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, 2018 and 2017

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
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2018 AND 2017

CONTENTS

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MARKS PANETH
ACCOUNTANTS & ADVISORS

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, 2018 and 2017, 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 audit to obtain reasonable assurance about whether the financial statements are free from 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, 2018 and 2017, and the changes in its financial position and its cash flows 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 27, 2018

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, 2018 and 2017. 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 statements of net position, the statements of revenues, expenses and changes in net position, the statements 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 in 2003 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 elected officials.

To further its purpose, TGI launched an ambitious capital program in 2012 to build 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, 2018, TGI had current assets of $14,529,812 consisting of cash and cash equivalents of $7,614,281, accounts and grants receivable of $5,067,191, short-term investments of $1,799,607, and prepaid expenses of $23,733. These are presented below in greater detail and in comparison to prior years.

				Variance (%)	
Current Assets	**2018**	**2017**	**2016**	**2018 vs 2017 (%)**	**2017 vs 2016 (%)**
Cash and cash equivalents	$ 2,882,401	$ 6,102,240	$ 1,513,915	-53%	303%
Restricted cash and cash equivalents	4,731,880	7,422,415	10,352,942	-36%	-28%
Accounts receivable	875,109	791,175	299,175	11%	164%
Grants and contributions receivable from government sources	4,192,082	1,319,575	2,428,250	218%	-46%
Grants and contributions receivable from private sources	25,000	75,000	585,000	-67%	-87%
Short-term investments	1,799,607	-	-	100%	0%
Prepaid expenses	23,733	5,692	1,480	317%	285%
Total current assets	**$ 14,529,812**	**$ 15,716,097**	**$ 15,180,762**	-8%	4%

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

The 36% decrease in Restricted Cash is primarily due to the expenditure of restricted grant funds on the Hills and Parade Ground projects during fiscal year 2018. As of June 30, 2018 and 2017, grants and contributions receivable from government sources consist of operating funds due from the City.

Over the past six years TGI raised funds for several programs – the Hills, Art Commissions GI, Open House GI and general operations. As of June 30, 2018, grants and contributions receivable from private sources totaled $25,000. As of June 30, 2017, grants and contributions receivable from private sources totaled $75,000.

Noncurrent Assets

The following chart shows TGI's noncurrent (i.e., capital) assets for the years ended June 30, 2018, 2017 and 2016.

Capital Assets Summary	**2018**	**2017**	**2016**
Beginning Balance	$ 341,763,109	$ 342,451,315	$ 318,613,292
Additions (Net of Depreciation)	(2,283,535)	(688,206)	23,838,023
Ending Balance	**$ 339,479,574**	**$ 341,763,109**	**$ 342,451,315**

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 then valued at $5,780,000 in total. For the year ended June 30, 2018, $15,787,728 was transferred from construction in progress to site improvements and other assets for work completed and in use: the Hills and Parade Ground, as well as maritime and other infrastructure on the Island.

Capital expenses of $17,423,171 were incurred during the year ended June 30, 2018. In prior years, $16,320,490 and $40,894,252 were incurred during the years ended June 30, 2017 and 2016, respectively. These are presented in greater detail in Note 4. Capital expenses were funded primarily by government grants.

As of June 30, 2018, total noncurrent assets, consisted of capital assets, net of accumulated depreciation, of $339,479,574 ($402,804,325 less $63,324,751 accumulated depreciation) and restricted cash – security deposits/restricted grants of $721,986. Net additions to capital assets (based on construction in progress) represent a 0.7% decrease from the $341,763,109 balance as of June 30, 2017. Net additions to capital assets in fiscal year 2017 represented a 0.2% decrease from the $342,451,315 balance as of June 30, 2016.

Total assets as of June 30, 2018, were $354,731,372, a decrease of 1% over fiscal year 2017 based on cash and cash equivalents and receivables from government and private sources. Total assets as of June 30, 2017, were $358,272,149, an increase of 0.08% over the prior year.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Current and Noncurrent Liabilities

Current liabilities of $10,109,603 were recorded as of June 30, 2018, a decrease of 27% from the prior year. They include payable and accrued expenses for facilities management (Operations) and construction management services as well as capital project expenses. The decrease in unearned revenue (i.e., grants and contributions received in advance) is due to the recognition of revenue for State funded projects.

In the prior year, liabilities of $13,830,787 were attributed to pending invoices for ongoing capital projects in accounts payable and accrued expenses (totaling $8,213,619); private grants provided to TGI for the Hills (totaling $1,652,788); and an advance of State capital funds in unearned revenue (balance of $3,594,482).

				Variance (%)	
Current Liabilities	**2018**	**2017**	**2016**	**2018 vs 2017 (%)**	**2017 vs 2016 (%)**
Accounts payable and accrued expenses					
Operations	$ 4,461,715	$ 3,551,401	$ 2,190,361		
Private grants	4,306	2,504,002	1,362,912		
City Capital	3,144,056	2,158,216	9,816,927		
Total accounts payable and accrued expenses	7,610,077	8,213,619	13,370,200	-7%	-39%
Unearned revenue					
Operations	2,499,526	369,898	197,720		
Private grants	-	1,652,788	6,489,413		
State Capital	-	3,594,482	3,594,482		
Total unearned revenue	2,499,526	5,617,168	10,281,615	-56%	-45%
Total current liabilities	10,109,603	13,830,787	23,651,815	-27%	-42%
Noncurrent Liabilities					
Security deposits	471,639	792,539	350,223		
Total noncurrent liabilities	471,639	792,539	350,223	-40%	126%
TOTAL LIABILITIES	$ 10,581,242	$ 14,623,326	$ 24,002,038	-28%	-39%

Noncurrent liabilities consist of $471,639 in security deposits. Noncurrent liabilities in the prior year consisted of security deposits of $792,539. As of June 30, 2018 and 2017, TGI's total liabilities were $10,581,242 and $14,623,326, respectively.

Net Position

Net position as of June 30, 2018 was $344,150,130; $339,479,574 was invested in capital assets and $4,670,556 was unrestricted. The overall increase of 0.15% in net position represents TGI's ongoing capital program, comprised of infrastructure improvements throughout the property.

Net position as of June 30, 2017 was $343,648,822, of which $341,763,109 was invested in capital assets and $1,885,714 was unrestricted. TGI's 2017 net position represented an increase of 3% over 2016.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Operating Revenues

For the year ended June 30, 2018, TGI's total operating revenues of $20,345,393 consisted of $3,377,400 in fee income, $296,514 in rental income and $16,671,479 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 public access season ferry fare revenue, amounting to $478,047 in fiscal year 2018 ($418,047 from visitors and $60,000 is a tenant lease obligation). The 42% increase over the prior year is due primarily to additional events on the island this fiscal year. Rental income consists of lease payments from QC Terme, the developer of the day spa project (Buildings 111, 112 and 114).

For the year ended June 30, 2017, TGI's total operating revenues of $19,778,991 consisted of $2,379,608 in fee income (from site and permit fees, event-related reimbursements, and ferry fare collection) and $17,399,383 in operating grants and contributions from the City.

	2018	2017	2016	Variance (%) 2018 vs. 2017	Variance (%) 2017 vs. 2016
OPERATING REVENUES:					
Permits and fees	$ 3,377,400	$ 2,379,608	$ 2,459,703	42%	-3%
Rental income	296,514	-	-	100%	0%
Operating grants and contributions	16,671,479	17,399,383	13,765,054	-4%	26%
	$ 20,345,393	$ 19,778,991	$ 16,224,757	3%	22%

Operating Expenses

Total operating expenses of $41,746,003 for the year ended June 30, 2018 include TGI's facilities management contract with LiRo Program and Construction Management ("LiRo") of $15,577,587, as well as TGI's internal expenses.

	2018	2017	2016	Variance (%) 2018 vs. 2017	Variance (%) 2017 vs. 2016
OPERATING EXPENSES:					
Facilities management contract	$ 15,577,587	$ 13,339,257	$ 13,132,992	17%	2%
Personnel costs	3,795,459	2,845,893	2,555,041	33%	11%
Utilities	452,520	615,018	54,004	-26%	1039%
Depreciation and amortization	19,889,154	17,643,838	13,585,090	13%	30%
Other general and administrative expenses	2,031,283	733,684	1,020,113	177%	-28%
TOTAL OPERATING EXPENSES	$ 41,746,003	$ 35,177,690	$ 30,347,240	19%	16%
OPERATING (LOSS) INCOME	$ (21,400,610)	$ (15,398,699)	$ (14,122,483)	39%	9%

Operating (loss) income was ($21,400,610) for the year ended June 30, 2018 and ($15,398,699) for the year ended June 30, 2017. A significant portion of TGI's 2018 year-end operating loss is comprised of depreciation ($19.9 million). This also accounts for the increase over the year ended June 30, 2017, in which depreciation was $17.6 million.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

The facilities management contract, representing 37% of total operating expenses (71% 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 $3,795,459, an increase of 33% from 2017, based in part on new TGI positions replacing formerly contracted positions. The 26% decrease in utilities between 2018 and 2017 is due to the reconciliation of actual payments and usage by the Department of Citywide Administrative Services, which manages the Island's electricity bill. Other general and administrative expenses were $2,031,283, an increase of 177%. This increase reflects spending under the Art Commissions GI and Open House GI programs, and the South Island planning and environmental studies undertaken in fiscal year 2018.

In the prior year, notable operating expenses included personnel costs of $2,845,893, an increase of 11% from 2016. Other general and administrative expenses were $733,684, a decrease of 28%.

Nonoperating Revenues

Nonoperating revenues totaled $21,901,917, $25,067,238 and $38,062,279 for the years ended June 30, 2018, 2017 and 2016, respectively. The decrease in grants and contributions from private sources primarily represents completion of the Hills project. The increase in other income is mostly comprised of a settlement with capital construction and construction management contractors. Details are provided below.

				Variance (%)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
NONOPERATING REVENUES:					
Capital grants and contributions from government sources	$ 20,101,395	$ 19,793,499	$ 29,581,787	2%	-33%
Grants and contributions from private sources	859,369	4,879,612	8,380,754	-82%	-42%
Gain on disposal of capital assets	-	-	86,204	0%	-100%
Investment income	14,961	-	-	100%	0%
Other interest income	8,195	6,995	9,957	17%	-30%
Other income	917,997	387,132	3,577	137%	10723%
	$ 21,901,917	$ 25,067,238	$ 38,062,279	-13%	-34%
Change in net position	$ 501,307	$ 9,668,539	$ 23,939,796	-95%	-60%
Net position - beginning of year	343,648,823	333,980,284	310,040,488	3%	8%
Net position - end of year	$ 344,150,130	$ 343,648,823	$ 333,980,284	0%	3%

Related Issues

Expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Hurricane Sandy. While emergency recovery measures are complete, permanent restoration and future mitigation 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 category's 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.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

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. A new FEMA-funded project began in fiscal year 2018, the South Island Electrical Conduit project, which had been inundated during the storm. One FEMA-funded project was completed in fiscal year 2017, namely the replacement of Building 110's heating system. Total funding for all projects is currently estimated to be $11.97 million.

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, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2D and 7)	$ 2,882,401	$ 6,102,240
Restricted cash and cash equivalents (Notes 2D, 2E and 7)	4,731,880	7,422,415
Accounts receivable	875,109	791,175
Grants and contributions receivable from government sources	4,192,082	1,319,575
Grants and contributions receivable from private sources	25,000	75,000
Short-term investments (Notes 2E, 2F and 3)	1,799,607	-
Prepaid expenses	23,733	5,692
Total current assets	14,529,812	15,716,097
Noncurrent assets		
Restricted cash - security deposits	721,986	792,943
Capital assets, net of accumulated depreciation (Notes 2G and 4)	339,479,574	341,763,109
Total noncurrent assets	340,201,560	342,556,052
Total assets	$ 354,731,372	$ 358,272,149
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 7,610,077	$ 8,213,619
Unearned revenue	2,499,526	5,617,168
Total current liabilities	10,109,603	13,830,787
Noncurrent liabilities		
Security deposits	471,639	792,539
Total noncurrent liabilities	471,639	792,539
Total liabilities	10,581,242	14,623,326
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET POSITION (Note 2H)		
Invested in capital assets	339,479,574	341,763,109
Unrestricted	4,670,556	1,885,714
Total net position	344,150,130	343,648,823
TOTAL LIABILITIES AND NET POSITION	$ 354,731,372	$ 358,272,149

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Permits and other fees	$ 3,377,400	$ 2,379,608
Rental income (Note 8)	296,514	-
Operating grants and contributions (Notes 2C and 5)	16,671,479	17,399,383
TOTAL OPERATING REVENUES	20,345,393	19,778,991
OPERATING EXPENSES:		
Facilities management contract (Note 9C)	15,577,587	13,339,257
Personnel costs (Note 6)	3,795,459	2,845,893
Utilities	452,520	615,018
Depreciation and amortization	19,889,154	17,643,838
Other general and administrative expenses	2,031,283	733,684
TOTAL OPERATING EXPENSES	41,746,003	35,177,690
OPERATING LOSS	(21,400,610)	(15,398,699)
NONOPERATING REVENUES:		
Capital grants and contributions from government sources (Notes 2C and 5)	20,101,395	19,793,499
Capital grants and contributions from private sources (Notes 2C and 9C)	859,369	4,879,612
Investment income	14,961	-
Other interest income	8,195	6,995
Other income	917,997	387,132
TOTAL NONOPERATING REVENUES	21,901,917	25,067,238
CHANGE IN NET POSITION	501,307	9,668,539
Net position, beginning of year	343,648,823	333,980,284
NET POSITION, END OF YEAR	$ 344,150,130	$ 343,648,823

