

**FINGER LAKES REGIONAL
TELECOMMUNICATIONS
DEVELOPMENT CORP.**

Financial Statements
December 31, 2020 and 2019



**Flaherty
Salmin** CPAs

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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, 2020 and 2019, and the related statements of activities and changes in net deficit, functional expenses 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.

Auditors' 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 audits 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 auditors' 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, 2020 and 2019, and the changes in its net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Flaherty Salmin LLP

Flaherty Salmin LLP
Rochester, New York

March 26, 2021

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 1,775,115	\$ 1,619,915
Prepaid expenses	46,309	50,157
Current portion of lease receivable	<u>260,406</u>	<u>213,250</u>
Total current assets	2,081,830	1,883,322
Other assets:		
Lease receivable, net of current portion	2,389,183	2,649,589
Restricted cash	<u>173,087</u>	<u>175,646</u>
Total assets	<u>\$ 4,644,100</u>	<u>\$ 4,708,557</u>

LIABILITIES AND NET DEFICIT

Current liabilities:		
Current portion of long-term debt	\$ 147,334	\$ 3,521,810
Accounts payable	50,000	51,825
Accrued interest	<u>6,524</u>	<u>6,222</u>
Total current liabilities	203,858	3,579,857
Other liabilities:		
Interest rate swap agreements, at fair value	998,734	773,061
Long-term debt, net of current portion	<u>4,737,020</u>	<u>1,500,000</u>
Total liabilities	5,939,612	5,852,918
Net deficit without donor restrictions	<u>(1,295,512)</u>	<u>(1,144,361)</u>
Total liabilities and net deficit	<u>\$ 4,644,100</u>	<u>\$ 4,708,557</u>

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Revenues	\$ <u>-</u>	\$ <u>-</u>
Expenses:		
Insurance	7,952	7,242
Legal and accounting	18,812	24,611
Network operations	33,853	36,340
Property taxes	148,804	152,268
Office expense	2,701	3,198
Interest	<u>244,342</u>	<u>251,986</u>
Total expenses	<u>456,464</u>	<u>475,645</u>
Loss from operations	<u>(456,464)</u>	<u>(475,645)</u>
Other income (expense):		
Empire Pipeline revenue	379,237	379,237
Change in fair value of interest rate swap agreements	(225,673)	(201,154)
Interest income	<u>151,749</u>	<u>160,051</u>
Total other income	<u>305,313</u>	<u>338,134</u>
Increase in net deficit	(151,151)	(137,511)
Net deficit without donor restrictions at beginning of year	<u>(1,144,361)</u>	<u>(1,006,850)</u>
Net deficit without donor restrictions at end of year	<u><u>\$ (1,295,512)</u></u>	<u><u>\$ (1,144,361)</u></u>

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Expenses:			
Insurance	\$ 7,952	\$ -	\$ 7,952
Legal and accounting	-	18,812	18,812
Network operations	33,853	-	33,853
Property taxes	148,804	-	148,804
Office expense	-	2,701	2,701
Interest	<u>244,342</u>	<u>-</u>	<u>244,342</u>
Total expenses	<u>\$ 434,951</u>	<u>\$ 21,513</u>	<u>\$ 456,464</u>

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Expenses:			
Insurance	\$ 7,242	\$ -	\$ 7,242
Legal and accounting	-	24,611	24,611
Network operations	36,340	-	36,340
Property taxes	152,268	-	152,268
Office expense	-	3,198	3,198
Interest	<u>251,986</u>	<u>-</u>	<u>251,986</u>
Total expenses	<u>\$ 447,836</u>	<u>\$ 27,809</u>	<u>\$ 475,645</u>

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase in net deficit	\$ (151,151)	\$ (137,511)
Adjustments to reconcile increase in net deficit to net cash provided by operating activities:		
Change in fair value of interest rate swap agreements	225,673	201,154
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Prepaid expenses	3,848	5,082
Accounts payable	(1,825)	1,759
Accrued interest	302	(1,063)
Net cash provided by operating activities	<u>76,847</u>	<u>69,421</u>
Cash flows from investing activities:		
Payments received on lease receivable	<u>213,250</u>	<u>114,948</u>
Net cash provided by investing activities	<u>213,250</u>	<u>114,948</u>
Cash flows from financing activities:		
Repayments of long-term debt	<u>(137,456)</u>	<u>(128,241)</u>
Net cash used in financing activities	<u>(137,456)</u>	<u>(128,241)</u>
Net increase in cash, cash equivalents, and restricted cash	152,641	56,128
Cash, cash equivalents, and restricted cash - beginning of year	<u>1,795,561</u>	<u>1,739,433</u>
Cash, cash equivalents, and restricted cash - end of year	<u>\$ 1,948,202</u>	<u>\$ 1,795,561</u>
Reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same amounts shown in the statements of cash flows		
Cash and cash equivalents	\$ 1,775,115	\$ 1,619,915
Restricted cash	<u>173,087</u>	<u>175,646</u>
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	<u>\$ 1,948,202</u>	<u>\$ 1,795,561</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 244,040</u>	<u>\$ 253,049</u>

See accompanying notes to financial statements

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 that runs primarily within in the County of Ontario in the State of New York (Ontario County). The Organization operates under the name Axxcess Ontario, is managed by a local board of directors and contracts with the private sector for operating and administrative services.

Effective May 1, 2018, the Organization entered into a lease to purchase agreement with Empire Telephone Corporation (ETC). Under the terms of the agreement, the Organization will lease its fiber optic network and all other network related assets, and assign its contracts and the related liabilities to ETC for a period of five years.

The Organization has accounted for the lease to purchase agreement as a sales-type lease. Under this accounting method, the Organization retains title of the leased assets during the lease term, but the underlying leased assets and assumed liabilities are derecognized, and a lease receivable and a gain on sale of assets are recognized. Upon receipt of the final lease payment, the Organization will relinquish title of the leased assets. The transaction is summarized as follows:

Property and equipment, net	\$ 4,562,362
Indefeasible right of use, net	266,789
Deferred revenue	<u>(2,714,495)</u>
Net book value of assets	2,114,656
Lease receivable	<u>(3,022,076)</u>
Gain on sale of assets	<u>\$ (907,420)</u>

Prior to May 1, 2018, the Organization generated 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.

A continuing 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.

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

1. ORGANIZATION (Continued)

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the United States of America. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the United States of America have declared states of emergency. It is anticipated that the impact of COVID-19 will continue for some time. The extent of the future impact on the Organization's operational and financial performance is not known as of the date of the independent auditors' report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Organization prepares its financial statements in accordance with the provisions of the 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 two classes of net assets based upon the absence or presence of donor restrictions. When a donor restriction expires, the amount is reclassified from net assets with donor restrictions to net assets without donor restrictions. The Organization had no assets with donor restrictions at December 31, 2020 and 2019.

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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Any expenditures not directly chargeable are allocated based on an analysis of personnel time and space utilized for the related activities.

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.

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease Receivable

The Organization extended credit to Empire Telephone Corporation. The lease receivable is stated at the unamortized balance. Losses from uncollectible receivables are 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 regards to its receivable and, as such, an allowance for doubtful accounts has not been established.

Property and Equipment

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

Expenditures for renewals and betterments were capitalized while expenditures for repairs and maintenance were charged to operations as incurred.

The fiber optic network and all other network related assets were derecognized during 2018 as part of the lease to purchase agreement with Empire Telephone Corporation.

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.

Advertising Costs

The Organization expenses advertising costs as incurred.

Account Reclassification

Certain account balances at December 31, 2019 were reclassified to conform to account classifications used by the Organization at December 31, 2020. These changes had no effect on reported results of operations or financial position.

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

3. LEASE RECEIVABLE

Lease receivable consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Lease receivable from Empire Telephone Corporation requiring annual payments of \$240,000 in year one, \$300,000 in year two, \$360,000 in year three, \$420,000 in years four and five, and one final payment of \$2,000,000 in May 2023, including interest at 5.50%.	\$2,649,589	\$2,862,839
Less: Current portion of lease receivable	260,406	213,250
Lease receivable, net of current portion	<u>\$2,389,183</u>	<u>\$2,649,589</u>

4. TRANSACTIONS WITH ONTARIO COUNTY

Ontario County allows the Organization use of its meeting rooms, its 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. The value of these contributed services is immaterial. Therefore, no amounts have been recorded for Ontario County's contributed services during the years ended December 31, 2020 and 2019, which would be offset by the applicable expense.

5. LONG-TERM DEBT

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

	<u>2020</u>	<u>2019</u>
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 2.66% at December 31, 2020) and requires monthly interest payments and quarterly principal payments sufficient to amortize the principal balance over a twenty-four year period, beginning in January 2011. The maturity date of the loan was December 31, 2020. In January 2021, the loan was amended and restated to extend the maturity date of the loan to December 31, 2025. 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 \$3,367,355 at December 31, 2020. As a result, the combined effective interest rate on the loan is 7.00%. The loan is secured by substantially all assets of the Organization and the revenue provided by the Benefit Agreement.	\$3,384,354	\$3,521,810

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

5. LONG-TERM DEBT (Continued)

	<u>2020</u>	<u>2019</u>
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 loan payable to Citizens Bank.	1,500,000	1,500,000
	4,884,354	5,021,810
Less: Current portion of long-term debt	147,334	3,521,810
Long-term debt, net of current portion	<u>\$4,737,020</u>	<u>\$1,500,000</u>

Estimated principal payments of long-term debt at December 31, 2020 are scheduled as follows:

2021	\$ 147,334
2022	157,921
2023	169,269
2024	181,433
2025	2,728,397
Thereafter	1,500,000
	<u>\$4,884,354</u>

The Organization is required to meet a certain financial covenant as stated in the bank term loan agreement. At December 31, 2020, the Organization was in compliance with this covenant.

6. INTEREST RATE SWAP AGREEMENT

The Organization accounts for its interest rate swap agreement 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 its interest rate swap agreement in order to fix the Organization's effective interest rate on its long-term debt. As a result of accounting for this derivative instrument, net assets decreased by \$225,673 and \$201,154 during the years ended December 31, 2020 and 2019, respectively. The interest rate swap agreement has 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 agreement 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.

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 agreement measured at fair value on a recurring basis as of December 31:

	2020	2019
Level 1	\$ -	\$ -
Level 2	998,734	773,061
Level 3	-	-
Total	\$ 998,734	\$ 773,061

8. 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 the lease 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 the lessee, Empire Telephone Corporation, and, as a consequence, believes that its lease receivable credit risk exposure is limited.

The Organization had one lessee that accounted for 100% of the lease receivable balance at both December 31, 2020 and 2019.

FINGER LAKES REGIONAL TELECOMMUNICATIONS
DEVELOPMENT CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

9. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	2020	2019
Cash and cash equivalents	\$1,775,115	\$1,619,915
Current portion of lease receivable	260,406	213,250
Restricted cash	173,087	175,646
 Total financial assets	 2,208,608	 2,008,811
 Less: Assets unavailable for general expenditures within one year	 173,087	 175,646
 Financial assets available to meet cash needs for general expenditures within one year	 \$2,035,521	 \$1,833,165

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

10. 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.



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