GRIFFISS UTILITY
SERVICES CORPORATION
AND SUBSIDIARY

For the Year Ended
December 31, 2016

CONSOLIDATED
FINANCIAL STATEMENTS
AND CONSOLIDATING
SCHEDULES

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, 2016 and 2015, 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 Corporation'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 Corporation'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, 2016 and 2015, 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.

Adoption of New Accounting Standard

As discussed in note 1 to the consolidated financial statements, in 2016, Griffiss Utility Services Corporation and Subsidiary adopted new accounting guidance ASU No. 2015-03, "Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." Our opinion is not modified with respect to this matter.

Report on Supplementary Information

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 consolidating schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

D'Arcangelo + Co., LLP

March 28, 2017

Utica, New York

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	$ 11,846,544	$ 14,930,072
Accounts Receivable, Net	1,615,388	1,453,556
Prepaid Expenses	1,116,886	1,065,142
Inventory	0	190,643
Investments	4,989,966	0
Total Current Assets	19,568,784	17,639,413
Property		
Land, Buildings, and Improvements	36,775,522	36,775,522
Vehicles and Equipment	8,775,716	8,741,082
Fuel Tanks	1,406,546	1,406,546
Distribution Lines	20,655,768	20,585,329
Office Furnishings	45,855	45,855
Construction in Progress	569,979	88,032
Total Property	68,229,386	67,642,366
Accumulated Depreciation	26,494,657	24,135,391
Net Property	41,734,729	43,506,975
Other Assets		
Cash Surrender Value	350,380	264,435
Total Assets	$ 61,653,893	$ 61,410,823
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	$ 496,056	$ 466,845
Current Portion of Long-Term Debt	285,218	426,172
Deposits	82,147	75,354
Total Current Liabilities	863,421	968,371
Long-Term Liabilities		
Deferred Compensation	133,701	107,486
Long-Term Debt, Net	10,875,412	11,010,686
Total Long-Term Liabilities	11,009,113	11,118,172
Deferred Tax Liability	2,681,958	648,542
Net Assets		
Accumulated Deficit of Subsidiary	(3,883,577)	(1,682,975)
Unrestricted		
Board Designated Reserves	892,975	892,975
Undesignated	50,090,003	49,465,738
Total Unrestricted	50,982,978	50,358,713
Total Net Assets	47,099,401	48,675,738
Total Liabilities and Net Assets	$ 61,653,893	$ 61,410,823

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, 2016 and 2015

	2016	2015
Revenues and Gains		
Steam Revenue Charges	$ 2,844,536	$ 2,867,955
Electricity Distribution Charges	7,237,919	7,442,617
Interest Income	36,670	41,973
Investment (Loss), Net	(10,034)	0
Other Income	536,607	82,928
Total Revenues and Gains	10,645,698	10,435,473
Expenses and Losses		
Program Services		
Steam Heating Services	3,997,263	3,670,221
Electricity Distribution Services	4,490,721	5,219,779
Supporting Services		
Management and General	3,596,987	2,202,208
Total Expenses	12,084,971	11,092,208
Loss on Sale of Inventory	137,064	0
Total Expenses and Losses	12,222,035	11,092,208
(Decrease) in Net Assets	(1,576,337)	(656,735)
Net Assets, Beginning of Year	48,675,738	49,332,473
Net Assets, End of Year	$ 47,099,401	$ 48,675,738

