

THE TRUST FOR GOVERNORS ISLAND

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, 2016 and 2015

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

**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, 2016 AND 2015

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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, 2016 and 2015, as listed in the table of contents, and the related notes to the financial statements.

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 audit 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, 2016 and 2015, and the changes in its financial position and its 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 29, 2016

**GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015 (UNAUDITED)**

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, 2016 and 2015. 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. As of the end of fiscal year 2016, the Hills were nearly complete, while the first phase of the Park and Public Space Plan opened in 2014, creating 30 new acres of park on the Island's southern end. The Hills, Phase 2 of the park plan, 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.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS

Current and Noncurrent Assets

As of June 30, 2016, TGI had current assets of \$15,180,762 consisting of cash and cash equivalents of \$11,866,857, accounts and grants receivable of \$3,312,425, and prepaid expenses of \$1,480. These are presented below in greater detail and in comparison to prior years.

Current Assets	2016	2015	2014	2016(%)	2015(%)
Cash and cash equivalents	\$ 1,513,915	\$ 866,523	\$ 1,335,988	75%	-35%
Restricted cash and cash equivalents	10,352,942	18,122,468	23,328,324	-43%	-22%
Accounts receivable	299,175	206,176	209,866	45%	-2%
Grants and contributions receivable from government sources	2,428,250	1,705,217	8,944,769	42%	-81%
Grants and contributions receivable from private sources	585,000	100,000	330,516	485%	-70%
Prepaid expenses	1,480	4,240	3,246	-65%	31%
Total current assets	\$ 15,180,762	\$ 21,004,624	\$ 34,152,709	-28%	-38%

**GOVERNORS ISLAND CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015 (UNAUDITED)**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Grants and contributions receivable from government sources consist 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.

Grants and contributions receivable from private sources are a result of TGI's fundraising efforts for two major programs, Phase 2 of the Park and Public Space project, "The Hills," and a public art program being integrated into the Park. In the year ended June 30, 2016, several contributions were received and are now held in restricted cash and cash equivalent accounts. In the year ended June 30, 2016, grants and contributions receivable from private sources totaled \$585,000.

Noncurrent Assets

The following chart shows TGI's noncurrent (i.e., capital) assets for the years ended June 30, 2016, 2015 and 2014.

Capital Assets Summary	2016	2015	2014
Beginning Balance	\$ 318,613,292	\$ 262,349,166	\$ 160,871,228
Additions (Net of Depreciation)	23,838,023	56,264,126	101,477,938
Ending Balance	\$ 342,451,315	\$ 318,613,292	\$ 262,349,166

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 consist 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, 2016, \$27,912,235 was transferred from construction in progress to site improvements and other assets for work completed and in use: the park, historic buildings, seawall, potable water system, electrical system, and the Coursen ferry vessel. Major portions of the Soissons Dock and BMB Lift Bridges projects were also transferred, though the next phases of those projects are still in progress.

Capital expenses of \$40,894,252 were incurred during the year ended June 30, 2016. In prior years, \$73,840,528 and \$102,637,638 were incurred during the years ended June 30, 2015 and 2014, respectively. These are presented in greater detail in Note 3. Capital expenses were funded primarily by government grants.

As of June 30, 2016, total noncurrent assets, consisted of capital assets, net of accumulated depreciation, of \$342,451,315 (\$368,243,074 less \$25,791,759 accumulated depreciation) and restricted cash – security deposits of \$350,245. Net additions to capital assets (based on construction in progress) represent a 7% increase over the \$318,613,292 balance as of June 30, 2015. Net additions to capital assets in fiscal year 2015 represented a 21% increase over the \$262,349,166 balance as of June 30, 2014.

Total assets as of June 30, 2016, were \$357,982,322, an increase of 5% over fiscal year 2015 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, 2015, were \$339,898,124, an increase of 15% over the prior year.

