

SOUTHERN TIER NETWORK, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2025

SOUTHERN TIER NETWORK, INC.

TABLE OF CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
BALANCE SHEETS	3
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 14
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15 - 16
INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE INVESTMENT GUIDELINES	17 - 19

INDEPENDENT AUDITORS' REPORT

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

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, 2025 and 2024, 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, 2025 and 2024, 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 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 audits.
- 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 audits 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 audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2026, 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, Inc.'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 26, 2026

SOUTHERN TIER NETWORK, INC.

Balance Sheets

December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,818,264	\$ 1,334,904
Cash and cash equivalents - short-term investments	1,062,583	5,297,488
Short-term investments	2,326,264	2,763,329
Accounts receivable	33,111	629,257
Grants receivable	6,019,286	1,036,303
Prepaid expenses	166,983	126,515
Inventory	5,526	50,037
Total current assets	<u>11,432,017</u>	<u>11,237,833</u>
Property and Equipment		
Fiber optic cable plant	23,523,387	19,502,935
Construction in progress	5,174,242	4,098,277
Total property and equipment	<u>28,697,629</u>	<u>23,601,212</u>
Less: accumulated depreciation	(7,145,392)	(6,229,099)
Total property and equipment - net	<u>21,552,237</u>	<u>17,372,113</u>
Other Assets		
Long-term prepaid expenses	320,520	360,330
Right-of-use asset - net	456,962	502,301
Indefeasible right of use - net	706,498	757,483
Total other assets	<u>1,483,980</u>	<u>1,620,114</u>
Total Assets	<u>\$ 34,468,234</u>	<u>\$ 30,230,060</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 462,253	\$ 373,352
Accrued liabilities	22,379	6,811
Deferred revenue - current portion	7,535,749	5,057,887
Lease liability - current portion	49,141	45,339
Total current liabilities	<u>8,069,522</u>	<u>5,483,389</u>
Long-term Liabilities		
Deferred revenue - long-term portion	16,340,849	14,703,791
Lease liability - net	407,821	456,962
Total long-term liabilities	<u>16,748,670</u>	<u>15,160,753</u>
Total Liabilities	<u>24,818,192</u>	<u>20,644,142</u>
Net Assets		
Net assets without donor restrictions	<u>9,650,042</u>	<u>9,585,918</u>
Total Liabilities and Net Assets	<u>\$ 34,468,234</u>	<u>\$ 30,230,060</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, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Support and Revenue		
Installation	\$ 602,055	\$ 590,579
Carrier and enterprise	1,470,894	1,422,579
Grant revenue	4,265,926	680,863
County revenue	56,250	79,484
Other revenue	202,831	158,344
Total support and revenue	<u>6,597,956</u>	<u>2,931,849</u>
Expenses		
Cost of sales and installation		
Construction	523,109	259,935
Design and engineering	2,468,407	122,809
Other costs	1,225,664	200,954
Total cost of sales and installation	<u>4,217,180</u>	<u>583,698</u>
Operating expenses		
Support services	15,859	8,515
Administrative	557,858	581,685
Operations	457,145	412,174
Grant expense	67,222	54,120
Pole attachment fees	235,226	190,355
Line maintenance	198,122	284,654
Other operating expenses	131,175	98,865
Total operating expenses	<u>1,662,607</u>	<u>1,630,368</u>
Total expenses	<u>5,879,787</u>	<u>2,214,066</u>
Operating Income	<u>718,169</u>	<u>717,783</u>
Non-Operating Income (Expense)		
Interest income	38,223	52,761
Investment return	251,847	396,825
Gain on sale of assets	23,163	-
Depreciation expense	(916,293)	(790,974)
Amortization expense	(50,985)	(50,985)
Total non-operating expense	<u>(654,045)</u>	<u>(392,373)</u>
Change in Net Assets without Donor Restrictions	64,124	325,410
Net Assets without Donor Restrictions - Beginning	<u>9,585,918</u>	<u>9,260,508</u>
Net Assets without Donor Restrictions - Ending	<u>\$ 9,650,042</u>	<u>\$ 9,585,918</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, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows from Operating Activities		
Changes in net assets without donor restrictions	\$ 64,124	\$ 325,410
Adjustments		
Depreciation expense	916,293	790,974
Amortization expense	50,985	50,985
Realized and unrealized gain on investments	(23,502)	(51,663)
Changes in assets and liabilities		
Accounts receivable	596,146	(85,809)
Grant receivable	(4,982,983)	(715,627)
Prepaid expenses	(658)	(161,867)
Inventory	44,511	-
Accounts payable	88,901	(143,345)
Accrued liabilities	15,568	(18,984)
Deferred revenue	4,114,920	2,346,540
Net cash flow from operating activities	<u>884,305</u>	<u>2,336,614</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(5,096,417)	(1,191,979)
Sale of investments	460,567	3,568,613
Net cash flow from investing activities	<u>(4,635,850)</u>	<u>2,376,634</u>
Net Change in Cash and Cash Equivalents	(3,751,545)	4,713,248
Cash and Cash Equivalents - Beginning	<u>6,632,392</u>	<u>1,919,144</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,880,847</u>	<u>\$ 6,632,392</u>
Cash and Cash Equivalents are Presented on the Accompanying Balance Sheets as Follows		
Cash and cash equivalents	\$ 1,818,264	\$ 1,334,904
Cash and cash equivalents - short term investments	1,062,583	5,297,488
Total cash and cash equivalents	<u>\$ 2,880,847</u>	<u>\$ 6,632,392</u>
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Amounts Included in Measurement of Lease Liabilities		
Operating lease principal payments	<u>\$ 45,339</u>	<u>\$ 32,549</u>
Lease Assets Obtained in Exchange for Lease Liabilities		
Operating leases	<u>\$ -</u>	<u>\$ 534,850</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 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, 2025 and 2024.

