GRIFFISS UTILITY
SERVICES CORPORATION
AND SUBSIDIARY

For the Year Ended
December 31, 2018

CONSOLIDATED
FINANCIAL STATEMENTS
AND CONSOLIDATING
SCHEDULES

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

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D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

120 Lomond Court, Utica, N.Y. 13502-5950
315-735-5216 Fax: 315-735-5210

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, 2018 and 2017, and the related consolidated statements of activities, functional expenses 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, 2018 and 2017, 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 2018, Griffiss Utility Services Corporation and Subsidiary adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities.*" 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 25, 2019

Utica, New York

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and Cash Equivalents	$ 5,327,640	$ 4,206,973
Accounts Receivable, Net	825,872	1,151,747
Grants Receivable	248,702	483,531
Prepaid Expenses	63,661	73,611
Investments	8,884,947	7,597,290
Total Current Assets	15,350,822	13,513,152
Property		
Land, Buildings, and Improvements	36,808,403	36,775,522
Distribution Lines	21,124,821	21,002,302
Vehicles and Equipment	9,886,771	9,663,478
Fuel Tanks	1,406,546	1,406,546
Office Furnishings	48,200	48,200
Construction in Progress	282,866	0
Total Property	69,557,607	68,896,048
Accumulated Depreciation	31,143,128	28,794,414
Net Property	38,414,479	40,101,634
Other Assets		
Restricted Cash, Cash Equivalents and Investments	7,397,576	7,612,763
Deposits Held with NYISO	1,020,214	1,004,886
Cash Surrender Value	455,656	400,956
Total Other Assets	8,873,446	9,018,605
Total Assets	$ 62,638,747	$ 62,633,391
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	$ 609,118	$ 584,154
Current Portion of Long-Term Debt	306,226	295,535
Deposits	82,293	84,372
Total Current Liabilities	997,637	964,061
Noncurrent Liabilities		
Deferred Compensation	196,510	161,751
Deferred Tax Liability	2,630,130	2,280,773
Long-Term Debt, Net	10,261,740	10,579,840
Total Noncurrent Liabilities	13,088,380	13,022,364
Net Assets		
Net Assets without Donor Restrictions		
Parent Organization		
Board Designated Reserves	872,389	872,389
Undesignated	52,704,331	51,578,634
Subsidiary		
Accumulated Deficit	(5,023,990)	(3,804,057)
Total Net Assets	48,552,730	48,646,966
Total Liabilities and Net Assets	$ 62,638,747	$ 62,633,391

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, 2018 and 2017

	2018	2017
Revenues and Investment Income		
Steam Revenue Charges	$ 2,920,865	$ 2,905,300
Electricity Distribution Charges	7,776,129	7,017,289
Interest Income	87,053	24,158
Investment Income, Net	92,088	135,259
Other Income	48,381	74,178
Total Revenues and Investment Income	10,924,516	10,156,184
Expenses		
Program Services		
Steam Heating Services	4,622,947	4,109,151
Electricity Distribution Services	5,338,069	4,406,998
Supporting Services		
Management and General	835,339	971,840
Total Expenses	10,796,355	9,487,989
Increase in Net Assets Before Other Changes	128,161	668,195
Other Changes		
Capital Grants	128,460	479,685
(Provision for) Benefit from Taxes	(350,857)	399,685
Increase (Decrease) in Net Assets	(94,236)	1,547,565
Net Assets, Beginning of Year	48,646,966	47,099,401
Net Assets, End of Year	$ 48,552,730	$ 48,646,966

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

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018
(With Comparative Totals For the Year Ended December 31, 2017)

