GRIFFISS UTILITY
SERVICES CORPORATION
AND SUBSIDIARY

For the Year Ended
December 31, 2017

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, 2017 and 2016, 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, 2017 and 2016, 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 2017, Griffiss Utility Services Corporation and Subsidiary adopted new accounting guidance ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." 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 of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, 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 26, 2018

Utica, New York

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and Cash Equivalents	$ 4,206,973	$ 4,034,103
Accounts Receivable, Net	1,151,747	1,158,528
Grants Receivable	483,531	456,860
Prepaid Expenses	73,611	120,817
Investments	7,597,290	4,989,966
Total Current Assets	13,513,152	10,760,274
Property		
Land, Buildings, and Improvements	36,775,522	36,775,522
Vehicles and Equipment	9,663,478	8,775,716
Fuel Tanks	1,406,546	1,406,546
Distribution Lines	21,002,302	20,655,768
Office Furnishings	48,200	45,855
Construction in Progress	0	569,979
Total Property	68,896,048	68,229,386
Accumulated Depreciation	28,794,414	26,494,657
Net Property	40,101,634	41,734,729
Other Assets		
Restricted Cash, Cash Equivalents and Investments	7,612,763	7,812,441
Deposits Held with NYISO	1,004,886	996,069
Cash Surrender Value	400,956	350,380
Total Other Assets	9,018,605	9,158,890
Total Assets	$ 62,633,391	$ 61,653,893
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	$ 584,154	$ 496,056
Current Portion of Long-Term Debt	295,535	285,218
Deposits	84,372	82,147
Total Current Liabilities	964,061	863,421
Noncurrent Liabilities		
Deferred Compensation	161,751	133,701
Deferred Tax Liability	2,280,773	2,681,958
Long-Term Debt, Net	10,579,840	10,875,412
Total Noncurrent Liabilities	13,022,364	13,691,071
Net Assets		
Unrestricted		
Accumulated Deficit of Subsidiary	(3,804,057)	(3,883,577)
Board Designated Reserves	872,389	892,975
Undesignated	51,578,634	50,090,003
Total Unrestricted Net Assets	48,646,966	47,099,401
Total Liabilities and Net Assets	$ 62,633,391	$ 61,653,893

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, 2017 and 2016

	2017	2016
Revenues and Investment Income (Loss)		
Steam Revenue Charges	$ 2,905,596	$ 2,844,536
Electricity Distribution Charges	7,016,993	7,237,919
Interest Income	24,158	36,670
Investment Income (Loss), Net	135,259	(10,034)
Other Income	74,178	79,747
Total Revenues and Investment Income (Loss)	10,156,184	10,188,838
Expenses and Losses		
Program Services		
Steam Heating Services	4,109,151	4,482,899
Electricity Distribution Services	4,406,998	4,490,721
Supporting Services		
Management and General	971,840	1,076,435
Total Expenses	9,487,989	10,050,055
Loss on Sale of Inventory	0	137,064
Total Expenses and Losses	9,487,989	10,187,119
Increase (Decrease) in Net Assets Before Other Changes	668,195	1,719
Other Changes		
Capital Grants	479,685	456,860
Provision for (Benefit from) Taxes	399,685	(2,034,916)
Increase (Decrease) in Net Assets	1,547,565	(1,576,337)
Net Assets, Beginning of Year	47,099,401	48,675,738
Net Assets, End of Year	$ 48,646,966	$ 47,099,401