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, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
(Decrease) in Net Assets	$ (1,576,337)	$ (656,735)
Adjustment for Noncash Transactions		
Depreciation	2,359,266	2,358,849
Non-cash Interest	49,293	2,689
Loss on Disposal of Assets	137,064	0
Change in Allowance for Doubtful Accounts	(25,845)	88,052
Unrealized Loss on Investments	20,564	0
Deferred Taxes	2,033,416	503,216
Inventory Adjustment	0	(756)
Deferred Compensation	26,215	24,499
(Increase) Decrease in Assets		
Accounts Receivable	(135,987)	92,385
Prepaid Expenses	(51,744)	7,352
Cash Surrender Value	(85,945)	(10,303)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Expenses	29,211	(467,238)
Deposits	6,793	(36,885)
Net Cash Flows Provided by Operating Activities	2,785,964	1,905,125
Cash Flows From Investing Activities		
Purchase of Investments	(5,000,000)	0
Proceeds from Disposal of Assets	53,579	0
Reinvested Interest	(10,530)	0
Capital Expenditures	(587,020)	(222,497)
Net Cash Flows (Used by) Investing Activities	(5,543,971)	(222,497)
Cash Flows From Financing Activities		
Payment of Long-Term Debt	(325,521)	(288,621)
Net Cash Flows (Used by) Financing Activities	(325,521)	(288,621)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,083,528)	1,394,007
Cash and Cash Equivalents, Beginning of Year	14,930,072	13,536,065
Cash and Cash Equivalents, End of Year	$ 11,846,544	$ 14,930,072

Supplemental Cash Flow Disclosures

	2016	2015
Cash Paid During the Year		
Interest	$ 482,422	$ 610,283
Income Taxes	$ 1,500	$ 1,500
Non Cash Financing Transaction:		
Refinancing of Long Term Debt	$ 11,212,199	$ 0

The Accompanying Notes are an Integral Part of These 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. (GUSC Energy). All intercompany transactions have been eliminated.

GUSC Energy 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, 2016 and 2015.

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.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, GUSC and its subsidiary consider all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $218,097 and $243,942 at years ended December 31, 2016 and 2015, respectively.

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:

	Estimated Useful Lives
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, 2016 and 2015, was $2,359,266 and $2,358,849, respectively.

Inventory

GUSC's inventory consisted 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 $0 and $190,643 at December 31, 2016 and 2015, respectively. GUSC sold the remaining inventory during the year ended December 31, 2016.

Investment Valuation and Income Recognition

Investments are recorded at fair value. 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. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) in the statements of activities includes gains and losses on investments bought and sold as well as held during the year.

Loan Closing Costs

Loan closing costs were incurred in the amount of $53,775 as part of GUSC Energy's activity in 2013. The closing costs were being amortized over the life of the related term loan (20 years), which had begun repayments in May 2014. In accordance with ASU No. 2015-03 (See Adoption of New Accounting Standard section below), the closing costs were reclassified as a reduction of the loan retroactively. Due to a refinancing and significant restructuring of the loan in 2016, the remaining closing costs on the old loan were written off and are included as interest expense in the consolidated statement of activities. Interest expense for the years ended December 31, 2016 and 2015 totaled $49,293 and $2,689, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and utilizes December 31 as its year end. The Corporation has also been determined to be other than a private foundation, as it is an organization described in Section 509(a)(3) of the Internal Revenue Code.

GUSC Energy 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.

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.

Adoption of New Accounting Standard

In April 2015, the FASB issued ASU No. 2015-03, "Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." This ASU requires debt issuance costs to be presented in the consolidated statements of financial position as a reduction of the corresponding liability rather than as an asset. Griffiss Utility Services Corporation and Subsidiary have adopted the ASU during the year ended December 31, 2016 and applied it on a retroactive basis. The adoption of this ASU resulted in the reclassification in the consolidated statement of financial position for 2015 of unamortized debt issuance costs in the amount of $49,293 from intangible assets to long term debt and reclassification of the expense from amortization expense to interest expense. Other than the reclassification, the adoption of the ASU did not have an impact on financial position, results of operations or cash flows.

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 $1,158,528 and $1,453,556 at December 31, 2016 and 2015, 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.

