FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

Financial Statements
December 31, 2012 and 2011

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Finger Lakes Regional Telecommunications Development Corp.

Report on the Financial Statements

We have audited the accompanying financial statements of Finger Lakes Regional Telecommunications Development Corp. (a New York not-for-profit corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Finger Lakes Regional Telecommunications Development Corp. as of December 31, 2012 and 2011, and the changes in its net assets (deficit) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Salmin, Celona, Wehrle & Flaherty, LLP

Salmin, Celona, Wehrle & Flaherty, LLP

March 27, 2013

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Current assets:		
Cash and cash equivalents	$ 1,779,297	$ 1,753,865
Accounts receivable	147,840	41,849
Prepaid expenses	42,944	32,524
Total current assets	1,970,081	1,828,238
Property and equipment, net	5,069,601	5,219,266
Other assets:		
Restricted cash	182,296	187,392
Loan acquisition costs, net	92,794	123,726
Indefeasible right of use, net	331,200	345,600
Total assets	$ 7,645,972	$ 7,704,222

LIABILITIES AND NET ASSETS (DEFICIT)

	2012	2011
Current liabilities:		
Current portion of deferred revenue	$ 120,483	$ 100,983
Current portion of long-term debt	147,052	131,422
Accounts payable	133,551	102,685
Accrued interest	16,551	16,095
Total current liabilities	417,637	351,185
Other liabilities:		
Deferred revenue, net of current portion	1,753,536	1,483,518
Interest rate swap liability, at fair value	1,219,660	1,269,295
Long-term debt, net of current portion	6,056,323	6,205,580
Total liabilities	9,447,156	9,309,578
Unrestricted net assets (deficit)	(1,801,184)	(1,605,356)
Total liabilities and net assets (deficit)	$ 7,645,972	$ 7,704,222

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Revenues	$ 686,339	$ 465,244
Costs and expenses:		
Marketing and sales	129,900	93,260
Insurance	9,122	13,356
Legal and accounting	70,699	55,090
Network operations	248,546	166,786
Property taxes	102,890	31,079
Office expense	2,844	3,393
Depreciation	230,888	186,505
Amortization	45,332	45,332
Professional services - administration	135,000	205,994
Total costs and expenses	975,221	800,795
Income (loss) from operations	(288,882)	(335,551)
Other income (expense):		
Interest income	-	173
Empire Pipeline revenue	379,237	379,237
Other income	-	2,061
Change in fair value of interest rate swap liability	49,635	(827,371)
Interest expense	(335,818)	(344,125)
Total other income (expense)	93,054	(790,025)
Increase (decrease) in net assets	(195,828)	(1,125,576)
Unrestricted net assets (deficit) at beginning of year	(1,605,356)	(479,780)
Unrestricted net assets (deficit) at end of year	$ (1,801,184)	$ (1,605,356)

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (195,828)	$ (1,125,576)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	230,888	186,505
Amortization	45,332	45,332
Change in fair value of interest rate swap liability	(49,635)	827,371
Changes in assets and liabilities:		
Accounts receivable	(105,991)	10,588
Prepaid expenses	(10,420)	(27,635)
Accounts payable	30,866	(156,427)
Accrued interest	456	3,250
Deferred revenue	289,518	550,737
Net cash provided by (used in) operating activities	235,186	314,145
Cash flows from investing activities:		
Purchase of property and equipment	(81,223)	(592,144)
Net cash provided by (used in) investing activities	(81,223)	(592,144)
Cash flows from financing activities:		
Repayments of long-term debt	(133,627)	(126,645)
Decrease (increase) in restricted cash	5,096	192,395
Net cash provided by (used in) financing activities	(128,531)	65,750
Net increase (decrease) in cash and cash equivalents	25,432	(212,249)
Cash and cash equivalents at beginning of year	1,753,865	1,966,114
Cash and cash equivalents at end of year	$ 1,779,297	$ 1,753,865
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 335,362	$ 340,875

See accompanying notes to financial statements

1. ORGANIZATION

Finger Lakes Regional Telecommunications Development Corp. (Organization) is a New York not-for-profit corporation that was formed to develop, operate, market and manage a municipal-based open access fiber optic network in the County of Ontario in the State of New York (Ontario County). The fiber optic network currently runs over 200 miles and is available or open to any entity within Ontario County and parts of Wayne County that wish to use it. The Organization operates under the name Axcess Ontario, is managed by a local board of directors and contracts with the private sector for operating and administrative services.

The Organization generates a significant portion of its operating revenues by providing access to its fiber optic network to two different customer types. These customer types are described below:

Carrier: These customers consist of nationally and regionally-known wireless providers and internet service providers.

