

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

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**Financial Statements and  
Supplementary Information**

**Year Ended June 30, 2017**

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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 ("MIC"), a North Carolina Interlocal Agency, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise MIC'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.

### ***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 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 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, 2017, 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 7, and the Local Government Employees' Retirement System's Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 21 and 22, 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  
October 9, 2017**

## **MI Connection Communications System Management's Discussion and Analysis**

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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, 2017. 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 and deferred outflows of resources of MIC were less than its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,346,162.
- The government's total net position (deficit) increased by \$667,603.
- MIC's total installment financing contract debt at the close of the fiscal year amounted to \$65,238,837, 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 (Continued)**

**MI Connection Communications System's Net Position (Deficit)  
As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 29,547,463	\$ 31,604,282
Capital assets	<u>32,561,757</u>	<u>32,339,386</u>
Total assets	<u>62,109,220</u>	<u>63,943,668</u>
Deferred outflows of resources	<u>1,059,272</u>	<u>340,576</u>
Current liabilities	6,205,169	5,332,858
Long-term liabilities outstanding	<u>63,270,101</u>	<u>65,847,237</u>
Total liabilities	<u>69,475,270</u>	<u>71,180,095</u>
Deferred inflows of resources	<u>39,384</u>	<u>117,914</u>
Net position (deficit)		
Invested in property, plant and equipment	7,282,907	7,060,536
Unrestricted net assets (deficit)	<u>(13,629,069)</u>	<u>(14,074,301)</u>
Total net position (deficit)	<u>\$ (6,346,162)</u>	<u>\$ (7,013,765)</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 MIC were less than its liabilities and deferred inflows of resources by \$6,346,162 as of June 30, 2017. MIC's net position (deficit) increased for the fiscal year ending June 30, 2017 by \$667,603.

**MI Connection Communications System Changes in Net Assets  
For the Fiscal Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	<u>\$ 21,476,183</u>	<u>\$ 20,897,433</u>
Expenses:		
Interest on long-term debt	3,026,079	2,702,623
Cable system	<u>21,232,240</u>	<u>19,985,611</u>
Total expenses	<u>24,258,319</u>	<u>22,688,234</u>
Other financing sources:		
Capital contributions	<u>3,449,739</u>	<u>3,536,395</u>
Change in net position (deficit)	<u>\$ 667,603</u>	<u>\$ 1,745,594</u>

***Financial Analysis of MIC's Fund***

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

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

**Proprietary Fund.** MIC's proprietary fund provides detailed information of the fund's activities. Unrestricted net position (deficit) of MIC increased \$445,232 and amounts to (\$13,629,069) at the end of the fiscal year. Key factors related to this increase are an increase in operating revenues of approximately \$579,000, partially offset by increases in nonoperational expenses, including an increase in interest and pension expense of approximately \$323,000 and \$179,000, respectively.

**Capital Assets.** MIC's investment in capital assets as of June 30, 2017, totals \$32,561,757 (net of accumulated depreciation). These assets include buildings, cable system infrastructure, land, machinery and equipment, and vehicles.

**MI Connection Communications System's Capital Assets  
As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Land	\$ 225,000	\$ 225,000
Buildings and systems	1,198,787	1,193,898
Furniture and equipment	1,596,005	1,591,630
Infrastructure	48,174,510	44,881,091
Vehicles and motorized equipment	682,836	685,609
Construction in progress	1,142,136	938,968
Accumulated depreciation	<u>(20,457,517)</u>	<u>(17,176,810)</u>
Total	<u>\$ 32,561,757</u>	<u>\$ 32,339,386</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, 2017, MIC had total installment financing contract debt outstanding of \$65,238,837. 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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Due to town of Mooresville, North Carolina	<u>\$ 65,238,837</u>	<u>\$ 68,544,221</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.

