FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

CANANDAIGUA, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2010 AND 2009

CONTENTS

MMB
MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Finger Lakes Regional Telecommunications Development Corp.

We have audited the accompanying statements of financial position of Finger Lakes Regional Telecommunications Development Corp. as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets (deficit) and cash flows for the years 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Finger Lakes Regional Telecommunications Development Corp. as of December 31, 2010 and 2009, 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.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
March 25, 2011

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FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

STATEMENTS OF FINANCIAL POSITION

	December 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,966,114	$ 119,130
Accounts receivable	52,437	20,092
Prepaid expenses	4,889	4,876
Current portion of indefeasible right of use agreement	14,400	-
TOTAL CURRENT ASSETS	2,037,840	144,098
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $130,084 and $35,331 at December 31, 2010 and 2009, respectively	4,813,627	2,317,424
OTHER ASSETS		
Loan acquisition costs	154,658	145,882
Restricted cash	379,787	377,859
Indefeasible right of use agreement	345,600	-
	880,045	523,741
	$ 7,731,512	$ 2,985,263
LIABILITIES AND UNRESTRICTED NET (DEFICIT) ASSETS		
CURRENT LIABILITIES		
Accounts payable - trade	$ 259,112	$ 192,188
Current portion of deferred revenue	55,652	45,652
Current portion of long-term debt	126,664	-
Accrued interest	12,845	-
TOTAL CURRENT LIABILITIES	454,273	237,840
OTHER LIABILITIES		
Deferred revenue	978,112	1,023,764
Fair value of interest rate swap agreements	441,924	-
Long-term debt	6,336,983	1,715,898
	7,757,019	2,739,662
UNRESTRICTED NET (DEFICIT) ASSETS	(479,780)	7,761
	$ 7,731,512	$ 2,985,263

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

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)

	Year ended December 31, 2010	2009
Revenue	$ 306,177	$ 130,782
Costs and expenses:		
Marketing and sales	169,929	113,023
Insurance	11,206	8,331
Legal and accounting	55,640	41,670
Network operations	213,376	68,768
Office expense	3,628	17,249
Depreciation	94,752	35,331
Professional services - administration	187,708	-
	736,239	284,372
LOSS FROM OPERATIONS	(430,062)	(153,590)
Other income:		
Interest income	3	2,863
Empire Pipeline revenue	379,237	379,237
Other income	22,215	-
Change in fair value of interest rate swap agreements	(441,924)	-
Interest expense	(17,010)	-
	(57,479)	382,100
(DECREASE) INCREASE IN NET ASSETS	(487,541)	228,510
Unrestricted net assets (deficit) at beginning of year	7,761	(220,749)
UNRESTRICTED NET (DEFICIT) ASSETS AT END OF YEAR	$ (479,780)	$ 7,761

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

FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

STATEMENTS OF CASH FLOWS

	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS - OPERATING ACTIVITIES		
Change in net assets	$ (487,541)	$ 228,510
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation	94,752	35,331
Change in fair value of interest rate swap contracts	441,924	-
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	(32,345)	(20,092)
Prepaid expenses	(13)	(2,730)
Indefeasible right of use agreement	(360,000)	-
Accounts payable - trade	(120,785)	(18,688)
Deferred revenue	(35,652)	99,416
Accrued interest	12,845	-
NET CASH (USED FOR) PROVIDED FROM OPERATING ACTIVITIES	(486,815)	321,747
CASH FLOWS - INVESTING ACTIVITIES		
Purchase of property and equipment	(2,403,246)	(938,157)
NET CASH USED FOR INVESTING ACTIVITIES	(2,403,246)	(938,157)
CASH FLOWS - FINANCING ACTIVITIES		
Increase in loan acquisition costs	(8,776)	(145,882)
Proceeds from long-term debt	4,765,298	215,898
Repayments of long-term debt	(17,549)	-
Increase in restricted cash	(1,928)	(377,859)
NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	4,737,045	(307,843)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,846,984	(924,253)
Cash and cash equivalents at beginning of year	119,130	1,043,383
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,966,114	$ 119,130
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 38,870	$ 1,361
NON-CASH OPERATING AND INVESTING ACTIVITY		
Capitalized property and equipment included in accounts payable	$ 187,709	$ 174,376

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

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

Finger Lakes Regional Telecommunications Development Corp. (the "Organization") is a 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 and operates under the name Axcess Ontario.

Basis of accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation

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: Represents 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.

Temporarily Restricted Net Assets: Consists 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, 2010 and 2009.

Permanently Restricted Net Assets: Represents 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, 2010 and 2009.

Cash and cash equivalents

The Organization maintains cash balances at financial institutions located in upstate New York. Cash and certain money market account balances are insured by the Federal Deposit Insurance Corporation up to $250,000 at each institution. In addition, the FDIC provides full deposit insurance coverage for certain non-interest bearing transaction accounts at the financial institutions through December 31, 2012. There were no uninsured balances December 31, 2010. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant risk in cash or cash equivalents.

Accounts receivable

Accounts receivable are stated at the amount billed to customers for leases of dark fiber or other charges incurred. Management reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. Based on the information available, the Organization believes no allowance for doubtful accounts was necessary as of December 31, 2010.

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

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 on a basis considered adequate to depreciate the assets over their estimated useful lives, which are generally 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.

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. Interest costs capitalized during the years ended December 31, 2010 and 2009 were $34,705 and $1,361, respectively.

Loan acquisition costs

Loan acquisition costs are stated at cost and will be amortized over the five year term of the loan agreement beginning at the time the loan is converted to a term loan, which was December 31, 2010.

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 December 31, 2010 and 2009 and the reported amounts of revenue and expenses for the years then ended. Actual results could differ from those estimates.

Derivative Instruments and Hedging Activities

The Financial Accounting Standards Board ("FASB") issued FASB ASC 815, "Accounting for Derivative Investments and Hedging Activities". Under FASB ASC 815, derivative investments are recognized at fair value. The Organization entered into three separate interest rate swap contracts, two in 2010 and one in 2009. The change in net assets for the year ended December 31, 2010 decreased by $441,924 as a result of accounting for these derivative instruments. No amounts were recognized in 2009 as the change in fair value was not significant. The interest rate swap contracts have been valued by the Swap Dealer utilizing proprietary models and estimates relevant to future market conditions.

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Tax exempt status

The Organization is tax-exempt under section 501(c)(3) of the Internal Revenue Code. The Organization has filed for and received an income tax exemption in New York State. The Organization files Form 990 tax returns in the U.S. federal jurisdiction and files in New York State. With few exceptions, as of December 31, 2010, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended prior to December 31, 2007. The tax returns for the years ended December 31, 2007 through December 31, 2010 are still subject to potential audit by the IRS and the taxing authorities in New York State. The Organization adopted the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes* and its related amendment on January 1, 2009. Management of the Organization believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Subsequent events

The Organization as conducted an evaluation of potential subsequent events occurring after the statement of financial position date through March 25, 2011, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: OPERATIONS

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

The Organization generates a significant portion of its ongoing revenue by leasing space on the fiber optic backbone to two different customer types. These customer types are 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.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2010	December 31, 2009
Fiber Network - Phase I	$ 1,162,914	$ 1,162,914
Fiber Network - Phase II	250,169	250,169
Fiber Network - Phase III	2,438,675	-
Fiber Network - Wayne Finger Lakes BOCES	140,403	140,403
Fiber Network - Fishers Laterals	73,106	73,106
Fiber Network - Verizon Laterals - Phase I	169,323	-
Fiber Network - Verizon Laterals - Phase II	487,770	-
Equipment	30,845	-
Construction-in-progress	190,505	726,163
	4,943,710	2,352,755
Less accumulated depreciation	130,083	35,331
	$ 4,813,627	$ 2,317,424

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. At December 31, 2010 and 2009, the construction in progress was $190,505 and $726,163, respectively. The entire fiber optic backbone is expected to be approximately 180 miles in total length and is expected to cost approximately $5,800,000.

NOTE D: RESTRICTED CASH

Restricted cash consists of unexpended funds which are restricted for the future payments of principal and interest due on the construction and lateral loans. (See Note E). Amounts are held at a financial institution and are fully insured by the Federal Deposit Insurance Corporation as the account is non-interest bearing as of December 31, 2010.

NOTE E: LONG-TERM DEBT

Long-term debt of the Organization is as follows:

	December 31, 2010	December 31, 2009
On September 15, 2006, the Organization entered into an agreement with the County of Ontario (the "County") whereby the County extended to the Organization 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 bank debt, or the termination date of the agreement (Year 2033), whichever occurs earlier. This loan is subordinated to the bank debt described below.	$ 1,500,000	$ 1,500,000
Under a 2009 agreement with a bank, the Organization had a non-replenishing line of credit arrangement (the "Construction Line") with maximum borrowings of $4,393,331 and interest charged at a variable rate based on LIBOR plus 2.5%. Under the same agreement, the Organization had another non-replenishing line of credit arrangement (the "Lateral Line of Credit") with maximum borrowings of $1,200,000 and interest charged at a variable rate based on LIBOR plus 3%. The Organization could request advances on these lines until December 31, 2010, at which point the balances converted to term loans as described below. The Organization borrowed the full amount of $4,393,331 on the Construction Line as of December 31, 2010, and requested two advances under the Lateral Line of Credit in the amounts of $160,901 and $426,964 during 2010.		
Construction line of credit converted to bank term loan (A)	4,393,331	215,898
Lateral Line of Credit #1 (B)	148,833	-
Lateral Line of Credit #2 (C)	421,483	-
	6,463,647	1,715,898
Less current portion of long-term debt	126,664	-
	$ 6,336,983	$ 1,715,898

NOTE E: LONG-TERM DEBT, Cont'd

(A) During 2010 the Organization converted borrowings on the Construction Line into a bank term loan with principal payments due in quarterly installments and interest payments due monthly starting in January 2011. Quarterly total of principal and interest payments, including the related interest rate swap payments, approximate the assigned income from the Host Community Agreement (See Note H) of $94,809. The loan bears interest at LIBOR plus 2.5%, an effective rate of 2.76% at December 31, 2010. Principal repayments are based on a 24 year amortization schedule through December 2015 at which time the remaining principal balance is due in full. In addition, under terms of an interest rate swap agreement, which has a termination date of September 2034, the Organization pays a fixed interest rate of 4.5% and receives a rate of LIBOR on a notional amount of $4,393,331 at December 31, 2010. As a result, the combined effective interest rate on this loan is 7%. The loan is secured by substantially all assets of the Organization and revenues provided by the Host Community Agreement (See Note H for further details).

(B) During 2010, the Organization borrowed $160,901 under the Lateral Line of Credit. This loan requires principal payments due in equal monthly installments of $1,341, plus interest at LIBOR plus 3% (effective rate of 3.26% at December 31, 2010) through March 2015 at which point the remaining principal balance will be due. Repayments of the term loan are based on a 10 year amortization schedule with a balloon payment due after 5 years. In addition, 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 of $148,833 at December 31, 2010. As a result, the combined effective interest rate to be paid on this loan is 6.71%. The loan is secured by substantially all assets of the Organization.

(C) During 2010, the Organization borrowed an additional $426,964 under the Lateral Line of Credit. This loan requires monthly payments of approximately $4,200 at December 31, 2010 including interest at LIBOR plus 3% (effective rate of 3.26% at December 31, 2010) through October 2015 at which point the remaining principal balance will be due. Repayments of the term loan are based on a 10 year amortization schedule with a balloon payment due after 5 years. In addition, 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 of $421,515 at December 31, 2010. As a result, the combined effective interest rate to be paid on this portion of the loan is 5.65%. The loan is secured by substantially all assets of the Organization.

NOTE E: LONG-TERM DEBT, Cont'd

Repayments of the above agreements are expected to be as follows:

Year ending December 31	Amount
2011	$ 126,664
2012	133,177
2013	140,110
2014	147,493
2015	4,416,203
Thereafter	1,500,000
	$ 6,463,647

The Organization is also required to meet certain financial covenants as stated in the bank term loan agreements. The Organization was in compliance with these covenants for the year ended December 31, 2010.

The interest rate swap contracts were entered into by the Organization to fix the Organization's effective interest rate on their debt.

NOTE F: DEFERRED REVENUE

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 are being recognized as earned revenue as the services are performed in accordance with the terms of the agreement beginning April 2008. At December 31, 2010 and 2009, deferred revenue related to this agreement was $890,000 and $930,000, respectively. The deferred revenue will be amortized over the term of the contract at a rate of $40,000 per year over twenty-five years. The contract with the County is at a below market rate, which is not ascertainable at this time.

During 2009, the Organization received an up-front payment from a customer to provide a connection to the fiber ring as well as maintenance revenue for a 25 year period. The deferred revenue will be amortized over the term of the contract at a rate of $5,652 per year over twenty-five years. At December 31, 2010 and 2009, deferred revenue relating to this agreement was $133,764 and $139,416, respectively. All additional deferred revenue will be recognized in 2011.

NOTE G: TRANSACTIONS WITH THE COUNTY OF ONTARIO

The County, in consideration for the above-referenced services and to cover 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 during the years ended December 31, 2010 and 2009 which would be offset by the applicable expense.

The County has also provided financing as described in Note E and an up-front payment for services to be provided as described in Note F.

NOTE H: COMMITMENTS

Empire Pipeline, Inc.

A portion of the Organization's revenues are 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 (the "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 twenty-five years. Payments of $94,809 are due quarterly. The payments are guaranteed by National Fuel Gas Company, a publicly-traded corporation and parent organization of Empire. These payments provide a guaranteed revenue stream to the Organization, and are recognized as revenue when the payments become due and payable. Revenues from this agreement totaled $379,237 for each of the years ended December 31, 2010 and 2009. Funds received under this agreement are assigned to the bank, as described in Note E, as security for the "Construction Line of Credit" and converted term note.

NOTE I: MINIMUM RENTALS

The Company is the lessor of fiber optic cable under operating leases expiring in various years through 2034. For the year ended December 31, 2010, two customers accounted for approximately 63% of total operating revenue. For the year ended December 31, 2009, two customers accounted for approximately 52% of total operating revenue.

Future minimum rents receivable under non-cancelable operating leases are approximately as follows:

Year ending December 31	Amount
2011	$ 411,300
2012	409,300
2013	409,300
2014	384,700
2015	298,900
Thereafter	2,143,900
	$ 4,057,400

NOTE J: FAIR VALUE MEASUREMENTS

FASB ASC 820-10 establishes a framework 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 under FASB ASC 820-10 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

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;
- 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.

NOTE J: FAIR VALUE MEASUREMENTS, Cont'd

The asset's 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 presents the financial instruments measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
December 31, 2010:				
Liabilities:				
Interest rate swap liabilities	$ -	$ 441,924	$ -	$ 441,924

NOTE K: INDEFEASIBLE RIGHT OF USE AGREEMENT

In December 2010 the Organization paid $360,000 for an indefeasible right of use (IRU) of 24 strands of existing dark fiber maintained by a third party to connect the Organization's fiber ring in lieu of building fiber in the same area. The IRU will be expensed a rate of $14,400 per year over the term of the contract which is twenty-five years. For the year ended December 31, 2010 no expense was recognized relating to this agreement.