



March 4, 2011

Sharon G. Edmundson, CPA
Director, Fiscal Management Section
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

Dear Ms. Edmundson:

We have received your letter dated February 4th with regard to the audited financial statements for the fiscal year ended June 30, 2010 and the on-going financial position of MI-Connection Communication System (MI-Connection). Thank you for acknowledging our \$3.2 million increase in cash flow from 2009 to 2010. Our governing body continues to work diligently to balance short-term improvements with our long-term goals of providing quality services to our residents and expanded offerings to our small business and commercial clients.

In response to your specific concerns and request for information within 30 days, we offer the following:

- 1. Risk Management disclosures related to proper bonding of the Financial Officer and employees**
 - a. See Attachment: The Cincinnati Insurance Company document – Public Official Bond No. 0531777 for Stacey Pomrenke, Finance Officer. Provides bonding of \$100,000.
 - b. See Attachment: The Cincinnati Insurance Company documents – General Change Endorsement, Common Policy Declarations (Policy # CPP 088 69 62/CPA 088 69 62), Crime Coverage Part Declarations and Sublimits for Money and Securities. These provide coverage for employees that have custody of more than \$100 of public funds or have access to the inventories of the system.
 - c. These policies have been reviewed by counsel and deemed to be appropriate by the MI-Connection governing board.

2. Request for estimated cash flow position for the next 12 months and business plan including a 3-year forecast with major assumptions

- a. See Attachment A – Includes estimated revenues and expenditures for the next 3 years. Included in this forecast are our ending cash balances each year.
- b. Board’s insights and comments on the future fiscal health of MI-Connection:
 - i. The Certificates of Participation (COPS) indebtedness was used to purchase an older, poorly performing cable system out of bankruptcy and to upgrade that system to a fiber-optic-to-the-node network capable of meeting local demand for advanced video and communications services. Based on continued research, it is our opinion that the fiber optic infrastructure remains the leading edge technology for broadband, video, data and voice transmission with no known viable emerging competitive threat. For example, wireless transport systems do offer convenience for mobile voice and data, but remain slow and less reliable for large data transmissions. Our view at this time is that the most valuable physical asset of this enterprise is the fiber optic backbone and the upgraded fiber network and that it will be the preferred mode of transport in our communities for broadband services in the coming years.
 - ii. MI-Connection has a strong customer base in traditional cable TV services and these services generate substantial cash flow. We project this substantial revenue stream will continue, although we project conservatively that it will have flat to moderate growth potential in the next three years. This service offering as a whole is experiencing increased competition from satellite TV and emerging alternative video delivery services (commonly referred to in the industry as “over-the-top TV”). MI-Connection’s upgraded system has the ability to deliver high speed broadband services (currently we offer up 20Mbps download X 2Mbps upload), which means that emerging alternative video services perform well over MI Connection’s network. For this reason, among others, we remain convinced that MI-Connection’s network will remain the carrier of choice for broadband services in our communities well into the future.
 - iii. MI-Connection’s broadband services continue to experience rapid growth and expansion for both residential and small business/commercial clients in our service territory. This is consistent with experience of other providers in the industry generally. We foresee strong revenue growth and increasing subscriber penetration. Existing customers are expected to upgrade their broadband services and new customers will subscribe

because of MI-Connection's superior broadband transmission speeds and reliability.

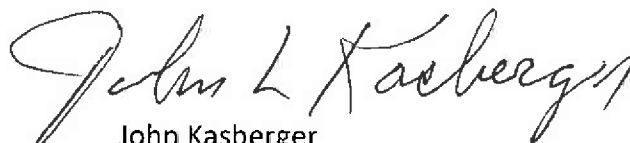
- iv. In 2009, MI-Connection introduced its first voice service offering and that service continues to experience exceptional growth. At this point, there remains a lot of growth potential in this service offering as currently a small percentage of potential customers have signed up for the voice service. Based on industry forecasts and local experience, we anticipate continued and rapid growth.
- v. In December of 2010, the MI-Connection board and its operating partner Bristol Virginia Utilities Authority (BVU), signed a Memorandum of Understanding (MOU) to jointly pursue a new and improved operating relationship. The MOU outlines an intention to bring in-house certain services currently provided by BVU, while continuing to use BVU's "best of breed" technical services under a new contract of more limited scope. This new arrangement will result in a substantially reduced management fee. The MOU is a non-binding agreement and MI-Connection is currently engaged in the necessary due diligence and planning to execute the binding agreements and transition contemplated by the MOU in the coming months. In the MI-Connection Board's view the change in operating relationship envisioned by the MOU will be financially and operationally beneficial to the long-term viability of MI-Connection. This anticipated new arrangement will provide more local control, with local knowledge, at a reduced operating cost, ultimately making MI-Connection more efficient and competitive in our market.
- vi. The combination of the above events is driving MI-Connection's average revenue per customer up significantly and we anticipate this trend to continue over the next several years. Of particular note, we also anticipate growth in subscriber numbers over the next three years. MI-Connection is not without competitive challenges, however. In our 2011 financial performance, we experienced the loss of two major apartment complexes representing approximately 580 customers which is forecasted to result in a disappointing 0.4% growth in subscriber numbers for 2011 over 2010. The Board, along with management, has stepped up customer retention efforts and we believe we will resume planned growth in our total customer relationships in 2012.

