
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)

As of June 30, 2011 and for the Period from the Commencement of
Operations (July 14, 2010) Through June 30, 2011

**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)**

**AS OF JUNE 30, 2011 AND FOR THE PERIOD FROM THE COMMENCEMENT
OF OPERATIONS (JULY 14, 2010) THROUGH JUNE 30, 2011**

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Statement of Net Assets	4
Statement of Revenues, Expenses, and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13

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 basic 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 June 30, 2011 and for the period from the commencement of operations (July 14, 2010) through June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of TGI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TGI's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and the respective changes in its financial position and its cash flows for the period from the commencement of operations (July 14, 2010) through June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 2 through 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Marks Paneth & Shron LLP

New York, NY
September 30, 2011

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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 period from the commencement of operations (July 14, 2010) through June 30, 2011. It should be read in conjunction with TGI's financial statements and accompanying notes.

TGI's purpose is to provide for the planning, preservation of historic elements, redevelopment, and ongoing operations and maintenance of approximately 150 acres of Governors Island plus surrounding lands underwater, located in New York Harbor, in the Borough of Manhattan, City of New York.

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 assets, the statement of revenues, expenses and changes in net assets, the statement of cash flows and the notes to the financial statements, are presented to display information about TGI in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended. This is to provide the reader with a broad overview of TGI's finances. 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.

Financial Highlights and Overall Analysis – Financial Statements

As of June 30, 2011, TGI had current assets of \$11,970,861 consisting of cash and cash equivalents of \$11,856,419 (\$1,873,463 of which was unrestricted and \$9,982,956 restricted), accounts receivable of \$104,898, and prepaid expenses of \$9,544. Noncurrent assets, consisting of capital assets, net of accumulated depreciation, were \$21,115,941. In total, TGI had assets of \$33,086,802 as of June 30, 2011.

TGI's capital assets are comprised of property transferred from the Governors Island Preservation and Education Corporation ("GIPEC"), TGI's predecessor, as well as improvements made to the project over the course of the year. From GIPEC, TGI recognized the following capital assets:

Vessels	\$ 4,750,000
Equipment	553,460
Vehicles	228,671
Land	<u>1</u>
Capital assets recognized in transfer from GIPEC	\$ <u>5,532,132</u>

The capital assets transferred to TGI pursuant to the Asset Purchase Agreement with GIPEC were recorded at estimated fair value, as determined by independent appraisals, upon the date of the transfer. Such capital assets consisted of title to the 150 acres of Governors Island previously owned by GIPEC, vessels, vehicles and other equipment. The title to the land was recorded at the nominal value of \$1 because the anticipated construction and infrastructure costs needed to provide a modern infrastructure and develop public spaces exceeded the estimated value of the land at the date of the appraisal.

In addition, TGI completed \$3,850,260 in site improvements (including roadway work, electrical system upgrades, and a project managed by the MTA for water system improvements), and had \$12,324,182 of construction-in-progress at year-end. As of June 30, 2011, the net book value of the capital assets amounted to \$21,115,941 (\$21,706,574 less \$590,633 in accumulated depreciation), as stated above.

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Current liabilities of \$3,556,475 consist of accounts payable and accrued expenses of \$3,383,304 and deferred revenue of \$173,171. In addition, noncurrent liabilities of \$167,733 consist entirely of TGI's other postemployment benefits obligation ("OPEB"). As of June 30, 2011, TGI's total liabilities were \$3,724,208.

Net assets at year end were \$29,362,594, of which \$6,925,985 was restricted for capital projects.

During the period from the commencement of operations (July 14, 2010) through June 30, 2011, TGI's total operating revenue of \$15,292,113 consisted of \$1,769,582 in fee income (including usage fees, site fees and reimbursements for event-related expenses) and \$13,522,531 in operating grants and contributions from the City.

Total operating expenses of \$14,571,239 include TGI's facilities management contract with the Turner Construction Company of \$11,329,718. This contract represents 78 percent of total operating expenses. Personnel costs were \$1,846,960; utilities \$571,974; depreciation and amortization \$590,633; and other general and administrative expenses were \$231,954. Operating income was \$720,874 for the period from the commencement of operations (July 14, 2010) through June 30, 2011.

Nonoperating revenues of \$28,641,720 were comprised of \$23,079,630 in capital grants and contributions from the City (\$15,161,836) and the State of New York (\$7,917,794); \$29,958 in interest and miscellaneous income; and \$5,532,132 based on the transfer of capital assets from GIPEC.

As this was TGI's first year of operations comparative financial information is not able to be presented. A comparative analysis will be presented in future years when information is available.

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.

