

SOUTHERN TIER NETWORK, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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, 2019 and 2018, 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, 2019 and 2018, 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 14 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 March 11, 2020, 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
March 11, 2020

SOUTHERN TIER NETWORK, INC.
Balance Sheets
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 656,083	\$ 623,117
Cash and cash equivalents - short-term investments	465,302	1,176,856
Accounts receivable	472,804	274,620
Grants receivable	10,921	275,264
Prepaid expenses	60,568	40,277
Short-term investments	3,679,814	2,878,091
Total current assets	<u>5,345,492</u>	<u>5,268,225</u>
Property and Equipment		
Fiber optic cable plant	16,583,975	16,133,549
Construction in progress	183,885	336,273
Total property and equipment	<u>16,767,860</u>	<u>16,469,822</u>
Less: accumulated depreciation	<u>(2,707,000)</u>	<u>(2,053,144)</u>
Total property and equipment - net	<u>14,060,860</u>	<u>14,416,678</u>
Other Assets		
Long-term prepaid expenses	346,257	305,231
Indefeasible right of use - net	1,012,547	1,063,532
Total other assets	<u>1,358,804</u>	<u>1,368,763</u>
Total Assets	<u>\$ 20,765,156</u>	<u>\$ 21,053,666</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 470,009	\$ 350,470
Accrued liabilities	4,709	4,094
Deferred revenue - current portion	1,305,781	1,297,673
Total current liabilities	<u>1,780,499</u>	<u>1,652,237</u>
Long-term Liabilities		
Deferred revenue - long-term portion	<u>10,240,181</u>	<u>10,707,180</u>
Total Liabilities	<u>12,020,680</u>	<u>12,359,417</u>
Net Assets		
Net assets without donor restrictions	<u>8,744,476</u>	<u>8,694,249</u>
Total Liabilities and Net Assets	<u>\$ 20,765,156</u>	<u>\$ 21,053,666</u>

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Support and Revenue		
Installation	\$ 572,207	\$ 492,743
Carrier and enterprise	998,538	892,277
Grant revenue	546,458	479,713
County revenue	110,721	158,937
Other revenue	56,274	48,275
Total support and revenue	<u>2,284,198</u>	<u>2,071,945</u>
Expenses		
Cost of sales and installation		
Contractors	323,989	235,046
Design and engineering	137,075	24,630
Commission expense	33,518	17,412
Other costs	28,557	104,234
Total cost of sales and installation	<u>523,139</u>	<u>381,322</u>
Operating expenses		
Support services	393,424	388,028
Administrative	312,210	285,106
Grant expense	43,284	43,284
Pole attachment fees	116,875	125,871
Line maintenance	94,663	195,664
Insurance	26,180	26,890
Other operating expenses	110,118	102,310
Total operating expenses	<u>1,096,754</u>	<u>1,167,153</u>
Total expenses	<u>1,619,893</u>	<u>1,548,475</u>
Operating Income	664,305	523,470
Non-Operating Income (Expense)		
Interest income	90,763	57,728
Depreciation expense	(653,856)	(594,139)
Amortization expense	(50,985)	(50,985)
Total non-operating expense	<u>(614,078)</u>	<u>(587,396)</u>
Change in Net Assets without Donor Restrictions	50,227	(63,926)
Net Assets without Donor Restrictions - Beginning	<u>8,694,249</u>	<u>8,758,175</u>
Net Assets without Donor Restrictions - Ending	<u>\$ 8,744,476</u>	<u>\$ 8,694,249</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Changes in net assets without donor restrictions	\$ 50,227	\$ (63,926)
Adjustments		
Depreciation expense	653,856	594,139
Amortization expense	50,985	50,985
Changes in assets and liabilities		
Accounts receivable	(198,184)	(164,664)
Grant receivable	264,343	392,751
Prepaid expenses	(61,317)	(228,428)
Accounts payable	119,539	108,740
Accrued liabilities	615	(2)
Deferred revenue	(458,891)	1,118,620
Net cash flow from operating activities	<u>421,173</u>	<u>1,808,215</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(298,038)	(1,058,341)
Purchase of short-term investments	(801,723)	(2,878,091)
Net cash flow from investing activities	<u>(1,099,761)</u>	<u>(3,936,432)</u>
Net Change in Cash and Cash Equivalents	(678,588)	(2,128,217)
Cash and Cash Equivalents - Beginning	<u>1,799,973</u>	<u>3,928,190</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,121,385</u>	<u>\$ 1,799,973</u>
 Cash and cash equivalents are presented on the accompanying balance sheet as follows:		
Cash and cash equivalents	\$ 656,083	\$ 623,117
Cash and cash equivalents - short term investments	465,302	1,176,856
Total cash and cash equivalents	<u>\$ 1,121,385</u>	<u>\$ 1,799,973</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 connects counties and creates 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 - The Organization's financial statements are presented in accordance with the provisions of (ASU) 2016-14, "Not-for-Profit Entities (Topic 958) Presentation of Financial Statements for Not-for-Profit Entities." As a result, the Organization reports information regarding its net assets and changes therein in the following categories: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions represents resources available for the general support of the Organization's activities. Net assets with donor restrictions are those whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Organization or are required to be held in perpetuity. The Organization did not have any net asset with donor restrictions for the years ended December 31, 2019 and 2018.

