

SOUTHERN TIER NETWORK, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

SOUTHERN TIER NETWORK, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southern Tier Network, Inc.
Corning, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Southern Tier Network, Inc. (a nonprofit corporation), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Tier Network, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying annual investment report on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019, on our consideration of Southern Tier Network, Inc.'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 solely 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 effectiveness of Southern Tier Network's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Tier Network, Inc.'s internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, New York
April 12, 2019

SOUTHERN TIER NETWORK, INC.
Balance Sheets
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 623,117	\$ 3,928,190
Cash and cash equivalents - short-term investments	1,176,856	-
Accounts receivable	274,620	109,956
Grant receivable	275,264	668,015
Prepaid expenses	40,277	11,035
Short-term investments	2,878,091	-
Total current assets	5,268,225	4,717,196
Property and Equipment		
Fiber optic cable plant	16,133,549	9,987,892
Construction in progress	336,273	5,423,589
Total property and equipment	16,469,822	15,411,481
Less: accumulated depreciation	(2,053,144)	(1,459,005)
Total property and equipment - net	14,416,678	13,952,476
Other Assets		
Long-term prepaid expenses	305,231	106,045
Indefeasible right of use - net	1,063,532	1,114,517
Total other assets	1,368,763	1,220,562
Total Assets	\$ 21,053,666	\$ 19,890,234
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 350,470	\$ 241,730
Accrued liabilities	4,094	4,096
Deferred revenue - current portion	1,297,673	5,263,296
Total current liabilities	1,652,237	5,509,122
Long-term Liabilities		
Deferred revenue - long-term portion	10,707,180	5,622,937
Total Liabilities	12,359,417	11,132,059
Net Assets		
Net assets without donor restrictions	8,694,249	8,758,175
Total Liabilities and Net Assets	\$ 21,053,666	\$ 19,890,234

The accompanying notes are an integral part of these financial statements.

SOUTHERN TIER NETWORK, INC.
Statements of Activities and Change in Net Assets
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Support and Revenue		
Installation	\$ 497,734	\$ 361,007
Carrier and enterprise	887,277	780,764
Grant revenue	522,997	349,954
Contributions	163,937	201,976
Total support and revenue	<u>2,071,945</u>	<u>1,693,701</u>
Expenses		
Cost of sales and installation		
Contractors	235,046	105,235
Design and engineering	24,630	32,400
Commission expense	17,412	2,793
Other costs	104,234	293,402
Total cost of sales and installation	<u>381,322</u>	<u>433,830</u>
Operating expenses		
Support services	388,028	487,058
Administrative	285,106	261,092
Grant expense	43,284	54,129
Pole attachment fees	125,871	116,732
Line maintenance	195,664	56,782
Insurance	26,890	27,406
Other operating expenses	102,310	135,909
Total operating expenses	<u>1,167,153</u>	<u>1,139,108</u>
Total expenses	<u>1,548,475</u>	<u>1,572,938</u>
Operating Income	523,470	120,763
Non-Operating Income (Expense)		
Interest income	57,728	3,333
Depreciation expense	(594,139)	(409,463)
Amortization expense	(50,985)	(49,677)
Total non-operating expense	<u>(587,396)</u>	<u>(455,807)</u>
Change in Net Assets without Donor Restrictions	(63,926)	(335,044)
Net Assets without Donor Restrictions - Beginning	<u>8,758,175</u>	<u>9,093,219</u>
Net Assets without Donor Restrictions - Ending	<u>\$ 8,694,249</u>	<u>\$ 8,758,175</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN TIER NETWORK, INC.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in net assets without donor restrictions	\$ (63,926)	\$ (335,044)
Adjustments		
Depreciation expense	594,139	409,463
Amortization expense	50,985	49,677
Changes in assets and liabilities		
Accounts receivable	(164,664)	174,654
Grant receivable	392,751	447,738
Prepaid expenses	(228,428)	(114,207)
Accounts payable	108,740	5,898
Accrued liabilities	(2)	4,096
Deferred revenue	1,118,620	4,566,326
Net cash flow from operating activities	<u>1,808,215</u>	<u>5,208,601</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,058,341)	(4,327,515)
Purchase of indefeasible right of use	-	(27,408)
Purchase of short-term investments	<u>(2,878,091)</u>	<u>-</u>
Net cash flow from investing activities	<u>(3,936,432)</u>	<u>(4,354,923)</u>
Net Change in Cash and Cash Equivalents and Cash and Cash Equivalents - Short-Term Investments	(2,128,217)	853,678
Cash and Cash Equivalents - Beginning and Cash and Cash Equivalents - Short-Term Investments - Beginning	<u>3,928,190</u>	<u>3,074,512</u>
Cash and Cash Equivalents - Ending and Cash and Cash Equivalents - Short-Term Investments - Ending	<u>\$ 1,799,973</u>	<u>\$ 3,928,190</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Scope of Business