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	$ 1,547,565	$ (1,576,337)
Adjustment for Noncash Transactions		
Depreciation	2,299,757	2,359,266
Non-Cash Interest	0	49,293
Loss on Sale of Inventory	0	137,064
Change in Allowance for Doubtful Accounts	0	(25,845)
Unrealized and Realized (Gains) Losses on Investments	(29,482)	20,564
Deferred Taxes	(401,185)	2,033,416
Deferred Compensation	28,050	26,215
(Increase) Decrease in Assets		
Accounts Receivable	6,781	(135,987)
Grants Receivable	(26,671)	0
Prepaid Expenses	47,206	(48,788)
Deposits Held with NYISO	(8,817)	(2,956)
Cash Surrender Value	(50,576)	(85,945)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Expenses	88,098	29,211
Deposits	2,225	6,793
Net Cash Flows from Operating Activities	3,502,951	2,785,964
Cash Flows From Investing Activities		
Purchases of Investments	(7,187,115)	(9,000,000)
Reinvested Interest	(105,777)	(15,296)
Proceeds from Sales of Investments	5,696,379	0
Proceeds from Disposal of Assets	0	53,579
Capital Expenditures	(666,662)	(587,020)
Net Cash (Used) by Investing Activities	(2,263,175)	(9,548,737)
Cash (Used by) Financing Activities		
Payment of Long-Term Debt	(285,255)	(325,521)
Net Cash (Used by) Financing Activities	(285,255)	(325,521)
Net Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash and Cash Equivalents	954,521	(7,088,294)
Cash, Cash Equivalents, Restricted Cash and Cash Equivalents, Beginning of Year	7,841,778	14,930,072
Cash, Cash Equivalents, Restricted Cash and Cash Equivalents, End of Year	$ 8,796,299	$ 7,841,778

Supplemental Cash Flow Disclosures

	2017	2016
Cash Paid During the Year for:		
Interest	$ 392,562	$ 504,188
Income Taxes	$ 0	$ 1,500
Non Cash Financing Transaction:		
Refinancing of Long Term Debt	$ 0	$ 11,212,199

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) and its subsidiary GUSC Energy Inc. (the Organization or 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.

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.

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.

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 the Organization 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 of net assets: permanently restricted, temporarily restricted, or unrestricted. However, the Organization only maintained unrestricted net assets at December 31, 2017 and 2016.

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 consolidated 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 financial position and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as money market funds, with an original maturity of three months or less when purchased.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table provides a reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents reported between the consolidated statements of financial position and the consolidated statements of cash flows.

	2017	2016
Cash and Cash Equivalents	$ 4,206,973	$ 4,034,103
Restricted Cash, Cash Equivalents, and Restricted Investments	7,612,763	7,812,441
Less: Restricted Investments	(3,023,437)	(4,004,766)
Total Cash, Cash Equivalents, and Restricted Cash shown in the Statements of Cash Flows	$ 8,796,299	$ 7,841,778

Restricted cash, cash equivalents and investments, as listed above, are included in other assets on the consolidated statements of financial position and represent amounts pledged as collateral for long-term financing arrangements as contractually required by a lender. The restriction will lapse when the related long-term debt is paid off.

Accounts and Grants Receivable

Accounts receivable are carried 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 for each of the years ended December 31, 2017 and 2016.

Grants receivable are carried at cost and have been deemed to be fully collectible, therefore, an allowance has not been established.

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 value 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 investment income (loss) in the consolidated statements of activities includes gains and losses on investments bought and sold as well as held during the year.

Deposits Held with NYISO

The New York Independent System Operator (NYISO) is the organization responsible for managing New York's electric grid and its competitive wholesale electric marketplace. Per NYISO policy, GUSC maintains a deposit with the NYISO to allow the Organization to purchase power instantaneously in the wholesale marketplace. The amount of the deposit requirement can vary and is based on peek potential financial exposure to NYISO.

Cash Surrender Value on Life Insurance

GUSC is the owner of a life insurance policy on one key employee with basic coverage totaling $600,000 and has a cash surrender value of $400,956 and $350,380 at December 31, 2017 and 2016, respectively. The cash surrender value of this policy has been included in other assets in these consolidated financial statements.

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, 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 were included as interest expense in the consolidated statements of activities in 2016. Interest expense for the year ended December 31, 2016 was $49,293.

Expense Allocation

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

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

Electricity Distribution Services – Includes all direct and indirect 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Reclassifications

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

Adoption of New Accounting Standard

During 2017, the Corporation adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. Management believes that the adoption of the new accounting standard provides a better presentation of cash flows to the users of its consolidated financial statements. Before the change, restricted cash and restricted cash equivalents were not included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts reported on the statements of cash flows.

