FINGER LAKES REGIONAL TELECOMMUNICATIONS DEVELOPMENT CORP.

Financial Statements
December 31, 2011 and 2010

SALMIN, CELONA, WEHRLE & FLAHERTY, LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the statement of financial position of Finger Lakes Regional Telecommunications Development Corp. (a New York not-for-profit corporation) as of December 31, 2011, and the related statement of activities and changes in net assets (deficit), 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. The financial statements of the Organization as of and for the year ended December 31, 2010 were audited by other auditors whose report, dated March 25, 2011, expressed an unqualified opinion on those statements.

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 2011 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, 2011, and the changes in its net assets (deficit) and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Salmin, Celona, Wehrle & Flaherty, LLP

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March 23, 2012

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FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current assets:		
Cash and cash equivalents	$ 1,753,865	$ 1,966,114
Accounts receivable	41,849	52,437
Prepaid expenses	32,524	4,889
Total current assets	1,828,238	2,023,440
Property and equipment, net	5,219,266	4,813,627
Other assets:		
Restricted cash	187,392	379,787
Loan acquisition costs, net	123,726	154,658
Indefeasible right of use, net	345,600	360,000
Total assets	$ 7,704,222	$ 7,731,512

LIABILITIES AND NET ASSETS (DEFICIT)

	2011	2010
Current liabilities:		
Current portion of deferred revenue	$ 100,983	$ 55,652
Current portion of long-term debt	131,422	126,664
Accounts payable	102,685	259,112
Accrued interest	16,095	12,845
Total current liabilities	351,185	454,273
Other liabilities:		
Deferred revenue, net of current portion	1,483,518	978,112
Interest rate swap liability, at fair value	1,269,295	441,924
Long-term debt, net of current portion	6,205,580	6,336,983
Total liabilities	9,309,578	8,211,292
Unrestricted net assets (deficit)	(1,605,356)	(479,780)
Total liabilities and net assets (deficit)	$ 7,704,222	$ 7,731,512

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, 2011 AND 2010

	2011	2010
Revenues	$ 465,244	$ 306,177
Costs and expenses:		
Marketing and sales	93,260	169,929
Insurance	13,356	11,206
Legal and accounting	55,090	55,640
Network operations	166,786	213,376
Property taxes	31,079	-
Office expense	3,393	3,628
Depreciation	186,505	94,752
Amortization	45,332	-
Professional services - administration	205,994	187,708
Total costs and expenses	800,795	736,239
Income (loss) from operations	(335,551)	(430,062)
Other income (expense):		
Interst income	173	3
Empire Pipeline revenue	379,237	379,237
Other income	2,061	22,215
Change in fair value of interest rate swap liability	(827,371)	(441,924)
Interest expense	(344,125)	(17,010)
Total other income (expense)	(790,025)	(57,479)
Increase (decrease) in net assets	(1,125,576)	(487,541)
Unrestricted net assets (deficit) at beginning of year	(479,780)	7,761
Unrestricted net assets (deficit) at end of year	$ (1,605,356)	$ (479,780)

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (1,125,576)	$ (487,541)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	186,505	94,752
Amortization	45,332	-
Change in fair value of interest rate swap liability	827,371	441,924
Changes in assets and liabilities:		
Accounts receivable	10,588	(32,345)
Prepaid expenses	(27,635)	(13)
Accounts payable	(156,427)	(120,785)
Accrued interest	3,250	12,845
Deferred revenue	550,737	(35,652)
Net cash provided by (used in) operating activities	314,145	(126,815)
Cash flows from investing activities:		
Acquisition of indefeasible right of use	-	(360,000)
Purchase of property and equipment	(592,144)	(2,403,246)
Net cash provided by (used in) investing activities	(592,144)	(2,763,246)
Cash flows from financing activities:		
Payment of loan acquisition costs	-	(8,776)
Proceeds from long-term debt	-	4,765,298
Repayments of long-term debt	(126,645)	(17,549)
Decrease (increase) in restricted cash	192,395	(1,928)
Net cash provided by (used in) financing activities	65,750	4,737,045
Net increase (decrease) in cash and cash equivalents	(212,249)	1,846,984
Cash and cash equivalents at beginning of year	1,966,114	119,130
Cash and cash equivalents at end of year	$ 1,753,865	$ 1,966,114
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 340,875	$ 38,870
Non-cash operating and investing activity:		
Capitalized property and equipment in accounts payable	$ -	$ 187,709

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, 2011 and 2010.

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, 2011 and 2010.

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. Interest costs capitalized during the years ended December 31, 2011 and 2010 were $-0- and $34,705, respectively.

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, 2011 and 2010.

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, 2011 and 2010.

Advertising Costs

The Organization expenses advertising costs as incurred.

Account Reclassification

Certain account balances at December 31, 2010 were reclassified to conform to account classifications used by the Organization at December 31, 2011. These changes had no effect on reported results of changes in net assets or financial position.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2011	2010
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	2,438,675
Fiber Optic Network – Fisher Laterals	73,106	73,106
Fiber Optic Network – FLCC Laterals	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	-
Equipment	30,845	30,845
Website Development	10,500	-
Construction In Progress	466,100	190,505
	5,535,854	4,943,710
Less: Accumulated Depreciation	316,588	130,083
	$5,219,266	$4,813,627

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 2021.

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, 2011 is approximately as follows:

	Deferred Revenue	Future Rentals	Total
2012	$ 101,000	$ 377,500	$ 478,500
2013	81,000	374,800	455,800
2014	81,000	330,800	411,800
2015	81,000	246,300	327,300
2016	77,600	233,700	311,300
Thereafter	1,162,900	963,900	2,126,800
	$1,584,500	$2,527,000	$4,111,500

5. LONG-TERM DEBT

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

	2011	2010
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 2.78% at December 31, 2011) 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 $4,319,723 at December 31, 2011. 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.	$4,319,723	$4,393,331
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 3.28% at December 31, 2011), 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 $132,742 at December 31, 2011. 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.	132,742	148,833
Term loan payable to Citizens Bank in the amount of $426,964. The loan bears interest at LIBOR plus 3.00% (effective rate of 3.28% at December 31, 2011) 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 $388,498 at December 31, 2011. 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.	384,537	421,483

5. LONG-TERM DEBT (Continued)

	2011	2010
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
	6,337,002	6,463,647
Less: Current portion of long-term debt	131,422	126,664
Long-term debt, net of current portion	$6,205,580	$6,336,983

Estimated principal payments of long-term debt at December 31, 2011 are scheduled as follows:

2012	$ 131,422
2013	137,092
2014	143,171
2015	5,925,317
	$6,337,002

The Organization is 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, 2011.

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. For the years ended December 31, 2011 and 2010, net assets decreased by $827,371 and $441,924, respectively, as a result of accounting for these derivative instruments. 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:

	2011	2010
Level 1	$ -	$ -
Level 2	1,269,295	441,924
Level 3	-	-
Total	$1,269,295	$ 441,924

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, 2011 and 2010, deferred revenue related to this agreement was $850,000 and $890,000, 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, 2011 and 2010 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.

For the year ended December 31, 2011, two customers accounted for approximately 68% of the total operating revenue. For the year ended December 31, 2010, two customers accounted for approximately 63% of the total operating revenue.

10. COMMITMENTS

The Organization entered into a three year agreement 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 auditors' report, which is the date the financial statements were available to be issued.