Liquidity - The Organization has \$5,284,924 of financial assets available within one year of the statement of financial position date consisting of \$656,083 of cash and cash equivalents, \$483,725 of receivables and \$4,145,116 of short-term investments. None of these financial assets are subject to donor or contractual restriction that make them unavailable for general expenditures within one year of the statement of financial position date. As more fully described in note 8, the Organization has a line of credit in the amount of \$2,000,000, which could be used in the event of an unanticipated liquidity need.

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, 2019 and 2018, 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, 2019 and 2018, 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 \$653,856 and \$594,139 for the years ended December 31, 2019 and 2018, respectively.

Grant Revenue - In June 2018, the FASB issued ASU 2018-08, "Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 provides clarification for determining if grants and contracts should be considered contributions or exchange transactions, as well as guidance for determining if a contribution is conditional. This guidance is effective for fiscal years beginning after December 15, 2018. These financial statements and notes reflect adoption of this new standard.

Revenue Recognition - On January 1, 2019, the Organization adopted Accounting Standards Update (ASU) No 2014-09 (Topic 606) - Revenue from Contracts with Customers ("ASU 2014-09" or "Topic 606"), which provides guidance for revenue recognition that superseded the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition ("Topic 605") and most industry specific guidance. Under ASU 2014-09, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for these goods or services. The Organization has analyzed the provisions of Topic 606 and has concluded that no material changes are necessary to conform with the new standard. The Organization utilizes a five-step framework as identified in ASU 2014-09. Revenues 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. Deferred installation (or construction) revenue is recognized over a period of time and represents amounts received from customers related to each customer's initial connection to the Organization's fiber optic network. Amounts greater than \$5,000 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. Amounts less than \$5,000 are recognized at a point in time. Carrier and enterprise revenue is recognized at a point in time and represents amounts from customers for continuing use of the Organization's fiber optic network. Factors that could impact the nature, amount, timing and uncertainty of revenue or cash flow include but are not limited to the strength of the telecommunications industry, weather conditions particularly in the upstate New York region, customer driven delays and difficulty meeting customer installation requirements.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

The Organization adopted ASU 2014-09 under the modified retrospective approach, applying the amendments to prospective reporting periods. Results for reporting periods beginning after January 1, 2019 are presented under ASU 2014-09, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605.

Work is performed under customer statement of works (SOW's) which provide for the installation of fiber to certain customer predetermined specifications. Customers are generally invoiced once installation work has been completed and revenue is recognized over a period of time based on the terms of the Customer agreement. Payment typically is due when invoiced. Generally, these sales are collected within one to two months of invoicing. The lengths of the contracts vary but may span over 30 years.

Billings, cash collections and timing of revenue recognition result in receivables and deferred revenue on the balance sheet. The receivables represent revenue or deferred revenue recognized in excess of amounts collected. The liability, deferred revenue represents billings in excess of revenues recognized. This liability is removed when revenue is recognized.

Receivables and deferred revenue were as follows at December 31:

	<u>Installation Receivable</u>	<u>Grants Receivable</u>	<u>Deferred Installation Revenue</u>	<u>Deferred Grants and Contracts</u>
2019	\$ 41,690	\$ 10,921	\$ 4,613,435	\$ 6,932,527
2018	\$ 27,290	\$ 275,264	\$ 4,836,151	\$ 7,168,702
2017	\$ 74,780	\$ 668,015	\$ 4,005,679	\$ 6,880,554

The timing of revenue recognition was as follows during 2019:

Transferred at a point in time	\$1,165,533
Transferred over time	<u>1,118,665</u>
Total support and revenue	<u>\$2,284,198</u>

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.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs, have been allocated between program and general and administrative. See note 7 for this allocation.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Reclassifications - Certain reclassifications have been made to the financial statements for the year ended December 31, 2018. 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.

Note 2. Fair Value Measurements

Financial Investments - The cost and fair value of investments at December 31, 2019 and 2018 are summarized as follows:

Total 2019	<u>Cost</u>	<u>Fair value</u>
Certificates of Deposit	\$ 3,675,000	\$ 3,679,814
	<u>\$ 3,675,000</u>	<u>\$ 3,679,814</u>
Total 2018	<u>Cost</u>	<u>Fair value</u>
U.S. Treasury bills	\$ 2,202,531	\$ 2,208,390
U.S. Treasury notes	670,333	669,701
	<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.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

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).

