

**FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.**  
**Projected Balance Sheets**  
**December 31, 2013 and 2014**  
(With Historical Figures at December 31, 2009, 2010, 2011 and 2012)

	<u>Audited Historical 12/31/09</u>	<u>Audited Historical 12/31/10</u>	<u>Audited Historical 12/31/11</u>	<u>Audited Historical 12/31/12</u>	<u>Projected 12/31/13</u>	<u>Projected 12/31/14</u>
<b>ASSETS</b>						
<i>Current Assets:</i>						
Cash and equivalents	\$ 119,100	\$ 1,966,100	\$ 1,753,900	\$ 1,779,300	\$ 1,793,800	\$ 2,524,800
Accounts receivable - trade	20,100	52,400	41,800	147,800	64,000	96,400
Prepaid expenses	4,900	4,900	32,500	43,000	49,000	51,000
Total current assets	<u>144,100</u>	<u>2,023,400</u>	<u>1,828,200</u>	<u>1,970,100</u>	<u>1,906,800</u>	<u>2,672,200</u>
<i>Property and Equipment:</i>						
Construction-in-Progress	726,200	190,500	466,100	74,300	98,900	-
Fiber Optic Network	1,486,200	3,882,600	3,921,500	4,351,100	4,351,100	4,550,000
Lateral Buildouts	140,400	870,600	1,148,300	1,191,700	1,496,800	2,081,800
Total	<u>2,352,800</u>	<u>4,943,700</u>	<u>5,535,900</u>	<u>5,617,100</u>	<u>5,946,800</u>	<u>6,631,800</u>
Less, accumulated depreciation	<u>(35,400)</u>	<u>(130,100)</u>	<u>(316,600)</u>	<u>(547,500)</u>	<u>(782,900)</u>	<u>(1,038,300)</u>
Total property and equipment - net	<u>2,317,400</u>	<u>4,813,600</u>	<u>5,219,300</u>	<u>5,069,600</u>	<u>5,163,900</u>	<u>5,593,500</u>
<i>Other Assets:</i>						
Restricted Deposits	377,900	379,800	187,400	182,300	182,300	184,000
Indefeasible right of use	-	360,000	345,600	331,200	316,800	302,400
Bond acquisition costs - net	<u>145,900</u>	<u>154,700</u>	<u>123,700</u>	<u>92,800</u>	<u>61,900</u>	<u>31,000</u>
Total other assets	<u>523,800</u>	<u>894,500</u>	<u>656,700</u>	<u>606,300</u>	<u>561,000</u>	<u>517,400</u>
<b>Total</b>	<u>\$ 2,985,300</u>	<u>\$ 7,731,500</u>	<u>\$ 7,704,200</u>	<u>\$ 7,646,000</u>	<u>\$ 7,631,700</u>	<u>\$ 8,783,100</u>

*See Summary of Significant Projection Assumptions and Accounting Policies*

**FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.**  
**Projected Balance Sheets**  
**December 31, 2013 and 2014**  
(With Historical Figures at December 31, 2009, 2010, 2011 and 2012)

