GOVERNORS ISLAND CORPORATION (D/B/A THE TRUST FOR GOVERNORS ISLAND)

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2017 and 2016

MARKS PANETH
ACCOUNTANTS & ADVISORS

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)

FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Governors Island Corporation (d/b/a The Trust for Governors Island)

We have audited the accompanying financial statements of Governors Island Corporation (d/b/a The Trust for Governors Island) ("TGI"), a component unit of The City of New York, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise TGI's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Governors Island Corporation (d/b/a The Trust for Governors Island) as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Marks Paneth LLP

New York, NY
September 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the financial activities of the Governors Island Corporation, d/b/a The Trust for Governors Island ("TGI"), a component unit of The City of New York (the "City"), for the years ended June 30, 2017 and 2016. It should be read in conjunction with TGI's financial statements and accompanying notes.

The financial statements consist of two parts: management's discussion and analysis (this section) and the financial statements. The basic financial statements, which include the statement of net position, the statement of revenues, expenses and changes in net position, the statement of cash flows and the notes to the financial statements, are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as prescribed by the Governmental Accounting Standards Board ("GASB"). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, in which revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred.

Organization Overview

TGI's purpose is to provide for the planning, preservation, redevelopment, and ongoing operations and maintenance of approximately 150 acres of Governors Island (the "Island") plus surrounding lands underwater, located in New York Harbor, in the Borough of Manhattan, City of New York. The remaining 22 acres of the Island were declared the Governors Island National Monument and are overseen by the National Park Service. TGI is a New York State not-for-profit corporation, governed by a 13-member board of directors appointed by the Mayor of the City of New York and nominated by the Mayor, the Governor of the State of New York, and local officials.

To further its purpose, TGI launched an ambitious capital program in 2012 to build extraordinary new park and public spaces and bring the Island's infrastructure into the 21st century. The first phase of the Park and Public Space project opened in 2014 with 30 new acres of park on the Island's southern end. The Hills, Phase 2 of the park plan, opened in July 2016 and consist of four hills of varying height and design, offering unparalleled views of the harbor and additional recreational opportunities to visitors. Capital investment has also brought potable water to the Island, upgraded its electrical system, stabilized historic buildings, rebuilt the seawall, and improved ferry operations at the docks on-Island and at the Battery Maritime Building in Manhattan. In 2017, TGI extended its public access season to six months from four so that more visitors can take advantage of all the Island has to offer.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS

Current and Noncurrent Assets

As of June 30, 2017, TGI had current assets of $15,716,097 consisting of cash and cash equivalents of $13,524,655, accounts and grants receivable of $2,185,750, and prepaid expenses of $5,692. These are presented below in greater detail and in comparison to prior years.

Current Assets	**2017**	**2016**	**2015**	**2017(%)**	**2016(%)**
Cash and cash equivalents	$ 6,102,240	$ 1,513,915	$ 866,523	303%	75%
Restricted cash and cash equivalents	7,422,415	10,352,942	18,122,468	-28%	-43%
Accounts receivable	791,175	299,175	206,176	164%	45%
Grants and contributions receivable from government sources	1,319,575	2,428,250	1,705,217	-46%	42%
Grants and contributions receivable from private sources	75,000	585,000	100,000	-87%	485%
Prepaid expenses	5,692	1,480	4,240	285%	-65%
Total current assets	**$ 15,716,097**	**$ 15,180,762**	**$ 21,004,624**	4%	-28%

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

The 28% decrease in Restricted Cash is primarily due to the expenditure of restricted grant funds on the Hills project during fiscal year 2017. As of June 30, 2017, grants and contributions receivable from government sources consist of operating funds due from the City. As of June 30, 2016, receivables from government sources consisted of capital funds due from the City for several projects on the Island and from a Federal Highway Administration grant for the Soissons Dock project.

Over the past five years TGI was engaged in fund raising for several programs – the Hills, Art Commissions GI, Open House GI, and general operations. In the year ended June 30, 2017, grants and contributions receivable from private sources totaled $75,000. In the year ended June 30, 2016, receivables from private sources totaled $585,000, including $500,000 for an artwork commissioned for and incorporated into the Hills.

Noncurrent Assets

The following chart shows TGI's noncurrent (i.e., capital) assets for the years ended June 30, 2017, 2016 and 2015.