The Organization applied the change on a retrospective basis. The effect of this change was to increase total cash, cash equivalents, restricted cash and restricted cash equivalents at the beginning of the year in the statement of cash flows by $7,812,441 for restricted cash included in other assets that are restricted as collateral on long-term financing. This was due to reclassification of the corresponding amount in the consolidated statements of financial position.

Future Changes in Accounting Standards

ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities is effective for years beginning after December 15, 2017. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This includes qualitative and quantitative requirements in the areas of net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows.

GUSC will evaluate the impact this pronouncement may have on its consolidated financial statements and will implement it as applicable.

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 $1,151,747 and $1,158,528 at December 31, 2017 and 2016, 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 consolidated statements of financial position.

NOTE 3 INVESTMENTS

Investments at December 31, 2017 and 2016 are comprised of the following:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Invested Cash	$ 38,516	$ 38,516	$ 146,057	$ 146,057
Certificates of Deposit	5,537,456	5,537,854	4,004,766	4,004,766
U.S. Government and Agency Debt Securities	5,096,870	5,044,357	1,392,426	1,389,756
U.S. Government Agency Mortgage Backed Securities	0	0	1,360,837	1,363,129
Corporate Debt Securities	0	0	1,302,872	1,297,401
Corporate Equity Securities	0	0	554,939	553,319
Mutual Funds	0	0	243,779	240,304
Total	10,672,842	10,620,727	9,005,676	8,994,732
Less: Restricted Investments	3,023,437	3,023,437	4,004,766	4,004,766
Total Investments	$ 7,649,405	$ 7,597,290	$ 5,000,910	$ 4,989,966

The following summarizes net investment return for the years ended December 31, 2017 and 2016:

	2017	2016
Interest and Dividends	$ 136,686	$ 10,530
Unrealized (Loss)	(41,170)	(20,564)
Realized Gain	70,652	0
Investment Fees	(30,909)	0
Investment Income (Loss), Net	$ 135,259	$ (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:

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, 2017.

Invested Cash: Valued at cost which approximates fair value.

Certificates of Deposit: Valued at amortized cost which approximates fair value.

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, U.S. Government and Agency Debt 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.

NOTE 4 FAIR VALUE MEASUREMENTS (Continued)

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.

The following tables sets forth by level, within the fair value hierarchy, GUSC's assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

		2017 Fair Value Measurements at Reporting Date Using the Above Criteria		
Investments	Total	(Level 1)	(Level 2)	(Level 3)
Invested Cash	$ 38,516	$ 38,516	$ 0	$ 0
Certificates of Deposit	5,537,854	0	5,537,854	0
U.S. Government and Agency Debt Securities	5,044,357	0	5,044,357	0
Total	10,620,727	38,516	10,582,211	0
Less: Restricted CD's	3,023,437	0	3,023,437	0
Total Investments	$ 7,597,290	$ 38,516	$ 7,558,774	$ 0

		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
Certificates of Deposit	4,004,766	0	4,004,766	0
U.S. Government and Agency Debt Securities	1,389,756	0	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	8,994,732	939,680	8,055,052	0
Less: Restricted CD's	4,004,766	0	4,004,766	0
Total Investments	$ 4,989,966	$ 939,680	$ 4,050,286	$ 0

NOTE 5 LONG-TERM DEBT

At December 31, 2017 and 2016, long-term debt consisted of the following:

	2017	2016
GUSC Energy		
Term loan payable to Community Bank which is secured by all of GUSC Energy's assets as well as GUSC's deposit accounts (see restricted cash in Note 1). 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.	$ 10,875,375	$ 11,160,630
Less: Current Portion of Long-Term Debt	295,535	285,218
Total Long-Term Debt	$ 10,579,840	$ 10,875,412

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

Year	Amount
2018	$ 295,535
2019	306,226
2020	316,279
2021	328,744
2022	340,636
Thereafter	9,287,955
Total	$ 10,875,375

GUSC Energy's long-term debt agreements contain certain covenants, primarily a debt service ratio covenant. At each of the years ended December 31, 2017 and 2016, GUSC Energy was in compliance with the covenants.