Also, GUSC invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

NOTE 3 INVESTMENTS

Investments at December 31, 2016 are comprised of the following:

	Cost	Fair Value
Invested Cash	$ 146,057	$ 146,057
U.S. Government and Agency Debt Securities	1,390,700	1,389,756
U.S. Government Agency Mortgage Backed Securities	1,360,837	1,363,129
Corporate Debt Securities	1,302,872	1,297,401
Corporate Equity Securities	554,939	553,319
Mutual Funds	243,779	240,304
Total Investments Assets	$ 4,999,184	$ 4,989,966

The following summarizes net investment return for the year ended December 31, 2016:

Interest and Dividends	$ 10,530
Unrealized Gain (Loss)	(20,564)
Investment (Loss)	$ (10,034)

NOTE 4 FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board authoritative guidance on fair value measurements 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

NOTE 4 FAIR VALUE MEASUREMENTS (Continued)

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that GUSC has the ability to access.

Level 2: Inputs to the valuation methodology include the following:

- 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.

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 is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Invested Cash: Valued at cost which approximates fair value.

U.S. Government and Agency Debt Securities and Corporate Equity Securities: Valued at the closing price reported in the active market in which the individual security is traded.

U.S. Government Agency Mortgage Backed Securities and Corporate Debt Securities: Securities traded in the over-the-counter market and listed securities for which no sale was reported on the last business day of the year are valued at the average of the last reported bid and asked prices or using a market pricing model.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by GUSC are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held are deemed to be actively traded.

All assets have been valued using a market approach, unless otherwise noted.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although GUSC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 4 FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, GUSC's assets measured at fair value on a recurring basis as of December 31, 2016.

		2016 Fair Value Measurements at Reporting Date Using the Above Criteria		
Investments	Total	(Level 1)	(Level 2)	(Level 3)
Invested Cash	$ 146,057	$ 146,057	$ 0	$ 0
U.S. Government and Agency Debt Securities	1,389,756		1,389,756	0
U.S. Government Agency Mortgage Backed Securities	1,363,129	0	1,363,129	0
Corporate Debt Securities	1,297,401	0	1,297,401	0
Corporate Equity Securities	553,319	553,319	0	0
Mutual Funds	240,304	240,304	0	0
Totals	$ 4,989,966	$ 939,680	$ 4,050,286	$ 0

NOTE 5 LONG-TERM DEBT

At December 31, 2016 and 2015, long-term debt consisted of the following:

	2016	2015
GUSC Energy		
Term loan payable to Community Bank to pay for costs related to completion of the open-loop biomass power facility. The loan was net of unamortized closing costs of $49,293 for the year ended December 31, 2015. The loan was 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 was further guaranteed by GUSC. The term of the loan was 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. This loan was refinanced with a significant change in terms during 2016.	$ 0	$ 11,436,858

NOTE 5 LONG-TERM DEBT (Continued)

	2016	2015
Term loan payable to Community Bank, which is a refinancing of the above loan. This new loan is secured by all of GUSC Energy's assets as well as GUSC's deposit accounts. The loan is further guaranteed by GUSC. The term of the loan is for 10 years with interest fixed at 3.51% through November 10, 2021. The interest rate is set to adjust at that time to the Five Year US Treasury Rate plus 2.25%. The loan is being repaid with monthly principal and interest payments fixed at $56,485 with a final balloon payment of $7,883,826 due at maturity on November 11, 2026.	11,160,630	0
Less: Current Portion of Long-Term Debt	285,218	426,172
Total Long-Term Debt	$ 10,875,412	$ 11,010,686

In prior years GUSC Energy has reported loan closing costs as an asset in the consolidated statement of financial position and amortization of such costs in the consolidated statements of activities as amortization expense. To comply with new GAAP presentation requirements, GUSC Energy reclassified $49,293 as direct deductions from the related debt, as described above for 2015. Accordingly, 2015 assets and liabilities have been retroactively reduced by the same amount. The change did not affect net assets.

Similarly, GUSC Energy reclassified 2015 amortization of the debt issuance costs of $2,689 as interest expense. As a result, interest expense was increased and amortization decreased by the same amount, with no effect on income.

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

Year	Amount
2017	$ 285,218
2018	295,535
2019	306,226
2020	316,279
2021	328,744
Thereafter	9,628,628
Total	$ 11,160,630

GUSC Energy's long term debt agreements contain certain covenants, primarily a debt service ratio covenant. At each of the years ended December 31, 2016 and 2015, GUSC Energy was in compliance with the covenants.