Capital Assets Summary	**2017**	**2016**	**2015**
Beginning Balance	$ 342,451,315	$ 318,613,292	$ 262,349,166
Additions (Net of Depreciation)	(688,206)	23,838,023	56,264,126
Ending Balance	**$ 341,763,109**	**$ 342,451,315**	**$ 318,613,292**

TGI's capital assets are comprised of property transferred in July 2010 from the Governors Island Preservation and Education Corporation ("GIPEC"), TGI's predecessor, as well as improvements made since then. Capital assets transferred to TGI consisted of title to 150 acres of Governors Island, vessels, vehicles and other equipment valued at $5,780,000 in total. For the year ended June 30, 2017, $73,848,508 was transferred from construction in progress to site improvements and other assets for work completed and in use: the Park and the Hills, historic buildings, seawall, potable water system, electrical system, and the Coursen ferry vessel.

Capital expenses of $16,320,490 were incurred during the year ended June 30, 2017. In prior years, $40,894,252 and $73,840,528 were incurred during the years ended June 30, 2016 and 2015, respectively. These are presented in greater detail in Note 3. Capital expenses were funded primarily by government grants.

As of June 30, 2017, total noncurrent assets, consisted of capital assets, net of accumulated depreciation, of $341,763,109 ($385,198,706 less $43,435,597 accumulated depreciation) and restricted cash – security deposits/restricted grants of $792,943. Net additions to capital assets (based on construction in progress) represent a 0.2% decrease from the $342,451,315 balance as of June 30, 2016. Net additions to capital assets in fiscal year 2016 represented a 7% increase over the $318,613,292 balance as of June 30, 2015.

Total assets as of June 30, 2017, were $358,272,149, an increase of 0.08% over fiscal year 2016 based on cash and cash equivalents, receivables from government and private sources, as well as capital assets recorded during the year. Total assets as of June 30, 2016, were $357,982,322, an increase of 5% over the prior year.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Current and Noncurrent Liabilities

Current liabilities of $13,830,787 were recorded as of June 30, 2017, a decrease of 42% from the prior year. The year-to-year reduction in accounts payable and accrued expenses is attributed to decreased capital project activity on the island, as many projects were completed or are near completion resulting in fewer capital expenses. The decrease in unearned revenue (i.e., grants and contributions received in advance) is due to the recognition of revenue for construction of the Hills, Phase 2 of the Park and Public Space project.

In the prior year, liabilities of $23,651,815 were attributed to pending invoices for ongoing capital projects in accounts payable and accrued expenses (totaling $13,370,200); private grants provided to TGI for the Hills (totaling $6,489,413); an advance of State capital funds in unearned revenue (balance of $3,594,482); and operating grant funds in unearned revenue (balance of $197,720).

Current Liabilities	**2017**	**2016**	**2015**	**2017 vs 2016(%)**	**2016 vs 2015(%)**
Accounts payable and accrued expenses					
Operations	$ 3,551,401	$ 2,190,361	$ 2,102,332		
Private grants	2,504,002	1,362,912	2,291,470		
City Capital	2,158,216	9,816,927	8,726,507		
State Capital	-	-	129,310		
Total accounts payable and accrued expenses	8,213,619	13,370,200	13,249,619	-39%	1%
Unearned revenue					
Operations	369,898	197,720	223,464		
Private grants	1,652,788	6,489,413	12,154,787		
State Capital	3,594,482	3,594,482	3,757,574		
Total unearned revenue	5,617,168	10,281,615	16,135,825	-45%	-36%
Total current liabilities	13,830,787	23,651,815	29,385,444	-42%	-20%
Noncurrent Liabilities					
Restricted cash/Security deposits	792,539	350,223	280,208		
OPEB obligation	-	-	191,984		
Total noncurrent liabilities	792,539	350,223	472,192	126%	-26%
TOTAL LIABILITIES	$ 14,623,326	$ 24,002,038	$ 29,857,636	-39%	-20%

Noncurrent liabilities consist of $792,539 in security deposits/restricted grants payable and $0 of other postemployment benefits obligation ("OPEB"). Noncurrent liabilities in the prior year consist of security deposits of $350,223 and OPEB, which was $0. (TGI's one OPEB-eligible employee left the organization, allowing for the OPEB liability to be negated.) As of June 30, 2017 and 2016, TGI's total liabilities were $14,623,326 and $24,002,038, respectively.

Net Position

Net position as of June 30, 2017 was $343,648,823; $341,763,109 was invested in capital assets and $1,885,714 was unrestricted. The overall increase of 3% in net position represents TGI's multimillion-dollar capital program, including design and construction of new park and public spaces, the Hills, as well as infrastructure improvements throughout the property.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Net position as of June 30, 2016 was $333,980,284, of which $342,451,315 was invested in capital assets and ($8,471,031) was unrestricted. TGI's 2016 net position represented an increase of 8% over 2015.

