

**SOUTHERN TIER NETWORK, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

**SOUTHERN TIER NETWORK, INC.**

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**INDEPENDENT AUDITORS' REPORT**

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

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**Report on the Audit of the Financial Statements****Opinion**

We have audited the accompanying financial statements of Southern Tier Network, Inc. (a nonprofit corporation), which comprise the balance sheets as of December 31, 2022 and 2021, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southern Tier Network, Inc. as of December 31, 2022 and 2021, 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.

**Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Southern Tier Network, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, Southern Tier Network, Inc. adopted ASC 842 Leases. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Southern Tier Network, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southern Tier Network, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Southern Tier Network, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Supplementary 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 and the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 annual investment report and the schedule of expenditures of federal awards are 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 30, 2023, 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  
Rochester, New York  
March 30, 2023

**SOUTHERN TIER NETWORK, INC.**  
**Balance Sheets**  
**December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 862,443	\$ 1,163,240
Cash and cash equivalents - short-term investments	170,064	855,347
Accounts receivable	2,311,385	268,580
Grants receivable	1,260,828	308,114
Prepaid expenses	84,787	92,275
Inventory	569,266	144,359
Short-term investments	4,956,316	2,478,420
Total current assets	10,215,089	5,310,335
<b>Property and Equipment</b>		
Fiber optic cable plant	17,137,727	17,079,978
Construction in progress	1,171,625	239,145
Total property and equipment	18,309,352	17,319,123
Less: accumulated depreciation	(4,740,655)	(4,053,157)
Total property and equipment - net	13,568,697	13,265,966
<b>Other Assets</b>		
Long-term prepaid expenses	293,032	291,309
Long-term accounts receivable	-	512,858
Long-term investments	242,658	-
Indefeasible right of use - net	859,453	910,438
Total other assets	1,395,143	1,714,605
<b>Total Assets</b>	<b>\$ 25,178,929</b>	<b>\$ 20,290,906</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,044,649	\$ 145,675
Accrued liabilities	19,023	17,470
Deferred revenue - current portion	2,003,178	1,315,996
Total current liabilities	4,066,850	1,479,141
<b>Long-term Liabilities</b>		
Deferred revenue - long-term portion	12,132,511	9,719,344
<b>Total Liabilities</b>	16,199,361	11,198,485
<b>Net Assets</b>		
Net assets without donor restrictions	8,979,568	9,092,421
<b>Total Liabilities and Net Assets</b>	<b>\$ 25,178,929</b>	<b>\$ 20,290,906</b>

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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Support and Revenue</b>		
Installation	\$ 653,819	\$ 618,430
Carrier and enterprise	1,288,158	1,132,422
Grant revenue	1,158,402	589,674
County revenue	81,817	92,569
Other revenue	8,337	33,344
Total support and revenue	<u>3,190,533</u>	<u>2,466,439</u>
<b>Expenses</b>		
Cost of sales and installation		
Construction	60,097	76,873
Design and engineering	771,555	171,001
Commission expense	43,588	39,495
Other costs	247,955	152,728
Total cost of sales and installation	<u>1,123,195</u>	<u>440,097</u>
Operating expenses		
Support services	439,372	265,843
Administrative	525,736	338,097
Grant expense	47,100	47,100
Pole attachment fees	154,656	145,440
Line maintenance	195,769	102,058
Insurance	17,709	17,355
Other operating expenses	99,009	105,866
Total operating expenses	<u>1,479,351</u>	<u>1,021,759</u>
Total expenses	<u>2,602,546</u>	<u>1,461,856</u>
<b>Operating Income</b>	587,987	1,004,583
<b>Non-Operating Income (Expense)</b>		
Interest income	2,372	5,885
Investment return	35,271	(1,847)
Depreciation expense	(687,498)	(677,660)
Amortization expense	(50,985)	(50,985)
Total non-operating expense	<u>(700,840)</u>	<u>(724,607)</u>
<b>Change in Net Assets without Donor Restrictions</b>	(112,853)	279,976
<b>Net Assets without Donor Restrictions - Beginning</b>	<u>9,092,421</u>	<u>8,812,445</u>
<b>Net Assets without Donor Restrictions - Ending</b>	<u>\$ 8,979,568</u>	<u>\$ 9,092,421</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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets without donor restrictions	\$ (112,853)	\$ 279,976
Adjustments		
Depreciation expense	687,498	677,660
Amortization expense	50,985	50,985
Realized and unrealized gain (loss) on investments	(38,431)	(8,932)
Changes in assets and liabilities		
Accounts receivable	(1,529,947)	(655,751)
Grant receivable	(952,714)	(85,603)
Prepaid expenses	5,765	(27,939)
Inventory	(424,907)	(136,578)
Accounts payable	1,898,974	(23,137)
Accrued liabilities	1,553	11,419
Deferred revenue	3,100,349	69,722
Net cash flow from operating activities	<u>2,686,272</u>	<u>151,822</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(990,229)	(183,000)
Redemption (purchase) of investments	<u>(2,682,123)</u>	<u>(1,954,184)</u>
Net cash flow from investing activities	<u>(3,672,352)</u>	<u>(2,137,184)</u>
<b>Net Change in Cash and Cash Equivalents</b>	(986,080)	(1,985,362)
<b>Cash and Cash Equivalents - Beginning</b>	<u>2,018,587</u>	<u>4,003,949</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 1,032,507</u>	<u>\$ 2,018,587</u>
Cash and cash equivalents are presented on the accompanying balance sheet as follows:		
Cash and cash equivalents	\$ 862,443	\$ 1,163,240
Cash and cash equivalents - short term investments	170,064	855,347
Total cash and cash equivalents	<u>\$ 1,032,507</u>	<u>\$ 2,018,587</u>