Liquidity - The Organization has \$11,259,508 of financial assets available within one year of the statement of financial position date consisting of \$2,880,847 of cash and cash equivalents, \$2,326,264 of short-term investments and \$6,052,397 of receivables. None of these financial assets are subject to donor or contractual restriction that make them unavailable for general expenditures within one year of the balance sheet date.

Cash and Cash Equivalents - For the purposes of the balance sheet and statements of cash flows, 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. At December 31, 2025 and 2024, the organization had \$2,143,263 and \$5,158,276 in excess of the federally insured limits, respectively.

Accounts Receivable - The Organization extends credit to its customers. Accounts receivable are stated at the amount billed. The Organization complies with the Accounting Standards Codification 326, *Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*, as amended which modifies the measurement of expected credit losses on certain financial instruments, including accounts receivable, and requires organizations to measure all expected credit losses for financial instruments based on historical experience, current conditions, and reasonable and supportable forecasts for collectability.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Under the practical expedient, the Organization assumes that current economic conditions as of the balance sheet date remain unchanged for the remaining life of the applicable assets. As a result, the Organization does not develop reasonable and supportable forecasts of future economic conditions for these assets.

Additionally, under the accounting policy election, the Organization considers cash collection activity occurring after the balance sheet date but before the date the financial statements are available to be issued when estimating expected credit losses. At December 31, 2025 and 2024, no allowance was considered necessary.

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 bad debts in anticipation of future write-offs to the extent deemed necessary based on past experience. At December 31, 2025 and 2024, 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 \$916,293 and \$790,974 for the years ended December 31, 2025 and 2024, respectively.

Right-of-Use Asset and Lease Liability - The Organization complies with the Accounting Standards Update (ASC) 842 "Leases". ASC 842 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities and changes in net assets.

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:

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

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.

Work is performed under customer statements 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 in some instances the revenue is reported when the expense is incurred. In other instances, the grant revenue is deferred and recognized over a period of time equal to the life of the underlying capital assets.