Certificates of deposit: Certificates of deposit includes deposits with an original maturity of longer than three months. Certificates of deposit are recorded at market value (level 1).

The following table sets forth by level, within the fair value hierarchy, the Organizations investment at fair value as of December 31, 2019:

	<u>Total 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit	\$ 3,679,814	\$ 3,679,814	\$ -	\$ -
Total	<u>\$ 3,679,814</u>	<u>\$ 3,679,814</u>	<u>\$ -</u>	<u>\$ -</u>

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 amounting to \$85,914 and \$50,629 for the years ended December 31, 2019 and 2018, respectively. 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 2019 and 2018 to provide rental and other miscellaneous office related items. STC's Executive Director is a member of the Organization's Board of Directors. Approximately \$4,300 and \$5,700 was recognized as expense under the terms of the agreement during 2019 and 2018, respectively.

Note 4. Deferred Revenue

Deferred revenue consisted of the following as of December 31, 2019:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
Installation	\$ 560,949	\$ 4,052,486	\$ 4,613,435
County Revenue - PSIG	269,447	-	269,447
Steuben Towers	157,985	-	157,985
Grant - Contracts	317,400	6,187,695	6,505,095
Total	<u>\$ 1,305,781</u>	<u>\$ 10,240,181</u>	<u>\$ 11,545,962</u>

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

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
County Revenue - PSIG	279,011	-	279,011
Steuben Towers	157,985	-	157,985
Grant - Contracts	317,398	6,414,308	6,731,706
Total	\$ 1,297,673	\$ 10,707,180	\$ 12,004,853

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, 2019 have terms ranging from one to twenty-nine years, with the latest expiring in December 2043.

As of December 31, 2019, deferred installation revenue is expected to be recognized as income in the following years:

2020	\$	560,949
2021		524,942
2022		487,477
2023		330,635
2024		230,972
Thereafter		2,478,460
		\$ 4,613,435

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:

2020	\$	996,964
2021		889,423
2022		807,307
2023		591,211
2024		403,977
Thereafter		2,538,080
		\$ 6,226,962

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

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	<u>319,406</u>	<u>-</u>	<u>319,406</u>
Total infeasible right of use	1,268,606	-	1,268,606
Less, amortization expense	<u>(205,074)</u>	<u>(50,985)</u>	<u>(256,059)</u>
Infeasible right of use - net	<u>\$ 1,063,532</u>	<u>\$ (50,985)</u>	<u>\$ 1,012,547</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:

2020	\$ 25,000
2021	25,000
2022	25,000
2023	25,000
2024	25,000
Thereafter	<u>343,750</u>
	<u>\$ 468,750</u>

Commitment to Maintain - In conjunction with the Organization's agreement to acquire the infeasible 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 Expenses

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

	<u>2019</u>	<u>2018</u>
Program operations	\$ 1,971,884	\$ 1,908,493
General and administrative	<u>352,850</u>	<u>285,106</u>
Total	<u>\$ 2,324,734</u>	<u>\$ 2,193,599</u>

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

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, 2019 and 2018, the effective rate of interest was 4.21% and 4.83%, respectively. No borrowings occurred during the fiscal years ending December 31, 2019 and 2018.

Commitments

The Organization has contracted with Maneuver Networks, LLC (Maneuver) to perform carrier and enterprise sales engineering. Under the terms of this contract, the Organization must pay Maneuver a fixed annual fee through December 31, 2022. Future payments under the terms of the agreement are as follows for the year ending December 31:

2020	\$ 150,000
2021	150,000
2022	150,000
Total	<u>\$ 450,000</u>

In addition, the Organization will pay Maneuver commissions which are due and payable only for services rendered on revenue generating customer service provided at a fixed commission percentage depending on the service rendered.

SOUTHERN TIER NETWORK, INC.
Other Supplementary Information
Annual Investment Report
December 31, 2019

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 ensure 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, 2019.

Investments

Investments included cash and cash equivalents of \$465,302 and certificates of deposits of \$3,679,814 as of December 31, 2019.

**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, 2019, 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 March 11, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 organization'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 organization'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
March 11, 2020

SOUTHERN TIER NETWORK, INC.
Schedule of Findings and Responses
For the Year ended December 31, 2019

FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS - COMPLIANCE AND OTHER MATTERS

NONE

SOUTHERN TIER NETWORK, INC.
Summary Schedule of Prior Year Findings
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.*

Status: During our audit we reviewed the records and found no instances that resulted in material cost overrun or other communication deficiencies that could result in a material weakness to the organization. In addition, in the 4th quarter of 2019, the organization began transitioning to a new subcontractor for network design, engineering and support and a new sales engineering firm. Finally, management is in process of implementing a new sales standard operating procedure which is expected to be fully implemented by the end of 1st quarter of 2020.