Interest expense on the above debt for the years ended December 31, 2017 and 2016 was $392,562 and $504,188, respectively.

Intercompany

GUSC has issued several notes receivable from GUSC Energy to assist with costs to construct the open-loop biomass power facility. The principal balance on the notes is $6,000,000 for each of the years ended December 31, 2017 and 2016. 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 original interest rate was fixed at 4.50%. The notes were amended during 2016 to adjust the interest rate to 3.00%. The intercompany loan is eliminated in the consolidation of the financial statements.

NOTE 6 SUBSIDIARY ACCUMULATED DEFICIT

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

	2017	2016
Balance, Beginning of Year	$ (3,883,577)	$ (1,682,975)
Net Income (Loss) of GUSC Energy Inc.	79,520	(2,200,602)
Balance, End of Year	$ (3,804,057)	$ (3,883,577)

NOTE 7 INCOME TAXES

Federal and state provision for or (benefit from) taxes for GUSC Energy for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Current Tax Expense		
New York State	$ 1,500	$ 1,500
Total Current Tax Expense	1,500	1,500
Deferred Tax Expense (Benefit)		
Federal	(506,619)	1,665,221
New York State	105,434	368,195
Total Deferred Tax Expense (Benefit)	(401,185)	2,033,416
Total Provision for (Benefit from) Taxes	$ (399,685)	$ 2,034,916

Changes in the federal tax law enacted in 2017 have lowered the tax rates beginning in 2018. The deferred tax asset and liability at December 31, 2017, listed below, have been reduced to reflect the newly enacted rates.

The net deferred tax liability as of December 31, 2017 and 2016 is comprised of the following:

	2017	2016
Deferred Tax Asset		
Net Operating Loss Carryforward	$ 2,810,465	$ 3,329,158
Valuation Allowance	(2,810,465)	(3,329,158)
Deferred Tax Asset	0	0
Deferred Tax (Liability)		
Depreciation – Excess of Tax over Book	(2,280,773)	(2,681,958)
Net Deferred Tax (Liability)	$ (2,280,773)	$ (2,681,958)

The valuation allowance has experienced a decrease of $518,693 for the year ended December 31, 2017 and an increase of $2,214,158 for the year ended December 31, 2016. Management has determined that the operating loss carryforward amounts will not be utilized prior to expiration and, therefore, decided to write off the deferred tax asset resulting in an additional $1,118,900 in deferred tax expense in the prior year.

As of December 31, 2017, 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.

NOTE 7 INCOME TAXES (Continued)

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	2,307,401	2,305,901
2037	1,943,720	1,942,220
	$ 9,739,037	$ 9,730,037

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, 2017 and 2016 were $141,169 and $145,595, respectively. At December 31, 2017 and 2016, GUSC and GUSC Energy have accrued liabilities of $8,431 and $8,092 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 $28,050 and $26,215 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, GUSC remitted $126,765 and $134,066, respectively, to GLDC for its share of revenue from the electrical distribution system.

NOTE 11 BOARD DESIGNATED RESERVES

The board has designated certain reservations of net assets for future use. The following is a summary of the activity in each reserve during the year ended December 31, 2017:

	Beginning Balance	Expenses	Ending Balance
Reserve for Capital Projects	$ 250,000	$ 0	$ 250,000
Reserve for Storm Restoration	450,000	0	450,000
Reserve for Energy Savings Program	192,975	20,586	172,389
Total Board Designated Reserves	$ 892,975	$ 20,586	$ 872,389

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 $149,144 and $149,305 respectively, for the years ended December 31, 2017 and 2016.

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, 2017 and 2016 was $228,852 and $225,045, respectively.

