ceased, and therefore, have been eliminated in the budget. Budgeted expenses for 2021 are administrative expenses incurred to collect potential funds due to MI Connection, manage the remaining liabilities and complete obligations under the asset purchase agreement.

Requests for Information

This report is designed to provide an overview of MI Connection's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Sarah Muller, MI Connection Communications System, 413 North Main Street, Mooresville, North Carolina.

MI Connection Communications System
Statement of Net Position (Deficit)
June 30, 2020

ASSETS

Current assets:

Cash and cash equivalents \$ 1,787,035

Total assets 1,787,035

DEFERRED OUTFLOWS OF RESOURCES

781,426

LIABILITIES

Current liabilities:

Accounts payable 1,536,797

Compensated absences 1,328

Other accrued expenses 1,113

Total current liabilities 1,539,238

Non-current liabilities:

Net pension liability 1,601,685

Total non-current liabilities 1,601,685

Total liabilities 3,140,923

DEFERRED INFLOWS OF RESOURCES

29,493

NET DEFICIT

Unrestricted (601,955)

Total net deficit \$ (601,955)

MI Connection Communications System
Statement of Revenues, Expenses and Changes in Net Position (Deficit)
For the Fiscal Year Ended June 30, 2020

Operating revenues	<u>\$ 11,004,018</u>
Operating costs and expenses:	
Programming expenses	4,150,214
Facility-based expenses	2,984,128
Commercial and marketing expenses	558,959
Administrative expenses	501,146
Bad debt expense	95,746
Depreciation	1,982,621
Attribution and amortization	<u>728,451</u>
Total operating costs and expenses	<u>11,001,265</u>
Operating income	<u>2,753</u>
Other income (expense):	
Interest expense	(1,370,382)
Contributions received	5,567,430
Gain from sale of assets	<u>82,891,746</u>
Total other income (expense)	<u>87,088,794</u>
Net income	87,091,547
Net deficit, beginning	(7,439,052)
Capital distributions	<u>(80,254,450)</u>
Net deficit, ending	<u><u>\$ (601,955)</u></u>

MI Connection Communications System
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Cash flows from operating activities:	
Cash received from customers	\$ 11,021,572
Cash paid for goods and services	(5,918,088)
Cash paid to or on behalf of employees for services	<u>(2,963,775)</u>
Net cash provided by operating activities	<u>2,139,709</u>
Cash flows from capital and related financing activities:	
Purchase of property, plant and equipment	(1,211,993)
Principal payments on debt financing	(250,000)
Contributions received	<u>1,109,319</u>
Net cash used by capital and related financing activities	<u>(352,674)</u>
Net increase in cash and cash equivalents	1,787,035
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,787,035</u></u>

**MI Connection Communications System
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019**

(Continued)

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,753
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	2,711,072
Pension expense	(838,392)
Bad debt expense	95,746
Changes in assets and liabilities	
(Increase) decrease in:	
Accounts receivable	(60,687)
Prepaid expenses	127,973
Deferred outflows of resources for pensions	(184,761)
Increase (decrease) in:	
Accounts payable	950,077
Other accrued expenses	(560,487)
Unearned revenues	(17,505)
Compensated absences	(86,080)
Total adjustments	2,136,956
Net cash provided by operating activities	\$ 2,139,709
Supplemental schedule of noncash operating, investing, and financing activities:	
Debt financing principal paid by Town of Mooresville	\$ 3,195,000
Reductions in assets and liabilities through an asset purchase agreement:	
Accounts receivable	\$ 1,014,232
Prepaid expenses	\$ 49,694
Property, plant, and equipment, net	\$ 29,193,600
Start-up costs	\$ 3,557,627
Other intangible asset	\$ 31,141
Goodwill	\$ 20,511,163
Accounts payable	\$ 1,170,589
Other accrued expenses	\$ 265,837
Unearned revenues	\$ 555,304
Compensated absences	\$ 97,332
Debt paid through asset purchase agreement	\$ 54,932,768

See accompanying notes.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Financial reporting entity

MI Connection Communications System (“MI Connection”) is a North Carolina Interlocal Agency. MI Connection was established in August 2007 by Mecklenburg County and the towns of Mooresville, Davidson and Cornelius for the purpose of providing communication infrastructure. MI Connection acquired assets from Time Warner in December 2007 and immediately began operations. MI Connection provides cable television, telephone and internet services to citizens in the town of Mooresville, the town of Davidson, portions of the town of Cornelius and a small portion of the town of Huntersville.

