

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

Financial Statements

For the Year Ended June 30, 2014



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

MI CONNECTION COMMUNICATIONS SYSTEM

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise MIC's 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.

Auditor's 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 of 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 auditor's 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 MIC as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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
October 2, 2014

**MI CONNECTION COMMUNICATIONS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

As management of MI Connection Communications System (MIC), we offer readers of MIC's financial statements this narrative overview and analysis of the financial activities of MIC for the year ended June 30, 2014. 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 \$11,066,040.
- The government's total net position (deficit) increased by \$1,280,587.
- MIC's total debt at the close of the fiscal year amounted to \$75,339,713, resulting primarily from the issuance of debt for the purchase of the cable system assets and overall system upgrade of such assets.

Overview of the Financial Statements

This discussion and analysis is 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 noncompliance) 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.

**MI CONNECTION COMMUNICATIONS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

**MI Connection Communications System's Net Position (Deficit)
As of June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 35,483,758	\$ 36,916,240
Capital assets	<u>32,337,260</u>	<u>32,433,242</u>
Total assets	<u>67,821,018</u>	<u>69,349,482</u>
Long-term liabilities outstanding	72,460,214	75,560,469
Current liabilities	<u>5,833,092</u>	<u>5,585,373</u>
Total liabilities	<u>78,293,306</u>	<u>81,145,842</u>
Deferred inflows of resources	<u>593,752</u>	<u>550,267</u>
Net position (deficit)		
Invested in property, plant and equipment	7,058,410	7,155,663
Unrestricted net assets (deficit)	<u>(18,124,450)</u>	<u>(19,502,290)</u>
Total net position (deficit)	<u>\$ (11,066,040)</u>	<u>\$ (12,346,627)</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 \$11,066,040 as of June 30, 2014. MIC's net position (deficit) increased for the fiscal year ending June 30, 2014 by \$1,280,587.

Several particular aspects of MIC's financial operations influenced the total net position (deficit):

- The majority of the purchase of the cable system assets and funding of the system upgrades was financed with debt.
- There was an infusion of non-debt capital.

**MI CONNECTION COMMUNICATIONS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

**MI Connection Communications System Changes in Net Assets
For the Fiscal Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 18,414,527	\$ 16,782,685
Expenses:		
Interest on long-term debt	4,128,293	4,290,959
Cable system	<u>18,698,353</u>	<u>17,477,699</u>
Total expenses	<u>22,826,646</u>	<u>21,768,658</u>
Other financing sources:		
Capital contributions	5,680,130	6,324,595
Gain on sale of capital assets	<u>12,576</u>	<u>-</u>
Total other financing sources	<u>5,692,706</u>	<u>6,324,595</u>
Change in net position (deficit)	<u>\$ 1,280,587</u>	<u>\$ 1,338,622</u>

Financial Analysis of MIC's Fund

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

Proprietary Fund. MIC's proprietary fund provides detailed information of the fund's activities. Unrestricted net position (deficit) of MIC at the end of the fiscal year amounted to (\$18,124,450). Key factors related to this increase are as follows:

- Increase in operating revenues
- Decrease in interest expense

Capital Assets. MIC's investment in capital assets as of June 30, 2014, totals \$32,337,260 (net of accumulated depreciation). These assets include buildings, cable system infrastructure, land, machinery and equipment, and vehicles.

**MI CONNECTION COMMUNICATIONS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

**MI Connection Communications System's Capital Assets
As of June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Land	\$ 225,000	\$ 225,000
Buildings and systems	1,177,836	1,163,229
Furniture and equipment	1,554,003	1,538,882
Infrastructure	38,984,323	36,407,765
Vehicles and motorized equipment	641,363	612,124
Construction in progress	1,552,985	1,705,565
Accumulated depreciation	<u>(11,798,250)</u>	<u>(9,219,323)</u>
Total	<u>\$ 32,337,260</u>	<u>\$ 32,433,242</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, 2014, MIC had total debt outstanding of \$75,339,713. The debt, in its entirety, is backed by the full faith and credit of the Towns of Mooresville, North Carolina and Davidson, North Carolina under the Interlocal Agency Agreement.

**MI Connection Communications System's Outstanding Debt
As of June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Due to Town of Mooresville, North Carolina	<u>\$ 75,339,713</u>	<u>\$ 78,284,045</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 is 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.