Scope of Business - Southern Tier Network, Inc. (the "Organization") is a not-for-profit, local development corporation (LDC) based in Corning, New York and was formed to provide stewardship for the construction and management of a whole-sale, Municipal Based Open Access optical fiber telecommunications system and promote economic development within the Southern Tier region of upstate New York. The network will connect counties and create an environment for improved telecommunications competition, reliability and diversity. The Organization will do so by selling or leasing high speed fiber optic capacity to enterprise, carrier and other entities that desire to manage and control their own telecommunications services. The network aids 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.

Method of Accounting - The Organization maintains its books and prepares its financial statements on the accrual basis of accounting.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, "Not-for-Profit Entities." ASU 2016-14 contains several provisions that change the presentation of and disclosures within the financial statements of a not-for-profit entity. These changes include an updated net asset classification scheme from three classes to two classes, quantitative and qualitative disclosures regarding liquidity and disclosure of expenses by functional classification. The Organization did not have any net asset with donor restrictions for the years ended December 31, 2018 and 2017.

Net Assets Without Donor Restriction – Net assets without donor restriction represent net assets that are not subject to donor imposed stipulations and are generally available for support of the Organization's activities. The Board of Directors has discretionary control over these resources to carry out the operations of the Organization in accordance with its by-laws.

Liquidity - The Organization has \$5,227,948 of financial assets available within one year of the statement of financial position date consisting of \$623,117 of cash and cash equivalents, \$549,884 of receivables and \$4,054,947 of short-term investments. None of these financial assets are subject to donor or contractual restricts that make them unavailable for general expenditures within one year of the statement of financial position date.

Cash and Cash Equivalents - Cash and cash equivalents include time deposits, money markets, and all highly liquid debt instruments with original maturities of three months or less. The Organization maintains cash and cash equivalents at financial institutions which periodically may exceed federally insured limits.

Accounts Receivable - The Organization extends credit to its customers. Accounts receivable are stated at the amount billed. At December 31, 2018 and 2017, no allowance was considered necessary. Accounts receivable are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible contracts receivable when management determines the receivable will not be collected.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Grant Receivable - Grants receivable consist of amounts due from state or local agencies based on the terms of the related grant agreement and are stated at the amount the Organization expects to collect from balances outstanding at year end. The Organization records an allowance for doubtful accounts in anticipation of future write-offs to the extent deemed necessary based on past experience. At December 31, 2018 and 2017, no allowance was considered necessary.

Investments - Investments are stated at fair value as determined by published market prices.

Indefeasible Right of Use - Indefeasible right of use represents the Organization's indefeasible right to use specific strands of dark fiber owned by third parties to connect the Organization's fiber optic network in lieu of the Organization building fiber in the same area. The cost of acquiring indefeasible rights of use is amortized using the straight-line method over the term of the agreement.