**** END ****

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011

ASSETS

Current assets

Cash and cash equivalents (Notes 2D and 7A)	\$ 1,873,463
Restricted cash and cash equivalents (Notes 2E and 4)	9,982,956
Accounts receivable	104,898
Prepaid expenses	<u>9,544</u>
Total current assets	<u>11,970,861</u>

Noncurrent assets

Capital assets, net of accumulated depreciation (Notes 2F and 3)	<u>21,115,941</u>
--	-------------------

Total assets	<u><u>\$ 33,086,802</u></u>
---------------------	-----------------------------

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	\$ 3,383,304
Deferred revenue	<u>173,171</u>
Total current liabilities	<u>3,556,475</u>

Noncurrent liabilities

Other postemployment benefits obligation (Notes 2I and 6)	<u>167,733</u>
---	----------------

Total liabilities	<u>3,724,208</u>
--------------------------	------------------

COMMITMENTS AND CONTINGENCIES (Note 8)

NET ASSETS (Note 2G)

Invested in capital assets	21,115,941
Restricted for capital projects (Note 4)	6,925,985
Unrestricted net assets	<u>1,320,668</u>
Total net assets	<u>29,362,594</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 33,086,802</u></u>
---	-----------------------------

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD FROM THE COMMENCEMENT OF OPERATIONS
(JULY 14, 2010) THROUGH JUNE 30, 2011

OPERATING REVENUES:	
Permits and other fees	\$ 1,769,582
Operating grants and contributions (Note 2C)	<u>13,522,531</u>
TOTAL OPERATING REVENUES	<u>15,292,113</u>
OPERATING EXPENSES:	
Facilities management contract (Note 8B)	11,329,718
Personnel costs (Notes 5 and 6)	1,846,960
Utilities	571,974
Depreciation and amortization	590,633
Other general and administrative expenses	<u>231,954</u>
TOTAL OPERATING EXPENSES	<u>14,571,239</u>
OPERATING INCOME (Note 2B)	<u>720,874</u>
NONOPERATING REVENUES:	
Capital grants and contributions (Notes 2C and 4)	23,079,630
Transfer of assets from Governors Island Preservation and Education Corporation (Note 4)	5,532,132
Interest and miscellaneous income	<u>29,958</u>
TOTAL NONOPERATING REVENUES	<u>28,641,720</u>
CHANGE IN NET ASSETS	<u>29,362,594</u>
Net assets, beginning of period	<u>-</u>
NET ASSETS, END OF PERIOD	<u>\$ 29,362,594</u>

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)
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM THE COMMENCEMENT OF OPERATIONS
(JULY 14, 2010) THROUGH JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash receipts from:		
Customer payments	\$	1,837,855
Other receipts		<u>13,522,531</u>
Total cash receipts from operating activities		<u>15,360,386</u>

Cash payments for:		
Personnel costs		(1,627,136)
Services and supplies		<u>(8,811,977)</u>
Total cash payments for operating activities		<u>(10,439,113)</u>

Net Cash Provided by Operating Activities 4,921,273

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Operating funds received from the New York City Economic Development Corporation	7,000,000
Operating funds repaid to the New York City Economic Development Corporation	<u>(7,000,000)</u>

Net Cash Provided by Noncapital Financing Activities -

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants and contributions	23,079,630
Capital asset expenditures	<u>(16,174,442)</u>

Net Cash Provided by Capital and Related Financing Activities 6,905,188

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	<u>29,958</u>
-------------------	---------------

Net Cash Provided by Investing Activities 29,958

NET INCREASE IN CASH AND CASH EQUIVALENTS 11,856,419

Cash and cash equivalents - beginning of period -

CASH AND CASH EQUIVALENTS—END OF PERIOD \$ 11,856,419

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$	720,874
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		590,633
Changes in operating assets and liabilities:		
Accounts receivable		(104,898)
Prepaid expenses		(9,544)
Accounts payable and accrued expenses		3,383,304
Deferred revenue		173,171
Other postemployment benefits obligation		<u>167,733</u>
Net Cash Provided by Operating Activities	\$	<u>4,921,273</u>

RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR

Unrestricted cash and cash equivalents	\$	1,873,463
Restricted cash and cash equivalents		<u>9,982,956</u>

CASH AND CASH EQUIVALENTS—END OF PERIOD \$ 11,856,419

Supplemental Disclosure of Cash Flow Information:

Noncash capital and related financing transactions:		
Capital assets transferred from Governors Island Preservation and Education Corporation	\$	<u>5,532,132</u>

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)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 and 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 bring Governors Island back to life. With expanded visitation and unique public programs, investment in infrastructure and stabilization and planning and construction of an ambitious park and public space plan, TGI is making progress to insure that Governors Island is a resource for the people of the City today and for the future. 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 for the Project. TGI is governed by a 13-member board of directors appointed by the Mayor of the City of New York, the Governor of the State of New York and local elected officials.

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.

The Project area and substantially all of the assets of 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.

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.

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. In addition, TGI follows only the pronouncements of all applicable Financial Accounting Standards Board Statements issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

B. *Revenue and Expense Classification*

TGI distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from TGI’s ongoing operations. The principal operating revenues include permits and other fees and operating grants and contributions from the City. Major operating expenses include facilities management costs, personnel costs, professional fees and utilities.

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Grants and Contributions – Operating and Capital*

Operating funds provided by the City are recognized as revenue when received. TGI also receives capital funding for eligible project costs pursuant to the funding agreements and the master contract with the City and the State. TGI recognizes capital funding as revenue when received after approval of the application for a certificate to proceed for each capital project by the City's Office of Management and Budget.