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

**SOUTHERN TIER NETWORK, INC.**  
**Notes to Financial Statements**

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**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 wholesale, 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 does 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, 2022 and 2021.

**Liquidity** - The Organization has \$9,561,036 of financial assets available within one year of the statement of financial position date consisting of \$1,032,507 of cash and cash equivalents, \$3,572,213 of receivables and \$4,956,316 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.

**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, 2022 and 2021, 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. For the year ended December 31, 2021, the Organization recorded a long-term receivable related to a contract with a customer in which payment is not required until 24 months after the start of the contract. This amount was paid in full subsequent to December 31, 2022 and is therefore recorded as current accounts receivable as of December 31, 2022.



**SOUTHERN TIER NETWORK, INC.**  
**Notes to Financial Statements**

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**Grants 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, 2022 and 2021, no allowance was considered necessary.

**Inventory** - Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method.

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

**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 \$687,498 and \$677,660 for the years ended December 31, 2022 and 2021, respectively.

**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.

**Grant Revenue** - The Organization accounts for grant revenue in accordance with ASU 2018-08 "Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made" which provides clarification for determining if grants and contracts should be considered contributions or exchange transactions.

**Revenue Recognition** – Under Accounting Standards Update (ASU) No 2014-09 (Topic 606) - Revenue from Contracts with Customers ("ASU 2014-09" or "Topic 606"), 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 utilizes a five-step framework as identified in ASU 2014-09. The primary sources of revenue from contracts with customers for the Organization are as follows:

**Installation Revenue** - Installation 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** - 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**

Work is performed under customer statement of work 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. The Organization does not typically have any significant financing components as generally, these sales are collected within one to two months of invoicing. The lengths of the contracts vary but may span over 30 years.

**Grant Revenue** – Grant revenue consists of amounts received from federal, state or local agencies based on the terms of the related grant agreement. The grant agreements in place at the Organization are reimbursable grants and the revenue is reported when the expense is incurred.

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>Other Receivables</u>	<u>Deferred Installation Revenue</u>	<u>Deferred Grants and Contracts</u>
2022	\$ 888,062	\$ 1,260,828	\$ 1,423,323	\$ 7,368,716	\$ 6,766,973
2021	\$ 662,275	\$ 308,114	\$ 119,163	\$ 4,761,467	\$ 6,273,873
2020	\$ 6,798	\$ 222,511	\$ 118,889	\$ 4,381,722	\$ 6,583,896

The timing of revenue recognition was as follows:

	<u>2022</u>	<u>2021</u>
Contract with customer revenue recognized at a point in time	\$ 1,288,158	\$ 1,132,422
Contract with customer revenue recognized over time	653,819	618,430
Other support and revenue	1,248,556	715,587
Total support and revenue	<u>\$ 3,190,533</u>	<u>\$ 2,466,439</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.

**Change in Accounting Principle** - In January 2022, the Financial Accounting Standards Board adopted ASC 842 Leases. Leases will be classified as either finance or operating, with classification affecting the pattern of revenue/expense recognition in the statement of activities and changes in net assets. No significant changes were made to the Organization's financial statements as a result of this standard.

