

**MI Connection
Communications System
(A North Carolina Interlocal Agency)**

Financial Statements

For the Year Ended June 30, 2009



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

MI CONNECTION COMMUNICATIONS SYSTEM

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statement of Net Assets (Deficit)	7
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	8
Statement of Cash Flows	9
Notes to Financial Statements	11



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
MI Connection Communications System
Mooreville, North Carolina

We have audited the accompanying financial statements of **MI Connection Communications System** ("MIC"), a North Carolina Interlocal Agency, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of MIC's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIC as of June 30, 2009, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Dixon Hughes PLLC

November 13, 2009

Management's Discussion and Analysis

As management of MI Connection Communications System (MIC), we offer readers of the MIC's financial statements this narrative overview and analysis of the financial activities of MIC for the year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in MIC's financial statements, which follow this narrative.

Financial Highlights

- The assets of MIC were less than its liabilities at the close of the fiscal year by \$8,904,105.
- The government's total net assets decreased by \$6,428,651 due to current year net losses.
- MIC's total debt at the close of the fiscal year amounted to \$80,168,909, resulting primarily from the issuance of debt for the purchase of the cable system assets and overall system upgrade of such assets.
- MIC's total debt increased by \$16,126,824 (25.18%) during the current fiscal year. The key factor in this increase is additional borrowings for the construction and purchase of fixed assets.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to MIC's basic financial statements. MIC's basic financial statements consist of two components: 1) the financial statements of MIC'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. MIC, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes. MIC has only one fund, a proprietary fund which is also an *Enterprise Fund*. *Enterprise Funds* are used to report business-type activities. MIC 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.

Management's Discussion and Analysis (Continued)

**MI Connection Communications System's Net Assets (Deficit)
As of June 30, 2009**

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 46,766,538	50,280,798
Capital assets	<u>27,666,712</u>	<u>14,766,085</u>
Total assets	<u>74,433,250</u>	<u>65,046,883</u>
Long-term liabilities outstanding	80,168,909	64,042,085
Current liabilities	<u>3,168,446</u>	<u>3,480,252</u>
Total liabilities	<u>83,337,355</u>	<u>67,522,337</u>
Total net assets (deficit) (all unrestricted)	<u>\$ (8,904,105)</u>	<u>(2,475,454)</u>

Net assets may serve over time as one useful indicator of a government's financial condition. The assets of MIC were less than its liabilities by \$2,475,454 as of June 30, 2008. MIC's net assets decreased for the fiscal year ending June 30, 2009 by \$6,428,651, the amount by which expenses exceeded revenues.

Several particular aspects of MIC's financial operations influenced the total net assets:

- This is the first full year of operations for MIC.
- The entire purchase of the cable system assets and funding of the system upgrades was financed with debt. There was no infusion of non-debt capital.

**MI Connection Communications System Changes in Net Assets
For the Initial Period Ended June 30, 2008 and the fiscal year ending June 30, 2009**

	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues:		
Charges for services	\$ 14,332,107	\$ 7,961,733
Other	<u>283,701</u>	<u>416,022</u>
Total revenues	<u>14,615,808</u>	<u>8,377,755</u>
Expenses:		
Interest on long-term debt	4,083,531	2,093,787
Cable system	<u>16,960,928</u>	<u>8,759,422</u>
Total expenses	<u>21,044,459</u>	<u>10,853,209</u>
Decrease in net assets	<u>\$ (6,428,651)</u>	<u>(2,475,454)</u>

Management's Discussion and Analysis (Continued)

Financial Analysis of MIC's Fund

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

Proprietary Funds. MIC's proprietary fund provides detailed information of the fund's activities. Unrestricted net assets (deficit) of MIC at the end of the fiscal year amounted to (\$8,904,105), which was also the decrease in net assets for the fund for the fiscal year. The total decrease in net assets (deficit) was \$6,428,651. Key factors related to this decrease are as follows:

- Infrastructure upgrades and construction continued for the majority of the fiscal year
- Increase in interest expense related to increased debt

Capital Asset and Debt Administration

Capital assets. MIC's investment in capital assets as of June 30, 2009, totals \$27,666,712 (net of accumulated depreciation). These assets include buildings, cable system infrastructure, land, machinery and equipment, and vehicles.