Enterprise: These customers consist of hospitals, school districts, colleges and private businesses.

Another source of the Organization's revenue is derived from payments made by Empire State Pipeline (a joint venture) and Empire Pipeline, Inc. (collectively Empire Pipeline) as a result of a Host Community Benefit Agreement (Benefit Agreement) entered into between Empire Pipeline and the Organization on July 1, 2007. The Benefit Agreement is related to a separate payment-in-lieu-of-tax agreement entered into between Empire Pipeline and the Ontario County Industrial Development Agency. The Benefit Agreement stipulates that Empire Pipeline pay the Organization an annual benefit fee of $379,237 for twenty-five years. Payments are due in equal quarterly installments and are guaranteed by National Fuel Gas Company, a publicly-traded corporation and parent organization of Empire Pipeline. These payments provide a guaranteed revenue stream to the Organization and are recognized as revenue when the payments become due and payable.

The Organization has assigned its rights under the Benefit Agreement to Citizens Bank as security for the outstanding term loans and has directed Empire Pipeline to wire payments into a specific cash account that has been restricted for future payments of principal and interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Organization prepares its financial statements in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) regarding not-for-profit entities. Under this standard, 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.

Unrestricted Net Assets - Represent all resources over which the Governing Board has discretionary control to use in carrying on the Organization's operations in accordance with the guidelines established for the Organization. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted Net Assets - Consist of all resources currently available for use, but limited by donor imposed restrictions that expire by the passage of time or can be fulfilled or otherwise removed by actions of the Organization. The Organization had no temporarily restricted net assets at December 31, 2012 and 2011.

Permanently Restricted Net Assets - Represent the principal amount of gifts and bequests accepted with the donor-stipulation that the principal be maintained intact in perpetuity and that only the investment income earned may be expended for general purposes. The Organization had no permanently restricted net assets at December 31, 2012 and 2011.

Method of Accounting

The Organization prepares its financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned and expenses are recorded when incurred.

Use of 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

The Organization considers all cash on hand, cash in banks and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Accounts Receivable

The Organization extends credit to the majority of its customers. Accounts receivable are stated at the amount billed. Losses from uncollectible receivables shall be accrued when it is probable that a receivable is impaired and the amount of the loss can be reasonably estimated. As of the date of the financial statements, management believes that neither of these conditions exists with regard to receivables and, as such, an allowance for doubtful accounts has not been established.

Property and Equipment

Property and equipment consists primarily of costs to construct the fiber optic network and are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives at the assets which range from three to twenty-five years.

Expenditures for renewals and betterments are capitalized while expenditures for repairs and maintenance are charged to activities as incurred. Upon sale or retirement, the related cost and accumulated depreciation are removed from the accounts and any related gain or loss is reflected in the statement of activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization capitalizes interest costs incurred on funds used to construct fixed assets. The capitalized interest is recorded as part of the assets to which it related and is depreciated over the asset's estimated useful life. No interest costs were capitalized during the years ended December 31, 2012 and 2011.

The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There were no impairment losses recognized in the years ending December 31, 2012 and 2011.

Loan Acquisition Costs

Loan acquisition costs in the original amount of $154,658 are being amortized using the straight-line method over the five year term of the loan, beginning January 1, 2011.

Indefeasible Right of Use

In December 2010, the Organization paid $360,000 for the indefeasible right of use (IRU) of 24 strands of existing dark fiber maintained by a third party to connect the Organization's fiber optic network in lieu of building fiber in the same area. The IRU is being amortized using the straight-line method over the twenty five year term of the agreement, beginning January 1, 2011.

Income Taxes

The Organization is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

In accordance with the provisions of the ASC pertaining to accounting for uncertainty in income taxes, the Organization evaluates tax positions taken for potential uncertainties. Management is not aware of any uncertain tax positions requiring measurement or disclosure in these financial statements. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest and penalties assessed to the Organization are recorded in costs and expenses, which was $-0- for the years ending December 31, 2012 and 2011.