3. Financial weaknesses requiring significant additional measures to achieve financial stability

- a. Immediately after system purchase in December 2007, we experienced relatively high operating expenses to cash flow. We have dramatically improved EBITDA results over the last two years. These results, together with the diligent expense control activities discussed above should bring MI-Connection to industry standard EBITDA results in the future.
- b. We have experienced relatively weak revenue growth in the early years of owning the system as the nation entered into a recession and MI-Connection undertook a major upgrade and rebuild of its network. This situation has now stabilized and improved. Since completion of our upgrade, MI-Connection's superior and market-leading services are generating improved revenue growth. We have experienced selective competitive overbuild by competitors to some apartment complexes in MI-Connection's service territory, but the Board is confident this challenge can be met through stepped up customer retention efforts. As the economy and real estate market recover over time, we anticipate selling services to the majority of new homes and apartment complexes in our community.
- c. The cash flow of the system has paid all operating expenses but has been insufficient to cover debt service on the COPS. The Towns of Mooresville and Davidson (which jointly have financial responsibility for MI-Connection) and their elected leaders continue to support the system in every way needed. Through frequent communications with the elected officials, town managers and finance managers, we have and will continue to secure additional contributions to capital from the towns as required to fund the debt service shortfall. The MI-Connection Board is confident we have the support of both towns and thus, MI-Connection's projected capital contribution requirements will be met.

In closing, we thank the LGC for its oversight. We remain committed to our community and fiduciary responsibilities to the towns of Mooresville and Davidson as well as the state of North Carolina.

Sincerely,



John Kasberger

Chairman of the Board, MI-Connection

CC MI Connection Board

The Cincinnati Insurance Company

6200 S GILMORE RD
FAIRFIELD OH 45014-5141

Public Official Bond No. 0531777

KNOW ALL MEN BY THESE PRESENTS:

That Stacey Pomrenke
of BRISTOL State of VA (hereinafter called the Principal) and
The Cincinnati Insurance Company (hereinafter called the Surety), a corporation organized under the laws of the state of
Ohio with its principal office in the City of FAIRFIELD and the State of OH are held

and firmly bound unto M1 Connection Communications System
(hereinafter called the Obligeo) in the sum of _____
One Hundred Thousand and No/100 Dollars; (\$100,000.00) for the payment whereof
to the Obligeo the Principal binds himself/herself, his/hers, executors, administrators, and assigns, and the Surety
binds itself, its successors, and assigns, jointly and severally, firmly by these presents.

Signed, sealed and dated this 18th day of February, A.D. 2011.

Whereas the above named Principal has been duly appointed or elected to the office of Finance Officer
and

Whereas, the effective date of this bond is February 16, 2011.

Now, therefore, the condition of the foregoing obligation is such that if the Principal shall faithfully perform such duties as
may be imposed on him/her by law and shall honestly account for all money that may come into his/her hands in his/her
official capacity during such period, then this obligation shall be void; otherwise, it shall remain in full force until cancelled
as provided herein.

This Bond is executed by the Surety upon the following express conditions, which shall be conditions precedent to the right
of recovery hereunder:

First: That the Surety may, if it shall so elect, cancel this Bond by giving thirty (30) days notice in writing to _____
M1 Connection Communications System and this
Bond shall be deemed canceled at the expiration of said thirty (30) days; the Surety remaining liable, however, subject to
all terms, conditions, and provisions of this Bond, for any act or acts covered by this Bond which may have been
committed by the Principal up to the date of such cancellation; and the Surety shall, upon surrender of this Bond and its
release from all liability hereunder, refund the premium paid, less a pro rata part thereof for the time this Bond shall have
been in force.

Second: That the Surety shall not be liable hereunder for the loss of any public moneys or funds occurring
through or resulting from failure of, or default in payment by, any banks or depositories in which any public moneys or
funds have been deposited, or may be deposited by or placed to the credit, or under control of the Principal, whether or
not such banks or depositories were or may be selected or designated by the Principal or by other persons; or by reason
of the allowance to, or acceptance by the Principal of any interest on said public moneys or funds, any law decision,
ordinance, or statute to the contrary notwithstanding.