	<u>Audited Historical 12/31/09</u>	<u>Audited Historical 12/31/10</u>	<u>Audited Historical 12/31/11</u>	<u>Audited Historical 12/31/12</u>	<u>Projected 12/31/13</u>	<u>Projected 12/31/14</u>
<b>LIABILITIES AND NET ASSETS</b>						
<i>Current Liabilities:</i>						
Line of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued Interest	-	12,800	16,100	16,600	15,600	16,000
Accounts payable - trade	192,200	259,100	102,700	133,500	47,200	104,400
Total current liabilities	<u>192,200</u>	<u>271,900</u>	<u>118,800</u>	<u>150,100</u>	<u>62,800</u>	<u>120,400</u>
<i>Long-Term Liabilities:</i>						
Deferred revenue	1,069,400	1,033,800	1,584,500	1,874,000	2,060,900	3,031,900
Long-term debt - County of Ontario	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Long-term debt - Citizens Bank	215,900	4,963,700	4,837,000	4,703,400	4,756,300	4,816,300
Long-term debt - Local Sources	-	-	-	-	-	108,000
Interest rate swap rate liability, at market	-	441,900	1,269,300	1,219,700	1,219,700	1,219,700
Total long-term liabilities	<u>2,785,300</u>	<u>7,939,400</u>	<u>9,190,800</u>	<u>9,297,100</u>	<u>9,536,900</u>	<u>10,675,900</u>
<i>Net Assets/(Deficit):</i>						
Unrestricted	7,800	(479,800)	(1,605,400)	(1,801,200)	(1,968,000)	(2,013,200)
Unrestricted board designated capital funds	-	-	-	-	-	-
Total net assets/(deficit)	<u>7,800</u>	<u>(479,800)</u>	<u>(1,605,400)</u>	<u>(1,801,200)</u>	<u>(1,968,000)</u>	<u>(2,013,200)</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,985,300</u>	<u>\$ 7,731,500</u>	<u>\$ 7,704,200</u>	<u>\$ 7,646,000</u>	<u>\$ 7,631,700</u>	<u>\$ 8,783,100</u>

See Summary of Significant Projection Assumptions and Accounting Policies

**FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.**  
**Statements of Revenues and Expenses**  
**For the Years December 31, 2013 and 2014 (With Historical Results for December 31, 2009, 2010, 2011 and 2012)**