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

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### ***Economic Factors***

Population growth in Cornelius, Davidson, and Mooresville from 2010 – 2016 was 14.7%, 13.8%, and 11.7%, respectively, compared to 6.4% in North Carolina for the same period (per U.S. Census). This growth has been one of the key drivers behind the customer gains the Company experienced over the last 5 years.

### ***Budget Highlights for the Fiscal Year Ending June 30, 2018***

MIC's rates for services will increase. Operating expenses will continue to remain in alignment with FY 2017 expenses on a monthly basis. Subsequent to fiscal year end, MIC underwent a rebranding campaign and are now doing business as Continuum.

### ***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 Sean Wilbur, MI Connection Communications System, 420 S. Academy Street, Mooresville, North Carolina.



**MI Connection Communications System**  
**Statement of Net Position (Deficit)**  
**June 30, 2017**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 127,578
Accounts receivable (net of allowance for uncollectible accounts of \$67,458)	1,080,228
Prepaid expenses	82,566
	<u>1,290,372</u>
Total current assets	<u>1,290,372</u>

Non-current assets:

Property, plant and equipment, net	32,561,757
Start-up costs (net of accumulated amortization of \$2,444,036)	4,063,856
Goodwill (net of accumulated amortization of \$14,107,031)	24,193,235
	<u>60,818,848</u>
Total non-current assets	<u>60,818,848</u>

Total assets	<u>62,109,220</u>
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**DEFERRED OUTFLOWS OF RESOURCES**

1,059,272

**LIABILITIES**

Current liabilities:

Current portion of installment financing contracts	3,465,029
Accounts payable	1,756,393
Accrued interest payable	91,725
Other accrued expenses	327,003
Unearned revenue	565,019
	<u>6,205,169</u>
Total current liabilities	<u>6,205,169</u>

Non-current liabilities:

Compensated absences	109,573
Long-term portion of installment financing contracts	61,773,808
Net pension liability	1,123,988
Unamortized debt premiums	262,732
	<u>63,270,101</u>
Total non-current liabilities	<u>63,270,101</u>

Total liabilities	<u>69,475,270</u>
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**DEFERRED INFLOWS OF RESOURCES**

39,384

**NET POSITION (DEFICIT)**

Net investment in property, plant and equipment	7,282,907
Unrestricted	(13,629,069)
	<u>(6,346,162)</u>
Total net position (deficit)	<u>\$ (6,346,162)</u>

**MI Connection Communications System**  
**Statement of Revenues, Expenses and Changes in Net Position (Deficit)**  
**For the Fiscal Year Ended June 30, 2017**

Operating revenues	<u>\$ 21,476,183</u>
Operating costs and expenses:	
Programming expenses	8,339,077
Facility-based expenses	5,866,785
Commercial and marketing expenses	841,365
Administrative expenses	816,484
Bad debt expense	230,078
Depreciation	3,437,495
Gain on disposal of property, plant and equipment	(5,290)
Amortization	<u>1,707,210</u>
Total operating costs and expenses	<u>21,233,204</u>
Operating profit	<u>242,979</u>
Other income and expense:	
Interest expense	(3,026,079)
Capital contributions	3,449,739
Interest income	<u>964</u>
Total other income	<u>424,624</u>
Change in net position (deficit)	<u>667,603</u>
Net position (deficit), beginning	<u>(7,013,765)</u>
Net position (deficit), ending	<u><u>\$ (6,346,162)</u></u>

**MI Connection Communications System**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2017**

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Cash flows from operating activities:	
Cash received from customers	\$ 21,633,407
Cash paid for goods and services	(11,141,856)
Cash paid to or on behalf of employees for services	<u>(3,976,093)</u>
Net cash provided by operating activities	<u>6,515,458</u>
Cash flows from capital and related financing activities:	
Purchase of property, plant and equipment	(3,660,906)
Proceeds from sale of property, plant and equipment	6,330
Interest paid on debt	(3,035,129)
Principal payments on debt financing	(855,645)
Contributions received	<u>1,000,000</u>
Net cash used by capital and related financing activities	<u>(6,545,350)</u>
Cash flows from investing activities:	
Interest income	<u>964</u>
Net decrease in cash and cash equivalents	(28,928)
Cash and cash equivalents, beginning of year	<u>156,506</u>
Cash and cash equivalents, end of year	<u><u>\$ 127,578</u></u>