Third: That the Surety shall not be liable for any loss or losses, resulting from the failure of the Principal to collect
any taxes, licenses, levies, assessments, etc., with the collection of which he/she may be chargeable by reason of his/her
election or appointment as aforesaid.

Witness: Walter Bransler
(as to the Principal)

Stacey Pomrenke
Stacey E. Pomrenke
Principal

The Cincinnati Insurance Company
By Jamie S. Rock
Attorney-in-Fact: Jamie Stapleton Rock

STATE OF Virginia SS
COUNTY OF Washington

Stacey Pomrenke being
duly sworn, says that he/she will support the constitution of the United States and of the State of Virginia
and that he/she will faithfully, honestly, and impartially perform and discharge the duties of the office position to which
he/she has been appointed while he/she shall hold said office.

Sworn to by said Stacey Pomrenke
Before me, and by him/her subscribed in my presence this 24th
day of February, A.D. 2011
Alanna S. Kizza Notary Public
Notary Reg # 187154
Comm. Exp 9-30-2011



THE CINCINNATI INSURANCE COMPANY

Fairfield, Ohio

POWER OF ATTORNEY

0531777

KNOW ALL MEN BY THESE PRESENTS: That THE CINCINNATI INSURANCE COMPANY, a corporation organized under the laws of the State of Ohio, and having its principal office in the City of Fairfield, Ohio, does hereby constitute and appoint

Jamie Stapleton Rock

of Bristol, TN its true and lawful Attorney(s)-in-Fact to sign, execute, seal and deliver on its behalf as Surety, and as its act and deed, any and all bonds, policies, undertakings, or other like instruments, as follows:

Any such obligations in the United States, Five Million and No/100 Dollars (\$5,000,000.00).

This appointment is made under and by authority of the following resolution passed by the Board of Directors of said Company at a meeting held in the principal office of the Company, a quorum being present and voting, on the 6th day of December, 1958, which resolution is still in effect:

RESOLVED, that the President or any Vice President be hereby authorized, and empowered to appoint Attorneys-in-Fact of the Company to execute any and all bonds, policies, undertakings, or other like instruments on behalf of the Corporation, and may authorize any officer or any such Attorney-in-Fact to affix the corporate seal; and may with or without cause modify or revoke any such appointment or authority. Any such writings so executed by such Attorneys-in-Fact shall be binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company.

This Power of Attorney is signed and sealed by facsimile under and by the authority of the following Resolution adopted by the Board of Directors of the Company at a meeting duly called and held on the 7th day of December, 1973.

RESOLVED, that the signature of the President or a Vice President and the seal of the Company may be affixed by facsimile on any power of attorney granted, and the signature of the Secretary or Assistant Secretary and the seal of the Company may be affixed by facsimile to any certificate of any such power and any such power of certificate bearing such facsimile signature and seal shall be valid and binding on the Company. Any such power so executed and sealed and certified by certificate so executed and sealed shall, with respect to any bond or undertaking to which it is attached, continue to be valid and binding on the Company.

IN WITNESS WHEREOF, THE CINCINNATI INSURANCE COMPANY has caused these presents to be sealed with its corporate seal, duly attested by its Vice President this 1st day of April, 2007.



STATE OF OHIO) ss:
COUNTY OF BUTLER)

THE CINCINNATI INSURANCE COMPANY

Thomas H. Kelly

Vice President

On this 1st day of April, 2007, before me came the above-named Vice President of THE CINCINNATI INSURANCE COMPANY, to me personally known to be the officer described herein, and acknowledged that the seal affixed to the preceding instrument is the corporate seal of said Company and the corporate seal and the signature of the officer were duly affixed and subscribed to said instrument by the authority and direction of said corporation.



Mark J. Huller

MARK J. HULLER, Attorney at Law
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date. Section 147.03 O.R.C.

I, the undersigned Secretary or Assistant Secretary of THE CINCINNATI INSURANCE COMPANY, hereby certify that the above is a true and correct copy of the Original Power of Attorney issued by said Company, and do hereby further certify that the said Power of Attorney is still in full force and effect.