Operating Revenue

For the year ended June 30, 2017, TGI's total operating revenue of $19,778,991 consisted of $2,379,608 in fee income and $17,399,383 in operating grants and contributions from the City. Income from events held on the Island during public access season includes usage and site fees as well as reimbursement to TGI for expenses related to staging those events. It also includes ferry fare revenue amounting to $415,389 in fiscal year 2017, of which $355,389 is from the public access season visitors and $60,000 is a tenant's annual ferry contribution. The 22% increase over the prior year is due primarily to additional City funds provided to close out all contract costs associated with TGI's former facilities management company.

For the year ended June 30, 2016, TGI's total operating revenue of $16,224,757 consisted of $2,459,703 in fee income (from site and permit fees, event-related reimbursements, and ferry fare collection) and $13,765,054 in operating grants and contributions from the City.

	2017	2016	2015	Variance (%) 2017 vs 2016	Variance (%) 2016 vs 2015
OPERATING REVENUES:					
Permits and fees	$ 2,379,608	$ 2,459,703	$ 2,089,390	-3%	18%
Operating grants and contributions	17,399,383	13,765,054	11,548,657	26%	19%
	$ 19,778,991	$ 16,224,757	$ 13,638,047	22%	19%

Operating Expenses

Total operating expenses of $35,177,690 for the year ended June 30, 2017 include TGI's facilities management contract with LiRo Program and Construction Management ("LiRo") of $13,339,257, as well as TGI's internal expenses.

	2017	2016	2015	Variance (%) 2017 vs. 2016	Variance (%) 2016 vs. 2015
OPERATING EXPENSES:					
Facilities management contract	$ 13,339,257	$ 13,132,992	$ 13,646,721	2%	-4%
Personnel costs	2,845,893	2,555,041	2,332,809	11%	10%
Utilities	615,018	54,004	256,134	1039%	-79%
Depreciation and amortization	17,643,838	13,585,090	9,121,335	30%	49%
Other general and administrative expenses	733,684	1,020,113	952,802	-28%	7%
TOTAL OPERATING EXPENSES	$ 35,177,690	$ 30,347,240	$ 26,309,801	16%	15%
OPERATING (LOSS) INCOME	$ (15,398,699)	$ (14,122,483)	$ (12,671,754)	9%	11%

Operating (loss) income was ($15,398,699) for the year ended June 30, 2017 and ($14,122,483) for the year ended June 30, 2016. A significant portion of TGI's 2017 year-end operating loss is comprised of depreciation ($17.6 million). Since the prior year, several capital projects were moved onto TGI's fixed asset schedule, triggering depreciation. This also accounts for the increase over the year ended June 30, 2016, in which depreciation was $13.6 million.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

The facilities management contract, representing 38% of total operating expenses (76% excluding depreciation expense), covers the cost of LiRo staff working on daily Island operations as well as all of the subcontractors who provide services: ferry, security, grounds keeping, janitorial and repairs, among others. TGI personnel costs were $2,845,893, an increase of 11% from 2016. The 1039% increase in utilities between 2017 and 2016 is due to the transfer of TGI's electricity expenses from the Department of Citywide Administrative Services to TGI. Other general and administrative expenses were $733,684, a decrease of 28%.

In the prior year, notable operating expenses included personnel costs of $2,555,041, an increase of 10% from 2015. Other general and administrative expenses were $1,020,113, an increase of 7%. This increase reflects spending under the public art program, Art Commissions GI.

Nonoperating Revenues

Nonoperating revenues totaled $25,067,238, $38,062,279 and $69,260,874 for the years ended June 30, 2017, 2016 and 2015, respectively. The decrease in grants and contributions represents the completion or near-completion of projects within TGI's Island-wide capital program. The increase in other income is mostly comprised of a refund of sales taxes that had mistakenly been charged by a subcontractor to the Turner Construction Company (former TGI facilities manager). Details are provided below.