	Program Services		Supporting Services	Total	
	Steam Heating Services	Electricity Distribution Services	Management and General	2018	2017
Salaries	$ 863,597	$ 300,308	$ 423,972	$ 1,587,877	$ 1,318,642
Employee Benefits	184,102	101,793	143,711	429,606	380,838
Payroll Taxes	71,251	20,557	29,021	120,829	107,688
Wood Chips	658,565	0	0	658,565	526,665
Natural Gas	238,456	0	0	238,456	370,058
Purchased Electricity	0	4,026,422	0	4,026,422	3,082,160
Electrical Surcharges	0	126,496	0	126,496	126,765
Professional Services	15,963	15,963	77,938	109,864	104,832
Information Technology	373	7,638	4,087	12,098	3,666
Outside Consultants	0	0	0	0	2,500
Occupancy	36,879	15,022	9,089	60,990	65,175
Contracted Services	73,742	20,797	46,262	140,801	60,675
Insurance	120,185	35,916	37,906	194,007	191,406
Office Expenses	2,673	21	28,581	31,275	24,848
Service Fees	0	0	15,027	15,027	15,000
Travel	13,328	12,513	22,199	48,040	46,105
Repairs and Maintenance	148,411	8,842	17,131	174,384	198,217
Environmental Expense	29,257	0	0	29,257	23,705
Minor Equipment	36,112	1,197	0	37,309	5,153
Depreciation	1,681,999	637,932	28,783	2,348,714	2,299,757
Interest Expense	382,238	0	0	382,238	392,562
Operating Supplies	18,313	886	240	19,439	5,506
Water Treatment	22,352	0	0	22,352	39,041
Bad Debt Provision	0	0	(68,096)	(68,096)	0
Energy Savings Program	0	0	0	0	20,586
Dues and Subscriptions	129	600	6,485	7,214	11,240
Other Expenses	25,022	5,166	13,003	43,191	65,199
Total Functional Expenses	$ 4,622,947	$ 5,338,069	$ 835,339	$ 10,796,355	$ 9,487,989

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services		Supporting Services	
	Steam Heating Services	Electricity Distribution Services	Management and General	Total
Salaries	$ 578,136	$ 272,211	$ 468,295	$ 1,318,642
Employee Benefits	161,220	80,732	138,886	380,838
Payroll Taxes	55,466	19,197	33,025	107,688
Wood Chips	526,665	0	0	526,665
Natural Gas	370,058	0	0	370,058
Purchased Electricity	0	3,082,160	0	3,082,160
Electrical Surcharges	0	126,765	0	126,765
Professional Services	14,588	14,588	75,656	104,832
Information Technology	488	277	2,901	3,666
Outside Consultants	0	0	2,500	2,500
Occupancy	44,027	13,491	7,657	65,175
Contracted Services	27,275	10,363	23,037	60,675
Insurance	112,638	39,097	39,671	191,406
Office Expenses	0	0	24,848	24,848
Service Fees	0	0	15,000	15,000
Travel	6,768	16,056	23,281	46,105
Repairs and Maintenance	93,831	83,364	21,022	198,217
Environmental Expense	23,705	0	0	23,705
Minor Equipment	4,760	285	108	5,153
Depreciation	1,646,325	626,310	27,122	2,299,757
Interest Expense	392,562	0	0	392,562
Operating Supplies	4,597	556	353	5,506
Water Treatment	39,041	0	0	39,041
Energy Savings Program	0	20,586	0	20,586
Dues and Subscriptions	0	0	11,240	11,240
Other Expenses	7,001	960	57,238	65,199
Total Functional Expenses	$ 4,109,151	$ 4,406,998	$ 971,840	$ 9,487,989

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, 2018 and 2017

	2018	2017
Cash Flows From (Used) by Operating Activities		
Increase (Decrease) in Net Assets	$ (94,236)	$ 1,547,565
Adjustment for Noncash Transactions		
Depreciation	2,348,714	2,299,757
Change in Allowance for Doubtful Accounts	(68,096)	0
Unrealized and Realized (Gains) on Investments	(7,125)	(29,482)
Deferred Taxes	349,357	(401,185)
Deferred Compensation	34,759	28,050
(Increase) Decrease in Assets		
Accounts Receivable	393,971	6,781
Grants Receivable	234,829	(26,671)
Prepaid Expenses	9,950	47,206
Deposits Held with NYISO	(15,328)	(8,817)
Cash Surrender Value	(54,700)	(50,576)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Expenses	24,964	88,098
Deposits	(2,079)	2,225
Net Cash Provided by Operating Activities	3,154,980	3,502,951
Cash Flows From Investing Activities		
Purchases of Investments	(6,000,750)	(7,187,115)
Reinvested Interest	(84,963)	(105,777)
Proceeds from Sales of Investments	4,704,501	5,696,379
Capital Expenditures	(661,559)	(666,662)
Net Cash (Used) by Investing Activities	(2,042,771)	(2,263,175)
Cash Flows From Financing Activities		
Payment of Long-Term Debt	(307,409)	(285,255)
Net Cash (Used) by Financing Activities	(307,409)	(285,255)
Net Increase in Cash, Cash Equivalents, Restricted Cash and Cash Equivalents	804,800	954,521
Cash, Cash Equivalents, Restricted Cash and Cash Equivalents, Beginning of Year	8,796,299	7,841,778
Cash, Cash Equivalents, Restricted Cash and Cash Equivalents, End of Year	$ 9,601,099	$ 8,796,299