NOTE 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2018, 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, 2017

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Assets					
Current Assets					
Cash and Cash Equivalents	$ 3,781,692	$ 425,281	$ 4,206,973	$ 0	$ 4,206,973
Accounts Receivable, Net	1,151,747	0	1,151,747	0	1,151,747
Grants Receivable	479,685	3,846	483,531	0	483,531
Due From Subsidiary	376,508	24,927	401,435	(401,435)	0
Prepaid Expenses	71,054	2,557	73,611	0	73,611
Investments	7,597,290	0	7,597,290	0	7,597,290
Total Current Assets	13,457,976	456,611	13,914,587	(401,435)	13,513,152
Property					
Land, Buildings, and Improvements	18,590,475	18,185,047	36,775,522	0	36,775,522
Vehicles and Equipment	9,663,478	0	9,663,478	0	9,663,478
Fuel Tanks	1,406,546	0	1,406,546	0	1,406,546
Distribution Lines	21,002,302	0	21,002,302	0	21,002,302
Office Furnishings	48,200	0	48,200	0	48,200
Total Property	50,711,001	18,185,047	68,896,048	0	68,896,048
Accumulated Depreciation	26,975,910	1,818,504	28,794,414	0	28,794,414
Net Property	23,735,091	16,366,543	40,101,634	0	40,101,634
Other Assets					
Restricted Cash, Cash Equivalents and Investments	7,612,763	0	7,612,763	0	7,612,763
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Deposits Held with NYISO	1,004,886	0	1,004,886	0	1,004,886
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	400,956	0	400,956	0	400,956
Total Other Assets	16,015,088	0	16,015,088	(6,996,483)	9,018,605
Total Assets	$ 53,208,155	$ 16,823,154	$ 70,031,309	$ (7,397,918)	$ 62,633,391
Liabilities and Net Assets					
Current Liabilities					
Accounts Payable and Accrued Expenses	$ 486,082	$ 98,072	$ 584,154	$ 0	$ 584,154
Due to Subsidiary	24,927	376,508	401,435	(401,435)	0
Current Portion of Long-Term Debt	0	295,535	295,535	0	295,535
Deposits	84,372	0	84,372	0	84,372
Total Current Liabilities	595,381	770,115	1,365,496	(401,435)	964,061
Noncurrent Liabilities					
Deferred Compensation	161,751	0	161,751	0	161,751
Deferred Tax Liability	0	2,280,773	2,280,773	0	2,280,773
Long-Term Debt	0	16,579,840	16,579,840	(6,000,000)	10,579,840
Total Noncurrent Liabilities	161,751	18,860,613	19,022,364	(6,000,000)	13,022,364
Net Assets					
Unrestricted Net Assets					
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(3,804,057)	(3,804,057)	0	(3,804,057)
Board Designated Reserves	872,389	0	872,389	0	872,389
Undesignated	51,578,634	0	51,578,634	0	51,578,634
Total Unrestricted Net Assets	52,451,023	(2,807,574)	49,643,449	(996,483)	48,646,966
Total Liabilities and Net Assets	$ 53,208,155	$ 16,823,154	$ 70,031,309	$ (7,397,918)	$ 62,633,391

See Independent Auditor's Report.