	2017	2016	2015	Variance (%) 2017 vs. 2016	Variance (%) 2016 vs. 2015
NONOPERATING REVENUES:					
Capital grants and contributions from government sources	$ 19,793,499	$ 29,581,787	$ 52,752,815	-33%	-44%
Grants and contributions from private sources	4,879,612	8,380,754	16,474,686	-42%	-49%
Gain on disposal of capital assets	-	86,204	-	-100%	100%
Interest income	6,995	9,957	24,773	-30%	-60%
Other income	387,132	3,577	8,600	10723%	-58%
	$ 25,067,238	$ 38,062,279	$ 69,260,874	-34%	-45%
Change in net position	$ 9,668,539	$ 23,939,796	$ 56,589,120	-60%	-58%
Net position - beginning of year	333,980,284	310,040,488	253,451,368	8%	22%
Net position - end of year	$ 343,648,823	$ 333,980,284	$ 310,040,488	3%	8%

Related Issues

Additional expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Superstorm Sandy. While emergency recovery measures are complete, permanent restoration work continues. TGI received $693,262 in Federal Emergency Management Agency ("FEMA") funds in the year ended June 30, 2017, for work completed under the federal categories debris removal and emergency repairs. TGI received $1,132,186 in FTA Emergency Relief Grant funds in the year ended June 30, 2015, and $100,665 in the year ended June 30, 2017, which covered repair and restoration costs associated with transit facilities. Work included the Battery Maritime Building waiting room and air conditioning system, ferry lift bridges, provision of alternate ferry service, and coverage for the ferry crew. For non-emergency, non-essential work – meaning not essential to day-to-day operations – TGI continues to work with FEMA and the New York City Office of Management and Budget on project review, approval and funding. One FEMA-funded project was completed in fiscal year 2017, namely the replacement of Building 110's heating system. Total costs for all projects are currently estimated to be $11.97 million.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

TGI Financial Management

This financial report is designed to provide a general overview of TGI's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to The Trust for Governors Island, 10 South Street, New York, NY 10004.

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2D and 6A)	$ 6,102,240	$ 1,513,915
Restricted cash and cash equivalents (Notes 2D, 2E and 6)	7,422,415	10,352,942
Accounts receivable	791,175	299,175
Grants and contributions receivable from government sources	1,319,575	2,428,250
Grants and contributions receivable from private sources	75,000	585,000
Prepaid expenses	5,692	1,480
Total current assets	15,716,097	15,180,762
Noncurrent assets		
Restricted cash - security deposits	792,943	350,245
Capital assets, net of accumulated depreciation (Notes 2F and 3)	341,763,109	342,451,315
Total noncurrent assets	342,556,052	342,801,560
Total assets	$ 358,272,149	$ 357,982,322
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 8,213,619	$ 13,370,200
Unearned revenue	5,617,168	10,281,615
Total current liabilities	13,830,787	23,651,815
Noncurrent liabilities		
Security deposits	792,539	350,223
Total noncurrent liabilities	792,539	350,223
Total liabilities	14,623,326	24,002,038
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET POSITION (Note 2G)		
Invested in capital assets	341,763,109	342,451,315
Unrestricted	1,885,714	(8,471,031)
Total net position	343,648,823	333,980,284
TOTAL LIABILITIES AND NET POSITION	$ 358,272,149	$ 357,982,322

The accompanying notes are an integral part of these financial statements.

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Permits and other fees	$ 2,379,608	$ 2,459,703
Operating grants and contributions (Notes 2C and 4)	17,399,383	13,765,054
TOTAL OPERATING REVENUES	19,778,991	16,224,757
OPERATING EXPENSES:		
Facilities management contract (Note 7C)	13,339,257	13,132,992
Personnel costs (Note 5)	2,845,893	2,555,041
Utilities	615,018	54,004
Depreciation and amortization	17,643,838	13,585,090
Other general and administrative expenses	733,684	1,020,113
TOTAL OPERATING EXPENSES	35,177,690	30,347,240
OPERATING LOSS	(15,398,699)	(14,122,483)
NONOPERATING REVENUES (EXPENSES):		
Capital grants and contributions from government sources (Notes 2C and 4)	19,793,499	29,581,787
Capital grants and contributions from private sources (Notes 2C and 7C)	4,879,612	8,380,754
Gain on disposal of capital assets (Note 3)	-	86,204
Interest income	6,995	9,957
Other income	387,132	3,577
TOTAL NONOPERATING REVENUES AND EXPENSES	25,067,238	38,062,279
CHANGE IN NET POSITION	9,668,539	23,939,796
Net position, beginning of year	333,980,284	310,040,488
NET POSITION, END OF YEAR	$ 343,648,823	$ 333,980,284

The accompanying notes are an integral part of these financial statements.