Supplemental Cash Flow Disclosures

	2018	2017
Cash Paid During the Year for:		
Interest	$ 382,238	$ 392,562
Income Taxes	$ 1,480	$ 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.

GUSC Energy Inc (GUSC Energy) was formed during 2011, with GUSC as the sole shareholder, 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. 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 two classes of net assets: net assets with donor restrictions or net assets without donor restrictions. However, the Organization only maintained net assets without donor restrictions at December 31, 2018 and 2017.

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 or decreases 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:

	2018	2017
Cash and Cash Equivalents	$ 5,327,640	$ 4,206,973
Restricted Cash, Cash Equivalents, and Restricted Investments	7,397,576	7,612,763
Less: Restricted Investments	(3,124,117)	(3,023,437)
Total Cash, Cash Equivalents, and Restricted Cash shown in the Statements of Cash Flows	$ 9,601,099	$ 8,796,299

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 $150,000 and $218,097 for the years ended December 31, 2018 and 2017, respectively.

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

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 5 for discussion of fair value measurements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $455,656 and $400,956 at December 31, 2018 and 2017, respectively. The cash surrender value of this policy has been included in other assets in these consolidated financial statements.

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 and functional expenses. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are payroll taxes and employee benefits, which are allocated on the basis of estimates of time and effort, and insurance and legal expenses, which have been allocated equally amongst the three categories. Other expenses are directly classified among the following program and supporting services:

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

<u>Electricity Distribution Services</u> – Includes all direct and indirect expenses necessary to distribute electricity and maintain the existing facilities.

<u>Management and General</u> – 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's wholly owned subsidiary, GUSC Energy, is a taxable entity and is, therefore, subject to federal and state income taxes. 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.

Adoption of New Accounting Standard

During 2018, GUSC and its subsidiary adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities.* 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. These include 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.

The amendments were applied on a retrospective basis, except for disclosures about liquidity and availability of resources.

Future Changes in Accounting Standards

ASU No. 2014-09, Revenue from Contracts with Customers and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients - effective for years beginning after December 15, 2018. The new revenue recognition model replaces virtually all existing revenue recognition guidance. The guidance affects all entities—public, private, and not-for-profit that enter into contracts with customers to transfer goods or services or enter into contracts to transfer nonfinancial assets. Unless those contracts are within the scope of other standards (such as for leases, financial instruments, or insurance contracts), the impact of the new rules must be considered.

ASU No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958): effective for transactions in which the entity serves as a resource recipient to annual periods beginning after December 15, 2018. This update is commonly referred to as revenue recognition of grants and contracts by all entities. This update likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GUSC will evaluate the impact these pronouncements may have on its consolidated financial statements and will implement them as applicable.

NOTE 2 LIQUIDITY AND AVAILABILITY OF FUNDS

GUSC and its subsidiaries have $14,414,772 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash of $5,327,640, receivables of $1,074,574, and investments of $8,884,947, less $872,389 set aside for board designated reserves (see Note 12). None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The receivables are subject to time restrictions but are expected to be collected within one year. GUSC has a goal to maintain financial assets, which consist of cash on hand to meet 60 days of normal operating expenses, which are, on average, approximately $1.5 million. GUSC has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, GUSC invests cash in excess of daily requirements in various short-term investments including certificates of deposit accounts, money market accounts, and U.S. Treasury notes.

NOTE 3 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 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 $825,872 and $1,151,747 at December 31, 2018 and 2017, 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 which are exposed to various risks, such as interest rate, market, and credit risk. Although this risk exists, GUSC believes this risk is minimal as they only invest in low risk securities such as U.S. Treasury bills and certificates of deposit.