Interest expense for the years ended December 31, 2016 and 2015 was $504,188 and $610,283, respectively.

Intercompany

GUSC has issued several notes receivable from GUSC Energy to assist with costs to construct an open-loop biomass power facility. The principal balance on the notes is $6,000,000 for each of the years ended December 31, 2016 and 2015. 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 was currently fixed at 4.50%. The notes were amended during 2016 to adjust the interest rate to 3.00%.

NOTE 6 SUBSIDIARY ACCUMULATED DEFICIT

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

	2016	2015
Balance, Beginning of Year	$ (1,682,975)	$ (549,568)
Net (Loss) of GUSC Energy Inc.	(2,200,602)	(1,133,407)
Balance, End of Year	$ (3,883,577)	$ (1,682,975)

NOTE 7 INCOME TAXES

Federal and state provision for taxes for GUSC Energy for the years ended December 31, 2016 and 2015 consisted of the following:

	2016	2015
Current Tax Expense		
New York State	$ 1,500	$ 1,500
Total Current Tax Expense	1,500	1,500
Deferred Tax Expense		
Federal	1,665,221	395,368
New York State	368,195	107,848
Total Deferred Tax Expense	2,033,416	503,216
Total Provision for Taxes	$ 2,034,916	$ 504,716

New York State tax laws enacted in 2014 lowered 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, 2016 and 2015 is comprised of the following:

	2016	2015
Deferred Tax Asset		
Net Operating Loss Carryforward	$ 3,329,158	$ 2,233,900
Valuation Allowance	(3,329,158)	(1,115,000)
Deferred Tax Asset	0	1,118,900
Deferred Tax (Liability)		
Depreciation – Excess of Tax over Book	(2,681,958)	(1,767,442)
Net Deferred Tax (Liability)	$ (2,681,958)	$ (648,542)

The valuation allowance has experienced an increase of $2,214,158 and $665,000 for the years ended December 31, 2016 and 2015, respectively. Management has determined that the operating loss carryforward amounts will not be utilized prior to expiration and, therefore, has decided to write off the deferred tax asset resulting in an additional $1,118,900 in deferred tax expense in the current year.

NOTE 7 INCOME TAXES (Continued)

As of December 31, 2016, GUSC Energy 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	2,063,156
2035	3,420,260	3,418,760
2036	2,308,411	2,306,911
	$ 7,796,327	$ 7,788,827

NOTE 8 PENSION PLAN

GUSC and GUSC Energy contribute 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 combined amount of contributions paid to the plan on behalf of the employees for the years ended December 31, 2016 and 2015 were $145,595 and $118,432, respectively. At December 31, 2016 and 2015, GUSC and GUSC Energy have accrued liabilities of $8,092 and $1,652 respectively, to the plan.

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 $26,215 and $24,499 for the years ended December 31, 2016 and 2015, respectively, related to this agreement.

NOTE 10 COMMITMENTS

Under a written agreement signed in 2005 in exchange for the title to the electrical distribution system, 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, 2016 and 2015, GUSC remitted $127,155 and $127,410 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, 2016 and 2015, the board has designated the following reservations of fund balance:

Reserve for Capital Projects	$	250,000
Reserve for Storm Restoration		450,000
Reserve for Energy Savings Programs		192,975
Total Board Designated Reserves	$	892,975

NOTE 12 UNCERTAINTIES, CONTINGENCIES, AND RISKS

Litigation

GUSC and GUSC Energy 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.

U.S. Department of the Treasury

During 2014, the U.S. Department of the Treasury awarded GUSC Energy 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. In 2016, an additional amount of $456,860 was awarded to the Corporation and booked as revenue.

Empire State Development Corporation

During 2014, Empire State Development Corporation awarded GUSC Energy 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 reimburses GLDC for various costs incurred for operational work, which totaled $149,305 and $150,089 respectively, for the years ended December 31, 2016 and 2015.