GIVEN under my hand and seal of said Company at Fairfield, Ohio, this 16th day of February 2011

Beggy J. Schlemmer

Secretary



THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

GENERAL CHANGE ENDORSEMENT

Attached to and forming part of Policy No. BEP 266 38 83

Issued to BRISTOL VIRGINIA UTILITIES

Effective Date of Endorsement 07-01-2010 Agent _____

BRISTOL, TN

Due at Endorsement Effective Date	Additional Premium	Return Premium
		REC'D JUL 19 2010

Subsequent Annual Semi Quarterly Installments Increased by Decreased by \$
Revised Install. Payment, Not Including Auto Premiums \$

It is agreed that the policy is amended as indicated by

Policy Premium Amended to: Annual Semi-Annual Quarterly Installments

Named Insured amended to: **BVU AUTHORITY**

Mailing Address

Described Premises

Items added as specified below:

Items deleted as specified below:

Mortgagee & Address

Loss Payee & Address

Additional Insured-Name of Person or Organization & Address & Coverage Form applying.

THE CINCINNATI INSURANCE COMPANY

P.O. BOX 145496, CINCINNATI, OHIO 45250-5496
(513) 870-2000

CPP 088 69 62/CPA 088 69 62

A Stock Insurance Company

Previous Policy No.

COMMON POLICY DECLARATIONS

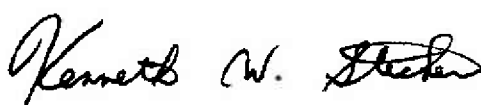
RENEWAL

DECLARATIONS	POLICY NUMBER	CPP 088 69 62/CPA 088 69 62
NAMED INSURED BRISTOL VIRGINIA UTILITIES PO BOX 8100 ADDRESS BRISTOL VA 24203 (Number & Street, Town, County, State & Zip No.)		
Policy Period: At 12:01 A.M., STANDARD TIME AT YOUR MAILING ADDRESS SHOWN ABOVE		
All coverages except Automobile and / or Garage Policy number: CPP 088 69 62 FROM: 07-01-2009 TO: 07-01-2012		
Automobile and / or Garage Policy number: CPA 088 69 62 FROM: 07-01-2009 TO: 07-01-2010		
Agency BURKE, POWERS & HARTY, INC. 41-065 City BRISTOL TN		
Legal Entity / Business Description CORPORATION		
IN RETURN FOR THE PAYMENT OF THE PREMIUM, AND SUBJECT TO ALL THE TERMS OF THIS POLICY, WE AGREE WITH YOU TO PROVIDE THE INSURANCE AS STATED IN THIS POLICY. FORMS APPLICABLE TO ALL COVERAGE PARTS: (show numbers) REFER TO IA901		

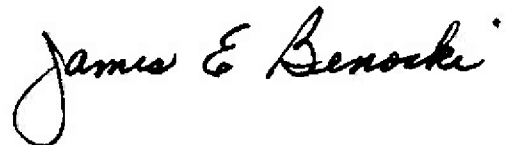
CWS JWZ
06-29-2009

Countersigned _____ (Date) By _____ (Authorized Representative)

IN WITNESS WHEREOF, this policy has been signed by our President and Secretary in the City of Fairfield, Ohio, but this policy shall not be binding upon us unless countersigned by an authorized representative of ours. This provision does not apply in Arizona, Virginia and Wisconsin.



Secretary



President

AGENT'S COPY

THE CINCINNATI INSURANCE COMPANY
CINCINNATI, OHIO

A Stock Insurance Company

CRIME COVERAGE PART DECLARATIONS

Attached to and forming part of POLICY NUMBER: CPP 088 69 62		Effective Date: 07-01-2009
Named Insured IS THE SAME AS IT APPEARS ON THE COMMON POLICY DECLARATIONS		
<u>Item</u>	<u>Location (address)</u>	
	REFER TO IA904	
Coverage is provided only for the Crime Coverage for which a Limit of Insurance is shown below:		
Coverage Forms Forming Part of This Coverage Part	Limit of Insurance	Deductible Amount
Employee Dishonesty Coverage Form A	\$500,000	\$500
Forgery or Alteration Coverage Form B	\$100,000	\$500
Theft, Disappearance and Destruction Coverage Form C		
Loss Inside the Premises	\$200,000	\$500
Loss Outside the Premises	\$200,000	\$500
Robbery and Safe Burglary Coverage Form D		
Loss Inside the Premises	\$	\$
Loss Outside the Premises	\$	\$
Safe Burglary	\$	\$
Premises Burglary Coverage Form E	\$	\$
Other		
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
FORMS AND/OR ENDORSEMENTS APPLICABLE TO THIS COVERAGE PART:		
CA401	01/86	CR1000 10/90
CR0003	01/86	CR0004 10/90
		CR0112 06/99
		CR1536 10/90
		CR0001 01/86

Cancellation of Prior Insurance: By acceptance of this Coverage Part you give us notice canceling prior to policy or bond No.