NOTE 4 INVESTMENTS

Investments at December 31, 2018 and 2017 are comprised of the following:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Invested Cash	$ 3,515,692	$ 3,515,692	$ 38,516	$ 38,516
Certificates of Deposit	4,326,659	4,326,775	5,537,456	5,537,854
U.S. Government and Agency Debt Securities	4,212,100	4,166,597	5,096,870	5,044,357
Total	12,054,451	12,009,064	10,672,842	10,620,727
Less: Restricted Investments	3,124,117	3,124,117	3,023,437	3,023,437
Total Investments	$ 8,930,334	$ 8,884,947	$ 7,649,405	$ 7,597,290

The following summarizes net investment return for the years ended December 31, 2018 and 2017:

	2018	2017
Interest and Dividends	$ 99,267	$ 136,686
Unrealized Gain (Loss)	7,125	(41,170)
Realized Gain	0	70,652
Investment Fees	(14,304)	(30,909)
Investment Income, Net	$ 92,088	$ 135,259

NOTE 5 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.

NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

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, 2018.

Invested Cash: Valued at cost which approximates fair value.

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

U.S. Government Agency Mortgage Backed Securities, U.S. Government and Agency 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.

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.

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, 2018 and 2017:

		2018 Fair Value Measurements at Reporting Date Using the Above Criteria		
Investments	Total	(Level 1)	(Level 2)	(Level 3)
Invested Cash	$ 3,515,692	$ 3,515,692	$	$
Certificates of Deposit	4,326,775		4,326,775	
U.S. Government and Agency Debt Securities	4,166,597		4,166,597	
Total Investments	12,009,064	3,515,692	8,493,372	
Less: Restricted Investments	3,124,117		3,124,117	
Total Unrestricted Investments	$ 8,884,947	$ 3,515,692	$ 5,369,255	$

		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	$	$
Certificates of Deposit	5,537,854		5,537,854	
U.S. Government and Agency Debt Securities	5,044,357		5,044,357	
Total Investments	10,620,727	38,516	10,582,211	
Less: Restricted CD's	3,023,437		3,023,437	
Total Unrestricted Investments	$ 7,597,290	$ 38,516	$ 7,558,774	$

NOTE 6 LONG-TERM DEBT

At December 31, 2018 and 2017, long-term debt consisted of the following:

	2018	2017
GUSC Energy		
Term loan payable to Community Bank which is secured by all of GUSC Energy's assets as well as a portion of 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 currently being repaid with monthly principal and interest payments fixed at $68,314 with a final balloon payment due at maturity on November 11, 2026.	$ 10,567,966	$ 10,875,375
Less: Current Portion of Long-Term Debt	306,226	295,535
Total Long-Term Debt	$ 10,261,740	$ 10,579,840

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

Year	Amount
2019	$ 306,226
2020	316,279
2021	328,744
2022	340,636
2023	352,958
Thereafter	8,923,123
Total	$ 10,567,966

GUSC Energy's long-term debt agreements contain certain covenants, primarily a debt service ratio covenant. At each of the years ended December 31, 2018 and 2017, GUSC Energy was in compliance with the covenants.

Interest expense on the above debt for the years ended December 31, 2018 and 2017 was $382,238 and $392,562, 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, 2018 and 2017. 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 current interest rate is fixed at 3.00%. The intercompany loan is eliminated in the consolidation of the financial statements.

NOTE 7 SUBSIDIARY ACCUMULATED DEFICIT

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

	2018	2017
Balance, Beginning of Year	$ (3,804,057)	$ (3,883,577)
Net Income (Loss) of GUSC Energy Inc.	(1,219,933)	79,520
Balance, End of Year	$ (5,023,990)	$ (3,804,057)

NOTE 8 INCOME TAXES

Federal and state provision for or (benefit from) taxes for GUSC Energy for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Current Tax Expense		
New York State	$ 1,500	$ 1,500
Total Current Tax Expense	1,500	1,500
Deferred Tax Expense (Benefit)		
Federal	270,687	(506,619)
New York State	78,670	105,434
Total Deferred Tax Expense (Benefit)	349,357	(401,185)
Total Provision for (Benefit from) Taxes	$ 350,857	$ (399,685)

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, 2018 and 2017 is comprised of the following:

	2018	2017
Deferred Tax Asset		
Net Operating Loss Carryforward	$ 3,410,653	$ 2,810,465
Valuation Allowance	(3,410,653)	(2,810,465)
Deferred Tax Asset	0	0
Deferred Tax (Liability)		
Depreciation – Excess of Tax over Book	(2,630,130)	(2,280,773)
Net Deferred Tax (Liability)	$ (2,630,130)	$ (2,280,773)

The valuation allowance has experienced a decrease of $600,188 and $518,693 for the years ended December 31, 2018 and 2017, respectively. Management has determined that the operating loss carryforward amounts will not be utilized prior to expiration.