GOVERNORS ISLAND CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015 (UNAUDITED)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Current and Noncurrent Liabilities

Current liabilities of \$23,651,815 were recorded as of June 30, 2016, a decrease of 20% from the prior year. 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 \$29,385,444 were attributed to pending invoices for ongoing capital projects in accounts payable and accrued expenses (totaling \$13,249,619); private grants provided to TGI for the Hills (totaling \$12,154,787); an advance of State capital funds in unearned revenue (balance of \$3,757,574); and operating grant funds in unearned revenue (\$223,464).

Current Liabilities	2016	2015	2014	2016 vs 2015 (%)	2015 vs 2014 (%)
Accounts payable and accrued expenses					
Operations	\$ 2,190,361	\$ 2,102,332	\$ 419,268		
Private grants	1,362,912	2,291,470	539,187		
City Capital	9,816,927	8,726,507	18,222,651		
State Capital	-	129,310	20,852		
Total accounts payable and accrued expenses	<u>13,370,200</u>	<u>13,249,619</u>	<u>19,201,958</u>	1%	-31%
Unearned revenue					
Operations	197,720	223,464	1,800		
Private grants	6,489,413	12,154,787	18,706,952		
State Capital	3,594,482	3,757,574	4,787,494		
Total unearned revenue	<u>10,281,615</u>	<u>16,135,825</u>	<u>23,496,246</u>	-36%	-31%
Total current liabilities	<u>23,651,815</u>	<u>29,385,444</u>	<u>42,698,204</u>	-20%	-31%
Noncurrent Liabilities					
Security deposits	350,223	280,208	173,220		
OPEB obligation	-	191,984	352,302		
Total noncurrent liabilities	<u>350,223</u>	<u>472,192</u>	<u>525,522</u>	-26%	-10%
TOTAL LIABILITIES	<u>\$ 24,002,038</u>	<u>\$ 29,857,636</u>	<u>\$ 43,223,726</u>	-20%	-31%

Noncurrent liabilities consist of \$350,223 in security deposits payable and \$0 of other postemployment benefits obligation ("OPEB"). Noncurrent liabilities in the prior year consist of security deposits of \$280,208 and OPEB, which was \$191,984. (TGI's one remaining OPEB-eligible employee has since left the organization, allowing for the OPEB liability to be negated.) As of June 30, 2016 and 2015, TGI's total liabilities were \$24,002,038 and \$29,857,636, respectively.

Net Position

Net position as of June 30, 2016 was \$333,980,284; \$342,451,315 was invested in capital assets and (\$8,471,031) was unrestricted. The overall increase of 8% 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.

Net position as of June 30, 2015 was \$310,040,488, of which \$318,613,292 was invested in capital assets and (\$8,572,804) was unrestricted. TGI's 2015 net position represented an increase of 22% over 2014.

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FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Operating Revenue

For the year ended June 30, 2016, TGI's total operating revenue of \$16,224,757 consisted of \$2,459,703 in fee income and \$13,765,054 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 putting on those events. It also includes public access season ferry fare revenue, amounting to \$346,088 in fiscal year 2016. The overall 18% increase over the prior year is due primarily to permit fees from the concert venue, Governors Beach Club, and to the bicycle concession.

For the year ended June 30, 2015, TGI's total operating revenue of \$13,638,047 consisted of \$2,089,390 in fee income (from site and permit fees, event-related reimbursements, and ferry fare collection) and \$11,548,657 in operating grants and contributions from the City.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Variance (%)</u>	
				<u>2016 vs. 2015</u>	<u>vs. 2014</u>
OPERATING REVENUES:					
Permits and fees	\$ 2,459,703	\$ 2,089,390	\$ 1,142,206	18%	83%
Operating grants and contributions	13,765,054	11,548,657	11,355,390	19%	2%
	<u>\$ 16,224,757</u>	<u>\$ 13,638,047</u>	<u>\$ 12,497,596</u>	19%	9%