Major capital and intangible asset transactions during the year include the following additions and disposals (there were no significant demolitions):

- Construction and purchase of assets \$15,745,216
- Construction in progress of \$798,809

MI Connection Communications System's Capital Assets As of June 30, 2009

	<u>2009</u>	<u>2008</u>
Land	\$ 224,996	\$ 224,996
Buildings and systems	1,036,439	279,280
Furniture and equipment	1,139,713	866,494
Infrastructure	24,123,309	9,539,723
Vehicles and motorized equipment	343,446	346,218
Construction in progress	<u>798,809</u>	<u>3,487,485</u>
Total	<u>\$ 27,666,712</u>	<u>\$ 14,744,196</u>

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

Long-term Debt. As of June 30, 2009, MIC had total debt outstanding of \$80,168,909. The debt, in its entirety, is backed by the full faith and credit of the towns of Mooresville, NC and Davidson, NC under the Interlocal Agency Agreement.

Management's Discussion and Analysis (Continued)

MI Connection Communication System's Outstanding Debt As of June 30, 2009

	<u>2009</u>	<u>2008</u>
Due to Town of Mooresville	<u>\$ 80,168,909</u>	<u>\$ 64,042,085</u>

The Town of Mooresville issued bonds for the purchase of MIC's cable system infrastructure. MIC is to pay the Town of Mooresville the interest and principal related to these bonds as they come due.

MIC's debt related primarily to the purchase of the cable system infrastructure and the upgrade of such system.

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

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of MIC.

- Opportunities exist to increase margins by penetrating underserved commercial markets with state of the art technology not currently available.
- During the current economic downturn, MIC subscribers are guarding discretionary income and utilizing CATV for recreation and social needs, therefore increasing system revenues.
- The three Towns involved in the system are all on sound economic footings and have experienced stable employment.

Budget Highlights for the Fiscal Year Ending June 30, 2010

MIC's rates for services are likely to increase. Operating expenses will continue to remain in alignment with FY 2009 expenses on a monthly basis, with the exception of CATV programming costs, which are estimated to increase.

Requests for Information

This report is designed to provide an overview of MIC'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 Stacey E. Bright, MI Connection Communications System, 435 S. Broad St., Mooresville, NC.

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 167,381
Accounts receivable (net of allowance for uncollectible accounts of \$105,533)	1,106,484
Inventories	1,942,887
Prepaid expenses	73,312
Current portion of note receivable	32,429
TOTAL CURRENT ASSETS	<u>3,322,493</u>

NONCURRENT ASSETS

Property, plant and equipment, net	27,666,712
Long-term note receivable	919,442
Debt issuance cost (net of accumulated amortization of \$58,830)	777,474
Start-up costs (net of accumulated amortization of \$394,407)	5,764,480
Goodwill (net of accumulated amortization of \$2,317,617)	35,982,649
TOTAL NONCURRENT ASSETS	<u>71,110,757</u>

TOTAL ASSETS 74,433,250

LIABILITIES

CURRENT LIABILITIES

Accounts payable	806,115
Accrued interest payable	1,569,657
Other accrued expenses	411,283
Deferred revenue	381,391
TOTAL CURRENT LIABILITIES	<u>3,168,446</u>

LONG-TERM NOTE PAYABLE

80,168,909
TOTAL LIABILITIES 83,337,355

NET ASSETS (DEFICIT)

Unrestricted net assets (deficit)	<u>(8,904,105)</u>
TOTAL NET ASSETS (DEFICIT)	<u><u>\$ (8,904,105)</u></u>

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS (DEFICIT)
For the Fiscal Year Ended June 30, 2009

OPERATING REVENUES	<u>\$ 14,332,107</u>
OPERATING COSTS AND EXPENSES:	
Programming expenses	5,322,313
Facility based expenses	4,376,969
Commercial and marketing expenses	1,623,442
Administrative expenses	2,737,023
Bad debt expense	107,609
Loss on disposal of equipment	136,130
Depreciation and amortization	2,657,442
TOTAL OPERATING COSTS AND EXPENSES	<u>16,960,928</u>
OPERATING LOSS	<u>(2,628,821)</u>
OTHER INCOME (EXPENSE):	
Interest expense	(4,083,531)
Interest income	283,701
TOTAL OTHER INCOME (EXPENSE)	<u>(3,799,830)</u>
NET LOSS	(6,428,651)
NET ASSETS (DEFICIT) - beginning of year	<u>(2,475,454)</u>
NET ASSETS (DEFICIT) - end of year	<u>\$ (8,904,105)</u>