- Customer growth partially attributed to the fact that the Lake Norman Region continues to experience population growth, increasing by 528% since 1990 compared to the Charlotte Metropolitan Area growing by 40% (Source: US Census).
- Opportunities exist to increase margins by penetrating underserved commercial markets with state of the art technology not currently available.
- Construction became an in-house function which will continue to reduce construction costs and increase opportunities to reach new customers.
- The municipalities involved in the system are all on sound economic footings and have experienced stable employment.

Budget Highlights for the Fiscal Year Ending June 30, 2015

MIC's rates for services will possibly increase. Operating expenses will continue to remain in alignment with FY 2014 expenses on a monthly basis.

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 Sarah Muller, MI Connection Communications System, 413 North Main Street, Mooresville, North Carolina.

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF NET POSITION (DEFICIT)
June 30, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 741,533
Accounts receivable (net of allowance for uncollectible accounts of \$68,502)	1,147,835
Prepaid expenses	<u>167,736</u>

TOTAL CURRENT ASSETS 2,057,104

NONCURRENT ASSETS

Property, plant and equipment, net	32,337,260
Start-up costs (net of accumulated amortization of \$1,692,958)	4,814,934
Goodwill (net of accumulated amortization of \$9,688,546)	<u>28,611,720</u>

TOTAL NONCURRENT ASSETS 65,763,914

TOTAL ASSETS 67,821,018

LIABILITIES

CURRENT LIABILITIES

Current portion of installment financing contracts	3,190,000
Accounts payable	976,875
Accrued interest payable	1,379,774
Other accrued expenses	<u>286,443</u>

TOTAL CURRENT LIABILITIES 5,833,092

NONCURRENT LIABILITIES

Long-term portion of installment financing contracts	72,149,713
Unamortized debt premiums	<u>310,501</u>

TOTAL NONCURRENT LIABILITIES 72,460,214

TOTAL LIABILITIES 78,293,306

DEFERRED INFLOWS OF RESOURCES

593,752

NET POSITION (DEFICIT)

Net investment in property, plant and equipment	7,058,410
Unrestricted	<u>(18,124,450)</u>

TOTAL NET POSITION (DEFICIT) \$ (11,066,040)

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT)
For the Fiscal Year Ended June 30, 2014

OPERATING REVENUES	<u>\$ 18,414,527</u>
OPERATING COSTS AND EXPENSES	
Programming expenses	7,154,800
Facility-based expenses	4,983,744
Commercial and marketing expenses	997,904
Administrative expenses	970,341
Bad debt expense	287,969
Depreciation	2,595,115
Amortization	<u>1,708,480</u>
TOTAL OPERATING COSTS AND EXPENSES	<u>18,698,353</u>
OPERATING LOSS	<u>(283,826)</u>
OTHER EXPENSES	
Interest expense	<u>(4,128,293)</u>
OTHER FINANCING SOURCES	
Gain on sale of capital assets	12,576
Capital contributions	<u>5,680,130</u>
TOTAL OTHER FINANCING SOURCES	<u>5,692,706</u>
CHANGE IN NET POSITION (DEFICIT)	1,280,587
NET POSITION (DEFICIT), beginning	<u>(12,346,627)</u>
NET POSITION (DEFICIT), ending	<u><u>\$ (11,066,040)</u></u>

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 18,481,166
Cash paid for goods and services	(10,062,241)
Cash paid to or on behalf of employees for services	<u>(4,199,119)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,219,806</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of property, plant and equipment	(2,449,233)
Proceeds from sale of capital assets	12,576
Principal payments on debt financing	(2,944,332)
Interest paid on debt	(4,230,131)
Contributions received	<u>5,680,130</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,930,990)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	288,816
CASH AND CASH EQUIVALENTS, beginning of year	<u>452,717</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 741,533</u></u>

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

(CONTINUED)

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	<u>\$ (283,826)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization	4,303,595
Bad debt expense	287,969
Changes in assets and liabilities	
(Increase) decrease in:	
Accounts receivable	(277,391)
Prepaid expenses	(13,684)
Increase (decrease) in:	
Accounts payable	165,027
Other accrued expenses	(5,369)
Deferred inflows of resources	<u>43,485</u>
Total adjustments	<u>4,503,632</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 4,219,806</u></u>

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

MI Connection Communications 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. MIC acquired assets from Time Warner in December 2007 and immediately began operations. MIC 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 Mecklenburg County.

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 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

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.

Budgetary Data

MIC’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, several amendments to the original budget 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

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.