Operating Expenses

Total operating expenses of \$30,347,240 for the year ended June 30, 2016 include TGI's facilities management contract with the Turner Construction Company of \$13,132,992, as well as TGI's internal expenses.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Variance (%)</u>	
				<u>2016 vs. 2015</u>	<u>vs. 2014</u>
OPERATING EXPENSES:					
Facilities management contract	\$ 13,132,992	\$ 13,646,721	\$ 11,089,207	-4%	23%
Personnel costs	2,555,041	2,332,809	2,700,941	10%	-14%
Utilities	54,004	256,134	536,368	-79%	-52%
Depreciation and amortization	13,585,090	9,121,335	1,184,745	49%	670%
Other general and administrative expenses	1,020,113	952,802	545,987	7%	75%
TOTAL OPERATING EXPENSES	<u>\$ 30,347,240</u>	<u>\$ 26,309,801</u>	<u>\$ 16,057,248</u>	15%	64%
OPERATING (LOSS) INCOME	<u>\$ (14,122,483)</u>	<u>\$ (12,671,754)</u>	<u>\$ (3,559,652)</u>	11%	256%

Operating (loss) income was (\$14,122,483) for the year ended June 30, 2016 and (\$12,671,754) for the year ended June 30, 2015. A significant portion of TGI's 2016 year-end operating loss is comprised of depreciation (\$13.6 million out of \$14.1 million). Since last 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, 2015, in which depreciation was \$9.1 million. Other operating expenses in excess of operating revenues were covered by New York State grant funds already on hand. Expenses related to the redevelopment of Governors Island are eligible under this grant.

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FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

The facilities management contract, representing 43% of total operating expenses (78% excluding depreciation expense), covers the cost of Turner staff working on daily Island operations as well as all of the subcontractors who provide services: ferry, security, janitorial and repairs, among others. TGI personnel costs were \$2,555,041, an increase of 10% from 2015. The 79% decrease in utilities between 2016 and 2015 is due to the transfer of TGI's water bill to the City. Other general and administrative expenses were \$1,020,113, an increase of 7%.

In the prior year, notable operating expenses included personnel costs of \$2,332,809, a decrease of 14% from 2014. Other general and administrative expenses were \$952,802, an increase of 75%. This increase reflects spending under the public art program, Art Commissions GI.

Nonoperating Revenues

Nonoperating revenues totaled \$38,062,279, \$69,260,874 and \$103,971,509 for the years ended June 30, 2016, 2015 and 2014, respectively. The decrease in grants and contributions represents the completion or near-completion of projects within TGI's Island-wide capital program. Details are provided below.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Variance (%)</u>	
				<u>2016 vs.</u>	<u>2015 vs.</u>
				<u>2015</u>	<u>2014</u>
NONOPERATING REVENUES:					
Capital grants and contributions					
from government sources	\$ 29,581,787	\$ 52,752,815	\$ 96,437,557	-44%	-45%
Grants and contributions from					
private sources	8,380,754	16,474,686	7,492,816	-49%	120%
Gain on disposal of capital assets	86,204	-	-	100%	0%
Interest income	9,957	24,773	32,370	-60%	-23%
Other income	3,577	8,600	8,766	-58%	-2%
	<u>\$ 38,062,279</u>	<u>\$ 69,260,874</u>	<u>\$ 103,971,509</u>	-45%	-33%
Change in net position	\$ 23,939,796	\$ 56,589,120	\$ 100,411,857	-58%	-44%
Net position - beginning of year	<u>310,040,488</u>	<u>253,451,368</u>	<u>153,039,511</u>	22%	66%
Net position - end of year	<u>\$ 333,980,284</u>	<u>\$ 310,040,488</u>	<u>\$ 253,451,368</u>	8%	22%

Related Issues

Additional expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Hurricane Sandy. While emergency debris removal and emergency repair measures are complete, permanent restoration work continues. For work completed, approximately \$2.5 million has been paid to contractors. TGI received \$1,132,186 in FTA Emergency Relief Grant funds in the year ended June 30, 2015, which covered repair and restoration costs associated with transit facilities. Work includes the Battery Maritime Building waiting room, 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 the Federal Emergency Management Agency (“FEMA”) and the New York City Office of Management and Budget on project review, approval and funding. One FEMA-funded project began in fiscal year 2016, namely the replacement of Building 110's heating system. Total costs for all projects are currently estimated to be \$11.97 million.

