

FINGER LAKES REGIONAL
TELECOMMUNICATIONS DEVELOPMENT
CORP.

FINANCIAL STATEMENTS

DECEMBER 31, 2007

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

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Board of Directors
Finger Lakes Regional Telecommunications
Development Corp.
Canandaigua, New York

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of the Finger Lakes Regional Telecommunications Development Corp. (a not-for-profit corporation) as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Finger Lakes Regional Telecommunications Development Corp. as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Rochester, New York
March 28, 2008

Eldredge, Fox & Porretti, LLP

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

Statement Of Financial Position

December 31, 2007

ASSETS

Current Assets:

Cash and cash equivalents	\$ 2,214,797
Prepaid expenses	2,182
Total current assets	<u>2,216,979</u>

Property and Equipment:

Construction-in-progress	115,291
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Other Assets:

Security deposits	<u>3,000</u>
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<i>Total</i>	<u><u>\$ 2,335,270</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable - trade	<u>\$ 13,574</u>
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Long-Term Liabilities:

Deferred revenue - County of Ontario	1,000,000
Long-term debt - County of Ontario	1,500,000
Total long-term liabilities	<u>2,500,000</u>

<i>Unrestricted Net Assets</i>	<u>(178,304)</u>
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<i>Total</i>	<u><u>\$ 2,335,270</u></u>
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The accompanying notes are an integral part of these financial statements.

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

Statement Of Activities

For The Year Ended December 31, 2007

<i>Revenue:</i>	\$ 0
<i>Costs and Expenses:</i>	
Application fees and marketing	199,769
Education and training	368
Insurance	12,781
Legal and professional	42,249
Network operations	1,000
Office expense	1,500
Telephone and utilities	9,240
Total costs and expenses	<u>266,907</u>
<i>Loss From Operations</i>	(266,907)
<i>Other Income:</i>	
Interest income	<u>88,603</u>
<i>Decrease in Net Assets</i>	(178,304)
<i>Unrestricted Net Assets - Beginning</i>	0
<i>Unrestricted Net Assets - Ending</i>	<u>\$ (178,304)</u>

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

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

Statement Of Cash Flows

For The Year Ended December 31, 2007

<i>Cash Flows From Operating Activities:</i>	
Decrease in net assets	\$ (178,304)
Adjustments to reconcile decrease in net assets to net cash used for operating activities:	
Increase in operating assets:	
Prepaid expenses	(2,182)
Increase in operating liabilities:	
Accounts payable - trade	13,574
Total adjustments	11,392
Net cash used for operating activities	<u>(166,912)</u>
<i>Cash Flows From Investing Activities:</i>	
Increase in security deposits	(3,000)
Purchase of property and equipment	<u>(115,291)</u>
Net cash used for investing activities	<u>(118,291)</u>
<i>Cash Flows From Financing Activities:</i>	
Increase in deferred revenue - County of Ontario	1,000,000
Proceeds from long-term debt - County of Ontario	<u>1,500,000</u>
Net cash provided by financing activities	<u>2,500,000</u>
<i>Net Increase in Cash and Cash Equivalents</i>	2,214,797
<i>Cash and Cash Equivalents - Beginning</i>	0
<i>Cash and Cash Equivalents - Ending</i>	<u><u>\$ 2,214,797</u></u>

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

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.
Notes To Financial Statements

Note 1. Summary of Significant Accounting Policies:

Nature of Business – Finger Lakes Regional Telecommunications Development Corp. is a 501 (c) (3) not-for-profit corporation that was formed to develop, operate, market and manage a municipal-based open access fiber optic backbone in Ontario County. The Organization is managed by a local board of directors.

Basis of Accounting – The Organization’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2007, all of the net assets of the Organization were unrestricted. Its net assets will be classified as follows:

Unrestricted Net Assets – Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations and are generally available for support of the Organization’s activities.

Unrestricted Board Designated Net Assets – Represents funds that have been designated by the Organization’s Board of Directors for the specific purpose of capital improvements to the fiber optic backbone. Because the fiber optic backbone carries a 5-year warranty and has been insured against catastrophic loss, the Board does not plan for the Organization to begin setting aside funds for this purpose until after 2012.

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 disclosure 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.

Cash and Cash Equivalents – All highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

Property and Equipment – Property and equipment, including major renewals and betterments, are recorded at cost and are depreciated using the straight-line method over their estimated useful lives. Upon retirement or disposal of an asset, the cost and related accumulated depreciation are eliminated and any gain or loss is included in operations. Depreciation is computed utilizing the straight-line method over the following period:

All Categories

25 Years

Income Taxes – The Organization, a not-for-profit organization, is exempt from federal income tax under section 501(c)(3) of the internal revenue code. The Organization is not a private foundation.