As of December 31, 2018, GUSC Energy had net operating loss carryovers that may offset future taxable income. Due to a New York State corporate tax law change in 2015 modifying the deduction and carryover rules, a net operating loss conversion subtraction (NOLCS) replaced net operating loss deductions for losses which originated prior to January 1, 2015, subject to limitations. These prior losses are pooled and may be carried forward for 20 years, expiring in 2035.

NOTE 8 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	1,942,120	1,942,120
2038	2,080,892	2,079,392
	$ 11,818,329	$ 11,809,329

NOTE 9 PENSION PLAN

GUSC and GUSC Energy contribute to a 401(k) profit-sharing plan for all employees. Employees were eligible for membership in the plan after six months of service and attaining age 21. During 2018, the plan was amended to allow employees to be eligible at age 18. 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, 2018 and 2017 were $159,247 and $141,169, respectively.

NOTE 10 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. The plan was amended during 2018, as authorized by the Board of Directors, to provide for an increased retirement benefit. GUSC recognized an expense of $34,759 and $28,050 for the years ended December 31, 2018 and 2017, respectively, related to this agreement.

NOTE 11 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, 2018 and 2017, GUSC remitted $126,496 and $126,765, respectively, to GLDC for its share of revenue from the electrical distribution system.

NOTE 12 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, 2018:

	Beginning Balance	Ending Balance
Reserve for Capital Projects	$ 250,000	$ 250,000
Reserve for Storm Restoration	450,000	450,000
Reserve for Energy Savings Program	172,389	172,389
Total Board Designated Reserves	$ 872,389	$ 872,389

NOTE 13 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.

Grant Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment principally by the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable program. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although GUSC expects such amounts, if any, to be immaterial.

NOTE 14 RELATED PARTY TRANSACTIONS

GUSC is a 509(a)(3) supporting organization of GLDC, which by definition is considered a related party. In addition to the surcharge agreement under Note 11, GUSC reimburses GLDC for various costs incurred for operational work, which totaled $24,109 and $22,379, respectively, for the years ended December 31, 2018 and 2017.

GLDC and its subsidiary, Cardinal Griffiss Realty, pay GUSC for steam and electric costs incurred by tenants of their leased properties. Utility revenues for these customers for the years ended December 31, 2018 and 2017 were $274,575 and $228,852, respectively.

NOTE 15 SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 25, 2019, 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, 2018