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Customer payments	$ 1,801,403	$ 2,366,704
Operating grants and contributions	17,571,561	13,739,310
Total cash receipts from operating activities	19,372,964	16,106,014
Cash payments for:		
Personnel costs	(2,842,330)	(2,753,166)
Services and supplies	(13,369,448)	(14,075,425)
Total cash payments for operating activities	(16,211,778)	(16,828,591)
Net Cash Provided by (Used in) Operating Activities	3,161,186	(722,577)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments from lessees - security deposits	442,316	70,015
Other receipts	387,132	3,577
Net Cash Provided by Noncapital Financing Activities	829,448	73,592
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions from government sources	16,065,549	23,030,288
Capital grants and contributions from private sources	5,389,612	7,895,754
Capital asset expenditures	(23,352,294)	(37,593,370)
Proceeds from disposal of capital assets	-	254,259
Net Cash Used in Capital and Related Financing Activities	(1,897,133)	(6,413,069)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	6,995	9,957
Net Cash Provided by Investing Activities	6,995	9,957
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,100,496	(7,052,097)
Cash and cash equivalents - beginning of year	12,217,102	19,269,199
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 14,317,598	$ 12,217,102
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	$ (15,398,699)	$ (14,122,483)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation and amortization	17,643,838	13,585,090
Gain on disposal of capital assets	-	(86,204)
Changes in operating assets and liabilities:		
Accounts receivable	(492,000)	(92,999)
Prepaid expenses	(4,212)	2,760
Accounts payable and accrued expenses	1,240,081	208,987
Unearned revenue	172,178	(25,744)
Other postemployment benefits obligation	-	(191,984)
Net Cash Provided by (Used in) Operating Activities	$ 3,161,186	$ (722,577)
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	$ 6,102,240	$ 1,513,915
Restricted cash and cash equivalents	8,215,358	10,703,187
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 14,317,598	$ 12,217,102
Supplemental Disclosure of Cash Flow Information:		
Noncash capital and related financing transactions:		
Accrued capital asset expenditures	$ 4,662,218	$ 11,058,881

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Governors Island Corporation, d/b/a The Trust for Governors Island ("TGI"), was incorporated in July 2010 pursuant to the Not-for-Profit Corporation Law of the State of New York (the "State") and is a public charity exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. TGI was formed for the purposes of lessening the burdens of government for The City of New York (the "City") and acting in the public interest by providing the planning, preservation, redevelopment and ongoing operations and maintenance of approximately 150 acres of Governors Island (out of 172 acres) plus surrounding lands underwater, located in the Borough of Manhattan in the City (the "Project").

TGI's mission is to transform Governors Island (the "Island") into a vibrant year round resource for New York City, making the Island a destination with extraordinary public open space and diverse cultural and recreational activities, as well as permanent educational, not-for-profit and commercial facilities. TGI opened 30 acres of new park spaces in 2014, added the 11-acre Hills in 2016, completed major infrastructure improvements and continues to ready the Island for expanded tenancy and activity. In advancing such purposes, TGI is performing an essential government function in partnership with the City. TGI receives funding from the City of New York, and previously from the State of New York and is governed by a 13-member board of directors appointed by the Mayor of the City of New York and nominated by the Mayor, the Governor of the State of New York and local officials.

The Project area and substantially all of the assets of the Governors Island Preservation and Education Corporation ("GIPEC"), a subsidiary of the New York State Urban Development Corporation (a corporate governmental agency of the State constituting a political subdivision and public benefit corporation doing business as the Empire State Development Corporation), were acquired by TGI for a nominal price of $1 under the Asset Purchase Agreement dated July 14, 2010, between GIPEC and TGI. The Governors Island property acquired by TGI from GIPEC is subject to the restrictions, conditions, covenants and easements associated with the property, such as certain acreage required to be converted to public open space and other historic areas prohibited from new development.

For financial reporting purposes, TGI is included as a component unit in the City's comprehensive annual financial report pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Measurement Focus and Basis of Accounting*

TGI's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred. Operating funds provided by the City are recognized as revenue when received.

In its accounting and financial reporting, TGI follows accounting principles generally accepted in the United States of America ("U.S. GAAP") as promulgated by the GASB.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. ***Revenue and Expense Classification***

TGI distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. The principal operating revenues include permit and other fees and operating grants and contributions from the City. Major operating expenses include facilities management costs, personnel costs and professional fees.

