

SOUTHERN TIER NETWORK, INC.

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
March 2014**

Bonadio & Co., LLP
Certified Public Accountants

March 2014

To the Board of Directors of
Southern Tier Network, Inc.:

In planning and performing our audit of the financial statements of Southern Tier Network, Inc. (STN) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States, we considered STN's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STN's internal control. Accordingly, we do not express an opinion on the effectiveness of the STN's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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SOUTHERN TIER NETWORK, INC.

COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS MARCH 2014

PRIOR YEAR RECOMMENDATIONS

In connection with our audit of the financial statements of STN for the year ended December 31, 2013, we reviewed the status of the suggestions we made in the prior year. We are pleased to report that STN has addressed our recommendations related to:

- **Recognition of Installation Revenue** – Last year, we recommended that STN establish a procedure to identify, track, and record installation payments from customers that are required under generally accepted accounting principles (GAAP) to be deferred over the term of the customer contract. This year, we noted that STN is properly accounting for deferrals of installation revenue.
- **Fixed Asset Tracking** – Last year, we recommended that STN establish procedures and a tracking tool related to fixed assets and related depreciation. This year, we noted that STN has established a solution for tracking these items.
- **Contract Management** – Last year, we recommended that STN establish a procedure to ensure that personnel in various departments have access to relevant information about customer contracts as needed and that original agreements are stored with proper controls. This year, we observed all current contracts are being maintained at STN's offices and that relevant information is available to those who need it.

INTERNAL CONTROL RELATED MATTERS

We have identified the following control deficiencies that we do not consider to be material weaknesses or significant deficiencies as defined in our cover letter.

1. CUSTOMER LATERAL BUILD COSTS

Observation

During 2013, STN transitioned from focusing purely on constructing its main fiber optic ring to soliciting, signing, and connecting customers to that ring. As part of each customer contract, the initial cost of the physical connection, or lateral, from the ring to the customer's facility is estimated and charged to the customer. These initial charges are based on estimates prepared by ECC and are designed to cover the initial cost of building the lateral.

Actual costs related to each lateral are tracked through STN's accounting process in a manner similar to the segments of the main fiber ring.

For completed laterals, STN does not currently evaluate the overall cost of the lateral against the amount charged to the customer to cover those costs. Therefore, it is possible that the amount collected from the customer was less than the total required to build the lateral. Ultimately, this could mean that funds intended for the construction of the main fiber optic ring are being used to cover a shortfall in funds for individual customer laterals. While there is no prohibition on the use of these funds for lateral build costs, on an overall basis this impacts STN's cash position in a manner that was not contemplated in original cash projections for the project.

1. CUSTOMER LATERAL BUILD COSTS (Continued)

Recommendation

We recommend that STN establish a procedure to evaluate the actual costs of each lateral built against the estimated amount collected from the customer for that lateral. Such information should be evaluated in the context of that customer relationship as well as STN's overall cash projections.

2. PUBLIC AUTHORITY COMPLIANCE REQUIREMENTS

Observation

As a Local Development Corporation in New York State, STN is required to comply with a number of governance and reporting regulations. Our audit does not include a review of all requirements to which STN is subject. However, we did become aware that STN is not in compliance with one regulation that requires all STN Board members to "attend" an on-line training from the New York State Authorities Budget Office (ABO).

STN has an established system to track which Board members have taken the training, and has encouraged all Board members to attend. As of the date of our audit fieldwork, a few of STN's Board of Directors had not attested to taking the training. As a result, STN is not in compliance with this requirement.

Recommendation

We recommend that management and the Board of Directors take steps to ensure that these compliance requirements are met and documented.