**MI Connection Communications System**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2017**

**(Continued)**

Reconciliation of operating profit to net cash provided by operating  
provided by operating activities:

Operating profit	<u>\$ 242,979</u>
Adjustments to reconcile operating profit to net cash provided by operating activities:	
Depreciation and amortization	5,144,705
Gain on disposal of property, plant and equipment	(5,290)
Pension expense	343,186
Bad debt expense	230,078
Changes in assets and liabilities	
(Increase) decrease in:	
Accounts receivable	(73,365)
Prepaid expenses	148,046
Deferred outflows of resources for pensions	(243,291)
Increase (decrease) in:	
Accounts payable	605,852
Other accrued expenses	114,390
Unearned revenues	511
Compensated absences	<u>7,657</u>
Total adjustments	<u>6,272,479</u>
Net cash provided by operating activities	<u><u>\$ 6,515,458</u></u>

Supplemental schedule of noncash investing  
and financing activities:

Debt financing principal forgiven by Town of Mooresville	<u><u>\$ 2,449,739</u></u>
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## **Notes to Financial Statements**

### **1. 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 the town of Huntersville.

Subsequent to fiscal year end, MIC underwent a rebranding campaign and are now doing business as Continuum.

#### ***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.

#### ***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.

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

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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 Outflows and Inflows of Resources***

In addition to assets, the statement of financial position 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. MIC has an item that meets this criterion, contributions made to the pension plan in the 2017 fiscal year.

The statement of financial position 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. MIC 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. MIC's employer contributions are recognized when due and MIC 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.

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

**2. 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, 2017, MIC had petty cash of \$1,600 and deposits with financial institutions with a carrying amount of \$125,978. The bank balances with the financial institutions were \$234,010 and were 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, 2017:

	<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>938,968</u>	<u>1,993,166</u>	<u>(1,789,998)</u>	<u>1,142,136</u>
Total capital assets not depreciated	<u>1,163,968</u>	<u>\$ 1,993,166</u>	<u>\$ (1,789,998)</u>	<u>1,367,136</u>
Capital assets, depreciated				
Building	1,193,898	\$ 4,889	\$ -	1,198,787
Furniture and equipment	1,591,630	4,375	-	1,596,005
Cable systems	44,881,091	3,436,699	(143,280)	48,174,510
Vehicles	<u>685,609</u>	<u>11,775</u>	<u>(14,548)</u>	<u>682,836</u>
Total capital assets, depreciated	48,352,228	3,457,738	(157,828)	51,652,138
Less accumulated depreciation	<u>(17,176,810)</u>	<u>(3,437,495)</u>	<u>156,788</u>	<u>(20,457,517)</u>
Total capital assets, depreciated, net	<u>31,175,418</u>	<u>\$ 20,243</u>	<u>\$ (1,040)</u>	<u>31,194,621</u>
Total capital assets	<u>\$ 32,339,386</u>			<u>\$ 32,561,757</u>

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

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**4. Deferred Outflows and Inflows of Resources**

The following is a summary of deferred outflows of resources at June 30, 2017:

Differences between expected and actual experience	\$	21,118
Changes of assumptions		76,982
Net difference between projected and actual earnings on pension plan investments		621,424
Changes in proportion and differences between MIC's contributions and proportionate share of contributions		96,457
MIC's contributions subsequent to the measurement date		<u>243,291</u>
	\$	<u>1,059,272</u>

The following is a summary of deferred inflows of resources at June 30, 2017:

Difference between expected and actual experience	\$	<u>39,384</u>
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**5. Pension Plan Obligations**

***Local Governmental Employees' Retirement System***

Plan Description. MIC 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](http://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.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. MIC employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. MIC's contractually required contribution rate for the year ended June 30, 2017, was 7.25% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the



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

costs of benefits earned by employees during the year. Contributions to the pension plan from MIC were \$243,291 for the year ended June 30, 2017.