Property and Equipment - Property and equipment are recorded at cost, if purchased, or at fair market value, if donated, less accumulated depreciation. The Organization capitalizes fixed asset purchases greater than \$5,000 that have useful lives greater than three years. 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. Depreciation is provided on the straight-line basis over the estimated useful lives, which range from three to twenty-five years. Total depreciation expense was \$594,139 and \$409,463 for the years ended December 31, 2018 and 2017, respectively.

Sales - Sales represent amounts received or receivable related to the transfer of installed fiber optic cable to a third party. For such transfers, revenue is recognized at the time of the transfer as the Organization relinquishes its rights to the transferred assets.

Revenue and Deferred Installation Revenue - Deferred installation revenue represents amounts received from customers related to each customer's initial connection to the Organization's fiber optic network. These amounts are deferred and recognized as installation revenue on a straight-line basis over the terms of each customer's contract for access to the network. Carrier and enterprise revenue represents amounts from customers for continuing use of the Organization's fiber optic network.

Income Taxes - The Organization is exempt from federal income tax under Code Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

In accordance with ASC 740-10-50, the Organization recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management believes that the Organization is currently operating in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no liability for unrecognized tax benefits has been included on the Organization's financial statements.

Reclassifications - Certain reclassifications have been made to the financial statements for the year ended December 31, 2017. These reclassifications are for comparative purposes only and have no effect on net assets as originally reported.

Subsequent Events - Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Note 2. Fair Value Measurements

Financial Investments - The cost and fair value of investments at December 31, 2018 are summarized as follows:

	<u>Cost</u>	<u>Fair value</u>
U.S. Treasury bills	\$2,202,531	\$2,208,390
U.S. Treasury notes	<u>670,333</u>	<u>669,701</u>
	<u>\$2,872,864</u>	<u>\$ 2,878,091</u>

Investments in marketable securities are stated at fair value. The fair value of securities is based on quotations obtained from national securities exchanges. In accordance with the policy of carrying investments at fair value, the change in net unrealized appreciation or depreciation is included in the statement of activities.

Fair Value Measurements - A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

U.S. treasury bills and notes: Valued based on quoted prices for identical securities in an active market (level 1).

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

The following table sets forth by level, within the fair value hierarchy, the Organizations investment at fair value as of December 31, 2018:

	<u>Total 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasuries bills	\$ 2,208,390	\$ 2,208,390	\$ -	\$ -
U.S. Treasuries notes	669,701	669,701		-
Total	<u>\$ 2,878,091</u>	<u>\$ 2,878,091</u>	<u>\$ -</u>	<u>\$ -</u>

Earnings on investments consisted of interest and dividend income amounting to \$50,629 for the year ended December 31, 2018. This amount is included in interest income on the statement of activities.

Note 3. Administrative Services

The Organization contracted with the Southern Tier Central Regional Planning and Development Board (STC) during 2018 to provide rental and other miscellaneous office related items. During 2017 the agreement was to provide management, accounting and specialist services. STC's Executive Director is a member of the Organization's Board of Directors. Approximately \$5,700 and \$48,000 was recognized as expense under the terms of the agreement during 2018 and 2017, respectively.

Note 4. Deferred Revenue

Deferred revenue consisted of the following as of December 31, 2018:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
Installation	\$ 543,279	\$ 4,292,872	\$ 4,836,151
Grant - PSIG	279,011	-	279,011
Grant - Contracts	475,383	6,414,308	6,889,691
Total	<u>\$ 1,297,673</u>	<u>\$ 10,707,180</u>	<u>\$ 12,004,853</u>

Deferred revenue consisted of the following as of December 31, 2017:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
Installation	\$ 413,695	\$ 3,591,984	\$ 4,005,679
Grant - PSIG	446,043	-	446,043
Grant - Contracts	4,403,558	2,030,953	6,434,511
Total	<u>\$ 5,263,296</u>	<u>\$ 5,622,937</u>	<u>\$ 10,886,233</u>