On December 31, 2019, MI Connection agreed to an asset purchase agreement for the sale of their communications systems. Under the terms of this agreement, the purchaser acquired MI Connection’s assets and assumed its liabilities as outlined in the asset purchase agreement. As a result of the sale, all operations of MI Connection have ceased. The remaining assets and liabilities at June 30, 2020 will be assumed and funded by the towns of Mooresville and Davidson as they are obligated to fund the operations of MI Connection under the terms of MI Connection’s charter.

Basic financial statements

MI Connection’s financial statements are presented 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*. Since MI Connection is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. The basic financial statements consist of Statement of Net Position (Deficit); Statement of Revenues, Expenses and Changes in Net Position (Deficit); Statement of Cash Flows; and Notes to Financial Statements.

Measurement focus and basis of accounting

MI Connection’s financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Budgetary data

MI Connection’s budget is adopted as required by the North Carolina General Statutes. The annual budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations in total. All budget amendments are required to be approved by the governing board. During the year, no budgetary amendments were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Cash and cash equivalents

MI Connection considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property, plant and equipment

Capital assets are defined by MI Connection as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

MI Connection Communications System Notes to Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25 years
Equipment, machinery and vehicles	5 to 25 years
Cable systems	5 to 25 years

Deferred outflows and inflows of resources

In addition to assets, the statement of net position (deficit) will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. MI Connection has one item that meet this criterion, contributions made to the pension plan in the 2020 fiscal year.

The statement of net position (deficit) also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. MI Connection has an item that meets this criterion, deferrals of pension expense relating to the pension plan.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect certain reported amounts and disclosures. Actual results could vary from the estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. MI Connection's employer contributions are recognized when due and MI Connection has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Compensated absences

The vacation policy of MI Connection provides for the accumulation of annual vacation leave with a maximum of 240 hours. If an employee separates from service, payment for accumulated annual vacation leave shall be paid in full.

As of June 30, 2020, MI Connection accrued additional compensated absences, if available, of accrued sick time.

Subsequent events

MI Connection evaluated the effect subsequent events would have on the financial statements through November 5, 2020, which is the date the financial statements were available to be issued.

**MI Connection Communications System
Notes to Financial Statements**

2. Deposits

MI Connection's deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by MI Connection's agents in the unit's name. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for MI Connection, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooling method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with MI Connection or with the escrow agent. Because of the ability to measure the exact amount of collateral pledged for MI Connection under the pooling method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the pooling method. MI Connection has no policy regarding custodial credit risk for deposits.

At June 30, 2020, MI Connection had deposits with financial institutions with carrying amount of \$1,787,035. The bank balances with the financial institutions were \$1,794,154, of which \$250,000 was covered by federal depository insurance.

3. Property, Plant and Equipment

The following is a summary of capital asset activity for the year ended June 30, 2020:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets, not depreciated				
Land	\$ 225,000	\$ -	\$ (225,000)	\$ -
Construction in progress	<u>817,878</u>	<u>23,139</u>	<u>(841,017)</u>	<u>-</u>
Total capital assets not depreciated	<u>1,042,878</u>	<u>\$ 23,139</u>	<u>\$ (1,066,017)</u>	<u>-</u>
Capital assets, depreciated				
Building	1,271,221	-	(1,271,221)	-
Furniture and equipment	1,646,448	21,534	(1,667,982)	-
Cable systems	52,868,592	1,167,318	(54,035,910)	-
Vehicles	<u>801,250</u>	<u>-</u>	<u>(801,250)</u>	<u>-</u>
Total capital assets, depreciated	56,587,511	1,188,852	(57,776,363)	-
Less accumulated depreciation	<u>(27,726,461)</u>	<u>(1,982,621)</u>	<u>29,709,082</u>	<u>-</u>
Total capital assets, depreciated, net	<u>28,861,050</u>	<u>\$ (793,769)</u>	<u>\$(28,067,281)</u>	<u>-</u>
Total capital assets	<u>\$ 29,903,928</u>			<u>\$ -</u>