Advertising Costs

The Organization expenses advertising costs as incurred.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2012	2011
Fiber Optic Network – Phase I	$1,162,914	$1,162,914
Fiber Optic Network – Phase II	250,169	250,169
Fiber Optic Network – Phase III	2,467,100	2,467,100
Fiber Optic Network – Phase IV	429,563	-
Fiber Optic Network – Fisher Laterals	73,106	73,106
Fiber Optic Network – FLCC Laterals	68,368	68,368
Fiber Optic Network – Wayne Finger Lakes BOCES	140,403	140,403
Fiber Optic Network – Verizon Laterals – Phase I	169,323	169,323
Fiber Optic Network – Verizon Laterals – Phase II	487,770	487,770
Fiber Optic Network – Verizon Laterals – Phase III	209,256	209,256
Fiber Optic Network – Iberdrola Laterals	43,428	-
Equipment	30,845	30,845
Website Development	10,500	10,500
Construction In Progress	74,332	466,100
	5,617,077	5,535,854
Less: Accumulated Depreciation	547,476	316,588
	$5,069,601	$5,219,266

4. DEFERRED REVENUE AND MINIMUM FUTURE RENTALS

The Organization enters into various types of agreements with its customers in order to provide them access to the fiber optic network. Certain agreements require customers to make up-front payments for their connection to the fiber optic network. These up-front payments have been recorded as deferred revenue and are being recognized as earned revenue using the straight-line method over the terms of the agreements, which range from five to twenty-five years and expire in various years through 2034. Other agreements require monthly recurring payments by the customer for their connection to the fiber optic network under non-cancelable operating leases. The terms of these leases range from one to ten years and expire in various years through 2022.

Deferred revenue to be recognized as earned revenue, minimum future rentals to be received and total revenue to be recognized for each of the next five years and in the aggregate as of December 31, 2012 is approximately as follows:

	Deferred Revenue	Future Rentals	Total
2013	$ 120,500	$ 442,700	$ 563,200
2014	100,500	420,100	520,600
2015	100,500	338,100	438,600
2016	97,100	325,800	422,900
2017	93,800	306,200	400,000
Thereafter	1,361,600	995,800	2,357,400
	$1,874,000	$2,828,700	$4,702,700

5. LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	2012	2011
Term loan payable to Citizens Bank in the amount of $4,393,331. The loan bears interest at LIBOR plus 2.50% (effective rate of 2.71% at December 31, 2012) and requires monthly interest payments and quarterly principal payments sufficient to amortize the principal balance over a twenty-four year period, beginning January 2011. All outstanding principal and interest is due and payable in full in December 2015. Under the terms of an interest rate swap agreement, which has a termination date of September 2034, the Organization pays a fixed interest rate of 4.50% and receives a rate of LIBOR on a notional amount, which was $4,240,826 at December 31, 2012. As a result, the combined effective interest rate to be paid on the loan is 7.00%. The loan is secured by substantially all assets of the Organization and the revenue provided by the Host Community Benefit Agreement.	$4,240,826	$4,319,723
Term loan payable to Citizens Bank in the amount of $160,901. The loan requires 60 monthly principal payments of $1,341, plus interest at LIBOR plus 3.00% (effective rate of 3.21% at December 31, 2012), beginning April 2010. The monthly principal payment is based on a ten year repayment schedule, but all outstanding principal and interest is due and payable in full in March 2015. Under the terms of an interest rate swap agreement, which has a termination date of March 2020, the Organization pays a fixed interest rate of 3.71% and receives a rate of LIBOR on a notional amount, which was $116,652 at December 31, 2012. As a result, the combined effective interest rate to be paid on the loan is 6.71%. The loan is secured by substantially all assets of the Organization and the revenue provided by the Host Community Benefit Agreement.	116,652	132,742
Term loan payable to Citizens Bank in the amount of $426,964. The loan bears interest at LIBOR plus 3.00% (effective rate of 3.21% at December 31, 2012) and requires monthly principal and interest payments sufficient to amortize the principal balance over a ten year period, beginning November 2010. All outstanding principal and interest is due and payable in full in October 2015. Under the terms of an interest rate swap agreement, which has a termination date of October 2020, the Organization pays a fixed interest rate of 2.65% and receives a rate of LIBOR on a notional amount, which was $353,567 at December 31, 2012. As a result, the combined effective interest rate to be paid on the loan is 5.65%. The loan is secured by substantially all assets of the Organization and the revenue provided by the Host Community Benefit Agreement.	345,897	384,537

5. LONG-TERM DEBT (Continued)

	2012	2011
Unsecured, non-interest bearing loan payable to Ontario County. The loan is due the earlier of the retirement of the Organization's bank debt or March 2033 and is subordinate to the term loans payable to Citizens Bank.	1,500,000	1,500,000
	6,203,375	6,337,002
Less: Current portion of long-term debt	147,052	131,422
Long-term debt, net of current portion	$6,056,323	$6,205,580

Estimated principal payments of long-term debt at December 31, 2012 are scheduled as follows:

2013	$ 147,052
2014	153,131
2015	5,903,192
	$6,203,375

On July 13, 2012, the Organization entered into a $500,000 non-replenishing line of credit loan agreement, bearing interest at a variable rate based on LIBOR plus 3.0%. The Organization may request advances in amounts not less than $150,000 on the line of credit until July 12, 2013. Each advance will convert to a term loan that will require monthly principal payments based on a ten year amortization schedule with a balloon payment of the remaining principal balance due after five years and will bear interest at a variable rate. There were no outstanding borrowings on the line of credit at December 31, 2012. This line is secured by substantially all assets of the Organization and the revenues provided by the Host Community Agreement.