Note 5. Customer Arrangements

Deferred Installation Revenue - The Organization enters into agreements with customers to provide access to the Organization's fiber optic network. Certain agreements require customers to make up-front payments related to establishing their connection to the fiber optic network. These up-front payments have been recorded as deferred installation revenue and are being recognized as income using the straight-line method over the terms of the agreements. Agreements in place through December 31, 2018 have terms ranging from one to twenty-nine years, with the latest expiring in January 2047.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

As of December 31, 2018, deferred installation revenue is expected to be recognized as income in the following years:

2019	\$ 543,279
2020	526,199
2021	491,760
2022	454,297
2023	297,456
Thereafter	<u>2,523,160</u>
	<u>\$ 4,836,151</u>

Future Carrier and Enterprise Payments to be Received - The Organization allows continuing use of its fiber optic network under the terms of customer agreements requiring monthly payments for terms of up to twenty-seven years. Payments to be received under the terms of these agreements are as follows for the years ending:

2019	\$ 924,101
2020	863,711
2021	794,958
2022	731,356
2023	531,761
Thereafter	<u>2,908,639</u>
	<u>\$ 6,754,526</u>

Note 6. Infeasible Right of Use

Infeasible right of use consisted of the following at December 31:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Infeasible right of use – Empire Access	\$ 949,200	\$ -	\$ 949,200
Infeasible right of use - Ontario County	319,406	-	319,406
Total infeasible right of use	<u>1,268,606</u>	-	<u>1,268,606</u>
Less, amortization expense	(154,089)	(50,985)	(205,074)
Infeasible right of use - net	<u>\$ 1,114,517</u>	<u>\$ (50,985)</u>	<u>\$ 1,063,532</u>

Maintenance Fee - In conjunction with the Organization's agreement to acquire the infeasible right to use specific strands of dark fiber in Steuben County, the Organization is required to pay an annual maintenance fee of \$5,000 beginning in year 2 of the agreement (2015), increasing by \$5,000 annually until year 6 (2019), at which time \$25,000 will be paid per year through the remaining twenty-five year term of the agreement. Future annual maintenance payments under the terms of the agreement are as follows for the years ending December 31:

2019	\$ 25,000
2020	25,000
2021	25,000
2022	25,000
2023	25,000
Thereafter	<u>368,750</u>
	<u>\$ 493,750</u>

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Commitment to Maintain - In conjunction with the Organization's agreement to acquire the indefeasible right of use for specific strands of dark fiber in Steuben and Ontario County's, the Organization is to perform all required maintenance on the fibers for the term of the agreement.

Note 7. Functional Expense

The Organization's expenses on a functional basis are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Program operations	\$ 1,908,493	\$ 1,770,986
General and administrative	285,106	261,092
Total	<u>\$ 2,193,599</u>	<u>\$ 2,032,078</u>

Note 8. Commitments and Contingencies

Letter of Credit

The Organization maintains a letter of credit at a local financial institution. The total amount available to borrow is \$75,000 with an interest rate fixed at 1.25%. This letter of credit was required as an element of on-going construction activities.

Line of Credit

The Organization maintains a \$2,000,000 demand line of credit from Manufacturers and Traders Trust Company to help temporarily finance the extension of existing broadband services into Allegany, Broome, Tioga, and Tompkins Counties. The line is collateralized by a security interest in the assets of the project. Interest is payable monthly at 2.45% over the one-month London InterBank Offered Rate ("LIBOR"). At December 31, 2018 and 2017, the effective rate of interest was 4.83% and 4.01%, respectively. No borrowings occurred during the fiscal years ending December 31, 2018 and 2017.