4. Deferred Outflows and Inflows of Resources

The following is a summary of deferred outflows of resources at June 30, 2020:

Differences between expected and actual experience	\$ 274,249
Changes of assumptions	261,048
Net difference between projected and actual earnings on pension plan investments	39,067
Changes in proportion and differences between MI Connection's contributions and proportionate share of contributions	22,301
MI Connection's contributions subsequent to the measurement date	<u>184,761</u>
	<u>\$ 781,426</u>

The following is a summary of deferred inflows of resources at June 30, 2020:

Changes in proportion and differences between MI Connection's contributions and proportionate share of contributions	<u>\$ 29,493</u>
	<u>\$ 29,493</u>

5. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan description. MI Connection is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the state of North Carolina. The state's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

**MI Connection Communications System
Notes to Financial Statements**

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. MI Connection employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. MI Connection's contractually required contribution rate for the year ended June 30, 2020, was 8.95% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from MI Connection were \$184,761 for the year ended June 30, 2020.

Refunds of contributions. MI Connection employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions, or any other benefit provided by LGERS.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2020, MI Connection reported a liability of \$1,601,685 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date as of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. MI Connection's proportion of the net pension liability was based on a projection of MI Connection's long-term share of future payroll covered by the pension plan, related to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, MI Connection's proportion was 0.059%, which was an increase of 0.004% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, MI Connection recognized pension expense of \$723,709. At June 30, 2020, MI Connection reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 274,249	\$ -
Changes of assumptions	261,048	-
Net difference between projected and actual earnings on pension plan investments	39,067	-
Changes in proportion and differences between MI Connection's contributions and proportionate share of contributions	22,301	29,493
MI Connection's contributions subsequent to the measurement date	<u>184,761</u>	<u>-</u>
Total	<u>\$ 781,426</u>	<u>\$ 29,493</u>

**MI Connection Communications System
Notes to Financial Statements**

A total of \$184,761 is reported as deferred outflows of resources related to pensions resulting from MI Connection's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30

2020	\$ 283,895
2021	86,060
2022	149,141
2023	48,076
2024	-
	<u>\$ 567,172</u>

Actuarial assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e., general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	<u>100.0%</u>	

**MI Connection Communications System
Notes to Financial Statements**

The information above is based on 30-year expectations developed with the consulting actuary for the 2018 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MI Connection’s proportionate share of the net pension liability to changes in the discount rate

The following presents MI Connection’s proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the MI Connection’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
MI Connection’s proportionate share of the net pension liability (asset)	\$ 3,663,348	\$ 1,601,685	\$ (111,973)

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the state of North Carolina.

6. Risk Management

In order to mitigate risks, MI Connection carries directors, officers and entity liability coverage and employment practices liability coverage. The policy has a maximum aggregate limit of liability of \$5,000,000. MI Connection does not have flood insurance in case of natural disaster. The finance officer is bonded for \$50,000.

7. Installment Financing Contracts

At June 30, 2020, MI Connection had no unsecured indebtedness for installment financing contracts to the Town of Mooresville. The balance was paid in full as a result of the asset purchase agreement signed on December 31, 2019.

During the fiscal year ended June 30, 2008, the town of Mooresville entered into an installment financing contract for \$80,000,000 certificates of participation on behalf of MI Connection. This financing contract was secured by certain property, plant and equipment of MI Connection. The repayment terms of MI Connection’s indebtedness to the town of Mooresville reflect the repayment terms of the financing contract entered into by the town of Mooresville on MI Connection’s behalf. During the year ended June 30, 2015, the town of Mooresville refunded this financing contract in order to obtain more favorable interest rates (from floating rates of 4% to 5% to floating rates from 2%

**MI Connection Communications System
Notes to Financial Statements**

to 5%). As a result of the refunding, the financing contract agreement between MI Connection and the town of Mooresville was modified to mirror the new debt service requirements for the town of Mooresville. Although, the outstanding principal increased from \$63,613,750 to \$66,555,000 as a result of the modification, the carrying amount of the debt included in the statement of net position will remain the amount prior to modification because the present value of the cash flows of the MI Connection financing contract after modification did not differ from the present value of the remaining cash flows of this MI Connection financing contract prior to modification by more than 10%. The effective interest rate of the new debt is determined prospectively based on the carrying amount of the old debt and revised cash flows after the modification.

During 2010, the town of Mooresville entered into an installment financing contract for \$12,550,000 on behalf of MI Connection. This installment financing contract was secured by certain property, plant and equipment of MI Connection. The repayment terms of MI Connection's indebtedness to the town of Mooresville reflected the repayment terms of the installment financing contract entered into by the town of Mooresville on MI Connection's behalf. During the year ended June 30, 2015, the town of Mooresville entered into a rate modification agreement for the aforementioned installment financing contract to lower the applicable interest rate from 6.24% to 2.28%. As a result of the modification, the financing contract between MI Connection and the town of Mooresville was modified to mirror the new debt service requirements for the town of Mooresville. Given the present value of the cash flows of this MI Connection financing contract after modification differed from the present value of the remaining cash flows of the MI Connection financing contract prior to modification by more than 10%, the terms were considered to be substantially different. Accordingly, the modified debt balance was recorded at the fair value of the financing contract. No gain or loss was recorded as principal payments did not change as a result of the modification.

The following is a summary of long-term debt for the year ended June 30, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current</u>
Installment financing contracts	\$ 58,127,768	\$ -	\$ 58,127,768	\$ -	\$ -
Premium	230,886	-	230,886	-	-
Compensated absences	184,740	1,328	184,740	1,328	1,328
Net pension liability (LGERS)	<u>1,286,758</u>	<u>314,927</u>	<u>-</u>	<u>1,601,685</u>	<u>-</u>
	<u>\$ 59,830,152</u>	<u>\$ 316,255</u>	<u>\$ 58,543,394</u>	<u>\$ 1,603,013</u>	<u>\$ 1,328</u>

8. Financial Risks of Participating Governments

In accordance with the interlocal agreement dated August 14, 2007, to the extent that revenues and assets of MI Connection are not adequate to pay operating costs (including debt service on the installment financing contracts), the town of Mooresville and the town of Davidson agree to provide MI Connection the funds to operate, in proportion to their respective financial interests.

The town of Mooresville and the town of Davidson shared in the financial risks and rewards of MI Connection by the following calculation: the number of subscribers within the particular town's annexed boundaries and extraterritorial jurisdiction (as defined by the state of North Carolina), divided by the total number of subscribers. The financial interest of each town was calculated as of the date of purchase and was re-calculated each June 30 thereafter.

Effective June 30, 2012, the interlocal agreement was amended so that the financial interests of the town of Mooresville and the town of Davidson are 70% and 30%, respectively. In any one year, the maximum annual contribution required from the town of Davidson shall be \$1,000,000. The town of Mooresville will contribute the amount to offset the deficit of revenues versus expenses and debt service that exceeds \$1,000,000. As long as a deficit of revenues versus expenses and debt service exists, the town of Davidson shall contribute the sum of \$1,000,000 annually. To the extent that the \$1,000,000 annual contribution by the town of Davidson exceeds its financial interest, such excess shall be paid to the town of Mooresville until such time that the town of Mooresville

MI Connection Communications System Notes to Financial Statements

has recovered its contributions in excess of its financial interest. The participating governments do not have an equity interest in MI Connection.

9. Retirement Expense

MI Connection sponsored a 401(k) retirement and profit-sharing plan covering all eligible employees who opted-in to the plan. Under the plan, the employees could defer annual contributions in accordance with applicable state and federal income tax laws and MI Connection contributed 2% of participant's annual covered payroll. Subsequent to the asset purchase agreement executed on December 31, 2019, MI Connection adjusted their sponsored 401(k) retirement and profit-sharing plan to include a contribution of 5% for each employee without a required matching contribution. For the year ended June 30, 2020 MI Connection contributed \$25,840 to the North Carolina 401(k) Plan.

10. COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel strain of the coronavirus ("COVID-19") to be a pandemic. The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on the global society, economies, and business practices. Federal and state governments have implemented measures to contain the virus, including social distancing, travel restrictions, border closures, limitations on public gatherings, work from home, supply chain logistical changes, and closure of non-essential businesses. The COVID-19 pandemic has impacted and may continue to impact MI Connection, including employees, partners, and communities, and there is substantial uncertainty in the nature and degree of its continued effects over time. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

Required Supplementary Information

**MI Connection Communications System
Schedule of the Proportionate Share of the Net Pension Liability (Asset)
Local Government Employees' Retirement System - Last Seven Fiscal Years
Required Supplementary Information**

	2020	2019	2018	2017	2016
MIC's proportion of the net pension liability (asset) (%)	0.05865%	0.05424%	0.05788%	0.05296%	0.05055%
MIC's proportion of the net pension liability (asset) (\$)	\$ 1,601,685	\$ 2,848,858	\$ 884,245	\$ 1,123,988	\$ 226,866
MIC's covered-employee payroll	3,644,245	3,214,748	3,355,738	3,059,418	3,002,764
MIC's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	43.95%	88.62%	26.35%	36.74%	7.56%
Plan fiduciary net position as a percentage of the total pension liability (asset)	90.86%	91.63%	94.18%	91.47%	98.09%

**MI Connection Communications System
Schedule of Contributions
Local Government Employees' Retirement System - Last Seven Fiscal Years
Required Supplementary Information**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 184,761	\$ 282,429	\$ 249,143	\$ 243,291	\$ 202,305
Contributions in relation to the contractually required contribution	<u>184,761</u>	<u>282,429</u>	<u>249,143</u>	<u>243,291</u>	<u>202,305</u>
Contribution deficiency (excess)	<u>\$ -</u>				
MIC's covered-employee payroll	\$ 2,064,369	\$ 3,644,245	\$ 3,214,748	\$ 3,355,738	\$ 3,059,418
Contributions as a percentage of covered-employee payroll	8.95%	7.75%	7.75%	7.25%	6.61%

Supplementary Information

**MI Connection Communications System
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2020**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues	\$ 22,534,381	\$ 11,004,018	\$ (11,530,363)
Operating expenditures:			
Programming expenditures		4,150,214	
Facility-based expenditures		4,339,987	
Commercial and marketing expenditures		558,959	
Administrative expenditures		501,146	
Bad debt expense		175,579	
Capital outlay		695,875	
Total operating expenditures	<u>19,684,427</u>	<u>10,421,760</u>	<u>9,262,667</u>
Operating income	<u>2,849,954</u>	<u>582,258</u>	<u>(2,267,696)</u>
Debt service:			
Principal	3,995,000	3,445,000	550,000
Interest	<u>2,447,160</u>	<u>1,370,382</u>	<u>1,076,778</u>
Total debt service	<u>6,442,160</u>	<u>4,815,382</u>	<u>1,626,778</u>
Other financing sources:			
Capital contributions	3,592,206	5,567,430	1,975,224
Gain from sale of assets		<u>82,891,746</u>	<u>82,891,746</u>
Total other financing sources	<u>3,592,206</u>	<u>88,459,176</u>	<u>84,866,970</u>
Revenues and other financial services over (under) expenditures	<u>\$ -</u>	84,226,052	<u>\$ 84,226,052</u>
Reconciliation to full accrual basis:			
Change in bad debt allowance		79,833	
Depreciation and amortization		(2,711,072)	
Pension expense		838,392	
Principal payment of debt service		3,445,000	
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		184,761	
Capitalized labor on construction		516,118	
Change in accrued interest		-	
Change in compensated absences		(183,412)	
Capital outlay		<u>695,875</u>	
Net income (full accrual basis)		<u>\$ 87,091,547</u>	