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>Short and Long Term - Deferred Installation Revenue</u>	<u>Short and Long Term - Deferred Grants and Contracts</u>
2025	\$ -	\$ 6,019,286	\$ 33,111	\$ 10,015,953	\$ 13,860,645
2024	\$ 449,226	\$ 1,036,303	\$ 180,031	\$ 9,096,980	\$ 10,664,698
2023	\$ 6,759	\$ 320,676	\$ 536,689	\$ 7,860,648	\$ 9,554,490

The timing of revenue recognition was as follows:

	<u>2025</u>	<u>2024</u>
Contract with customer revenue recognized at a point in time	\$ 1,470,894	\$ 1,422,579
Contract with customer revenue recognized over time	602,055	590,579
Other support and revenue	4,525,008	918,691
Total support and revenue	<u>\$ 6,597,957</u>	<u>\$ 2,931,849</u>

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

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. The Organization's tax filings are subject to audit by various authorities.

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.

Reclassifications - Certain reclassifications have been made to the financial statements for the year ended December 31, 2024. These reclassifications are for comparative purposes only and have no effect on the change in net assets as originally reported.

Note 2. Fair Value Measurements

Financial Investments - The cost and fair value of investments at December 31, 2025 and 2024 are summarized as follows:

Total 2025	<u>Cost</u>	<u>Fair Value</u>
Exchange traded funds	\$ 2,327,546	\$ 2,326,264
Total 2024	<u>Cost</u>	<u>Fair Value</u>
Exchange traded funds	\$ 2,223,625	\$ 2,215,272
U.S. treasury bills/notes	537,341	548,057
Total	<u>\$ 2,760,966</u>	<u>\$ 2,763,329</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.

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

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, 2025:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds	\$ 2,326,264	\$ 2,326,264	\$ -	\$ -

The following table sets forth by level, within the fair value hierarchy, the Organizations investment at fair value as of December 31, 2024:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds	\$ 2,215,272	\$ 2,215,272	\$ -	\$ -
U.S. treasury bills/notes	548,057	548,057	-	-
	<u>\$ 2,763,329</u>	<u>\$ 2,763,329</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2025</u>	<u>2024</u>
Dividends, interest and other income	\$ 228,345	\$ 345,162
Net realized (loss) gain on investments	(1,282)	39,771
Net unrealized gain on investments	24,784	11,892
Total investment return	<u>\$ 251,847</u>	<u>\$ 396,825</u>

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

Note 3. Related Party Transactions

During 2024, the Organization paid out commissions of approximately \$137,000 to an employee. These commissions were as a result of contracts that began prior to the individual's employment with the Organization. These commissions are being amortized over the life of the related contracts through 2044. There were no new commissions paid out during 2025.

Note 4. Deferred Revenue

Deferred revenue consisted of the following as of December 31, 2025:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
Installation	\$ 1,476,353	\$ 8,539,600	\$ 10,015,953
County Revenue - PSIG	250,823	-	250,823
County - Towers	99,951	-	99,951
Grant - Contracts	5,708,622	7,801,249	13,509,871
Total	<u>\$ 7,535,749</u>	<u>\$ 16,340,849</u>	<u>\$ 23,876,598</u>

Deferred revenue consisted of the following as of December 31, 2024:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
Installation	\$ 557,381	\$ 8,539,599	\$ 9,096,980
County Revenue - PSIG	250,823	-	250,823
County - Towers	99,951	-	99,951
Grant - Contracts	4,149,732	6,164,192	10,313,924
Total	<u>\$ 5,057,887</u>	<u>\$ 14,703,791</u>	<u>\$ 19,761,678</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, 2025 have terms ranging from one to thirty years, with the latest expiring in 2049.