**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, 2022 and 2021 are summarized as follows:

<b>Total 2022</b>	<b><u>Cost</u></b>	<b><u>Fair Value</u></b>
Exchange traded funds	\$ 2,500,771	\$ 2,474,571
U.S. treasury bills/notes	2,737,155	2,724,403
Total	<u>\$ 5,237,926</u>	<u>\$ 5,198,974</u>
<b>Total 2021</b>	<b><u>Cost</u></b>	<b><u>Fair Value</u></b>
Exchange traded funds	\$ 2,486,515	\$ 2,478,420
U.S. treasury bills/notes	-	-
Total	<u>\$ 2,486,515</u>	<u>\$ 2,478,420</u>

Investments in exchange traded funds and U.S treasury bills/notes are stated at fair value. The fair value 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 and changes in net assets.

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.

**SOUTHERN TIER NETWORK, INC.**  
**Notes to Financial Statements**

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

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).

Exchange traded funds: Valued at the closing price reported on the active market which the funds are traded (level 1).

U.S. treasury bills/notes: Debt obligations of the U.S. government that are issued at various intervals and with various maturities (level 1).

The following table sets forth by level, within the fair value hierarchy, the Organization's investment at fair value as of December 31, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds	\$ 2,474,571	\$ 2,474,571	\$ -	\$ -
U.S. treasury bills/notes	2,724,403	2,724,403	-	-
	<u>\$ 5,198,974</u>	<u>\$ 5,198,974</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, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds	\$ 2,478,420	\$ 2,478,420	\$ -	\$ -
U.S. treasury bills/notes	-	-	-	-
	<u>\$ 2,478,420</u>	<u>\$ 2,478,420</u>	<u>\$ -</u>	<u>\$ -</u>

Earnings on all investments were as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Dividends, interest and other income	\$ 73,702	\$ 7,085
Net realized gain (loss) on investments	521	(837)
Net unrealized loss on investments	(38,952)	(8,095)
Total investment return	<u>\$ 35,271</u>	<u>\$ (1,847)</u>

**Note 3. Related Party Transactions**

The Organization contracted with the Southern Tier Central Regional Planning and Development Board (STC) during 2022 and 2021 to provide rental and other miscellaneous office related items. STC's Executive Director is a member of the Organization's Board of Directors. Approximately \$2,600 and \$4,100 was recognized as expense under the terms of the agreement during 2022 and 2021, respectively.

**SOUTHERN TIER NETWORK, INC.**  
**Notes to Financial Statements**

**Note 4. Deferred Revenue**

Deferred revenue consisted of the following as of December 31, 2022:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
Installation	\$ 471,690	\$ 6,897,026	\$ 7,368,716
County Revenue - PSIG	250,823	-	250,823
County - Towers	99,951	-	99,951
Grant - Contracts	1,180,714	5,235,485	6,416,199
Total	<u>\$ 2,003,178</u>	<u>\$ 12,132,511</u>	<u>\$ 14,135,689</u>

Deferred revenue consisted of the following as of December 31, 2021:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
Installation	\$ 595,010	\$ 4,166,457	\$ 4,761,467
County Revenue - PSIG	250,823	-	250,823
County - Towers	99,951	-	99,951
Grant - Contracts	370,212	5,552,887	5,923,099
Total	<u>\$ 1,315,996</u>	<u>\$ 9,719,344</u>	<u>\$ 11,035,340</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, 2022 have terms ranging from one to thirty years, with the latest expiring in 2045.

As of December 31, 2022, deferred installation revenue is expected to be recognized as income in the following years:

2023	\$ 471,691
2024	364,681
2025	316,382
2026	284,692
2027	284,692
Thereafter	5,646,578
	<u>\$ 7,368,716</u>

**SOUTHERN TIER NETWORK, INC.**  
**Notes to Financial Statements**

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**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 thirty years. The agreements allow for termination by either party upon written notice to the other of its intent to terminate the agreement at least 180 days prior to the expiration of the applicable term. Payments to be received under the terms of these agreements are as follows for the years ending:

2023	\$ 1,216,534
2024	895,455
2025	745,730
2026	611,175
2027	434,086
Thereafter	3,849,523
	\$ 7,752,503

**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	1,268,606	-	1,268,606
Less, amortization expense	(358,168)	(50,985)	(409,153)
Infeasible right of use - net	\$ 910,438	\$ (50,985)	\$ 859,453

**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:

2023	\$ 25,000
2024	25,000
2025	25,000
2026	25,000
2027	25,000
Thereafter	268,750
	\$ 393,750

**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 County and Ontario County, the Organization is to perform all required maintenance on the fibers for the term of the agreement.

**SOUTHERN TIER NETWORK, INC.**  
**Notes to Financial Statements**

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**Note 7. Functional Expenses**

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

	<u>2022</u>	<u>2021</u>
Program operations	\$ 2,780,727	\$ 1,837,446
General and administrative	560,302	353,055
Total	<u>\$ 3,341,029</u>	<u>\$ 2,190,501</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.

