

**SOUTHERN TIER NETWORK, INC.**

**Communication of Matters Related to Internal Control  
Over Financial Reporting and Other Matters  
March 2013**

March 2013

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, 2012, 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.

171 Sully's Trail, Suite 201  
Pittsford, New York 14534  
p (585) 381-1000  
f (585) 381-3131

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## **SOUTHERN TIER NETWORK, INC.**

### **COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS MARCH 2013**

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#### **PRIOR YEAR RECOMMENDATIONS**

In connection with our audit of the financial statements of STN for the year ended December 31, 2012, we reviewed the status of the suggestions we made in the prior year. We are pleased to report that STN has addressed our communications related to:

- **Financial Presentations to the Board of Directors** - Per our review of the Board of Directors minutes, we noted that quarterly financial presentations are being made.
- **Annual Budgeting** – We noted that STN established a 2012 and 2013 budget. These budgets were reviewed and accepted by the Audit and Finance Committees and are being monitored throughout the year.
- **Policies and Procedures Manual** – During the year, STN established several policies and procedures related to the transactional processing, account reconciliations and financial reporting. As STN continues to develop its operations, additional policies and procedures will need to be developed and updated.

#### **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. RECOGNITION OF INSTALLATION REVENUE**

###### **Observation**

In accordance with its mission, STN enters into agreements to provide access to its fiber optic network. These agreements may contain provisions requiring the customer to pay amounts intended to reimburse STN for the cost of establishing the initial connection from the network to the customer's location.

We noted that for the one contract invoiced under this circumstance in 2012, this initial charge was recorded as revenue in the current year. Generally accepted accounting principals (GAAP) require that such revenue transactions are to be deferred and revenue recognized over the life of the related customer lease.

During our audit, a journal entry was recorded to defer the remaining portion of this initial charge, while recognizing only that amount amortized into revenue during the several months that this customer was connected in the current year.

###### **Recommendation**

We recommend STN follow this accounting for all customer agreements that include initial charges for connections to new customers. As volume increases, accounting procedures to track and ensure reconciliation of these deferred balances should be established.

## **2. FIXED ASSET TRACKING**

### **Observation**

STN is currently maintaining its fixed asset records within QuickBooks. This has been an effective tracking mechanism during STN's construction phase. As STN begins to place segments in service, fixed asset records will need to provide additional functionality to allow for the appropriate depreciation expense to be calculated and recorded, as well as allow for tracking of new additions and, potentially, disposals. Utilizing QuickBooks or even Excel spreadsheets for these functions increases the possibility that a typographical or other error could occur and not be identified and corrected in a timely manner.

### **Recommendation**

We recommend STN acquire and utilize a fixed asset tracking software to log all fixed assets as segments are completed. This software should be able to assist the Accountant in tracking the depreciation expense, net book value, and eventually disposals. The software should be able to provide the Accountant up to date information on monthly depreciation expense and net book values of the segments.

## **3. CONTRACT MANAGEMENT**

### **Observation**

As part of the audit process, we request copies of contracts to review to ensure for proper accounting application and necessary financial statement disclosure. During this process, it became apparent that dissemination of contract information was not administered under a consistent, documented process. STN's process did not ensure that all parties had timely access to contracts and other documents that might be important to financial reporting, invoice payment, or customer billing.

It is critical that appropriate individuals have timely access to information documented in contracts to ensure that customers are billed properly, payments received are applied properly, invoices are approved and paid properly, and financial reporting can be prepared in an accurate and timely manner. This will become even more critical as STN grows and more customer contracts are signed.

### **Recommendation**

We recommend a process be established whereby information related to all contracts is provided to appropriate individuals in a timely manner. A designated individual of STN should be provided a copy of any contract and be charged with responsibility for appropriate dissemination and filing of all contracts. This individual could work with an administrative assistant to oversee a centralized contract filing system. An electronic filing system that would allow secure, "view-only" access to appropriate individuals should be considered.