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Customer payments	$ 3,589,980	$ 1,801,403
Operating grants and contributions	17,011,275	17,571,561
Total cash receipts from operating activities	20,601,255	19,372,964
Cash payments for:		
Personnel costs	(3,745,174)	(2,842,330)
Services and supplies	(17,219,403)	(13,369,448)
Total cash payments for operating activities	(20,964,577)	(16,211,778)
Net Cash (Used in) Provided by Operating Activities	(363,322)	3,161,186
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments from lessees - security deposits	(320,900)	442,316
Other receipts	917,997	387,132
Net Cash Provided by Noncapital Financing Activities	597,097	829,448
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and contributions from government sources	13,771,450	16,065,549
Capital grants and contributions from private sources	909,369	5,389,612
Capital asset expenditures	(19,119,474)	(23,352,294)
Net Cash Used in Capital and Related Financing Activities	(4,438,655)	(1,897,133)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,812,727)	-
Interest received	36,276	6,995
Net Cash (Used in) Provided by Investing Activities	(1,776,451)	6,995
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,981,331)	2,100,496
Cash and cash equivalents - beginning of year	14,317,598	12,217,102
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 8,336,267	$ 14,317,598
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (21,400,610)	$ (15,398,699)
Adjustments to reconcile operating loss to cash flows (used in) provided by operating activities:		
Depreciation and amortization	19,889,154	17,643,838
Changes in operating assets and liabilities:		
Accounts receivable	(83,934)	(492,000)
Prepaid expenses	(18,041)	(4,212)
Accounts payable and accrued expenses	910,313	1,240,081
Unearned revenue	339,796	172,178
Net Cash (Used in) Provided by Operating Activities	$ (363,322)	$ 3,161,186
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	$ 2,882,401	$ 6,102,240
Restricted cash and cash equivalents	5,453,866	8,215,358
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 8,336,267	$ 14,317,598
Supplemental Disclosure of Cash Flow Information:		
Noncash capital and related financing transactions:		
Accrued capital asset expenditures	$ 3,148,362	$ 4,662,218

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 the City, making the Island a destination with expansive 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, and is governed by a 13-member board of directors appointed by the Mayor of the City and nominated by the Mayor, the Governor of the State of New York and local elected officials.

TGI acquired 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), 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. Capital funds provided by the City for eligible project costs, pursuant to the master contract with the City, are recognized 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. ***Investments and Fair Value Measurements***

Investments are reported at fair value based on quoted market value. Securities transactions are recorded on a trade-date basis. Realized gains and losses on sales of investments are determined on a specific identification basis and are included in investment income in the accompanying statements of revenues, expenses and changes in net position. Interest income is recognized when earned.

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 3.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. ***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

H. ***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.

I. ***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.

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 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, but was adopted in the current fiscal year. The adoption of GASB 83 did not have an impact on TGI's financial statements as it has no such obligations.

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, 2017. 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 are acquired with only existing resources – resources other than the proceeds of refunding debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of GASB 86 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 85 did not 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. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. TGI has not completed the process of evaluating GASB 87.
- In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, ("GASB 88"). The objective of GASB 88 is to improve consistency in the information that is disclosed in notes to government financial statements related to debt by defining debt for the purpose of note disclosure and establishes additional note disclosure requirements related to debt obligations of governments, including direct borrowing and direct placements. The requirements of GASB 88 are effective for fiscal years beginning after June 15, 2018. TGI has not completed the process of evaluating GASB 88, but does not expect it to have an impact on TGI's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* ("GASB 89"). The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for certain interest costs by requiring interest costs incurred before the end of a construction period to be recognized as an expense/expenditure in governmental fund and government-wide financial statements. The requirements of GASB 89 are effective for fiscal years beginning after December 15, 2019. TGI has not completed the process of evaluating GASB 89, but does not expect it to have an impact on TGI's financial statements as it does not previously capitalize interest costs.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

TGI's investments consisted of the following at June 30, 2018 and were classified as Level 1 in the fair value hierarchy (as defined below) as follows:

Mutual Funds	$ 1,370,451
Certificates of Deposit	299,940
Exchange Traded Funds	87,929
Money Market Funds	41,287
	$ 1,799,607

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.
- High quality equity securities traded on the New York, NASDAQ or American Stock exchanges as well as mutual funds.
- 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 categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

In determining fair value, TGI utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Investments in money market funds, certificates of deposit, exchange-traded funds and mutual funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, TGI may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments are registered and are held by TGI's agent in TGI's name.