**GOVERNORS ISLAND CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015 (UNAUDITED)**

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, 2016 AND 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2D and 7A)	\$ 1,513,915	\$ 866,523
Restricted cash and cash equivalents (Notes 2D, 2E and 7)	10,352,942	18,122,468
Accounts receivable	299,175	206,176
Grants and contributions receivable from government sources	2,428,250	1,705,217
Grants and contributions receivable from private sources	585,000	100,000
Prepaid expenses	1,480	4,240
Total current assets	15,180,762	21,004,624
Noncurrent assets		
Restricted cash - security deposits	350,245	280,208
Capital assets, net of accumulated depreciation (Notes 2F and 3)	342,451,315	318,613,292
Total noncurrent assets	342,801,560	318,893,500
Total assets	\$ 357,982,322	\$ 339,898,124
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 13,370,200	\$ 13,249,619
Unearned revenue	10,281,615	16,135,825
Total current liabilities	23,651,815	29,385,444
Noncurrent liabilities		
Security deposits	350,223	280,208
Other postemployment benefits obligation (Notes 2I and 6)	-	191,984
Total noncurrent liabilities	350,223	472,192
Total liabilities	24,002,038	29,857,636
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET POSITION (Note 2G)		
Invested in capital assets	342,451,315	318,613,292
Unrestricted	(8,471,031)	(8,572,804)
Total net position	333,980,284	310,040,488
TOTAL LIABILITIES AND NET POSITION	\$ 357,982,322	\$ 339,898,124

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, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Permits and other fees	\$ 2,459,703	\$ 2,089,390
Operating grants and contributions (Notes 2C and 4)	13,765,054	11,548,657
TOTAL OPERATING REVENUES	16,224,757	13,638,047
OPERATING EXPENSES:		
Facilities management contract (Note 8C)	13,132,992	13,646,721
Personnel costs (Notes 5 and 6)	2,555,041	2,332,809
Utilities	54,004	256,134
Depreciation and amortization	13,585,090	9,121,335
Other general and administrative expenses	1,020,113	952,802
TOTAL OPERATING EXPENSES	30,347,240	26,309,801
OPERATING LOSS	(14,122,483)	(12,671,754)
NONOPERATING REVENUES (EXPENSES):		
Capital grants and contributions from government sources (Notes 2C and 4)	29,581,787	52,752,815
Capital grants and contributions from private sources (Notes 2C and 8C)	8,380,754	16,474,686
Gain on disposal of capital assets (Note 3)	86,204	-
Interest income	9,957	24,773
Other income	3,577	8,600
TOTAL NONOPERATING REVENUES AND EXPENSES	38,062,279	69,260,874
CHANGE IN NET POSITION	23,939,796	56,589,120
Net position, beginning of year	310,040,488	253,451,368
NET POSITION, END OF YEAR	\$ 333,980,284	\$ 310,040,488