**Note 9. 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.**  
**Other Supplementary Information**  
**Annual Investment Report**  
**December 31, 2022**

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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, money market funds, mutual funds and/or ETFs and treasury bills/treasury notes.

**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, 2022.

**Investments**

Investments included cash and cash equivalents of \$170,064, exchange traded funds of \$2,474,571 and U.S. treasury bills/notes of \$2,724,403 as of December 31, 2022.



**SOUTHERN TIER NETWORK, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2022**

<u>Federal Grantor/Pass Through Grantor/ Program or Cluster Title</u>	<u>Assistance Listing</u>	<u>Pass Through Grantor Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
<b>U.S. Department of Commerce</b>				
Investments for Public Works and Economic Development Facilities	11.300	N/A	\$ 379,493	\$ -
<b>Appalachian Regional Commission</b>				
Appalachian Area Development	23.002	N/A	379,493	-
<b>Federal Communications Commission</b>				
Universal Service Fund - Rural Health Care	32.005	N/A	47,100	-
<b>U.S. Department of Treasury</b>				
Pass through program from Town of Nichols: Coronavirus State and Local Fiscal Recovery Funds - COVID	21.027	N/A	271,740	-
Pass through program from Tioga County: Coronavirus State and Local Fiscal Recovery Funds - COVID	21.027	N/A	<u>371,260</u>	<u>-</u>
Total U.S. Department of Treasury			<u>643,000</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,449,086</u>	<u>\$ -</u>

See accompanying notes to the schedule of expenditures of federal awards.

**SOUTHERN TIER NETWORK, INC.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**December 31, 2022**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southern Tier Network, Inc. (the "Organization") and is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. The Organization has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance. Matching costs (the Organization's share of certain program costs) are not included in the reported expenditures.

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable program and periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the Organization's financial reporting system.

**Note 2. Scope of Audit**

All 2022 significant federal award operations of Southern Tier Network, Inc. are included in the scope of the Single Audit.

**Note 3. Period of Audit**

Audit testing procedures were performed for transactions occurring during the year ended December 31, 2022. Grant information is indicated in the schedule of expenditures of federal awards.

**Note 4. Subrecipients**

No amounts were provided to subrecipients.

**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 sheet as of December 31, 2022, 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 30, 2023.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

## **Report on 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 financial statements. 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  
Rochester, New York  
March 30, 2023

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

### Report on Compliance for the Major Federal Program

#### *Opinion on the Major Federal Program*

We have audited Southern Tier Network, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Southern Tier Network, Inc.'s major federal program for the year ended December 31, 2022. Southern Tier Network, Inc.'s major federal program are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Southern Tier Network, Inc., complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2022.

#### *Basis for Opinion on the Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Southern Tier Network, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Southern Tier Network, Inc.'s compliance with the compliance requirements referred to above.

#### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Southern Tier Network, Inc.'s federal programs.

#### *Auditors' Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Southern Tier Network, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southern Tier Network, Inc.'s compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Southern Tier Network, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Southern Tier Network, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Southern Tier Network, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*EFPR Group, CPAs, PLLC*

EFPR Group, CPAs, PLLC  
Rochester, New York  
March 30, 2023

**SOUTHERN TIER NETWORK, INC.**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2022**

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**SUMMARY OF AUDITORS' RESULTS:**

**Financial Statements**

Type of auditors' report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

1. Material weaknesses identified?
2. Significant deficiencies identified that are not considered to be material weaknesses?
3. Noncompliance material to the financial statements noted?

Yes  No

Yes  None Reported

Yes  No

**Federal Awards**

Internal control over major programs:

4. Material weaknesses identified?
5. Significant deficiencies identified that are not considered to be material weaknesses?

Yes  No

Yes  None reported

Type of auditors' report issued on compliance for major program:

Unmodified

6. Audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?
7. Major program audited was:

Yes  No

**Program Name**

Coronavirus State and Local Fiscal Recovery Funds - COVID

**Assistance Listing Number**

21.027

8. Dollar threshold to determine type A and type B programs:
9. Auditee qualified as low-risk auditee?

\$ 750,000

Yes  No

**FINDINGS - FINANCIAL STATEMENT AUDIT**

NONE

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

NONE

**SOUTHERN TIER NETWORK, INC.**  
**Summary Schedule of Prior Year Findings**  
**For the Year Ended December 31, 2022**

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**PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT**

NONE

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

NOT APPLICABLE - Uniform Guidance audit not applicable in the prior year.