C. ***Grants and Contributions***

Operating funds provided by the City are recognized as revenue when received. TGI also receives capital funding for eligible project costs pursuant to the master contract with the City and funding agreements with the State. TGI recognizes capital funding as revenue when received, following approval of a certificate to proceed for each capital project by the NYC Office of Management and Budget, registration of contracts with the NYC Comptroller's Office, and processing of payment requests by the NYC Department of Small Business Services.

Contributions from donors that are restricted to specific purposes are recorded as unearned revenue until expenses are incurred, at which point the revenue is recognized.

TGI records contributions of cash and other assets from private donors upon receipt when an unconditional promise to give is received from a donor with no purpose restrictions.

D. ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, cash and cash equivalents include cash in banks and on hand, certificates of deposit and highly liquid debt instruments with maturities of three months or less when acquired.

E. ***Restricted Cash and Investments***

Contributions and other non-exchange transactions as defined under GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, with purpose restrictions are reported in the resulting net position as restricted until the resources are used for the specified purpose.

Restricted assets consist of cash and cash equivalents and investments held and to be used for eligible project costs pursuant to funding agreements with the City, the State and other funding sources. Accordingly, such amounts are not available for general corporate purposes.

F. ***Capital Assets***

Costs incurred by TGI in developing the project are capitalized as project assets and are recorded at cost. The costs of normal maintenance of the project that do not increase its value or extend its useful life are not capitalized. Upon projects being placed in service, site improvement costs are reclassified from construction in progress and amortized over the estimated useful lives of the assets.

Other property and equipment purchased for use in operations by TGI in excess of $10,000 is capitalized and depreciated using the straight-line method over the estimated useful life assigned.

The estimated useful lives of depreciable capital assets are as follows:

Site improvements	10 to 30 years
Building and improvements	15 years
Vehicles and equipment	3 to 5 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Net Position*

TGI's net position is classified in the following categories: invested in capital assets, net of accumulated depreciation; restricted net position, consisting of net position restricted for specific purposes by law or parties external to TGI; and unrestricted net position, consisting of net position that is not classified as invested in capital assets or restricted for capital projects.

When both restricted and unrestricted resources are available for use, it is TGI's policy to use restricted resources first, and then unrestricted resources, as needed.

Restricted net position represents restricted assets reduced by the liabilities related to those assets. A liability is related to a restricted asset when the asset results from incurring that liability or if the liability will be liquidated with the restricted asset. If the liabilities relating to the restricted assets are greater than those assets, then no balance is reported as restricted net position. Such negative amount would be reported as a reduction to unrestricted net position.

H. *Use of Estimates*

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Estimates include reserves for doubtful accounts, depreciation, and other postemployment benefits. Actual results could differ from those estimates.

I. *Recent Accounting Pronouncements*

As a component unit of the City, TGI implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussions of the standards requiring implementation in the current year and standards which may impact TGI in the future years.

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"). GASB 74 establishes financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 74 did not have an impact on TGI's financial statements, as TGI is not an OPEB Plan.
- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employees. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. GASB 75 did not have an impact on TGI's financial statements, as it has no employees eligible for OPEB.
- In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018. TGI has not completed the process of evaluating the impact, if any, of GASB 83 on TGI's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, ("GASB 84"). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2018. TGI has not completed the process of evaluating GASB 84, but does not expect it to have an impact on TGI's financial statements, as it does not enter in fiduciary activities.
- In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, ("GASB 85"). The objective of GASB 85 is to address practice issues that have been identified during implementation and application of certain GASB statements. The requirements of GASB 85 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 85 did not have an impact on TGI's financial statements.
- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues,* ("GASB 86"). The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for fiscal years beginning after June 15, 2017. TGI has not completed the process of evaluating GASB 86, but does not expect it to have an impact on TGI's financial statements.
- In June 2017, GASB issued Statement No. 87, *Leases*, ("GASB 87"). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. TGI has not completed the process of evaluating GASB 87.

NOTE 3 – CAPITAL ASSETS

The changes in capital assets for the years ended June 30, 2017 and 2016, respectively, reflect the transition from a high point of construction activity on the Island. Projects completed and in service, or opened to the public have been added to the asset list.