The Organization is required to meet certain financial covenants as stated in the bank term loan agreements. At December 31, 2012, the Organization was in compliance with these covenants.

6. INTEREST RATE SWAP LIABILITY

The Organization accounts for its interest rate swap liability in accordance with the ASC regarding derivative investments and hedging activities. This standard requires that derivative investments be recognized at fair value. The Organization entered into three separate interest rate swap contracts in order to fix the Organization's effective interest rate on their long-term debt. As a result of accounting for these derivative instruments, net assets increased by $49,635 during the year ended December 31, 2012 and net assets decreased by $827,371 during the year ended December 31, 2011. The interest rate swap contracts have been valued by the Swap Dealer utilizing proprietary models and estimates relevant to future market conditions.

7. FAIR VALUE MEASUREMENTS

The Organization accounts for its interest rate swap liability in accordance with the ASC regarding fair value measurements and disclosures. This standard defines fair value, establishes a framework for measuring fair value and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by the standard, are used to measure fair value.

7. FAIR VALUE MEASUREMENTS (Continued)

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- 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 and include situations where there is little, if any, market activity for the asset or liability.

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 table presents the Organization's fair value hierarchy for its interest rate swap liability measured at fair value on a recurring basis as of December 31:

	2012	2011
Level 1	$ -	$ -
Level 2	1,219,660	1,269,295
Level 3	-	-
Total	$1,219,660	$1,269,295

8. TRANSACTIONS WITH ONTARIO COUNTY

Ontario County paid the Organization a one-time prepayment for all services rendered pursuant to an 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 fiber optic network pursuant to the agreement. The agreement with Ontario County is at a below market rate, which is not ascertainable at this time. These amounts have been recorded as deferred revenue and are being recognized as earned revenue using the straight-line method over the twenty-five year term of the agreement, beginning April 2008. At December 31, 2012 and 2011, deferred revenue related to this agreement was $810,000 and $850,000, respectively.

8. TRANSACTIONS WITH ONTARIO COUNTY (Continued)

Ontario County, in consideration for the above-referenced services and to cover monthly maintenance costs, will allow the Organization use of its meeting rooms, its 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 its other employees or officers to serve on the Organization's Board of Directors or perform other duties as authorized by its Board of Supervisors. No amounts have been recorded for Ontario County's contributed services during the years ended December 31, 2012 and 2011 which would be offset by the applicable expense.

9. CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts receivable. The Organization maintains its cash and cash equivalents and restricted cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash. The Organization also routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited.

The Organization had three customers that accounted for 83% of the total operating revenue for the year ended December 31, 2012 and one customer that accounted for 90% of accounts receivable as of December 31, 2012.

The Organization had two customers that accounted for 68% of the total operating revenue for the year ended December 31, 2011 and two customers that accounted for 93% of accounts receivable as of December 31, 2011.

10. COMMITMENTS

The Organization entered into a dark fiber lease agreement during 2012 for two dark optical fiber strands in a closed ring to five locations. Under the terms of this agreement, the Organization is required to make monthly access payments of $2,100 and monthly lease payments of $525 per location for a period of one-hundred twenty months, beginning on the acceptance date of the leased fiber. The Organization began ring access and accepted two of the locations effective October 1, 2012. Two of the other locations were accepted effective January 1, 2013 and the last location was accepted effective February 1, 2013. The Organization also leases dark fiber under three other agreements. Under the terms of these agreements, the Organization is required to make payments of up to $1,900 per month through 2014.

Minimum annual payments under all of the dark fiber lease agreements are as follows:

2013	$ 78,975
2014	70,000
2015	56,700
2016	56,700
2017	56,700
Thereafter	274,575
	$593,650

10. COMMITMENTS (Continued)

Leased fiber expense, which is included in network operations expense, totaled $32,250 and $22,800 for the years ended December 31, 2012 and 2011, respectively.

The Organization also has a three year agreement with a company for the management of its operations. Under the terms of the agreement, monthly payments of $20,725 are due through October 2014.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.