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers		\$ 13,968,343
Cash paid for goods and services		<u>(15,894,628)</u>
	NET CASH USED BY OPERATING ACTIVITIES	<u>(1,926,285)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from debt financing		16,908,106
Acquisition of property, plant and equipment		(13,973,462)
Interest paid on debt		(3,822,491)
Reimbursement of start-up costs		<u>428,049</u>
	NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(459,798)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		283,701
Repayment from loan receivable		<u>30,837</u>
	NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>314,538</u>
	NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,071,545)
CASH AND CASH EQUIVALENTS - beginning of year		<u>2,238,926</u>
CASH AND CASH EQUIVALENTS - end of year		<u><u>\$ 167,381</u></u>

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2009

RECONCILIATION OF NET LOSS TO NET CASH

USED BY OPERATING ACTIVITIES

Operating loss	<u>\$ (2,628,821)</u>
----------------	-----------------------

ADJUSTMENTS TO RECONCILE NET LOSS TO CASH

USED BY OPERATING ACTIVITIES

Depreciation and amortization	2,657,442
Bad debt expense	107,609
Loss on disposal of equipment	136,130
Changes in assets and liabilities	
(Increase) decrease in	
Accounts receivable	(443,875)
Inventories	(1,150,040)
Prepaid expenses	(31,884)
Increase (decrease) in	
Accounts payable	(782,816)
Other accrued expenses	237,468
Deferred revenue	(27,498)
Total adjustments	<u>702,536</u>

NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (1,926,285)</u>
--	-----------------------

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Debt issuance costs funded from issuance of note payable	<u>\$ 76,741</u>
--	------------------

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

MI Connection Communication System ("MIC") is a North Carolina Interlocal Agency. MIC was established in August 2007 by Mecklenburg County and the Towns of Mooresville, Davidson and Cornelius for the purpose of providing communication infrastructure to its citizens. MIC acquired assets from Time Warner in December 2007 and immediately began operations.

Basic Financial Statements

MIC'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 MIC is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. The basic financial statements and required supplementary information consist of Statement of Net Assets (Deficit), Statement of Revenues, Expenses and Changes in Net Assets (Deficit), Statement of Cash Flows and Notes to Financial Statements.

Measurement Focus and Basis of Accounting

MIC'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.

As permitted by generally accepted accounting principles, MIC has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Cash and Cash Equivalents

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

Allowance for Uncollectible Accounts

MIC calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

Inventories

Inventories, consisting of materials and supplies, are valued at the lower of average cost or market.

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

Capital assets are defined by MIC 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets 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 – 25 years
Cable systems	5 – 25 years

Debt Issuance Costs

Debt issuance costs are costs related to the financing obtained during the fiscal year ended June 30, 2009 and the initial period ended June 30, 2008. The costs are being amortized on a straight-line basis over 26 years, the repayment period of the related debt.

Start-up Costs

Start-up costs are costs related to the purchase of subscribers and assets during the initial period ended June 30, 2008. The costs are being amortized on a straight-line basis over 26 years.

Goodwill

Goodwill represents the excess of the cost of the purchased subscribers and assets over the fair value of the net assets at the date of acquisitions. Goodwill is amortized on a straight-line basis over 26 years.

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.

MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

NOTE B - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of capital asset activity for the year ended June 30, 2009:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets, not depreciated				
Land	\$ 224,996	\$ -	\$ -	\$ 224,996
Construction in progress	<u>3,487,485</u>	<u>733,830</u>	<u>3,422,506</u>	<u>798,809</u>
Total capital assets not depreciated	<u>3,712,481</u>	<u>\$ 733,830</u>	<u>\$ 3,422,506</u>	<u>1,023,805</u>
Capital assets, depreciated				
Building	291,173	\$ 771,485	\$ -	1,062,658
Furniture and equipment	897,671	535,258	-	1,432,929
Cable systems	10,140,860	15,258,632	143,294	25,256,198
Vehicles	<u>437,811</u>	<u>96,763</u>	<u>-</u>	<u>534,574</u>
Total capital assets, depreciated	11,767,515	16,662,138	143,294	28,286,359
Less accumulated depreciation	<u>(735,800)</u>	<u>(914,817)</u>	<u>7,165</u>	<u>(1,643,452)</u>
Total capital assets, depreciated, net	<u>11,031,715</u>	<u>\$ 15,747,321</u>	<u>\$ 136,129</u>	<u>26,642,907</u>
Total capital assets	<u>\$ 14,744,196</u>			<u>\$ 27,666,712</u>