NOTE 3 – CAPITAL ASSETS (Continued)

The changes in capital assets for the year ended June 30, 2017 were as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Land	$ 1	$ -	$ -	$ 1
Site Improvements	270,297,436	73,905,421	-	344,202,857
Vessels	5,313,613	112,202	-	5,425,815
Equipment	1,080,725	288,034	-	1,368,759
Vehicles	337,231	177,993	-	515,224
Software	6,230	-	-	6,230
Total Project Assets	277,035,236	74,483,650	-	351,518,886
Less: Accumulated Depreciation				
Site Improvements	(22,938,256)	(17,136,961)	-	(40,075,217)
Vessels	(1,788,560)	(386,970)	-	(2,175,530)
Equipment	(817,944)	(91,146)	-	(909,090)
Vehicles	(240,769)	(28,761)	-	(269,530)
Software	(6,230)	-	-	(6,230)
Total Accumulated Depreciation	(25,791,759)	(17,643,838)	-	(43,435,597)
Construction in Progress	91,207,838	16,320,490	(73,848,508)	33,679,820
Net Project Assets	$ 342,451,315	$ 73,160,302	$ (73,848,508)	$ 341,763,109

The change in capital assets for the year ended June 30, 2016 were as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Land	$ 1	$ -	$ -	$ 1
Site Improvements	246,708,631	23,588,805	-	270,297,436
Vessels	4,750,000	813,613	(250,000)	5,313,613
Equipment	956,500	124,225	-	1,080,725
Vehicles	254,723	82,508	-	337,231
Software	6,230	-	-	6,230
Total Project Assets	252,676,085	24,609,151	(250,000)	277,035,236
Less: Accumulated Depreciation				
Site Improvements	(9,780,484)	(13,157,772)	-	(22,938,256)
Vessels	(1,556,944)	(313,561)	81,945	(1,788,560)
Equipment	(718,359)	(99,585)	-	(817,944)
Vehicles	(226,597)	(14,172)	-	(240,769)
Software	(6,230)	-	-	(6,230)
Total Accumulated Depreciation	(12,228,614)	(13,585,090)	81,945	(25,791,759)
Construction in Progress	78,225,821	40,894,252	(27,912,235)	91,207,838
Net Project Assets	$ 318,613,292	$ 51,918,313	$ (28,080,290)	$ 342,451,315

During the year ended June 30, 2016, a vessel with a net book value of $168,055 was damaged and sold for $4,629. TGI also received insurance proceeds of $249,630 for the damage. This resulted in a gain of $86,204 on disposal of the vessel for the year ended June 30, 2016.

NOTE 3 – CAPITAL ASSETS (Continued)

TGI holds planning, design, construction and other project-related contracts for site improvements, most of which are structured on a work order basis. TGI is responsible for accrued expenses per authorized work order, not for the payment of contract balances. Capital expenditures totaling $4,662,217 and $11,058,881 were accrued as of June 30, 2017 and 2016, respectively, which will be paid upon receipt and review of the contractor invoices.

TGI has leased certain premises to the New York City School Construction Authority ("SCA"). Such lease is for a term of 49 years expiring in May 2057 with base rent of $1 per annum payable by SCA. Other premises are occupied by a not-for-profit organization for which TGI receives annual permit fees of $1.

NOTE 4 – CONTRIBUTIONS

During the years ended June 30, 2017 and 2016, TGI recognized the amount spent for eligible project costs totaling $19,793,499 and $29,581,787, respectively, as capital contributions in the accompanying statements of revenues, expenses and changes in net position while the unspent funds at year-end are included in unearned revenue in the accompanying statements of net position.

Revenues from operating and capital grants from the City amounted to $37,192,882 and $43,183,748 for the years ended June 30, 2017 and 2016, respectively. Such amounts represented approximately 83% and 80% of total revenues for the years ended June 30, 2017 and 2016, respectively.

NOTE 5 – PENSION PLAN

TGI's employees participate in retirement plans through Extensis, a professional employer organization. The plan sponsor and plan administrator is Extensis Holdings, LLC, which has ultimate authorization over the plan and any amendments, plan terminations, vesting, distributions, and all plan activity as it is a Multiple Employer Plan. Plan forfeitures are used to either reduce employer contributions, or are applied to plan fees. The employer-funded plan is a defined contribution plan, which covers substantially all of TGI's employees. It provides for variable contribution rates by TGI ranging from 3% to 14% of the employee's eligible wages as defined in the plan document. Pension expense for the years ended June 30, 2017 and 2016 amounted to $118,770 and $227,097, respectively, and is included in personnel costs in the accompanying statements of revenues, expenses and changes in net position.

NOTE 6 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. ***Concentration of Credit Risk***

Financial instruments that potentially subject TGI to a concentration of credit risk include cash accounts with JP Morgan Chase Bank, N.A (the "Bank") that may exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits.