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Assets					
Current Assets					
Cash and Cash Equivalents	$ 5,080,046	$ 247,594	$ 5,327,640	$ 0	$ 5,327,640
Accounts Receivable, Net	825,872	0	825,872	0	825,872
Grants Receivable	248,702	0	248,702	0	248,702
Due From Subsidiary	951,621	0	951,621	(951,621)	0
Prepaid Expenses	60,456	3,205	63,661	0	63,661
Investments	8,884,947	0	8,884,947	0	8,884,947
Total Current Assets	16,051,644	250,799	16,302,443	(951,621)	15,350,822
Property					
Land, Buildings, and Improvements	18,590,475	18,217,928	36,808,403	0	36,808,403
Distribution Lines	21,124,821	0	21,124,821	0	21,124,821
Vehicles and Equipment	9,886,771	0	9,886,771	0	9,886,771
Fuel Tanks	1,406,546	0	1,406,546	0	1,406,546
Office Furnishings	48,200	0	48,200	0	48,200
Construction in Progress	282,866	0	282,866	0	282,866
Total Property	51,339,679	18,217,928	69,557,607	0	69,557,607
Accumulated Depreciation	28,869,586	2,273,542	31,143,128	0	31,143,128
Net Property	22,470,093	15,944,386	38,414,479	0	38,414,479
Other Assets					
Restricted Cash, Cash Equivalents and Investments	7,397,576	0	7,397,576	0	7,397,576
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Deposits Held with NYISO	1,020,214	0	1,020,214	0	1,020,214
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	455,656	0	455,656	0	455,656
Total Other Assets	15,869,929	0	15,869,929	(6,996,483)	8,873,446
Total Assets	$ 54,391,666	$ 16,195,185	$ 70,586,851	$ (7,948,104)	$ 62,638,747
Liabilities and Net Assets					
Current Liabilities					
Accounts Payable and Accrued Expenses	$ 536,143	$ 72,975	$ 609,118	$ 0	$ 609,118
Due to Parent	0	951,621	951,621	(951,621)	0
Current Portion of Long-Term Debt	0	306,226	306,226	0	306,226
Deposits	82,293	0	82,293	0	82,293
Total Current Liabilities	618,436	1,330,822	1,949,258	(951,621)	997,637
Noncurrent Liabilities					
Deferred Compensation	196,510	0	196,510	0	196,510
Deferred Tax Liability	0	2,630,130	2,630,130	0	2,630,130
Long-Term Debt	0	16,261,740	16,261,740	(6,000,000)	10,261,740
Total Noncurrent Liabilities	196,510	18,891,870	19,088,380	(6,000,000)	13,088,380
Net Assets					
Net Assets without Donor Restrictions					
Board Designated Reserves	872,389	0	872,389	0	872,389
Undesignated	52,704,331	0	52,704,331	0	52,704,331
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(5,023,990)	(5,023,990)	0	(5,023,990)
Total Net Assets	53,576,720	(4,027,507)	49,549,213	(996,483)	48,552,730
Total Liabilities and Net Assets	$ 54,391,666	$ 16,195,185	$ 70,586,851	$ (7,948,104)	$ 62,638,747

See Independent Auditor's Report.

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended December 31, 2018

	GUSC	GUSC Energy Inc.	Combined Balance	Consolidation Elimination	Consolidated Balance
Revenues					
Steam Revenue Charges	$ 2,920,865	$ 0	$ 2,920,865	$ 0	$ 2,920,865
Electricity Distribution Charges	7,951,008	0	7,951,008	(174,879)	7,776,129
Service Fees	0	2,357,648	2,357,648	(2,357,648)	0
Interest Income	267,053	0	267,053	(180,000)	87,053
Investment Income, Net	92,088	0	92,088	0	92,088
Administration Fees	120,000	0	120,000	(120,000)	0
Other Income	44,421	3,960	48,381	0	48,381
Total Revenues	11,395,435	2,361,608	13,757,043	(2,832,527)	10,924,516
Expenses					
Program Services					
Steam Heating Services	4,253,963	3,081,511	7,335,474	(2,712,527)	4,622,947
Electricity Distribution Services	5,338,069	0	5,338,069	0	5,338,069
Supporting Services					
Management and General	806,166	149,173	955,339	(120,000)	835,339
Total Expenses	10,398,198	3,230,684	13,628,882	(2,832,527)	10,796,355
Increase (Decrease) in Net Assets Before Other Changes	997,237	(869,076)	128,161	0	128,161
Other Changes					
Capital Grants	128,460	0	128,460	0	128,460
(Provision for) Taxes	0	(350,857)	(350,857)	0	(350,857)
Increase (Decrease) in Net Assets	1,125,697	(1,219,933)	(94,236)	0	(94,236)
Net Assets (Deficit), Beginning of Year	52,451,023	(2,807,574)	49,643,449	(996,483)	48,646,966
Net Assets (Deficit), End of Year	$ 53,576,720	$ (4,027,507)	$ 49,549,213	$ (996,483)	$ 48,552,730

See Independent Auditor's Report.

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 Related Party	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
Distribution Lines	21,002,302	0	21,002,302	0	21,002,302
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
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 by 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 Related Party	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					
Net Assets without Donor Restrictions					
Board Designated Reserves	872,389	0	872,389	0	872,389
Undesignated	51,578,634	0	51,578,634	0	51,578,634
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(3,804,057)	(3,804,057)	0	(3,804,057)
Total 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					
Steam Revenue Charges	$ 2,905,300	$ 0	$ 2,905,300	$ 0	$ 2,905,300
Electricity Distribution Charges	7,154,923	0	7,154,923	(137,634)	7,017,289
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	10,585,972	2,319,104	12,905,076	(2,748,892)	10,156,184
Expenses					
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