



JANET COWELL
TREASURER

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

T. VANCE HOLLOMAN
DEPUTY TREASURER

February 2, 2010

The Honorable Evan Webster, Chairperson
MI Connection Communications System
Post Office Box 90
Mooresville, North Carolina 28115-0090

Dear Chairperson Webster:

The staff of the Local Government Commission has analyzed the audited financial statements of MI Connection Communications System for the fiscal year ended June 30, 2009. **The System has serious financial problems which the System's governing board must address immediately.** The Board must take corrective action in the following areas to improve your System's financial position.

We noted signs of financial weakness because current liabilities exceeded liquid assets (cash, investments, and receivables). This ratio gives an indication of the System's ability to pay its current bills, thereby providing a measure of short-term liquidity. The potential exists for cash flow problems to develop in meeting the System's obligations to creditors, employees, and citizens. This liquidity ratio was low because the System reported a net loss on its budget-to-actual statements of \$6,184,912, reducing the resources of the System. This indicates that the charges to users were not sufficient to pay the cost of operation, capital outlay and debt service. The Board should review the operations of the System and to take action to increase revenues and/or decrease expenditures, if possible, so that the System will cover its cost of operations.

We noted certain budgetary problems in the audited financial statements. The Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP) on page 17 of the financial statements presents an unbalanced budget. G.S. 159-8(a) requires each local government and public authority to operate under a balanced annual budget ordinance or a project ordinance. The statement shows budgeted expenditures in excess of revenues by \$7,050,576. The North Carolina Department of State Treasurer Policies Manual has a section on budgeting that discusses how to prepare a budget as well as the proper way to amend it. A copy of this section can be downloaded from our website at <http://www.nctreasurer.com>. Select "State and Local Government" followed by "Auditing and Reporting Resources" and "Policies Manual".

We also noted certain expenditures were made in excess of appropriations authorized by the budget ordinance. Actual expenditures exceeded appropriations for programming expenditures, facility based expenditures and administrative expenditures. North Carolina has very specific guidelines regarding the preparation and adoption of the budget ordinance, and the System should take care to ensure that it complies with these requirements. The finance officer and his/her sureties are legally liable for any sums that are disbursed without an authorized appropriation.

Accordingly, expenditures should be controlled or the budget amended before making any unauthorized disbursements. [G.S. 159-13, 159-25, 159-28(b) and (e)].

We noted various weaknesses in your internal control system which were communicated to you in the report to management regarding internal control deficiencies. The auditor noted that journal entries were not always reviewed and approved. These items, as well as the other items noted by your auditor, were identified to assist you in improving the System's overall accounting system. We urge the System to develop a corrective action plan immediately and begin eliminating these serious internal control weaknesses.

The problem areas addressed in this letter require **immediate** corrective action. Because of the serious financial and budgetary problems that exist, the governing board should develop a financial plan outlining how it intends to control expenditures and operate within its available resources. A copy of the financial plan and a copy of the corrective action plan addressing the items mentioned by the auditor in the report to management regarding internal control deficiencies should be signed by each member of the governing board and submitted to our office within thirty days after receiving this letter. Our staff is available to help you develop your plan if you require assistance. If you have any questions, please contact me at 919-807-2380.

Sincerely,



Sharon G. Edmundson, CPA
Director, Fiscal Management Section

cc: James R. Miller Jr., General Manager
Stacey Bright, Finance Officer
John Kasberger, Board Member
Ken Essex, Board Member
John Venzon, Board Member
Steven A. Miller, Board Member
Dawn Huston, Board Member
Richard W. Howard, Board Member
The Honorable John M. Woods, Mayor, Town of Davidson
Leamon B. Brice, Town Manager, Town of Davidson
The Honorable Bill Thunberg, Mayor, City of Mooresville
Steven Husemann, City Manager, City of Mooresville
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