	<b>Audited Historical 12/31/09</b>		<b>Audited Historical 12/31/10</b>		<b>Audited Historical 12/31/11</b>		<b>Audited Historical 12/31/12</b>		<b>Projected 12/31/13</b>		<b>Projected 12/31/14</b>	
<b>Revenues:</b>												
Revenue	\$ 90,800	17.8%	\$ 288,400	40.8%	\$ 425,200	50.4%	\$ 646,300	60.7%	\$ 872,600	67.5%	\$ 1,406,900	77.0%
Grants	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Empire Pipeline guaranteed payments	379,200	74.4%	379,200	53.6%	379,200	44.9%	379,200	35.6%	379,200	29.4%	379,200	20.8%
County of Ontario fees	40,000	7.8%	40,000	5.7%	40,000	4.7%	40,000	3.8%	40,000	3.1%	40,000	2.2%
Total revenues	<u>510,000</u>	<u>100.0%</u>	<u>707,600</u>	<u>100.0%</u>	<u>844,400</u>	<u>100.0%</u>	<u>1,065,500</u>	<u>100.0%</u>	<u>1,291,800</u>	<u>100.0%</u>	<u>1,826,100</u>	<u>100.0%</u>
<b>Costs and Expenses:</b>												
Legal and accounting	41,700	8.2%	55,600	7.9%	55,100	6.5%	70,700	6.6%	65,800	5.1%	78,500	4.3%
Office and administrative	17,300	3.4%	3,600	0.5%	3,400	0.4%	2,800	0.3%	4,200	0.3%	4,300	0.2%
Professional services - operations	-	0.0%	187,700	26.5%	206,000	24.4%	135,000	12.7%	135,000	10.5%	135,000	7.4%
Network operations	68,800	13.5%	213,400	30.2%	166,800	19.8%	248,500	23.3%	390,100	30.2%	740,500	40.6%
Line maintenance	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Pole attachment fees	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
POP maintenance and support	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Insurance	8,300	1.6%	11,200	1.6%	13,400	1.6%	9,100	0.9%	11,300	0.9%	18,300	1.0%
Application fees & marketing	113,000	22.2%	169,900	24.0%	93,300	11.0%	129,900	12.2%	122,900	9.5%	136,200	7.5%
Property taxes	-	0.0%	-	0.0%	31,000	3.7%	102,900	9.7%	136,000	10.5%	140,000	7.7%
Total costs and expenses	<u>249,100</u>	<u>48.8%</u>	<u>641,400</u>	<u>90.6%</u>	<u>569,000</u>	<u>67.4%</u>	<u>698,900</u>	<u>65.6%</u>	<u>865,300</u>	<u>67.0%</u>	<u>1,252,800</u>	<u>68.6%</u>
Depreciation	35,300	6.9%	94,800	13.4%	186,500	22.1%	230,900	21.7%	235,400	18.2%	255,400	14.0%
Amortization of IRU	-	0.0%	-	0.0%	14,400	1.7%	14,400	1.4%	14,400	1.4%	14,400	1.4%
Amortization of deferred financing costs	-	0.0%	-	0.0%	30,900	3.7%	30,900	2.9%	30,900	2.4%	30,900	1.7%
Total cost and expenses	<u>284,400</u>	<u>55.8%</u>	<u>736,200</u>	<u>104.0%</u>	<u>800,800</u>	<u>94.8%</u>	<u>975,100</u>	<u>91.5%</u>	<u>1,146,000</u>	<u>88.7%</u>	<u>1,553,500</u>	<u>85.1%</u>
<b>Operating Income (Loss)</b>	<b>225,600</b>	<b>44.2%</b>	<b>(28,600)</b>	<b>-4.0%</b>	<b>43,600</b>	<b>5.2%</b>	<b>90,400</b>	<b>8.5%</b>	<b>145,800</b>	<b>11.3%</b>	<b>272,600</b>	<b>14.9%</b>
<b>Other Expense/(Income):</b>												
Interest expense - long-term debt	-	0.0%	17,000	2.4%	344,100	40.8%	335,800	31.5%	312,600	24.2%	317,800	17.4%
Interest expense - line-of-credit	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Interest income	(2,900)	-0.6%	-	0.0%	(2,300)	-0.3%	-	0.0%	-	0.0%	-	0.0%
Change in Fair Value of interest rate swap	-	-	441,900	-	827,400	98.0%	(49,600)	-4.7%	-	0.0%	-	0.0%
<b>Change in Net Assets</b>	<b>\$ 228,500</b>	<b>44.8%</b>	<b>\$ (487,500)</b>	<b>-68.9%</b>	<b>\$ (1,125,600)</b>	<b>-133.3%</b>	<b>\$ (195,800)</b>	<b>-18.4%</b>	<b>\$ (166,800)</b>	<b>-12.9%</b>	<b>\$ (45,200)</b>	<b>-2.5%</b>

See Summary of Significant Projection Assumptions and Accounting Policies

**FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.**  
**Statements of Cash Flows**  
**For The Years December 31, 2013 and 2014 (With Historical Results for December 31, 2009, 2010, 2011 and 2012)**