As of December 31, 2025, deferred installation revenue is expected to be recognized as income in the following years:

2026	\$ 602,055
2027	677,898
2028	662,493
2029	646,050
2030	626,670
Thereafter	6,800,787
	<u>\$ 10,015,953</u>

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

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:

2026	\$ 1,533,162
2027	1,576,469
2028	1,205,096
2029	1,071,122
2030	1,018,847
Thereafter	6,521,458
	\$ 12,926,154

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	(511,123)	(50,985)	(562,108)
Infeasible right of use - net	\$ 757,483	\$ (50,985)	\$ 706,498

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, expiring in September 2038. Future annual maintenance payments under the terms of the agreement are as follows for the years ending December 31:

2026	\$ 25,000
2027	25,000
2028	25,000
2029	25,000
2030	25,000
Thereafter	193,750
	\$ 318,750

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

Note 7. Functional Expenses

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

	<u>2025</u>	<u>2024</u>
Program operations	\$ 6,289,208	\$ 2,474,340
General and administrative	557,857	581,685
Total	<u>\$ 6,847,065</u>	<u>\$ 3,056,025</u>

Note 8. Commitments and Contingencies

Grant Commitment

The Organization has a signed Grant Disbursement Agreement (GDA) with New York State Urban Development Corporation doing business as Empire State Development (ESD). The agreement was approved for \$18,190,000 for the Southern Tier Open Access Communities Project. The project started during 2024 and is expected to be completed by December 2026. In addition, during 2025, the Organization signed a second GDA with ESD which was approved in the amount of \$1,363,264. This project started during 2025 and also is expected to be completed by December 2026. Surrounding these projects is the uncertainty in the economy regarding federal cuts affecting non-profit and government grants and contracts.

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.

Note 10. Leases

The Organization leases office space under an operating lease and has elected the practical expedient not to separate lease and nonlease components for all of lease transactions. The lease provides for monthly payments of \$5,500 with incremental increases and expires in April 2027 with two options to renew for additional three year terms. The Organization determined it is reasonably certain they will remain for the full term of the lease. The lease asset and liability were calculated using the risk-free discount rate at the later of lease inception or period of adoption, unless explicitly stated, in accordance with the Organization's accounting policies. Leases with a term of less than 12 months will not record a right of use asset and lease liability and these payments will be charged to expense. The Organization also elected the package of practical expedients permitted under the guidance. Additional information about the Organization's lease is as follows:

	<u>2025</u>	<u>2024</u>
Lease expense:		
Operating lease:		
Other operating expenses	\$ 67,215	\$ 49,500
Weighted Averages:		
Remaining lease terms:		
Operating lease	7.75 years	8.75 years
Discount Rate:		
Operating lease	4.54%	4.54%

SOUTHERN TIER NETWORK, INC.
Notes to Financial Statements

The aggregate maturity of the lease payments under ASC 842 for the five years following December 31, 2025 and thereafter is as follows:

2026		\$ 68,880
2027		70,605
2028		72,345
2029		74,130
2030		75,975
Thereafter		<u>177,810</u>
Total		539,745
Less: unamortized discount		<u>(82,783)</u>
Total lease liability		<u>\$ 456,962</u>

	<u>2025</u>	<u>2024</u>
Lease liability - Operating Lease		
Current installments	\$ 49,141	\$ 45,339
Noncurrent installments	<u>407,821</u>	<u>456,962</u>
Total lease liability	<u>\$ 456,962</u>	<u>\$ 502,301</u>

**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, 2025, 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 26, 2026.

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
Corning, New York
March 26, 2026

INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE INVESTMENT GUIDELINES

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

Report on Investment Compliance

Opinion on Investment Compliance

We have audited the Southern Tier Network, Inc. (the Organization), compliance with the types of compliance requirements identified as subject to audit in Section 2925(3)(f) of the New York State Public Authorities Law (the investment guidelines) that could have a direct and material effect on its investments for the year ended December 31, 2025.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its investments for the year ended December 31, 2025.

Basis for Opinion on Investment Compliance

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), 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 the investment guidelines. Our responsibilities under those standards and the investment guidelines are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization 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 with the investment guidelines. Our audit does not provide a legal determination of the Organization'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 the Organization's investments.

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 the Organization'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 GAAS, *Government Auditing Standards* and the investment guidelines, 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 the Organization's compliance with the requirements of the investment guidelines as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the investment guidelines, 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 the Organization'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 the Organization'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 investment guidelines, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 the investment guidelines on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 investment guidelines 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 the investment guidelines 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 investment guidelines. Accordingly, this report is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, New York
March 26, 2026