As of June 30, 2017 and 2016, TGI had cash accounts with the Bank that exceeded the FDIC insurance limits by approximately $14.2 million and $12.0 million, respectively. However, TGI entered into a custodial agreement (the "Agreement") with the Bank in which the Bank will deliver to a custodian for deposit the amount of any uninsured deposits of TGI multiplied by a margin factor of 102%. The custodian will hold any eligible securities, consisting of U.S. Treasury Notes, pledged by the Bank as collateral for the benefits of TGI pursuant to the Agreement. All securities held by the custodian as collateral are registered and are held in TGI's name.

NOTE 6 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. ***Investments***

TGI's investment policy permits the investment of funds as summarized and below:

- Obligations of the U.S. Treasury and other Federal Agency obligations.
- Commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Investors Service, Inc. or Fitch.
- Bankers' acceptances and time deposits of banks with worldwide assets in excess of $50 million.
- Certificates of deposit with New York banks. Such certificates of deposit must be FDIC insured, except when otherwise collateralized.
- Other investments approved by the Comptroller of the City for the investment of City funds

In addition to the above investments, TGI may deposit funds in the following, with respect to funds needed for operational expenses and funds awaiting investment or disbursement:

- Money market mutual funds that restrict their investments to short-term, highly rated money market instruments.
- Other interest bearing accounts if permitted by applicable laws, rules and regulations, with New York City financial institutions designated by the New York City Banking Commission.

TGI had no other investment transactions during the years ended June 30, 2017 and 2016.

NOTE 7– COMMITMENTS AND CONTINGENCIES

A. ***Contingencies for Future Audits by Governmental and Other Funding Sources***

Pursuant to TGI's contractual relationships with certain governmental and other funding sources, such funding sources have the right to examine the books and records of TGI involving transactions relating to these contracts. The accompanying financial statements make no provision for possible disallowances. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowances would be immaterial.

B. ***Litigation***

TGI is involved in several personal injury actions allegedly arising out of accidents and incidents occurring on or about the project. Management believes that any liabilities arising from such claims would be covered either by indemnification protections provided in the master contract between TGI and the City, or by liability insurance/contractual indemnification of third parties, such as contractors or permitees of the sites of the alleged accidents. Accordingly, management believes the potential aggregate liability for all such claims would not have a material adverse effect on TGI's financial condition.

C. ***Facilities Management and Construction Management Services Contract***

TGI entered into an agreement with the Turner Construction Company to provide facilities management and construction management services to assist TGI in the operation, maintenance and redevelopment of the Project. The term of the agreement was for three years expiring on July 1, 2012, with two two-year options to extend at TGI's discretion. The contract was extended for a two-year period, expiring June 30, 2014. During the year ended June 30, 2014, the contract was further extended to June 30, 2016. The agreement allows Turner to enter into agreements with subcontractors for the maintenance, operation, construction and improvement of the Project. Amounts paid to Turner for facilities management services are recognized as expense in the period incurred while amounts paid to Turner for construction management services are capitalized and included in capital assets.

NOTE 7– COMMITMENTS AND CONTINGENCIES (Continued)

For the year ended June 30, 2016, approximately $958,000 of unspent funds were returned to TGI by Turner as part of the contract close-out reconciliation process. The returned funds are included in other contributions from private sources on the accompanying statements of revenue, expenses, and changes in net position.

As of July 1, 2016, TGI has entered into an agreement with LiRo Program and Construction Management ("LiRo") to provide facilities management and construction management services. The term of the agreement is for five years expiring on June 30, 2021. There are two two-year options to renew the contract at TGI's discretion. If TGI were to exercise both options, the contract will expire on June 30, 2025.

D. ***Impact of Superstorm Sandy***

Additional expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Superstorm Sandy. While emergency recovery measures are complete, permanent restoration work continues. TGI received $693,262 in Federal Emergency Management Agency ("FEMA") funds in the year ended June 30, 2017, for work completed under the federal categories debris removal and emergency repairs. TGI received $1,132,186 in FTA Emergency Relief Grant funds in the year ended June 30, 2015, and $100,665 in the year ended June 30, 2017, which covered repair and restoration costs associated with transit facilities. Work included the Battery Maritime Building waiting room and air conditioning system, ferry lift bridges, provision of alternate ferry service, and coverage for the ferry crew. For non-emergency, non-essential work – meaning not essential to day-to-day operations – TGI continues to work with FEMA and the New York City Office of Management and Budget on project review, approval and funding. One FEMA-funded project was completed in fiscal year 2017, namely the replacement of Building 110's heating system. Total costs for all projects are currently estimated to be $11.97 million.