Credit Risk

All investments held by TGI at June 30, 2018 are invested in high quality equity securities traded on the New York, NASDAQ or American Stock exchanges as well as mutual funds; certificates of deposits with New York Banks which are Federal Deposit Insurance Corporation insured; and highly rated money market instruments.

Interest Rate Risk

TGI's short-term investments are subject to minimal risk of fair value declines due to changes in market interest rates. Investments with longer terms are expected to be held until maturity thereby limiting the exposure from rising interest rates.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of TGI's investments in a single issuer (5% or more). TGI's investment policy places no limits on the amount TGI may invest in any one issuer of eligible investments as defined in the investment policy. As of June 30, 2018, 3% consist of money market mutual funds, 17% consists of certificates of deposits with New York banks, 76% consist of high quality equity securities traded on the New York, NASDAQ or American Stock exchanges as well as mutual funds, and 4% consist of other investments approved by the Comptroller of the City.

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the years ended June 30, 2018 and 2017 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.

The changes in capital assets for the year ended June 30, 2018 were as follows:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Land	$ 1	$ -	$ -	$ 1
Site Improvements	344,202,857	15,534,334	-	359,737,191
Vessels	5,425,815	253,394	-	5,679,209
Equipment	1,368,759	182,448	-	1,551,207
Vehicles	515,224	-	-	515,224
Software	6,230	-	-	6,230
Total Project Assets	351,518,886	15,970,176	-	367,489,062
Less: Accumulated Depreciation				
Site Improvements	(40,075,217)	(19,263,870)	-	(59,339,087)
Vessels	(2,175,530)	(417,921)	-	(2,593,451)
Equipment	(909,090)	(150,053)	-	(1,059,143)
Vehicles	(269,530)	(57,310)	-	(326,840)
Software	(6,230)	-	-	(6,230)
Total Accumulated Depreciation	(43,435,597)	(19,889,154)	-	(63,324,751)
Construction in Progress	33,679,820	17,423,171	(15,787,728)	35,315,263
Net Project Assets	$ 341,763,109	$ 13,504,193	$ (15,787,728)	$ 339,479,574

NOTE 4 – CAPITAL ASSETS (Continued)

The change 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

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 $3,148,362 and $4,662,217 were accrued as of June 30, 2018 and 2017, 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 fees of $1.

NOTE 5 – CONTRIBUTIONS

During the years ended June 30, 2018 and 2017, TGI recognized the amount spent for eligible project costs totaling $20,101,395 and $19,793,499, 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 $33,178,392 and $37,192,882 for the years ended June 30, 2018 and 2017, respectively. Such amounts represented approximately 79% and 83% of total revenues for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 – 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, 2018 and 2017 amounted to $122,489 and $118,770, respectively, and is included in personnel costs in the accompanying statements of revenues, expenses and changes in net position.

NOTE 7 – 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, 2018 and 2017, TGI had cash accounts with the Bank that exceeded the FDIC insurance limits by approximately $8.2 million and $14.2 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 8 – RENTAL INCOME

In July 2016, TGI leased certain premises to QC Terme NY LLC (the "Tenant"), a limited liability company, for purposes of operating a modern day spa. Such lease is effective January 1, 2018 for a term of 50 years expiring in December 2067. The Tenant has the option to extend the lease for 20 more years. Rental income amounted to approximately $297,000 for the year ended June 30, 2018.

The future minimum base rent to be received under the lease during each of the next five fiscal years ending from June 30, 2019 through 2023 and through the end of the lease term (thereafter), is approximately as follows:

2019	$ 704,000
2020	927,000
2021	1,149,000
2022	1,371,000
2023	1,501,000
Thereafter	118,611,000
	$ 124,263,000

NOTE 9 – 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***

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 to assist TGI in the operation, maintenance and redevelopment of the Island. 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***

Expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Hurricane Sandy. While emergency recovery measures are complete, permanent restoration and future mitigation work continues. TGI received $693,262 in Federal Emergency Management Agency ("FEMA") funds during the year ended June 30, 2017, for work completed under the federal category's 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. A new FEMA-funded project began in fiscal year 2018, the South Island Electrical Conduit project, which had been inundated during the storm. One FEMA-funded project was completed in fiscal year 2017, namely the replacement of Building 110's heating system. Total funding for all projects is currently estimated to be $11.97 million.