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.
Notes To Financial Statements

Note 2. Operations:

The time line for the Organization's future development will depend on the ability to obtain suitable financing, which may be in the form of conventional or municipal bond financing. The proceeds from the financing will be used to finance the design, engineering and construction of a municipal-based open access fiber optic backbone in Ontario County and parts of Wayne County. Additionally, a portion of the proceeds will be used to cover the project's operating expenses until such time as the Organization generates positive cash flow.

The fiber optic backbone will be available or open to any entity within Ontario County and parts of Wayne County that wishes to use it. The Organization will contract with the private sector for operating and administrative services.

The Organization plans to generate a significant portion of its ongoing revenue by leasing space on the fiber optic backbone to two different customer types. Each of these customer types is described below:

Carrier – These customers will include nationally and regionally-known wireless providers and internet service providers.

Enterprise – These customers will typically consist of hospitals, school districts, colleges and private businesses.

The Organization will charge both customer types a maintenance fee in addition to the lease revenues described above.

Carrier revenues are expected to be generated beginning in June 2008. In addition to lease revenue, carriers will be charged a maintenance fee to cover operations and maintenance expenses. A total of 6 carriers are expected to begin leasing space on the backbone sometime between June 2008 and July 2011.

Enterprise revenues are expected to be generated also beginning in June 2008. The Organization expects that 19 customers will begin leasing space on the backbone sometime between June 2008 and July 2011. Additionally, a maintenance fee will be charged to the customer to cover operations and maintenance expenses.

Note 3. Construction-in-Progress:

The Organization began developing the fiber optic backbone in October 2007. Construction-in-progress represents the costs incurred before the respective segments of the fiber optic backbone are placed into service. As of December 31, 2007, the construction in progress was \$115,291. The entire fiber optic backbone is expected to be 181.8 miles in total length and will cost approximately \$7,400,000.

Note 4. Security Deposits:

The security deposits account represents the amount paid to Ontario County. As of December 31, 2007, the total deposits were \$3,000.

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.
Notes To Financial Statements

Note 5. Transactions With the County of Ontario:

Long-Term Debt

On September 15, 2006, the Organization entered into an agreement with the County of Ontario (the "County") whereby the County extended it a one-time interest-free loan in the amount of \$1,500,000. The loan will be repaid to the County upon retirement of the Organization's bonded debt, or the termination date of the agreement, whichever event occurs earlier.

Deferred Revenue

In addition, the County paid to the Organization a one-time prepayment for all services rendered pursuant to the agreement in the amount of \$500,000 as well as an additional \$500,000 one-time prepayment for connecting all buildings in the Hopewell Complex to a single point where it will then be connected to the rest of the ring pursuant to the agreement. These amounts have been recorded as deferred revenue and will be recognized as earned revenue when the services have been performed in accordance with the terms of the agreement. As of December 31, 2007, deferred revenue was \$1,000,000. The deferred revenue will be amortized over the term of the contract at a rate of \$40,000 over twenty five years. The contract with the County is at a below market rate, which is not ascertainable at this time.

Costs and Expenses

The County, in consideration for the above-referenced services and to cover for monthly maintenance costs, will allow the Organization to use County meeting rooms, use the County Web server to host the initial Organization Website, the services of the Chief Information Officer to serve as the Chief Executive Officer of the Organization and the services of other County employees or officers to serve on the Organization's Board of Directors or perform other duties as authorized by the County's Board of Supervisors. No amounts have been recorded for the County's contributed services as of December 31, 2007.

Note 6. Commitments/ Contracts:

Empire Pipeline, Inc.

Beginning in September 2009, a portion of the Organization's revenues will be derived from payments to be made by Empire State Pipeline (a joint venture) and Empire Pipeline, Inc. (collectively, "Empire") as a result of a Host Community Benefit Agreement ("Agreement") entered into between Empire and the Organization on July 1, 2007. The Agreement is related to a separate payment-in-lieu-of-tax ("PILOT") agreement entered into between Empire and the Ontario County Industrial Development Agency. The Agreement stipulates that Empire pay the Organization \$379,237 annually for 25 years. Specifically, Empire is required to make payments of \$189,619 on September 1 and December 1, 2009. Thereafter, quarterly payments of \$94,809 will be due beginning on March 1, 2010. The payments will be guaranteed by National Fuel Gas Company, a publicly-traded corporation and parent Organization of Empire. These payments will provide a guaranteed revenue stream to the Organization.

Note 7. Concentration of Credit Risk:

The Organization maintains its cash at one bank. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. Cash deposits in excess of insured limits amounted to \$2,116,936 at December 31, 2007.