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended December 31, 2017

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Revenues and Investment Income					
Steam Revenue Charges	$ 2,905,596	$ 0	$ 2,905,596	$ 0	$ 2,905,596
Electricity Distribution Charges	7,154,627	0	7,154,627	(137,634)	7,016,993
Service Fees	0	2,311,258	2,311,258	(2,311,258)	0
Interest Income	204,158	0	204,158	(180,000)	24,158
Investment Income, Net	135,259	0	135,259	0	135,259
Administration Fees	120,000	0	120,000	(120,000)	0
Other Income	66,332	7,846	74,178	0	74,178
Total Revenues and Investment Income	10,585,972	2,319,104	12,905,076	(2,748,892)	10,156,184
Expenses and Losses					
Program Services					
Steam Heating Services	4,343,909	2,493,434	6,837,343	(2,728,192)	4,109,151
Electricity Distribution Services	4,406,998	0	4,406,998	0	4,406,998
Supporting Services					
Management and General	946,005	145,835	1,091,840	(120,000)	971,840
Total Expenses	9,696,912	2,639,269	12,336,181	(2,848,192)	9,487,989
Increase (Decrease) in Net Assets Before Other Changes	889,060	(320,165)	568,895	99,300	668,195
Other Changes					
Capital Grants	479,685	0	479,685	0	479,685
Benefit from Taxes	0	399,685	399,685	0	399,685
Increase in Net Assets	1,368,745	79,520	1,448,265	99,300	1,547,565
Net Assets (Deficit), Beginning of Year	51,082,278	(2,887,094)	48,195,184	(1,095,783)	47,099,401
Net Assets (Deficit), End of Year	$ 52,451,023	$ (2,807,574)	$ 49,643,449	$ (996,483)	$ 48,646,966

See Independent Auditor's Report.

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 and Cash Equivalents	$ 3,985,361	$ 48,742	$ 4,034,103	$ 0	$ 4,034,103
Accounts Receivable, Net	1,158,133	395	1,158,528	0	1,158,528
Grants Receivable	0	456,860	456,860	0	456,860
Due From Subsidiary	367,804	15,650	383,454	(383,454)	0
Prepaid Expenses	113,245	7,572	120,817	0	120,817
Investments	4,989,966	0	4,989,966	0	4,989,966
Total Current Assets	10,614,509	529,219	11,143,728	(383,454)	10,760,274
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					
Restricted Cash, Cash Equivalents and Investments	7,812,441	0	7,812,441	0	7,812,441
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Deposits Held by NYISO	996,069	0	996,069	0	996,069
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	350,380	0	350,380	0	350,380
Total Other Assets	16,155,373	0	16,155,373	(6,996,483)	9,158,890
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 Subsidiary	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
Noncurrent Liabilities					
Deferred Compensation	133,701	0	133,701	0	133,701
Deferred Tax Liability	0	2,681,958	2,681,958	0	2,681,958
Long-Term Debt	0	16,875,412	16,875,412	(6,000,000)	10,875,412
Total Noncurrent Liabilities	133,701	19,557,370	19,691,071	(6,000,000)	13,691,071
Net Assets					
Unrestricted 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)
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 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

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 Investment (Loss)					
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
Administration Fees	86,000	0	86,000	(86,000)	0
Investment (Loss), Net	(10,034)	0	(10,034)	0	(10,034)
Other Income	80,648	98,399	179,047	(99,300)	79,747
Total Revenues and Investment (Loss)	10,657,746	2,364,497	13,022,243	(2,833,405)	10,188,838
Expenses and Losses					
Program Services					
Steam Heating Services	4,384,321	2,746,683	7,131,004	(2,648,105)	4,482,899
Electricity Distribution Services	4,490,721	0	4,490,721	0	4,490,721
Supporting Services					
Management and General	922,075	240,360	1,162,435	(86,000)	1,076,435
Total Expenses	9,797,117	2,987,043	12,784,160	(2,734,105)	10,050,055
Loss on Sale of Inventory	137,064	0	137,064	0	137,064
Total Expenses and Losses	9,934,181	2,987,043	12,921,224	(2,734,105)	12,222,035
Increase (Decrease) in Net Assets Before Other Changes	723,565	(622,546)	101,019	(99,300)	(2,033,197)
Other Changes					
Capital Grants	0	456,860	456,860	0	456,860
Provision for Taxes	0	(2,034,916)	(2,034,916)	0	(2,034,916)
Increase (Decrease) in Net Assets	723,565	(2,200,602)	(1,477,037)	1,869,230	1,869,230
Net Assets (Deficit), Beginning of Year	50,358,713	(686,492)	49,672,221	(996,483)	48,675,738
Net Assets (Deficit), End of Year	$ 51,082,278	$ (2,887,094)	$ 48,195,184	$ (1,095,783)	$ 47,099,401

See Independent Auditor's Report.