Commitments

The Organization has contracted with ECC Technologies (ECC) to perform administrative, operating/sales and capital construction activities. Under the terms of this contract, the Organization must pay ECC a fixed monthly fee through December 31, 2019. Future payments under the terms of the agreement are as follows for the year ending December 31:

2019	\$ 335,838
Total	<u>\$ 335,838</u>

In addition, the Organization will pay ECC for on demand network support, engineering and design services at agreed upon hourly rates, and a fixed commission percentage on recurring and lump sum lease and maintenance revenues and IRU revenues.

SOUTHERN TIER NETWORK, INC.
Other Supplementary Information
Annual Investment Report
December 31, 2018

The following represents the annual investment report as required by Section 2925 of Public Authorities Law:

Permitted Investments

The following instruments are approved for monthly operating needs and reserve/short-term investments:

- Bank deposits/certificates of deposits up to \$250,000 (limited to 12 months, FDIC insured limit, from highly rated institutions)
- Money market funds - fixed price funds

The following instruments are approved for long-term investments, defined as investments over 12 months:

- Approved passive indexed mutual fund or exchange traded funds (ETF), treasury bills/treasury notes, and bank CD's with maturities less than 60 months (also FDIC insured);
- Asset size in excess of \$5 billion;
- Bid offer spread of 5% maximum, and well diversified across sector types;
- No load funds; and
- Finance committee will approve long term investments and the fund.

Amendments Made to Investment Guidelines

None

Safeguards

Management will provide ongoing oversight of operational cash to insure cash reserves are adequate to meet demands each period (month, quarter, year). Performance and risk objectives are to be met on a net of fees basis. Bank deposits, bank CDs or other instruments under 12 months are not required to be included in the performance measurement. The long-term investment performance of such assets will be measured against inflation objectives measured by CPI and against index objectives for individual portfolio components. Investment performance shall be measured no less than quarterly on a net of fees basis. Performance shall be evaluated over a one, three and five-year basis to allow for market fluctuations and volatility.

Authorized Financial Institutions and Dealers

It is the policy of the Organization to maintain a diversified portfolio of investment assets between asset classes and investment categories at all times. All investments must be immediately marketable. The approved types of investments can be allocated among three categories; bank deposits or CDs institutions, money market funds, and mutual funds and/or ETFs.

Provisions for Reporting on Investments

The Organization retains an independent auditor to provide an auditors' report of all investment practices on an annual basis.

Fees Related to Investment Service

The Organization did not incur any fees related to investment services for the year ended December 31, 2018.

Investments

Investments included cash and cash equivalents of \$1,176,856, U.S. treasury bills of \$2,208,390 and U.S. treasury notes of \$669,701 as of December 31, 2018.

**INDEPENDENT AUDITORS' 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**

To the Board of Directors
Southern Tier Network, Inc
Corning, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Southern Tier Network, Inc. (a nonprofit corporation), which comprise the balance sheets as of December 31, 2018, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southern Tier Network, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Tier Network, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Tier Network, Inc.'s internal control.

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 a 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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Tier Network, Inc.'s financial statements are free from 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*.

Southern Tier Network, Inc.'s Response to Findings

Southern Tier Network, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, New York
April 12, 2019

SOUTHERN TIER NETWORK, INC.
Schedule of Findings and Responses
For the Year ended December 31, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

FINDING 2018-001 - INTERNAL CONTROL OVER FINANCIAL REPORTING

Material Weakness - Organizational Communication: During our audit, we noted several instances where communication from ECC Technologies' resources to the Organization's administrative and accounting personnel was not effective and where the ineffectiveness had a negative impact on the Organization's ability to carry out and account for activities with appropriate timeliness and controls. The most significant issue related to material unreported cost overruns which resulted in unreimbursed expenditures.

Recommendation: We recommend that the Organization establish additional procedures with ECC Technologies' to improve communication and the project close out process.

Management Response: *Management agrees with the auditors and is working with the subcontractor to update and enhance current standard operating procedures. Management is also researching potential methods and procedures to ensure information is communicated timely between contractor and company.*