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

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 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

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 acquisition. Goodwill is amortized on a straight-line basis over 26 years.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report 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 will not be recognized as revenue until then. MIC has one item that meets this criterion, *Unearned revenue*.

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 Fiscal Year Ended June 30, 2014

NOTE B - DEPOSITS

MIC'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 MIC'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 MIC, 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 MIC or with the escrow agent. Because of the ability to measure the exact amount of collateral pledged for MIC 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. MIC has no policy regarding custodial credit risk for deposits.

At June 30, 2014, MIC had petty cash of \$1,600 and deposits with financial institutions with a carrying amount of \$739,933. The bank balances with the financial institutions were \$942,416. Of this balance, \$332,286 was covered by federal depository insurance and \$610,130 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE C - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of capital asset activity for the year ended June 30, 2014:

	<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>1,705,565</u>	<u>1,270,618</u>	<u>1,423,198</u>	<u>1,552,985</u>
Total capital assets not depreciated	<u>1,930,565</u>	<u>\$ 1,270,618</u>	<u>\$ 1,423,198</u>	<u>1,777,985</u>
Capital assets, depreciated				
Building	1,163,229	\$ 14,607	\$ -	1,177,836
Furniture and equipment	1,538,882	15,121	-	1,554,003
Cable systems	36,407,765	2,587,558	11,000	38,984,323
Vehicles	<u>612,124</u>	<u>34,427</u>	<u>5,188</u>	<u>641,363</u>
Total capital assets, depreciated	39,722,000	2,651,713	16,188	42,357,525
Less accumulated depreciation	<u>(9,219,323)</u>	<u>(2,595,115)</u>	<u>16,188</u>	<u>(11,798,250)</u>
Total capital assets, depreciated, net	<u>30,502,677</u>	<u>\$ 56,598</u>	<u>\$ -</u>	<u>30,559,275</u>
Total capital assets	<u>\$ 32,433,242</u>			<u>\$ 32,337,260</u>

NOTE D - DEFERRED INFLOWS OF RESOURCES

The following is a summary of deferred inflows of resources at June 30, 2014:

Prebilled cable revenue	\$ 313,814
Prebilled data revenue	216,527
Prebilled VOIP revenue	<u>63,411</u>
	<u>\$ 593,752</u>

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE E - RISK MANAGEMENT

MIC is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. MIC carries commercial coverage for all risks of loss. MIC maintains general liability and errors and omissions coverage of \$1,000,000 per claim. The policy has an annual aggregate limit for general liability and for errors and omissions of \$2,000,000. MIC maintains umbrella coverage with an occurrence and annual aggregate limit of \$10,000,000. MIC also maintains cyber risk coverage with an aggregate annual limit and occurrence limit of \$2,000,000. MIC's property-specific coverage includes auto insurance of \$1,000,000 per occurrence, and building and contents coverage of \$19,808,600.

MIC does not have flood insurance in case of natural disaster.

The finance officer is bonded for \$100,000.

There have been no significant reductions in insurance coverage in the current year, and claims have not exceeded coverage in the past.

NOTE F - INSTALLMENT FINANCING CONTRACTS

At June 30, 2014, MIC had unsecured indebtedness for installment financing contracts to the Town of Mooresville in the amount of \$75,339,713.

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. This installment financing contract is secured by certain property, plant and equipment of MIC. The repayment terms of MIC's indebtedness to the Town of Mooresville reflect the repayment terms of the installment financing contract entered into by the Town of Mooresville on MIC's behalf. The contract bears interest at a floating rate (4% to 5%) and matures September 1, 2032.

During the year ended June 30, 2010, the Town of Mooresville entered into an installment financing contract for \$12,550,000 on behalf of MIC. This installment financing contract is secured by certain property, plant and equipment of MIC. 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 contract bears interest at 6.24% as of June 30, 2014 and matures March 1, 2023.

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE F - INSTALLMENT FINANCING CONTRACTS (CONTINUED)

Annual requirements to amortize the installment financing contracts and related interest are as follows:

Year Ending June 30	Principal	Interest
2015	\$ 3,190,000	\$ 4,074,006
2016	3,350,000	3,906,194
2017	3,520,000	3,723,536
2018	3,695,000	3,531,882
2019	3,880,000	3,342,939
2020 - 2024	21,140,000	13,417,992
2025 - 2029	21,200,000	8,060,500
2030 - 2033	<u>15,364,713</u>	<u>2,188,500</u>
	<u>\$ 75,339,713</u>	<u>\$ 42,245,549</u>

The following is a summary of changes in installment financing contracts for the year ended June 30, 2014:

Beginning Balance	Increases	Decreases	Ending Balance	Current
<u>\$ 78,284,045</u>	<u>\$ -</u>	<u>\$ 2,944,332</u>	<u>\$ 75,339,713</u>	<u>\$ 3,190,000</u>

NOTE G - OPERATING AGREEMENT

MIC has an operating agreement with a cable service contractor to provide services for a monthly management fee. The agreement expires in December 2014. The monthly fee was \$27,083 per month through April 30, 2013. Effective May 1, 2013, the fee decreased to \$25,000 for the remainder of the agreement.