**Refunds of Contributions.** MIC 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, 2017, MIC reported a liability of \$1,123,988 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date as of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. MIC's proportion of the net pension liability was based on a projection of MIC'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, 2016, MIC's proportion was 0.053%, which was an increase of 0.002% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, MIC recognized pension expense of \$343,186. At June 30, 2017, MIC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 21,118	\$ 39,384
Changes of assumptions	76,982	-
Net difference between projected and actual earnings on pension plan investments	621,424	-
Changes in proportion and differences between MIC's contributions and proportionate share of contributions	96,457	-
MIC's contributions subsequent to the measurement date	<u>243,291</u>	<u>-</u>
Total	<u>\$ 1,059,272</u>	<u>\$ 39,384</u>

\$243,291 reported as deferred outflows of resources related to pensions resulting from MIC's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30**

2018	\$ 145,712
2019	145,515
2020	306,718
2021	178,654

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

**Actuarial Assumptions.** The total pension liability in the December 31, 2015 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 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 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>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 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 7.25%. 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

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

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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 the MIC's proportionate share of the net pension liability to changes in the discount rate.***

The following presents the MIC's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the MIC'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 (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
MIC's proportionate share of the net pension liability (asset)	\$ 2,667,749	\$ 1,123,988	\$ (165,475)

***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**

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's property-specific coverage includes auto insurance of \$1,000,000 per occurrence, and building and contents coverage of \$21,477,700.

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.

**7. Installment Financing Contracts**

At June 30, 2017, MIC had unsecured indebtedness for installment financing contracts to the town of Mooresville in the amount of \$65,238,837.

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 MIC. This financing contract was 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 financing contract entered into by the town of Mooresville on MIC'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% to 5%). As a result of the refunding, the financing contract agreement between MIC 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

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

statement of net position will remain the amount prior to modification because the present value of the cash flows of the MIC financing contract after modification did not differ from the present value of the remaining cash flows of this MIC 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. The contract matures in September 2032.

During 2010, the town of Mooresville entered into an installment financing contract for \$12,550,000 on behalf of MIC. This installment financing contract was secured by certain property, plant and equipment of MIC. The repayment terms of MIC's indebtedness to the town of Mooresville reflected the repayment terms of the installment financing contract entered into by the town of Mooresville on MIC's behalf. During the year ended June 30, 2015, the town of Mooresville entered in to 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 MIC 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 MIC financing contract after modification differed from the present value of the remaining cash flows of the MIC 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 contract matures in March 2023.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 3,465,029	\$ 2,913,937
2019	3,646,039	2,767,651
2020	3,828,399	2,613,761
2021	4,009,875	2,452,258
2022	4,200,421	2,283,007
2023 - 2027	18,713,987	8,795,030
2028 - 2032	22,246,376	4,015,790
2033	<u>5,128,710</u>	<u>123,633</u>
	<u>\$ 65,238,837</u>	<u>\$ 25,965,067</u>

The following is a summary of long-term debt for the year ended June 30, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current</u>
Installment financing contracts	\$ 68,544,221	\$ -	\$ 3,305,384	\$ 65,238,837	\$ 3,465,029
Premium	278,655	-	15,923	262,732	-
Compensated absences	101,916	153,697	146,040	109,573	-
Net pension liability (LRS)	<u>226,866</u>	<u>897,122</u>	<u>-</u>	<u>1,123,988</u>	<u>-</u>
	<u>\$ 69,151,658</u>	<u>\$ 1,050,819</u>	<u>\$ 3,467,347</u>	<u>\$ 66,735,130</u>	<u>\$ 3,465,029</u>

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

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### **8. Operating Agreement**

MIC had an operating agreement with a communications contractor to provide services for a monthly fee based on usage. The agreement consists of several services with effective dates ranging from July 2014 to May 2015 with terms ranging from one to four years with renewal options. The total costs paid to the contractor for the years ended June 30, 2017 and 2016 amounted to \$1,306,713 and \$1,263,847, respectively.