the cancellation to be effective at the time this Coverage Part becomes effective.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

SUBLIMITS FOR MONEY AND SECURITIES

This endorsement applies to the Crime Coverage Forms and Sections of those forms designated below:

Coverage Form	Section	Title
<input checked="" type="checkbox"/> C	<input checked="" type="checkbox"/> 1 <input checked="" type="checkbox"/> 2	THEFT, DISAPPEARANCE AND DESTRUCTION
<input type="checkbox"/> Q	<input type="checkbox"/> 1 <input type="checkbox"/> 2	ROBBERY AND SAFE BURGLARY MONEY AND SECURITIES

A. SCHEDULE*

Address of Premises **REFER TO IA904**

<u>Property</u>	<u>Section 1</u>		<u>Section 2</u>	
	Form C		Form Q	
	<u>Robbery</u>		<u>Safe Burglary</u>	
Money and Securities	\$ <u>15,000</u>	\$ _____	\$ _____	\$ <u>25,000</u>
Securities	\$ <u>85,000</u>	\$ _____	\$ _____	\$ <u>125,000</u>
Checks other than Payroll Checks	\$ <u>50,000</u>	\$ _____	\$ _____	\$ <u>50,000</u>
Total	\$ <u>150,000</u>	\$ _____	\$ _____	\$ <u>200,000</u>

B. PROVISIONS

As respects loss at or in relation to the premises shown in the SCHEDULE, the Limit of Insurance shown in the Declarations is changed to the limit shown in the SCHEDULE for the type of property indicated.

*Information required to complete this SCHEDULE, if not shown on this endorsement will be shown in the Declarations.

MI Connection Communication System

Projected Revenues, Expenses and Net from Operations

Attachment A

	2010 Actual	2011 Budget Reestimate	2012 Projection	2013 Projection
OPERATING REVENUES	<u>\$14,847,980</u>	<u>\$15,893,097</u>	<u>\$18,413,100</u>	<u>\$20,674,072</u>
OPERATING COSTS AND EXPENSES:				
Programming expenses	\$6,341,631	\$5,608,203	\$6,565,298	\$6,801,970
Facility based expenses	\$3,841,287	\$4,524,558	\$4,889,464	\$4,987,253
Commerical and marketing expenses:	\$1,194,650	\$713,503	\$794,596	\$825,900
Administrative expenses	\$2,059,397	\$2,089,835	\$2,129,244	\$2,207,834
Other	\$161,787			
Depreciation and amortization	<u>\$3,418,490</u>	<u>\$3,550,673</u>	<u>\$3,641,116</u>	<u>\$3,704,450</u>
TOTAL OPERATING COSTS AND EXPENSES	\$17,017,242	\$16,486,772	\$18,019,717	\$18,527,406
OPERATING INCOME (LOSS)	(\$2,169,262)	(\$593,675)	\$393,383	\$2,146,666
OTHER INCOME (EXPENSE)				
Interest	(\$4,625,583)	(\$4,563,961)	(\$4,552,767)	(\$4,541,057)
Interest Income	\$46,783	\$0	\$0	\$0
Capital Contributions	<u>\$576,610</u>	<u>\$6,459,651</u>	<u>\$5,705,429</u>	<u>\$4,278,618</u>
TOTAL OTHER INCOME (EXPENSE)	<u>(\$4,002,190)</u>	<u>\$1,895,690</u>	<u>\$1,152,662</u>	<u>(\$262,439)</u>
NET INCOME (LOSS)	<u>(\$6,171,452)</u>	<u>\$1,302,015</u>	<u>\$1,546,045</u>	<u>\$1,884,227</u>
EBIDA	<u>\$1,296,011</u>	<u>\$2,956,998</u>	<u>\$4,034,499</u>	<u>\$5,851,116</u>
<i>Less:</i>				
Capital Spending	(\$2,998,281)	(\$2,575,800)	(\$2,850,000)	(\$2,850,000)
Debt Service	(\$4,596,779)	(\$7,289,582)	(\$7,290,250)	(\$7,279,734)
<i>Plus:</i>				
Sales Tax Reimbursement	\$0	\$467,672	\$0	\$0
Escrow Reimbursement	\$164,559	\$0	\$0	\$0
Capital Contributions from Towns	\$576,604	\$6,459,651	\$5,886,906	\$4,508,703
Cash, beginning of year	<u>\$5,977,998</u>	<u>\$420,112</u>	<u>\$439,051</u>	<u>\$220,206</u>
Cash, end of year	<u>\$420,112</u>	<u>\$439,051</u>	<u>\$220,206</u>	<u>\$450,291</u>