If MIC sells the system prior to the expiration of this agreement's terms, 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:

- (1) MIC shall pay the contractor a sum equal to six months of the applicable management fee.
- (2) If MIC sells less than six months from the end of this contract term, MIC shall pay the contractor the amount of management fee it would owe the contractor for the remainder of the term.

The total costs paid to the contractor for the year ended June 30, 2014 amounted to \$1,270,398 for administrative services and \$300,000 for management fees.

**MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE H - FINANCIAL RISKS OF PARTICIPATING GOVERNMENTS

In accordance with the interlocal agreement dated August 14, 2007, to the extent that revenues and assets of MIC 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 MIC 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 MIC 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 has recovered its contributions in excess of its financial interest. The participating governments do not have an equity interest in MIC.

NOTE I - RETIREMENT EXPENSE

For the year ended June 30, 2014, MIC contributed \$36,592 to the North Carolina 401(k) Plan, representing a 2% match of participants' annual covered payroll.

MIC contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, or by calling (919) 981-5454.

Plan members are required to contribute six percent of their annual covered salary. MIC is required to contribute at an actuarially determined rate. For MIC, the current rate for employees is 7.07% of their annual covered payroll. The contribution requirements of members and of MIC are established and may be amended by the North Carolina General Assembly. MIC's contributions to LGERS for the year ended June 30, 2014 were \$182,770. The contributions made by MIC equaled the required contribution.

MI CONNECTION COMMUNICATIONS SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE J - CHANGE IN ACCOUNTING ESTIMATE

Effective July 1, 2013, MIC completed a review for useful lives of certain capital assets and implemented a new policy. The revised policy was implemented on a prospective basis with fiscal year 2014 being the first year of implementation. The impact for 2014 was to increase the depreciation of the governmental activities by approximately \$438,000. Differences resulted from changing service lives for certain cable system equipment from 15 to 7 years.

SUPPLEMENTARY FINANCIAL INFORMATION

MI CONNECTION COMMUNICATIONS SYSTEM
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES	\$ 18,761,351	\$ 18,414,527	\$ (346,824)
OPERATING EXPENDITURES			
Programming expenditures		7,154,800	
Facility-based expenditures		4,983,744	
Commercial and marketing expenditures		997,904	
Administrative expenditures		970,341	
Bad debt expense		281,769	
Capital outlay		2,449,233	
TOTAL OPERATING EXPENDITURES	<u>17,161,351</u>	<u>16,837,791</u>	<u>323,560</u>
OPERATING INCOME	<u>1,600,000</u>	<u>1,576,736</u>	<u>(23,264)</u>
DEBT SERVICE			
Principal	3,050,000	2,944,332	105,668
Interest	<u>4,230,490</u>	<u>4,230,131</u>	<u>359</u>
TOTAL DEBT SERVICE	<u>7,280,490</u>	<u>7,174,463</u>	<u>106,027</u>
OTHER FINANCING SOURCES			
Sale of capital assets	-	12,576	12,576
Capital contributions	<u>5,680,490</u>	<u>5,680,130</u>	<u>(360)</u>
TOTAL OTHER FINANCING SOURCES	<u>5,680,490</u>	<u>5,692,706</u>	<u>12,216</u>
REVENUES AND OTHER FINANCIAL SERVICES OVER EXPENDITURES	<u>\$ -</u>	94,979	<u>\$ 94,979</u>
Reconciliation to full accrual basis			
Change in bad debt allowance		(6,200)	
Depreciation and amortization		(4,303,595)	
Principal payment of debt service		2,944,332	
Capitalized interest on borrowings during construction period		49,899	
Change in accrued interest		51,939	
Capital outlay		2,449,233	
CHANGE IN NET POSITION (DEFICIT) (FULL ACCRUAL BASIS)		<u>\$ 1,280,587</u>	