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, 2016 and 2015 was $225,045and $230,423, respectively.

NOTE 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2017, the date on which the consolidated financial statements were available to be issued.

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2016

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Assets					
Current Assets					
Cash	$ 11,797,802	$ 48,742	$ 11,846,544	$ 0	$ 11,846,544
Accounts Receivable. Net	1,158,133	457,255	1,615,388	0	1,615,388
Due From Related Party	367,804	15,650	383,454	(383,454)	0
Prepaid Expenses	1,109,314	7,572	1,116,886	0	1,116,886
Investments	4,989,966	0	4,989,966	0	4,989,966
Total Current Assets	19,423,019	529,219	19,952,238	(383,454)	19,568,784
Property					
Land, Buildings, and Improvements	18,590,475	18,185,047	36,775,522	0	36,775,522
Vehicles and Equipment	8,775,716	0	8,775,716	0	8,775,716
Fuel Tanks	1,406,546	0	1,406,546	0	1,406,546
Distribution Lines	20,655,768	0	20,655,768	0	20,655,768
Office Furnishings	45,855	0	45,855	0	45,855
Construction in Progress	669,279	0	669,279	(99,300)	569,979
Total Property	50,143,639	18,185,047	68,328,686	(99,300)	68,229,386
Accumulated Depreciation	25,130,779	1,363,878	26,494,657	0	26,494,657
Net Property	25,012,860	16,821,169	41,834,029	(99,300)	41,734,729
Other Assets					
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	350,380	0	350,380	0	350,380
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Total Other Assets	7,346,863	0	7,346,863	(6,996,483)	350,380
Total Assets	$ 51,782,742	$ 17,350,388	$ 69,133,130	$ (7,479,237)	$ 61,653,893
Liabilities and Net Assets					
Current Liabilities					
Accounts Payable and Accrued Expenses	$ 468,966	$ 27,090	$ 496,056	$ 0	$ 496,056
Due to Related Party	15,650	367,804	383,454	(383,454)	0
Current Portion of Long-Term Debt	0	285,218	285,218	0	285,218
Deposits	82,147	0	82,147	0	82,147
Total Current Liabilities	566,763	680,112	1,246,875	(383,454)	863,421
Long-Term Liabilities					
Deferred Compensation	133,701	0	133,701	0	133,701
Long-Term Debt	0	16,875,412	16,875,412	(6,000,000)	10,875,412
Total Long-Term Liabilities	133,701	16,875,412	17,009,113	(6,000,000)	11,009,113
Deferred Tax Liability	0	2,681,958	2,681,958	0	2,681,958
Net Assets					
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(3,883,577)	(3,883,577)	0	(3,883,577)
Unrestricted Net Assets					
Board Designated Reserves	892,975	0	892,975	0	892,975
Undesignated	50,189,303	0	50,189,303	(99,300)	50,090,003
Total Unrestricted	51,082,278	0	51,082,278	(99,300)	50,982,978
Total Net Assets	51,082,278	(2,887,094)	48,195,184	(1,095,783)	47,099,401
Total Liabilities and Net Assets	$ 51,782,742	$ 17,350,388	$ 69,133,130	$ (7,479,237)	$ 61,653,893

See Independent Auditor's Report.