	<b>Audited Historical 12/31/09</b>	<b>Audited Historical 12/31/10</b>	<b>Audited Historical 12/31/11</b>	<b>Audited Historical 12/31/12</b>	<b>Projected 12/31/13</b>	<b>Projected 12/31/14</b>
<b>Cash Flows From Operating Activities:</b>						
Excess of revenues over/(under) expenses	\$ 228,500	\$ (487,500)	\$ (1,125,600)	\$ (195,800)	\$ (166,800)	\$ (45,200)
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided by (used for) operating activities:						
Depreciation	35,300	94,800	186,500	230,900	235,400	255,400
Amortization	-	-	45,300	45,300	45,300	45,300
Change in fair value of Interest Rate Swap contracts	-	441,900	827,400	(49,600)	-	-
Decrease (increase) in operating assets:						
Accounts receivable - trade	(20,100)	(32,300)	10,600	(106,000)	83,800	(32,400)
Prepaid expenses	(2,800)	-	(27,600)	(10,500)	(6,000)	(2,000)
Increase (decrease) in operating liabilities						
Accounts payable	(18,700)	66,900	(156,400)	30,800	(86,300)	57,200
Accrued interest	-	12,800	3,300	500	(1,000)	400
Total adjustments	<u>(6,300)</u>	<u>584,100</u>	<u>889,100</u>	<u>141,400</u>	<u>271,200</u>	<u>323,900</u>
Net cash provided by (used for) operating activities	<u>222,200</u>	<u>96,600</u>	<u>(236,500)</u>	<u>(54,400)</u>	<u>104,400</u>	<u>278,700</u>
<b>Cash Flows from Investing Activities:</b>						
(Increase) decrease in construction-in-progress	-	535,700	(275,600)	391,800	(24,600)	98,900
Purchase of property and equipment	(938,100)	(3,126,600)	(316,600)	(473,000)	(305,100)	(783,900)
(Increase) decrease in restricted deposits	(377,800)	(1,900)	192,400	5,100	-	(1,700)
Indefeasible right to use agreement	-	(360,000)	-	-	-	-
Loan acquisition costs	(145,900)	(8,800)	-	-	-	-
Net cash flow from investing activities	<u>(1,461,800)</u>	<u>(2,961,600)</u>	<u>(399,800)</u>	<u>(76,100)</u>	<u>(329,700)</u>	<u>(686,700)</u>
<b>Cash Flows From Financing Activities:</b>						
Proceeds from long-term debt - County of Ontario	-	-	-	-	-	-
Proceeds from long-term debt	215,900	4,765,300	-	210,000	200,000	348,000
Repayments of long-term debt	-	(17,600)	(126,600)	(343,600)	(147,100)	(180,000)
Increase (decrease) in line of credit	-	-	-	-	-	-
Increase (decrease) in deferred revenue	99,400	(35,700)	550,700	289,500	186,900	971,000
Net cash provided by (used for) financing activities	<u>315,300</u>	<u>4,712,000</u>	<u>424,100</u>	<u>155,900</u>	<u>239,800</u>	<u>1,139,000</u>
<b>Net Increase (Decrease) In Cash</b>	<u>(924,300)</u>	<u>1,847,000</u>	<u>(212,200)</u>	<u>25,400</u>	<u>14,500</u>	<u>731,000</u>
<b>Cash-Beginning</b>	<u>1,043,400</u>	<u>119,100</u>	<u>1,966,100</u>	<u>1,753,900</u>	<u>1,779,300</u>	<u>1,793,800</u>
<b>Cash-Ending</b>	<u>\$ 119,100</u>	<u>\$ 1,966,100</u>	<u>\$ 1,753,900</u>	<u>\$ 1,779,300</u>	<u>\$ 1,793,800</u>	<u>\$ 2,524,800</u>

See Summary of Significant Projection Assumptions and Accounting Policies

**FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.**  
**Summary of Significant Projection Assumptions and Accounting Policies**

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**Summary of Significant Accounting Policies:**

**Nature of Business**

The Company is a 501 (c) (6) 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 Company is managed by a local board of directors.

**Income Statement Assumptions:**

**Revenues**

The Company 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 Company generally will enter into contracts with its Carrier and Enterprise customers, ranging from five to twenty years. Revenue is projected to increase in 2014, primarily driven by identified carrier and enterprise customers, where we currently have agreements for new lateral builds and fiber leases or we anticipate finalizing such agreements with customers in the first six months of 2014. The increase in revenue is based on detail analysis of current and potential customers along with anticipated timing of when the new connections would be completed.

Beginning in October 2009, a portion of the Company's revenues were derived from payments 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 Company in July 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 Company \$379,237 annually for 25 years. The payments will be guaranteed by National Fuel Gas Company, a publicly-traded corporation and parent company of Empire.

**Costs and Expense**

The Company has contracted with the private sector to provide all of its operating and administrative services. The Company's anticipated major expense categories are identified and defined below along with assumptions relevant to the financial projections. The Company believes these projected costs and expenses are representative of their costs to obtain in the market.