### **9. 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.

At June 30, 2017, MIC recorded an outstanding payable to the town of Mooresville in the amount of \$75,289 relating primarily to monthly insurance premiums payable in arrears.

### **10. Retirement Expense**

For the year ended June 30, 2017 MIC contributed \$49,611 to the North Carolina 401(k) Plan, representing a 2% match of participants' annual covered payroll.

### **11. Contingencies**

MIC is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on MIC's financial position, results of operations, or liquidity.

***Required Supplementary Information***

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

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
MIC's proportion of the net pension liability (asset) (%)	<b>0.05296%</b>	0.05055%	0.04350%	0.03270%
MIC's proportion of the net pension liability (asset) (\$)	<b>\$ 1,123,988</b>	\$ 226,866	\$ (256,450)	\$ 394,161
MIC's covered-employee payroll	<b>3,059,418</b>	3,002,764	2,578,279	1,962,786
MIC's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<b>36.74%</b>	7.56%	-9.95%	20.08%
Plan fiduciary net position as a percentage of the total pension liability (asset)	<b>91.47%</b>	98.09%	102.64%	94.35%

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

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 243,291	\$ 202,305	\$ 212,295	\$ 182,284
Contributions in relation to the contractually required contribution	<u>243,291</u>	<u>202,305</u>	<u>212,295</u>	<u>182,284</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
MIC's covered-employee payroll	\$ 3,355,738	\$ 3,059,418	\$ 3,002,764	\$ 2,578,279
Contributions as a percentage of covered- employee payroll	7.25%	6.61%	7.07%	7.07%



***Supplementary Information***

**MI Connection Communications System**  
**Statement of Revenues and Expenditures - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues	\$ 22,570,681	\$ 21,476,183	\$ (1,094,498)
Operating expenditures:			
Programming expenditures		8,339,077	
Facility-based expenditures		5,914,167	
Commercial and marketing expenditures		841,365	
Administrative expenditures		816,484	
Bad debt expense		211,841	
Capital outlay		3,505,972	
Total operating expenditures	<u>19,651,681</u>	<u>19,628,906</u>	<u>22,775</u>
Operating income	<u>2,919,000</u>	<u>1,847,277</u>	<u>(1,071,723)</u>
Debt service:			
Principal	3,304,421	3,305,384	(963)
Interest	<u>3,045,253</u>	<u>3,035,129</u>	<u>10,124</u>
Total debt service	<u>6,349,674</u>	<u>6,340,513</u>	<u>9,161</u>
Other financing sources:			
Proceeds from sale of property, plant and equipment	-	6,330	6,330
Capital contributions	3,430,674	3,449,739	19,065
Interest income	<u>-</u>	<u>964</u>	<u>964</u>
Total other financing sources	<u>3,430,674</u>	<u>3,457,033</u>	<u>26,359</u>
Revenues and other financial services over expenditures	<u>\$ -</u>	<u>(1,036,203)</u>	<u>\$ (1,036,203)</u>
Reconciliation to full accrual basis:			
Change in bad debt allowance		(18,237)	
Depreciation and amortization		(5,144,705)	
Pension expense		(343,186)	
Principal payment of debt service		3,305,384	
Proceeds from disposal of property, plant and equipment		(6,330)	
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		243,291	
Capitalized labor on construction		154,934	
Change in accrued interest		9,050	
Change in compensated absences		(7,657)	
Capital outlay		3,505,972	
Gain on disposal of property, plant and equipment		<u>5,290</u>	
Change in net position (deficit) (full accrual basis)		<u>\$ 667,603</u>	