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Customer payments	\$ 2,366,704	\$ 2,093,080
Operating grants and contributions	<u>13,739,310</u>	<u>11,770,321</u>
Total cash receipts from operating activities	<u>16,106,014</u>	<u>13,863,401</u>
Cash payments for:		
Personnel costs	(2,753,166)	(2,503,757)
Services and supplies	<u>(14,075,425)</u>	<u>(13,162,956)</u>
Total cash payments for operating activities	<u>(16,828,591)</u>	<u>(15,666,713)</u>
Net Cash Used in Operating Activities	<u>(722,577)</u>	<u>(1,803,312)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments from lessees - security deposits	70,015	106,988
Other receipts	<u>3,577</u>	<u>8,600</u>
Net Cash Provided by Noncapital Financing Activities	<u>73,592</u>	<u>115,588</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions from government sources	23,030,288	52,410,281
Capital grants and contributions from private sources	7,895,754	16,705,202
Capital asset expenditures	<u>(37,593,370)</u>	<u>(73,020,865)</u>
Proceeds from disposal of capital assets	<u>254,259</u>	<u>-</u>
Net Cash Used in Capital and Related Financing Activities	<u>(6,413,069)</u>	<u>(3,905,382)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>9,957</u>	<u>24,773</u>
Net Cash Provided by Investing Activities	<u>9,957</u>	<u>24,773</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(7,052,097)</u>	<u>(5,568,333)</u>
Cash and cash equivalents - beginning of year	<u>19,269,199</u>	<u>24,837,532</u>
CASH AND CASH EQUIVALENTS—END OF YEAR	<u>\$ 12,217,102</u>	<u>\$ 19,269,199</u>
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (14,122,483)	\$ (12,671,754)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation and amortization	13,585,090	9,121,335
Gain on disposal of capital assets	(86,204)	-
Changes in operating assets and liabilities:		
Accounts receivable	(92,999)	3,690
Prepaid expenses	2,760	(994)
Accounts payable and accrued expenses	208,987	1,683,065
Unearned revenue	(25,744)	221,664
Other postemployment benefits obligation	<u>(191,984)</u>	<u>(160,318)</u>
Net Cash Used in Operating Activities	<u>\$ (722,577)</u>	<u>\$ (1,803,312)</u>
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	\$ 1,513,915	\$ 866,523
Restricted cash and cash equivalents	<u>10,703,187</u>	<u>18,402,676</u>
CASH AND CASH EQUIVALENTS—END OF YEAR	<u>\$ 12,217,102</u>	<u>\$ 19,269,199</u>
Supplemental Disclosure of Cash Flow Information:		
Noncash capital and related financing transactions:		
Accrued capital asset expenditures	<u>\$ 11,058,881</u>	<u>\$ 11,147,287</u>

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

**GOVERNORS ISLAND CORPORATION
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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, is nearly finished with Phase 2, The Hills, and is close to completion of an ambitious infrastructure program 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 and 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 was previously included as a discretely presented 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. In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (“GASB 80”). GASB 80 is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB 80 is effective for financial statements for periods beginning after June 15, 2016 but was adopted by the City in fiscal year 2016. Pursuant to GASB 80, TGI will be included in the City’s fiscal year 2016 comprehensive annual financial report as a blended component unit since TGI is organized as a not-for-profit corporation and TGI’s sole corporate member as identified in its bylaws is the Mayor.

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.

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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 \$5,000 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

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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. *Other Postemployment Benefits*

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("OPEB"). This Statement establishes standards for the measurement, recognition, and financial statement presentation of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. In accordance with GASB Statement No. 45, TGI (a) implemented a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates an employee's years of service, and (b) provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

J. *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, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and GASB 68* ("GASB 73"). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. The adoption of GASB 73 did not have an impact on TGI's financial statements.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”). GASB 74 establishes financial reporting standards to state and local governmental other postemployment benefit (“OPEB”) plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. TGI has not completed the process of evaluating GASB 74, but does not expect it to have an impact on TGI’s financial statements.
- In June 2015, the 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 employers. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. TGI has not completed the process of evaluating GASB 75, but does not expect it to have an impact on TGI’s financial statements.
- In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”). GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. The adoption of GASB 76 did not have an impact on TGI’s financial statements.
- In August 2015, the GASB issued Statement No. 77, *“Tax Abatement Disclosures”* (“GASB 77”). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements.
- In December 2015, the GASB issued Statement No. 78, *“Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans”* (“GASB 78”). GASB 78 amends the scope and applicability of Statement 68 to exclude pensions provide to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). GASB 78 is effective for financial statements for periods beginning after December 15, 2015 but was adopted by TGI in fiscal year 2016. The adoption of GASB 78 did not have an impact on TGI’s financial statements.
- In December 2015, the GASB issued Statement No. 79, *“Certain External Investment Pools and Pool Participants”* (“GASB 79”). GASB 79 established specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. GASB 79 is effective for financial statements for periods beginning after December 15, 2015 but was adopted by TGI in fiscal year 2016. The adoption of GASB 79 did not have an impact on TGI’s financial statements.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In January 2016, the GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units*” (“GASB 80”). GASB 80 is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB 80 is effective for financial statements for periods beginning after June 15, 2016 but was adopted by TGI in fiscal year 2016. The adoption of GASB 80 did not have an impact on TGI’s financial statements.
- In March 2016, the GASB issued Statement No. 81, “*Irrevocable Split Interest Agreements*” (“GASB 81”). GASB 81 addresses the situations under which these types of arrangements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. GASB 81 is effective for financial statements for periods beginning after December 15, 2016 but was adopted by TGI in fiscal year 2016. The adoption of GASB 81 did not have an impact on TGI’s financial statements.
- In March 2016, the GASB issued Statement No. 82, “*Pension Issues*” (“GASB 82”). GASB 82 addresses practice issues raised by stakeholders during implementation of the GASB’s pension accounting and financial reporting standards for state and local governments. GASB 82 is effective for financial statements for periods beginning after June 15, 2016. GASB 82 is not expected to have an impact on TGI’s financial statements.

