

SOUTHERN TIER NETWORK, INC.

**Financial Statements
as of December 31, 2011
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

April 30, 2012

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

We have audited the accompanying balance sheet of the Southern Tier Network, Inc. (a New York not-for-profit corporation) (the Company) as of December 31, 2011, and the related statement of activities and change in net assets and cash flows for the period from inception (January 7, 2011) to December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Tier Network, Inc. as of December 31, 2011, and the change in its net assets and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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SOUTHERN TIER NETWORK, INC.

**BALANCE SHEET
DECEMBER 31, 2011**

ASSETS

CASH AND EQUIVALENTS	\$	725,643
CONTRIBUTION RECEIVABLE		8,700,000
PREPAID INSURANCE EXPENSE		7,292
CONSTRUCTION-IN-PROGRESS		<u>114,488</u>
	\$	<u>9,547,423</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$	13,684
Accrued expenses		<u>21,667</u>

Total liabilities 35,351

NET ASSETS:

Unrestricted		812,072
Temporarily restricted		<u>8,700,000</u>

Total net assets 9,512,072

Total liabilities and net assets \$ 9,547,423

SOUTHERN TIER NETWORK, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE PERIOD FROM INCEPTION (JANUARY 7, 2011) TO DECEMBER 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:			
Contributions	\$ -	\$ 9,700,000	\$ 9,700,000
Release from restriction	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>-</u>
Total support and revenue	<u>1,000,000</u>	<u>8,700,000</u>	<u>9,700,000</u>
EXPENSES:			
Engineering fees	117,251	-	117,251
Administrative	37,105	-	37,105
Professional fees	15,235	-	15,235
Insurance	14,584	-	14,584
Office and supplies	99	-	99
Other	<u>3,654</u>	<u>-</u>	<u>3,654</u>
Total expenses	<u>187,928</u>	<u>-</u>	<u>187,928</u>
CHANGE IN NET ASSETS	812,072	8,700,000	9,512,072
NET ASSETS - date of inception (January 7, 2011)	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - end of year	<u>\$ 812,072</u>	<u>\$ 8,700,000</u>	<u>\$ 9,512,072</u>

The accompanying notes are an integral part of these statements.

SOUTHERN TIER NETWORK, INC.

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM INCEPTION (JANUARY 7, 2011) TO DECEMBER 31, 2011

CASH FLOW FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 9,512,072
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Cash received on contribution receivable	(1,000,000)
Changes in:	
Contribution receivable	(8,700,000)
Prepaid expense	(7,292)
Accounts payable	13,684
Accrued liabilities	<u>21,667</u>
Net cash flow from operating activities	<u>(159,869)</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	<u>(114,488)</u>
Net cash flow from investing activities	<u>(114,488)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Cash received on contribution receivable	<u>1,000,000</u>
Net cash flow from financing activities	<u>1,000,000</u>
CHANGE IN CASH	725,643
CASH - date of inception (January 7, 2011)	<u>-</u>
CASH - end of year	<u>\$ 725,643</u>

The accompanying notes are an integral part of these statements.

SOUTHERN TIER NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

1. THE ORGANIZATION

Southern Tier Network, Inc. (STN) is not-for profit, local development corporation (LDC) formed to provide stewardship for the construction and management of a whole-sale, Municipal Based Open Access (MBOA) optical fiber telecommunications system and promote economic development within Steuben, Schuyler, and Chemung counties. The network will connect the three counties and create an environment for improved telecommunications competition, reliability and diversity. STN will do so by leasing high speed fiber optic capacity to enterprise, carrier, and other entities that desire to manage and control their own telecommunications services. This network will aid economic development by attracting new business, improving communications among health care providers and educational institutions, supporting individual county emergency services E-911 communications systems, and partnering with private enterprises. STN is based in Corning, New York.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Financial Reporting

STN reports its activities and related net assets using the following net asset classifications:

- Unrestricted net assets include resources that are available for the support for STN's operating activities and net investment in property and equipment.
- Temporarily restricted net assets include resources that have been contributed to STN subject to certain time restrictions, as defined by the donor.

Cash

Cash consists of a bank account which, at times, may exceed federally insured limits. STN has not experienced any losses in this account and believes it is not exposed to any significant credit risk with respect to cash.

Contribution Receivable

STN records contribution receivable and contribution revenue when an unconditional promise to give is received. STN records an allowance for doubtful accounts in anticipation of future write-offs to the extent deemed necessary based on past experience. At December 31, 2011, no allowance was considered necessary.

Fixed Assets

Fixed assets are stated at cost or if donated, at fair value at the date of contribution. STN capitalizes fixed asset purchases related to the construction of its high speed fiber optic ring which have useful lives greater than one year. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Construction-in-progress is recognized as the accumulation of costs related to fixed assets through the date that the fixed assets are placed in service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

STN is a not-for-profit corporation organized pursuant to sections 402 and 1411 of the New York State Not-for-Profit Corporation law and is, therefore, exempt from income taxes. STN is also exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1995-2 C.B. 418 as a governmental unit or affiliate of a governmental unit described in the procedure.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of December 31, 2011, STN does not have a liability for unrecognized tax benefits, nor does it file federal or New York State income tax returns.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. ADMINISTRATIVE SERVICES

STN has contracted with Southern Tier Central Regional Planning and Development Board (STC) to provide management, accounting and specialist services. STC's Executive Director is the Chair of the Board of STN. Approximately \$37,000 was recognized as expense under the terms of the agreement during the period from inception (January 7, 2011) through December 31, 2011.

4. CONTRIBUTION AND CONTRIBUTION RECEIVABLE

STN's contribution income was 100% from Corning, Inc. for the period from inception (January 7, 2011) through December 31, 2011, and its contribution receivable was due from Corning, Inc. at December 31, 2011. There is no set schedule for when payments related to this contribution will be received. The arrangement allows for STN to request and receive cash payments on the contribution receivable as cash flow needs dictate.

5. TEMPORARILY RESTRICTED NET ASSETS

STN's temporarily restricted net assets are restricted for STN's initial capital costs for the construction of the fiber optic ring, as well as operating cash flow needs during the construction period.

6. FUNCTIONAL EXPENSES

STN's expenses were all administrative in nature during the period from inception (January 7, 2011) to December 31, 2011.

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 30, 2012, which is the date the financial statements were available to be issued.

On February 8, 2012, STN entered into an irrevocable standby letter of credit with a financial institution for \$75,000 at 1.25% interest, with an unrelated beneficiary. This letter of credit was required as an element of on-going construction activities.

On March 8, 2012, STN received a payment of \$1,500,000 on the contribution receivable in the normal course of the contributor's provision of cash for operating expenses and capital expenditures.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

April 30, 2012

To the Board of Directors of
Southern Tier AIDS Program, Inc.:

We have audited the financial statements of Southern Tier Network, Inc. (the Company) as of December 31, 2011 and for the period from inception (January 7, 2011) through December 31, 2011, and have issued our report thereon dated April 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting 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 the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Southern Tier Network, Inc. in a separate letter dated April 2012.

This report is intended solely for the information and use of management, the Board of Directors and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP