

GRIFFISS UTILITY  
SERVICES CORPORATION  
AND SUBSIDIARY

For the Year Ended  
December 31, 2015

CONSOLIDATED  
FINANCIAL STATEMENTS  
AND CONSOLIDATING  
CHEDULES

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

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**Independent Auditor's Report**

To the Board of Directors of  
Griffiss Utility Services Corporation and Subsidiary

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Griffiss Utility Services Corporation (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Griffiss Utility Services Corporation and Subsidiary as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*D'Arcangelo + Co., LLP*

March 30, 2016

Utica, New York

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 14,930,072	\$ 13,536,065
Accounts Receivable, Net	1,453,556	1,633,993
Prepaid Expenses	1,065,142	1,072,494
Inventory	<u>190,643</u>	<u>189,887</u>
Total Current Assets	<u>17,639,413</u>	<u>16,432,439</u>
<b>Property</b>		
Land, Buildings, and Improvements	36,775,522	36,775,522
Vehicles and Equipment	8,741,082	8,611,217
Fuel Tanks	1,406,546	1,390,964
Distribution Lines	20,585,329	20,501,444
Office Furnishings	45,855	40,925
Construction in Progress	<u>88,032</u>	<u>99,799</u>
Total Property	67,642,366	67,419,871
Accumulated Depreciation	<u>24,135,391</u>	<u>21,776,544</u>
Net Property	<u>43,506,975</u>	<u>45,643,327</u>
<b>Other Assets</b>		
Cash Surrender Value	264,435	254,132
Loan Closing Costs	<u>49,293</u>	<u>51,982</u>
Total Other Assets	<u>313,728</u>	<u>306,114</u>
<b>Total Assets</b>	<u>\$ 61,460,116</u>	<u>\$ 62,381,880</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 466,845	\$ 934,083
Current Portion of Long-Term Debt	426,172	286,285
Deposits	<u>75,354</u>	<u>112,239</u>
Total Current Liabilities	<u>968,371</u>	<u>1,332,607</u>
<b>Long-Term Liabilities</b>		
Deferred Compensation	107,486	82,987
Long-Term Debt	<u>11,059,979</u>	<u>11,488,487</u>
Total Long-Term Liabilities	<u>11,167,465</u>	<u>11,571,474</u>
<b>Deferred Tax Liability</b>	<u>648,542</u>	<u>145,326</u>
<b>Net Assets</b>		
Accumulated Deficit of Subsidiary	<u>(1,682,975)</u>	<u>(549,568)</u>
Unrestricted		
Board Designated Reserves	892,975	977,567
Undesignated	<u>49,465,738</u>	<u>48,904,474</u>
Total Unrestricted	<u>50,358,713</u>	<u>49,882,041</u>
Total Net Assets	<u>48,675,738</u>	<u>49,332,473</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 61,460,116</u>	<u>\$ 62,381,880</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Revenues and Gains</b>		
Steam Revenue Charges	\$ 2,867,955	\$ 2,967,428
Electricity Distribution Charges	7,442,617	8,505,034
Grant Revenue	0	1,816,609
Interest Income	41,973	57,531
Other Income	<u>82,928</u>	<u>96,666</u>
Total Revenues and Gains	<u>10,435,473</u>	<u>13,443,268</u>
<b>Expenses</b>		
Program Services		
Steam Heating Services	3,670,221	4,423,772
Electricity Distribution Services	5,219,779	6,533,761
Supporting Services		
Management and General	<u>2,202,208</u>	<u>1,842,745</u>
Total Expenses	<u>11,092,208</u>	<u>12,800,278</u>
<b>Increase (Decrease) in Net Assets</b>	(656,735)	642,990
<b>Net Assets, Beginning of Year</b>	<u>49,332,473</u>	<u>48,689,483</u>
<b>Net Assets, End of Year</b>	<u>\$ 48,675,738</u>	<u>\$ 49,332,473</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities</b>		
Increase (Decrease) in Net Assets	\$ (656,735)	\$ 642,990
Adjustment for Noncash Transactions		
Depreciation and Amortization	2,361,539	2,342,407
Allowance for Doubtful Accounts	88,052	18,543
Deferred Taxes	503,216	374,847
Inventory Adjustment	(756)	3,410
Deferred Compensation	24,499	22,897
(Increase) Decrease in Assets		
Accounts Receivable	92,385	(479,768)
Prepaid Expenses	7,352	(434,324)
Cash Surrender Value	(10,303)	(45,393)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Expenses	(467,238)	(1,005,885)
Deposits	<u>(36,885)</u>	<u>696</u>
Net Cash Flows Provided by Operating Activities	<u>1,905,126</u>	<u>1,440,420</u>
<b>Cash Flows From Investing Activities</b>		
Capital Expenditures	<u>(222,498)</u>	<u>(495,474)</u>
Net Cash Flows (Used by) Investing Activities	<u>(222,498)</u>	<u>(495,474)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from Long-Term Debt	0	748,157
Payment of Long-Term Debt	<u>(288,621)</u>	<u>(187,925)</u>
Net Cash Flows Provided by (Used by) Financing Activities	<u>(288,621)</u>	<u>560,232</u>
<b>Net Increase in Cash</b>	1,394,007	1,505,178
<b>Cash, Beginning of Year</b>	<u>13,536,065</u>	<u>12,030,887</u>
<b>Cash, End of Year</b>	<u>\$ 14,930,072</u>	<u>\$ 13,536,065</u>

**Supplemental Cash Flow Disclosures**

**Cash Paid During the Year**

Interest	<u>\$ 610,283</u>	<u>\$ 628,819</u>
Income Taxes	<u>\$ 1,500</u>	<u>\$ 1,500</u>

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The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Operations**

Griffiss Utility Services Corporation (GUSC) is a nonprofit organization whose primary purpose is to support Griffiss Local Development Corporation's (GLDC) mission efforts of stimulating economic growth at the Griffiss Business and Technology Park located in Rome, New York. To accomplish this objective, GUSC operates and maintains the utility systems. The activities of GUSC are funded primarily through revenue from the distribution of steam heat and electricity.

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of GUSC and its wholly-owned subsidiary, GUSC Energy Inc. All intercompany transactions have been eliminated.

GUSC Energy Inc. was formed during 2011, with GUSC as the sole member, for the primary purpose of constructing and operating an open-loop biomass fueled combined heat and power facility in the Griffiss Business and Technology Park. The common stock has no par value, and there are 200 shares authorized of which 1 share is issued and outstanding to GUSC.

#### **Basis of Presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These consolidated financial statements, presented on the accrual basis of accounting, have been prepared to focus on GUSC as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by reporting information regarding financial position and activities according to three classes: permanently restricted, temporarily restricted, or unrestricted. However, GUSC only maintained unrestricted net assets at December 31, 2015 and 2014.

#### **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.

#### **Concentration of Revenue**

GUSC's primary source of revenue is from the supply of steam heat and distribution of electricity to businesses in the Griffiss Business and Technology Park. GUSC is also sensitive to the market conditions of fuel prices. The effect, if any, on the consolidated financial statements is not considered material as any price increases are passed on to the customers.

#### **Accounts Receivable**

GUSC carries its accounts receivable at cost, less an allowance for doubtful accounts. A provision has been established for receivables which may ultimately prove to be uncollectible. The basis for the provision is an analysis of current accounts. The allowance for doubtful accounts was \$243,942 and \$155,890 at years ended December 31, 2015 and 2014, respectively.



# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property

All expenditures for property and equipment exceeding \$2,500 are capitalized and depreciated over the useful life of the property and recorded at historical cost if purchased or fair market if donated. Depreciation is provided using the straight-line method as follows:

	<u>Estimated Useful Lives</u>
Buildings and Improvements	40 Years
Fuel Tanks	15 Years
Distribution Lines	20 Years
Vehicles and Equipment	2-10 Years
Office Furnishings	5-10 Years

Depreciation expense for the years ended December 31, 2015 and 2014, was \$2,358,849 and \$2,340,613, respectively.

#### Inventory

GUSC's inventory consists of oil. Although natural gas and/or wood chips are the main sources of fuel for generating steam, oil is maintained and used as a backup in case of an interruption of services and as a hedge against fluctuating prices. Fuel oil inventory is stated at average cost. The oil inventory was \$190,643 and \$189,887 at December 31, 2015 and 2014, respectively.

#### Loan Closing Costs

Loan closing costs were incurred in the amount of \$53,775 as part of GUSC Energy Inc.'s activity. The closing costs are being amortized over the life of the related term loan (20 years), which has begun repayments in May 2014. Amortization expense for the years ended December 31, 2015 and 2014 totaled \$2,689 and \$1,793, respectively. Amortization expense for each of the next five years is expected to be \$2,689.

#### Expense Allocation

The costs of operations of the steam plant and other activities have been summarized on a functional basis in the Statement of Activities. Certain costs have been allocated among the following program and supporting services as follows:

Steam Heating Services – Includes all direct expenses necessary to generate and distribute steam and maintain the existing steam plant facilities.

Electricity Distribution Services – Includes all direct expenses necessary to distribute electricity and maintain the existing facilities.

Management and General – Includes all administrative expenses necessary to operate GUSC which are not specifically identifiable to direct program services.

#### Income Taxes

GUSC Energy Inc. has an effective income tax rate that is different from the expected statutory rate due to the use of accelerated depreciation methods and nondeductible expenses for income tax purposes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

#### Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements,

### NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject GUSC to concentrations of credit risk consist principally of cash in financial institutions. From time to time throughout the year, cash balances can exceed the third party collateral and Federal Deposit Insurance Corporation (FDIC) coverage. Management believes that it is not exposed to any significant risk with respect to these accounts.

Financial instruments which also potentially subject GUSC to concentrations of credit risk include net accounts receivable of \$1,453,556 and \$1,633,993 at December 31, 2015 and 2014, respectively. These receivables are generated from revenue from steam distribution and electricity to occupants of the Griffiss Business and Technology Park to which GUSC has extended credit. Management routinely assesses these accounts and generally requires no collateral from them.

### NOTE 3 COMPENSATED ABSENCES

GUSC has not accrued any compensated absences at December 31, 2015 and 2014, because an amount cannot be reasonably estimated. However, management believes such amounts to be immaterial.

### NOTE 4 LONG-TERM DEBT

At December 31, 2015 and 2014, long-term debt consisted of the following:

	<u>2015</u>	<u>2014</u>
<u>GUSC Energy Inc.</u>		
Term loan payable to Community Bank to pay for costs related to completion of the open-loop biomass power facility. The maximum amount authorized is \$12,000,000. The loan is secured by a first security interest in all equipment owned, a first mortgage on the steam plant property located at 655 Ellsworth Road in Rome, NY, an assignment of rents and leases on the property, and future assignment of the proceeds from a Federal grant. The loan is further guaranteed by GUSC. The term of the loan is 20 years with an amortization of 25 years and interest fixed at 5.25% at December 31, 2014. The interest rate was reduced to 4.25% for the year end December 31, 2015. The interest rate is set to adjust every 5 years thereafter to the Five Year US Treasury Rate plus 2.50%.		
Less: Current Portion of Long-Term Debt	\$ 11,486,151	\$ 11,774,772
Total Long-Term Debt	<u>426,172</u>	<u>286,285</u>
	<u>\$ 11,059,979</u>	<u>\$ 11,488,487</u>

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 LONG-TERM DEBT (Continued)**

The following are maturities of the above debt for the next five years and thereafter:

<u>Year</u>	<u>Amount</u>
2016	\$ 426,172
2017	444,642
2018	463,911
2019	484,016
2020	504,992
Thereafter	<u>9,162,418</u>
Total	<u>\$ 11,486,151</u>

Intercompany

GUSC has issued several notes receivable from GUSC Energy Inc. to assist with costs to construct an open-loop biomass power facility. The principal balance on the notes is \$6,000,000 at both December 31, 2015 and 2014. The notes are unsecured and are required to be paid in interest-only monthly installments through December 31, 2020 at which time the principal portion of the notes are required to be paid in full. The interest rate is currently fixed at 4.50%.

**NOTE 5 SUBSIDIARY ACCUMULATED DEFICIT**

The changes in the accumulated deficit of GUSC Energy Inc. are as follows:

	<u>2015</u>	<u>2014</u>
Balance, Beginning of Year	\$ (549,568)	\$ (829,261)
Net Income (Loss) of GUSC Energy Inc.	<u>(1,143,407)</u>	<u>279,693</u>
Balance, End of Year	<u>\$ (1,692,975)</u>	<u>\$ (549,568)</u>

**NOTE 6 LEASE**

GUSC maintains an operating lease for a vehicle. In September 2014, the Organization entered into a new lease with monthly payments of \$525 and a one-time down payment of \$3,680. Lease expense was \$6,300 and \$9,944 for each of the years ended December 31, 2015 and 2014, respectively. The estimated future minimum lease payments are \$6,300 for 2015 and \$4,176 for 2016.

**NOTE 7 INCOME TAXES**

Federal and State provision for taxes for GUSC Energy, Inc. for the years ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Current Tax Expense		
New York State	\$ <u>1,500</u>	\$ <u>1,500</u>
Total Current Tax Expense	<u>1,500</u>	<u>1,500</u>
Deferred Tax Expense		
Federal	395,368	313,685
New York State	<u>107,848</u>	<u>61,162</u>
Total Deferred Tax Expense	<u>503,216</u>	<u>374,847</u>
Total Provision for Taxes	<u>\$ 504,716</u>	<u>\$ 376,347</u>

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 INCOME TAXES (Continued)**

New York State tax laws enacted in 2014 lower tax rates beginning in 2016 and created a net operating loss conversion pool (NOLCS) for losses incurred prior to 2015, which is greater than the actual losses sustained. The net deferred tax liability has been modified to reflect the newly enacted laws.

The net deferred tax liability as of December 31, 2015 and 2014 is comprised of the following:

	<u>2015</u>	<u>2014</u>
Deferred Tax Asset		
Net Operating Loss Carryforward	\$ 2,233,900	\$ 898,152
Valuation Allowance	<u>(1,115,000)</u>	<u>(450,000)</u>
Deferred Tax Asset	<u>1,118,900</u>	<u>448,152</u>
 Deferred Tax (Liability)		
Depreciation – Excess of Tax over Book	<u>(1,767,442)</u>	<u>(593,478)</u>
 Net Deferred Tax (Liability)	<u>\$ (648,542)</u>	<u>\$ (145,326)</u>

The valuation allowance has experienced an increase of \$665,000 and \$220,000 for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015, the Corporation had net operating loss carryovers that may offset future taxable income. Due to recent New York State corporate tax law changes modifying the deduction and carryover rules, the state has developed a net operating loss conversion subtraction (NOLCS) to replace net operating loss deductions for losses which originated prior to January 1, 2015, subject to limitations. These prior losses are pooled now and may be carried forward for 20 years, expiring in 2035. If not utilized, all carryovers will expire as follows:

	Federal Net Operating Loss	New York State Net Operating Loss
2031	\$ 61,710	\$ 0
2032	223,285	0
2033	772,544	0
2034	1,010,117	0
2035 (NOLCS Pool)	0	2,253,601
2035	<u>3,420,379</u>	<u>3,418,879</u>
	<u>\$ 5,488,035</u>	<u>\$ 5,672,480</u>

**NOTE 8 PENSION PLAN**

GUSC contributes to a 401(k) profit-sharing plan for all employees. Employees are eligible for membership in the plan after six months of service and attaining age 21. Contributions paid to the plan are based upon 5% of participants' annual compensation and a 100% match of elective deferrals up to 5% of the participant's annual compensation. The amount of contributions paid to the plan on behalf of the employees of GUSC for the years ended December 31, 2015 and 2014 were \$116,905 and \$132,940, respectively. At December 31, 2015 and 2014, GUSC has accrued liabilities of \$1,652 and \$10,161 respectively, to the plan.

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 9 DEFERRED COMPENSATION ARRANGEMENT

GUSC entered into an unfunded, nonqualified deferred compensation plan with a key employee. The agreement provides for postretirement benefits, contingent on certain conditions, payable upon the employee's retirement on his normal retirement date. GUSC is accruing the present value of the estimated future benefit payments over the period from the date of the agreement to the retirement date. GUSC recognized an expense of \$24,499 and \$22,897 for the years ended December 31, 2015 and 2014, respectively, related to this agreement.

### NOTE 10 COMMITMENTS

GUSC is required to remit to Griffiss Local Development Corporation (GLDC) a percentage of future revenues generated from the electrical distribution system based upon usage. These payments are required to be made quarterly until December 31, 2046. During the years ended December 31, 2015 and 2014, GUSC remitted \$127,410 and \$127,008 respectively, to GLDC for its share of revenue from the electrical distribution system.

### NOTE 11 BOARD DESIGNATED RESERVES

At each of the years ended December 31, 2015 and 2014, the board has designated the following reservations of fund balance:

	<u>2015</u>	<u>2014</u>
Reserve for Capital Projects	\$ 250,000	\$ 250,000
Reserve for Storm Restoration	450,000	450,000
Reserve for Energy Savings Programs	<u>192,975</u>	<u>277,567</u>
Total Board Designated Reserves	<u>\$ 892,975</u>	<u>\$ 977,567</u>

### NOTE 12 UNCERTAINTIES, CONTINGENCIES, AND RISKS

#### Litigation

GUSC and GUSC Energy Inc. are involved in litigation arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims in excess of insurance coverage will not have a material adverse effect on the financial position or results of operations of the corporations.

GUSC Energy Inc. has been named as a defendant in certain other actions related to construction of the biomass power facility. GUSC Energy Inc. accrued a liability for \$265,525 at December 31, 2014 related to one claim. That amount was paid to settle the case during the year ended December 31, 2015. GUSC Energy Inc. intends to defend itself vigorously in each of the other claims. The amount of any additional related contingency, if any, cannot be determined at this time.

#### Grants

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal and State governments. Disallowance, if any, could result in a claim for refund. No such claims have been made and none are anticipated.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 UNCERTAINTIES, CONTINGENCIES, AND RISKS (Continued)**

**U.S. Department of the Treasury**

During 2014, the U.S. Department of the Treasury awarded GUSC Energy Inc. a section 1603 payment for specified energy property in lieu of tax credits in the amount of \$316,609 for construction of the biomass power facility. The award contains recapture provisions when certain conditions are not met. To retain the full payment, the property must continue to qualify as specified energy property and not be disposed of to a disqualified person, as described in the program guidance, for five years from the date the property is placed in service. The repayment provision is phased out 20% each year and expires in 2019.

**Empire State Development Corporation**

During 2014, Empire State Development Corporation awarded GUSC Energy Inc. a capital project grant for \$1,500,000 for construction of the biomass power facility. The award contains recapture provisions when certain conditions are not met. Grant funds will be subject to a pro rata recapture if the property at the project location is sold within five years of disbursement of funds. The recapture amount is based on the time that has elapsed between when the grant funds were disbursed and when the transfer occurred, decreasing 20% each year until expiration at the end of the fifth calendar year after the disbursement is made, which will be December 31, 2019.

**NOTE 13 RELATED PARTY TRANSACTIONS**

GUSC is a 509(a)(3) supporting organization of GLDC, which by definition is considered a related party. GUSC and GLDC also shared one common board member during 2014. GUSC reimburses GLDC for various costs incurred for operational work, which totaled \$149,305 and \$150,089 respectively, for the years ended December 31, 2015 and 2014.

GLDC and its subsidiary, Cardinal Griffiss Realty, pay GUSC for steam and electric costs incurred by tenants of their leased properties. Utility revenues for the years ended December 31, 2015 and 2014 was \$235,242 and \$277,846, respectively.

**NOTE 14 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 30, 2016, the date on which the financial statements were available to be issued.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

December 31, 2015

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 14,396,412	\$ 533,660	\$ 14,930,072	\$ 0	\$ 14,930,072
Accounts Receivable, Net	1,453,556	0	1,453,556	0	1,453,556
Due From Parent Company	345,178	14,135	359,313	(359,313)	0
Prepaid Expenses	1,052,979	12,163	1,065,142	0	1,065,142
Inventory	<u>190,643</u>	<u>0</u>	<u>190,643</u>	<u>0</u>	<u>190,643</u>
Total Current Assets	<u>17,438,768</u>	<u>559,958</u>	<u>17,998,726</u>	<u>(359,313)</u>	<u>17,639,413</u>
<b>Property</b>					
Land, Buildings, and Improvements	18,590,475	18,185,047	36,775,522	0	36,775,522
Vehicles and Equipment	8,741,082	0	8,741,082	0	8,741,082
Fuel Tanks	1,406,546	0	1,406,546	0	1,406,546
Distribution Lines	20,585,329	0	20,585,329	0	20,585,329
Office Furnishings	45,855	0	45,855	0	45,855
Construction in Progress	<u>88,032</u>	<u>0</u>	<u>88,032</u>	<u>0</u>	<u>88,032</u>
Total Property	49,457,319	18,185,047	67,642,366	0	67,642,366
Accumulated Depreciation	<u>23,226,139</u>	<u>909,252</u>	<u>24,135,391</u>	<u>0</u>	<u>24,135,391</u>
Net Property	<u>26,231,180</u>	<u>17,275,795</u>	<u>43,506,975</u>	<u>0</u>	<u>43,506,975</u>
<b>Other Assets</b>					
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	264,435	0	264,435	0	264,435
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Loan Closing Costs, Net of Amortization	<u>0</u>	<u>49,293</u>	<u>49,293</u>	<u>0</u>	<u>49,293</u>
Total Other Assets	<u>7,260,918</u>	<u>49,293</u>	<u>7,310,211</u>	<u>(6,996,483)</u>	<u>313,728</u>
<b>Total Assets</b>	<b><u>\$ 50,930,866</u></b>	<b><u>\$ 17,885,046</u></b>	<b><u>\$ 68,815,912</u></b>	<b><u>\$ (7,355,796)</u></b>	<b><u>\$ 61,460,116</u></b>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Expenses	\$ 375,178	\$ 91,667	\$ 466,845	\$ 0	\$ 466,845
Due to Subsidiary	14,135	345,178	359,313	(359,313)	0
Current Portion of Long-Term Debt	0	426,172	426,172	0	426,172
Deposits	<u>75,354</u>	<u>0</u>	<u>75,354</u>	<u>0</u>	<u>75,354</u>
Total Current Liabilities	<u>464,667</u>	<u>863,017</u>	<u>1,327,684</u>	<u>(359,313)</u>	<u>968,371</u>
<b>Long-Term Liabilities</b>					
Deferred Compensation	107,486	0	107,486	0	107,486
Long-Term Debt	<u>0</u>	<u>17,059,979</u>	<u>17,059,979</u>	<u>(6,000,000)</u>	<u>11,059,979</u>
Total Long-Term Liabilities	<u>107,486</u>	<u>17,059,979</u>	<u>17,167,465</u>	<u>(6,000,000)</u>	<u>11,167,465</u>
<b>Deferred Tax Liability</b>	<u>0</u>	<u>648,542</u>	<u>648,542</u>	<u>0</u>	<u>648,542</u>
<b>Net Assets</b>					
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(1,682,975)	(1,682,975)	0	(1,682,975)
<b>Unrestricted Net Assets</b>					
Board Designated Reserves	892,975	0	892,975	0	892,975
Undesignated	<u>49,465,738</u>	<u>0</u>	<u>49,465,738</u>	<u>0</u>	<u>49,465,738</u>
Total Unrestricted	<u>50,358,713</u>	<u>0</u>	<u>50,358,713</u>	<u>0</u>	<u>50,358,713</u>
Total Net Assets	<u>50,358,713</u>	<u>(686,492)</u>	<u>49,672,221</u>	<u>(996,483)</u>	<u>48,675,738</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 50,930,866</u></b>	<b><u>\$ 17,885,046</u></b>	<b><u>\$ 68,815,912</u></b>	<b><u>\$ (7,355,796)</u></b>	<b><u>\$ 61,460,116</u></b>

See Independent Auditor's Report.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

**For the Year Ended December 31, 2015**

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Revenues and Gains</b>					
Steam Revenue Charges	\$ 2,867,955	\$ 0	\$ 2,867,955	\$ 0	\$ 2,867,955
Electricity Distribution Charges	7,587,972	0	7,587,972	(145,355)	7,442,617
Service Fees	0	2,178,584	2,178,584	(2,178,584)	0
Interest Income	311,973	0	311,973	(270,000)	41,973
Administration Fees	120,000	0	120,000	(120,000)	0
Other Income	<u>47,610</u>	<u>35,318</u>	<u>82,928</u>	<u>0</u>	<u>82,928</u>
Total Revenues and Gains	<u>10,935,510</u>	<u>2,213,902</u>	<u>13,149,412</u>	<u>(2,713,939)</u>	<u>10,435,473</u>
<b>Expenses</b>					
Program Services					
Steam Heating Services	4,354,237	1,639,923	5,994,160	(2,323,939)	3,670,221
Electricity Distribution Services	5,219,779	0	5,219,779	0	5,219,779
Supporting Services					
Management and General	<u>884,822</u>	<u>1,707,386</u>	<u>2,592,208</u>	<u>(390,000)</u>	<u>2,202,208</u>
Total Expenses	<u>10,458,838</u>	<u>3,347,309</u>	<u>13,806,147</u>	<u>(2,713,939)</u>	<u>11,092,208</u>
<b>Increase (Decrease) in Net Assets</b>	476,672	(1,133,407)	(656,735)	0	(656,735)
<b>Net Assets, Beginning of Year</b>	<u>49,882,041</u>	<u>446,915</u>	<u>50,328,956</u>	<u>(996,483)</u>	<u>49,332,473</u>
<b>Net Assets, End of Year</b>	<u>\$ 50,358,713</u>	<u>\$ (686,492)</u>	<u>\$ 49,672,221</u>	<u>\$ (996,483)</u>	<u>\$ 48,675,738</u>

See Independent Auditor's Report.



**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

December 31, 2014

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 12,123,370	\$ 1,412,695	\$ 13,536,065	\$ 0	\$ 13,536,065
Accounts Receivable, Net	1,633,993	0	1,633,993	0	1,633,993
Due From Subsidiary	607,319	87,211	694,530	(694,530)	0
Prepaid Expenses	1,064,350	8,144	1,072,494	0	1,072,494
Inventory	<u>189,887</u>	<u>0</u>	<u>189,887</u>	<u>0</u>	<u>189,887</u>
Total Current Assets	<u>15,618,919</u>	<u>1,508,050</u>	<u>17,126,969</u>	<u>(694,530)</u>	<u>16,432,439</u>
<b>Property</b>					
Land, Buildings, and Improvements	18,590,475	18,185,047	36,775,522	0	36,775,522
Vehicles and Equipment	8,611,217	0	8,611,217	0	8,611,217
Fuel Tanks	1,390,964	0	1,390,964	0	1,390,964
Distribution Lines	20,501,444	0	20,501,444	0	20,501,444
Office Furnishings	40,925	0	40,925	0	40,925
Construction in Progress	<u>99,799</u>	<u>0</u>	<u>99,799</u>	<u>0</u>	<u>99,799</u>
Total Property	49,234,824	18,185,047	67,419,871	0	67,419,871
Accumulated Depreciation	<u>21,321,918</u>	<u>454,626</u>	<u>21,776,544</u>	<u>0</u>	<u>21,776,544</u>
Net Property	<u>27,912,906</u>	<u>17,730,421</u>	<u>45,643,327</u>	<u>0</u>	<u>45,643,327</u>
<b>Other Assets</b>					
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	254,132	0	254,132	0	254,132
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Loan Closing Costs	<u>0</u>	<u>51,982</u>	<u>51,982</u>	<u>0</u>	<u>51,982</u>
Total Other Assets	<u>7,250,615</u>	<u>51,982</u>	<u>7,302,597</u>	<u>(6,996,483)</u>	<u>306,114</u>
<b>Total Assets</b>	<u>\$ 50,782,440</u>	<u>\$ 19,290,453</u>	<u>\$ 70,072,893</u>	<u>\$ (7,691,013)</u>	<u>\$ 62,381,880</u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Expenses	\$ 617,962	\$ 316,121	\$ 934,083	\$ 0	\$ 934,083
Due to Parent Company	87,211	607,319	694,530	(694,530)	0
Current Portion of Long-Term Debt	0	286,285	286,285	0	286,285
Deposits	<u>112,239</u>	<u>0</u>	<u>112,239</u>	<u>0</u>	<u>112,239</u>
Total Current Liabilities	<u>817,412</u>	<u>1,209,725</u>	<u>2,027,137</u>	<u>(694,530)</u>	<u>1,332,607</u>
<b>Long-Term Liabilities</b>					
Deferred Compensation	82,987	0	82,987	0	82,987
Long-Term Debt	<u>0</u>	<u>17,488,487</u>	<u>17,488,487</u>	<u>(6,000,000)</u>	<u>11,488,487</u>
Total Long-Term Liabilities	<u>82,987</u>	<u>17,488,487</u>	<u>17,571,474</u>	<u>(6,000,000)</u>	<u>11,571,474</u>
<b>Deferred Tax Liability</b>	<u>0</u>	<u>145,326</u>	<u>145,326</u>	<u>0</u>	<u>145,326</u>
<b>Net Assets</b>					
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(549,568)	(549,568)	0	(549,568)
<b>Unrestricted Net Assets</b>					
Board Designated Reserves	977,567	0	977,567	0	977,567
Undesignated	<u>48,904,474</u>	<u>0</u>	<u>48,904,474</u>	<u>0</u>	<u>48,904,474</u>
Total Unrestricted	<u>49,882,041</u>	<u>0</u>	<u>49,882,041</u>	<u>0</u>	<u>49,882,041</u>
Total Net Assets	<u>49,882,041</u>	<u>446,915</u>	<u>50,328,956</u>	<u>(996,483)</u>	<u>49,332,473</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 50,782,440</u>	<u>\$ 19,290,453</u>	<u>\$ 70,072,893</u>	<u>\$ (7,691,013)</u>	<u>\$ 62,381,880</u>