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended December 31, 2016

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Revenues and Gains					
Steam Revenue Charges	$ 2,844,536	$ 0	$ 2,844,536	$ 0	$ 2,844,536
Electricity Distribution Charges	7,387,426	0	7,387,426	(149,507)	7,237,919
Service Fees	0	2,266,098	2,266,098	(2,266,098)	0
Interest Income	269,170	0	269,170	(232,500)	36,670
Investment (Loss), Net	(10,034)	0	(10,034)	0	(10,034)
Administration Fees	86,000	0	86,000	(86,000)	0
Other Income	80,648	555,259	635,907	(99,300)	536,607
Total Revenues and Gains	10,657,746	2,821,357	13,479,103	(2,833,405)	10,645,698
Expenses and Losses					
Program Services					
Steam Heating Services	4,384,321	2,028,547	6,412,868	(2,415,605)	3,997,263
Electricity Distribution Services	4,490,721	0	4,490,721	0	4,490,721
Supporting Services					
Management and General	922,075	2,993,412	3,915,487	(318,500)	3,596,987
Total Expenses	9,797,117	5,021,959	14,819,076	(2,734,105)	12,084,971
Loss on Sale of Inventory	137,064	0	137,064	0	137,064
Total Expenses and Losses	9,934,181	5,021,959	14,956,140	(2,734,105)	12,222,035
Increase (Decrease) in Net Assets	723,565	(2,200,602)	(1,477,037)	(99,300)	(1,576,337)
Net Assets, Beginning of Year	50,358,713	(686,492)	49,672,221	(996,483)	48,675,738
Net Assets, End of Year	$ 51,082,278	$ (2,887,094)	$ 48,195,184	$ (1,095,783)	$ 47,099,401

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2015

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Assets					
Current Assets					
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 Related Party	345,178	14,135	359,313	(359,313)	0
Prepaid Expenses	1,052,979	12,163	1,065,142	0	1,065,142
Inventory	190,643	0	190,643	0	190,643
Total Current Assets	17,438,768	559,958	17,998,726	(359,313)	17,639,413
Property					
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	88,032	0	88,032	0	88,032
Total Property	49,457,319	18,185,047	67,642,366	0	67,642,366
Accumulated Depreciation	23,226,139	909,252	24,135,391	0	24,135,391
Net Property	26,231,180	17,275,795	43,506,975	0	43,506,975
Other Assets					
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
Total Other Assets	7,260,918	0	7,260,918	(6,996,483)	264,435
Total Assets	$ 50,930,866	$ 17,835,753	$ 68,766,619	$ (7,355,796)	$ 61,410,823
Liabilities and Net Assets					
Current Liabilities					
Accounts Payable and Accrued Expenses	$ 375,178	$ 91,667	$ 466,845	$ 0	$ 466,845
Due to Related Party	14,135	345,178	359,313	(359,313)	0
Current Portion of Long-Term Debt	0	426,172	426,172	0	426,172
Deposits	75,354	0	75,354	0	75,354
Total Current Liabilities	464,667	863,017	1,327,684	(359,313)	968,371
Long-Term Liabilities					
Deferred Compensation	107,486	0	107,486	0	107,486
Long-Term Debt	0	17,010,686	17,010,686	(6,000,000)	11,010,686
Total Long-Term Liabilities	107,486	17,010,686	17,118,172	(6,000,000)	11,118,172
Deferred Tax Liability	0	648,542	648,542	0	648,542
Net Assets					
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(1,682,975)	(1,682,975)	0	(1,682,975)
Unrestricted Net Assets					
Board Designated Reserves	892,975	0	892,975	0	892,975
Undesignated	49,465,738	0	49,465,738	0	49,465,738
Total Unrestricted	50,358,713	0	50,358,713	0	50,358,713
Total Net Assets	50,358,713	(686,492)	49,672,221	(996,483)	48,675,738
Total Liabilities and Net Assets	$ 50,930,866	$ 17,835,753	$ 68,766,619	$ (7,355,796)	$ 61,410,823

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended December 31, 2015

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Revenues and Gains					
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	47,610	35,318	82,928	0	82,928
Total Revenues and Gains	10,935,510	2,213,902	13,149,412	(2,713,939)	10,435,473
Expenses					
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	884,822	1,707,386	2,592,208	(390,000)	2,202,208
Total Expenses	10,458,838	3,347,309	13,806,147	(2,713,939)	11,092,208
Increase in Net Assets	476,672	(1,133,407)	(656,735)	0	(656,735)
Net Assets, Beginning of Year	49,882,041	446,915	50,328,956	(996,483)	49,332,473
Net Assets , End of Year	$ 50,358,713	$ (686,492)	$ 49,672,221	$ (996,483)	$ 48,675,738