NOTE 3 – CAPITAL ASSETS

The changes in capital assets for the years ended June 30, 2016 and 2015, respectively, reflect current construction activity on the Island. Several projects were finished, put into service, or opened to the public and were therefore added to the asset list.

Also 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.

The changes 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	<u>252,676,085</u>	<u>24,609,151</u>	<u>(250,000)</u>	<u>277,035,236</u>
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	<u>(12,288,614)</u>	<u>(13,585,090)</u>	<u>81,945</u>	<u>(25,791,759)</u>
Construction in Progress	<u>78,225,821</u>	<u>40,894,252</u>	<u>(27,912,235)</u>	<u>91,207,838</u>
Net Project Assets	<u>\$ 318,613,292</u>	<u>\$ 51,918,313</u>	<u>\$ (28,080,290)</u>	<u>\$ 342,451,315</u>

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NOTE 3 – CAPITAL ASSETS (Continued)

The changes in capital assets for the year ended June 30, 2015 were as follows:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>
Land	\$ 1	\$ -	\$ -	\$ 1
Site Improvements	118,381,282	128,327,349	-	246,708,631
Vessels	4,750,000	-	-	4,750,000
Equipment	804,680	151,820	-	956,500
Vehicles	228,671	26,052	-	254,723
Software	6,230	-	-	6,230
Total Project Assets	<u>124,170,864</u>	<u>128,505,221</u>	<u>-</u>	<u>252,676,085</u>
Less: Accumulated Depreciation				
Site Improvements	(1,195,254)	(8,585,230)	-	(9,780,484)
Vessels	(1,240,278)	(316,666)	-	(1,556,944)
Equipment	(548,121)	(170,238)	-	(718,359)
Vehicles	(179,126)	(47,471)	-	(226,597)
Software	(4,500)	(1,730)	-	(6,230)
Total Accumulated Depreciation	<u>(3,167,279)</u>	<u>(9,121,335)</u>	<u>-</u>	<u>(12,288,614)</u>
Construction in Progress	<u>141,345,581</u>	<u>65,207,589</u>	<u>(128,327,349)</u>	<u>78,225,821</u>
Net Project Assets	<u>\$ 262,349,166</u>	<u>\$ 184,591,475</u>	<u>\$ (128,327,349)</u>	<u>\$ 318,613,292</u>

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 \$11,058,881 and \$11,147,287 were accrued as of June 30, 2016 and 2015, 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, 2016 and 2015, TGI recognized the amount spent for eligible project costs totaling \$29,581,787 and \$52,752,815, 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 \$43,183,748 and \$62,139,366 for the years ended June 30, 2016 and 2015, respectively. Such amounts represented approximately 80% and 75% of total revenues for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 amounted to \$227,097 and \$174,597, respectively, and is included in personnel costs in the accompanying statements of revenues, expenses and changes in net position.

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NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS

TGI's employees were eligible to participate in the New York City Economic Development Corporation's ("EDC") retiree health care plan. As of May 25, 2010, TGI became an independent entity responsible for its own retiree plans and for producing its own financial reports. As such, a separate independent valuation is required to be completed for TGI.