See Independent Auditor's Report.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

**For the Year Ended December 31, 2014**

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Revenues and Gains</b>					
Steam Revenue Charges	\$ 2,967,428	\$ 0	\$ 2,967,428	\$ 0	\$ 2,967,428
Electricity Distribution Charges	8,710,704	0	8,710,704	(205,670)	8,505,034
Service Fees	0	2,509,184	2,509,184	(2,509,184)	0
Interest Income	350,031	0	350,031	(292,500)	57,531
Grant Revenue	0	1,816,609	1,816,609	0	1,816,609
Administration Fees	106,000	0	106,000	(106,000)	0
Other Income	<u>86,694</u>	<u>9,972</u>	<u>96,666</u>	<u>0</u>	<u>96,666</u>
Total Revenues and Gains	<u>12,220,857</u>	<u>4,335,765</u>	<u>16,556,622</u>	<u>(3,113,354)</u>	<u>13,443,268</u>
<b>Expenses</b>					
Program Services					
Steam Heating Services	4,591,146	2,645,772	7,236,918	(2,813,146)	4,423,772
Electricity Distribution Services	6,533,761	0	6,533,761	0	6,533,761
Supporting Services					
Management and General	<u>732,653</u>	<u>1,410,300</u>	<u>2,142,953</u>	<u>(300,208)</u>	<u>1,842,745</u>
Total Expenses	<u>11,857,560</u>	<u>4,056,072</u>	<u>15,913,632</u>	<u>(3,113,354)</u>	<u>12,800,278</u>
<b>Increase in Net Assets</b>	363,297	279,693	642,990	0	642,990
<b>Net Assets, Beginning of Year</b>	<u>49,518,744</u>	<u>167,222</u>	<u>49,685,966</u>	<u>(996,483)</u>	<u>48,689,483</u>
<b>Net Assets , End of Year</b>	<u>\$ 49,882,041</u>	<u>\$ 446,915</u>	<u>\$ 50,328,956</u>	<u>\$ (996,483)</u>	<u>\$ 49,332,473</u>

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