NOTE C - NOTE RECEIVABLE

During the initial period ended June 30, 2008, MIC sold the system's head end to Bristol Virginia Utilities for \$1,000,000 and obtained an installment note receivable. The unsecured note is payable in monthly installments of \$6,600 (including interest at 5%). The outstanding balance at June 30, 2009 amounted to \$951,871.

NOTE D - DEFERRED REVENUE

The following is a summary of deferred revenue at June 30, 2009:

Prebilled cable revenue	\$ 262,257
Prebilled data revenue	111,676
Prebilled VIOP revenue	<u>7,458</u>
Total deferred revenue	<u>\$ 381,391</u>

MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

NOTE E - LONG-TERM LIABILITIES

At June 30, 2009, MIC had unsecured indebtedness to the Town of Mooresville in the amount of \$80,168,909.

During the fiscal year ended June 30, 2008, the Town of Mooresville entered into an installment financing contract for \$80,000,000 on behalf of MIC. At June 30, 2009, draws against this financing contract by MIC were \$71,150,280. The repayment terms of MIC's indebtedness to the Town of Mooresville reflects the repayment terms of the installment financing contract entered into by the Town of Mooresville on MIC's behalf. The note bears interest at a floating rate (4% - 5%) and matures September 1, 2032. The Company is obligated to pay interest only until September 1, 2010; therefore, the note is classified as long-term debt on the Company's balance sheet as of June 30, 2009.

During the year ended June 30, 2009, the Town of Mooresville entered into an installment financing contract for \$12,550,000 on behalf of MIC. At June 30, 2009, draws against this financing contract by MIC were \$9,018,629. The repayment terms of MIC's indebtedness to the Town of Mooresville reflects the repayment terms of the installment financing contract entered into by the Town of Mooresville on MIC's behalf. The note bears interest at 6.24% as of June 30, 2009 and matures March 1, 2023. The Company is obligated to pay interest only until September 1, 2010; therefore, the note is classified as long-term debt on the Company's balance sheet as of June 30, 2009.

Annual requirements to amortize long-term debt and related interest are as follows:

Year Ending June 30	Principal	Interest
2010	\$ -	\$ 4,708,970
2011	2,635,000	4,654,582
2012	2,770,000	4,520,250
2013	2,900,000	4,379,734
2014	3,050,000	4,230,490
Thereafter	<u>68,813,909</u>	<u>42,245,549</u>
	<u>\$80,168,909</u>	<u>\$64,739,575</u>

NOTE F - OPERATING AGREEMENT

In December 2007, MIC entered into a five year agreement with another cable service contractor to provide various management services. MIC pays this contractor a fixed management fee of \$27,433 per month plus a variable management fee based on the number of subscribers. The fixed portion of the fee will increase to \$44,067 per month once MIC reports \$50,000 of net income for three consecutive months.

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

NOTE F - OPERATING AGREEMENT (CONTINUED)

If MIC sells the system during this agreement, the system is subject to the condition that the purchasers will either continue to use the contractor to provide various management services or one of the following options will apply. MIC shall pay the contractor the remainder of the management fee for the three year period plus \$1,500,000, plus the difference of the management fee paid and \$450,000 per year of the remaining three years. Also, if MIC sells after three years and before the fifth year, providing the purchaser does not wish to use the contractor, MIC shall pay the contractor the amount of \$1,500,000, plus the difference of the management fee paid during the first three years and \$450,000 per year for the five year contract. If MIC sells after the five year contract, during the renewal term, MIC shall pay the contractor the sum of \$1,500,000.

The total costs paid to the contractor for the year ended June 30, 2009 amounted to \$3,670,228 for administrative services and \$1,595,970 for management fees.