**Legal and Accounting Costs** — Consists of professional services of legal, accounting, and audit. The costs projections are based on agreements currently in place plus adjustments for increase in business activity.

**Office Administration** – Primarily the cost of office supplies and postage.

## Income Statement Assumptions - Continued:

### Costs and Expense - continued

**Professional Services - Operations** — Ongoing operations and management support for the established fiber optic backbone. Costs have been projected based on the three-year services contract with ECC of \$248K, which is split between professional Services Operations (\$135k) and Marketing (\$113k).

#### **Network Work Operations**

Includes the following:

1. Leases - OTC \$22K, STN – Existing 63K, STN – Proposed 52K
2. mark and locate costs (\$21K),
3. Non-recurring charges for splicing and other customer charges (\$16K) and STN Verizon Project 500k.
4. Line and POP Maintenance is based on historical costs along costs anticipated moves, add-ons and changes, as well as break fix, will be charged at T&M rates and billed to customer and or insurance providers.
5. Pole Attachment Fees — A tariff-based rental fee paid to utility pole owners on an annual basis for utility pole space being occupied by the fiber optic backbone. For 2013 we used 4700 poles at average rate of \$8.51 per pole. The average rate is based on billings received from utility companies.

**Insurance** — We used 1% of revenue which is based on historical premiums paid by the company.

Application Fees and Marketing primarily relates to professional contract with ECC to provide direct sales support for potential customers along with Corporate Public Relations with a Marketing Public Relations Firm and projected event fee of 12k.

Property Taxes are estimated based for real estate taxes related to the right-of-way agreements that were acquired to complete the network. 2014 projected property taxes is based on 2013 tax bills received and paid for County, City, Town, Village and school taxes.

Depreciation and Amortization has been projected based on current estimated lives of the Company's capital assets currently in service and those assets that are projected to be placed in service in 2014. Amortization expense relates to intangible assets (IRU and Deferred financing costs), which are amortized over the original life of the underlying agreement.

Interest expense – Management has projected interest expense based on the current debt agreements in place and new anticipated loans under existing debt agreements needed to finance certain lateral builds already completed or are in process.

## Balance Sheet Assumptions:

### Accounts Receivable

Accounts receivable is projected to turn over at 25 days throughout the projection period.

### 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:

Network and laterals	25 Years
Monitoring Equipment	5 Years

### Accounts Payable

Accounts payable are projected as payments for management services, network operations and maintenance, and support services, assuming an average payment period of 30 days.

### Long-Term Debt

The Company borrowed \$4,393,000 from a financial institution and \$1,500,000 from an interest-free loan from the County of Ontario to complete the design, engineering, and construction of the fiber optic network. In addition, the Company has also obtained or is projected to obtain necessary financing to complete laterals to customer service locations.

Long-term debt projected at December 31, 2014 is as follows:

Long-term Debt to a bank; estimated term of 25 years; interest rate of 7.0%, collateralized by certain revenue payments of the Company and fiber optic ring.	\$ 4,064,000
Long-term Debt to a bank; estimated term of 10 years; interest rate of 6.6%, collateralized by fiber optic ring.	752,300
Long-term Debt to local governmental agencies; estimated term of 10 years; interest rate ranging from 0.0%-6.0%, collateralized by fiber optic ring. Interest payments only for 3 years for the first 3 years of the term.	108,000
County of Ontario; interest-free loan; due upon the retirement of the Company's Municipal Revenue Bonds, or the termination of a 25-year agreement entered into between the parties, whichever event occurs first.	<u>1,500,000</u>
Long term debt	<u>\$ 6,424,300</u>

### Deferred Revenue

The Company has recognized deferred revenue for payments received from customers in advance for Fiber Lease and or lateral builds to the Company. In accordance with generally accepted accounting principles in the United States, the Company is recognizing the revenue of these funds over the length of the individual agreement.