The plan is a single employer defined benefit health care plan that provides postemployment medical benefits for eligible retirees and their spouses. Employees who attain age 60 or older and have 10 years or more of service prior to the plan close date of June 30, 2022 will be eligible for retiree medical benefits. Future retirees are not entitled to OPEB.

Benefit provisions and contribution requirements for the plan are established and amended through TGI's Board of Directors and there is no statutory requirement for TGI to continue this plan for future employees of TGI. This plan is a contributory plan with retirees subject to contributions in the amount of \$50 a month for single coverage and \$100 a month for family coverage. Retirees receiving the postemployment health benefit pay a premium amount equal to what a current TGI employee pays, based on his or her family status. Employer contributions are made on a pay as you go basis. At June 30, 2015, there was only one employee of TGI who met the required benefit eligibility of age 60 with at least 10 years of services as of June 30, 2022. Such employee has left TGI effective August 1, 2016. No OPEB liability was estimated as of June 30, 2016. This accounts for the decrease in TGI's 2015 OPEB liability (as shown below). There were no retirees of TGI receiving benefits from the plan as of June 30, 2016.

TGI's annual OPEB cost for the plan is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

TGI has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers with plans that have fewer than 100 total members. The most recent actuarial valuation was for the plan year ended June 30, 2013.

TGI's annual OPEB cost for the years ended June 30, 2016 and 2015 and the related information for the plan are as follows:

	<u>2016</u>	<u>2015</u>
Annual required contribution ("ARC")	\$ -	\$ 191,984
ARC adjustment and interest	<u>(191,984)</u>	<u>(352,302)</u>
Decrease in net OPEB obligation	(191,984)	(160,318)
Net OPEB obligation – beginning of period	<u>191,984</u>	<u>352,302</u>
Net OPEB obligation – end of period	-	191,984
Funded OPEB plan assets – end of period	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability ("UAAL") – end of year	\$ <u>-</u>	\$ <u>191,984</u>

As of June 30, 2016 and 2015, the unfunded actuarial accrued liability for benefits was \$0 and \$191,984, respectively. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. However, as currently there are no employees eligible for OPEB, TGI's liability has been reduced to zero. No future actuarial valuations will be required.

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NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The schedule of funding progress as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Unfunded actuarial accrued liability – end of year	\$ -	\$ 191,984
Funded ratio	0%	0%
Covered payroll	\$ -	\$ 188,700
UAAL as a percentage of covered payroll	0%	102%

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between TGI and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the June 30, 2013 actuarial valuation, the projected unit cost method with attribution from date of hire to date of first eligibility for benefits was used. Under this method, the excess of the unfunded actuarial accrued liability over the sum of the actuarial value of assets is amortized as a level dollar amount over a closed 30 year period. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 9% for non-Medicare and 7% for Medicare, grading down to an ultimate rate of 4.5%.

NOTE 7 – 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, 2016 and 2015, TGI had cash accounts with the Bank that exceeded the FDIC insurance limits by approximately \$12.0 million and \$19.0 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.

B. *Investments*

TGI's investment policy permits TGI to invest funds of TGI as summarized and restricted 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.

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NOTE 7 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

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, 2016 and 2015.

NOTE 8 – 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 permittees 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. 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 capital grants and 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 The LiRo Group ("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 2-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.

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NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

D. Impact of Hurricane Sandy

Additional expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Hurricane Sandy. While emergency debris removal and emergency repair measures are complete, permanent restoration work continues. For work completed, approximately \$2.5 million has been paid to contractors. TGI received \$1,132,186 in FTA Emergency Relief Grant funds in the year ended June 30, 2015, which covered repair and restoration costs associated with transit facilities. This includes the Battery Maritime Building waiting room, the ferry lift bridges, the 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 the Federal Emergency Management Agency (“FEMA”) and the New York City Office of Management and Budget on project review, approval and funding. One FEMA-funded project began in fiscal year 2016, namely the replacement of Building 110’s heating system. Total costs for all projects are currently estimated to be \$11.97 million. While TGI’s management believes reimbursement under Federal and State disaster relief programs will cover a substantial portion of these costs, the share of the total cost of damages expected to be paid by TGI cannot be estimated at this time.