D. *Cash and Cash Equivalents*

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

E. *Restricted Cash and Investments*

Contributions and other non-exchange transactions as defined under GASB 33 Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, with purpose restriction are reported in the resulting net assets and fund balance 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 add value to the project or extend its useful life are not capitalized. Upon completion, site improvement costs are reclassified from construction-in-progress and amortized over useful lives from 10 to 25 years.

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, which varies from three to five years.

The capital assets transferred to TGI pursuant to the Asset Purchase Agreement with GIPEC were recorded at estimated fair value, as determined by independent appraisals, upon the date of the transfer. Such capital assets consisted of title to the 150 acres of Governors Island previously owned by GIPEC, vessels, vehicles and other equipment. The title to the land was recorded at the nominal value of \$1 because the anticipated construction and infrastructure costs needed to provide a modern infrastructure and develop public spaces exceeded the estimated value of the land at the date of the appraisal. No value was assigned to the existing buildings and structures located on Governors Island since the buildings are not intended to be used in operations or are anticipated to be substantially replaced as part of TGI's capital plan.

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Net Assets

TGI's net assets are classified in the following categories: invested in capital assets, net of accumulated depreciation; restricted net assets, consisting of net assets restricted for specific purposes by law or parties external to TGI; and unrestricted net assets, consisting of net assets that are 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.

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

- In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement clarifies the accounting for a number of financial instruments including allocated and unallocated insurance contracts. The Statement is effective for financial statements beginning after June 15, 2010. GASB 59 did not have an impact on TGI's financial statements.
- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*. The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011. TGI has not completed the process of evaluating GASB 60, but does not expect it to have an impact on its financial statements.
- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement No. 14 and No. 34*. The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity. The statement is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on TGI or its status as a discretely presented component unit of the City.

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The Statement incorporates a large volume of Financial Accounting Standards Board and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The statement is effective for financial statement periods beginning after December 15, 2011. TGI has not completed the process of the evaluation of GASB 62, but does not expect it to have an impact on its financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for financial statements for periods beginning after December 15, 2011. The Statement establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the statement of net assets to statement of net position, as well as reported net assets, and components thereof, to net position. TGI has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of TGI's statement of position and components thereof, with no overall financial impact.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*, is effective for financial statements for periods beginning after June 15, 2011. The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. TGI has not completed the process of evaluating GASB 64, but does not expect it to have an impact on its financial statements.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2011:

	Balance, Beginning of Period	Additions	Deletions	Balance at June 30, 2011	Estimated Useful Lives
Land	\$ -	\$ 1	\$ -	\$ 1	
Site improvements	-	3,850,260	-	3,850,260	10-25 years
Vessels	-	4,750,000	-	4,750,000	15 years
Equipment	-	553,460	-	553,460	5 years
Vehicles	-	228,671	-	228,671	5 years
Total project assets	<u>-</u>	<u>9,382,392</u>	<u>-</u>	<u>9,382,392</u>	
Less: accumulated depreciation					
Site improvements	-	(156,965)	-	(156,965)	
Vessels	-	(290,278)	-	(290,278)	
Equipment	-	(101,467)	-	(101,467)	
Vehicles	-	(41,923)	-	(41,923)	
Total accumulated depreciation	<u>-</u>	<u>(590,633)</u>	<u>-</u>	<u>(590,633)</u>	
Construction in progress	-	12,324,182	-	12,324,182	
Net project assets	<u>\$ -</u>	<u>\$ 21,115,941</u>	<u>\$ -</u>	<u>\$ 21,115,941</u>	

GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – CAPITAL ASSETS (Continued)

TGI has entered into 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. From July 1, 2011, expenses of approximately \$2.2 million have accrued, 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. TGI is reimbursed by the City for custodial and other services provided by TGI for the premises. Other premises are occupied by a not-for-profit organization for which TGI receives annual permit fees of \$1.

NOTE 4 – CONTRIBUTIONS

TGI received capital contributions for the project totaling to \$23,079,630 in the year ended June 30, 2011 and, of this amount, \$6,925,985 was unspent as of June 30, 2011, which is reported as restricted for capital projects in the resulting net assets and fund balance in the accompanying statement of net assets.

In the year ended June 30, 2011, TGI recognized contributions for the capital assets and funds it received from GIPEC. The receipts were treated as non-exchange transactions as TGI received value (benefit) from GIPEC without directly giving equal value in exchange.

NOTE 5 – PENSION PLAN

TGI's employees participate in the benefit plans of the New York City Economic Development Corporation (“EDC”), a component unit of the City. EDC maintains a defined contribution plan, which covers substantially all of TGI's employees. The pension plan provides for variable contribution rates by TGI ranging from 6% to 14% of the employee's eligible wages as defined in the plan document. Pension expense for the period from the commencement of operations (July 14, 2010) through June 30, 2011 amounted to \$113,626 and is included in personnel costs in the accompanying statement of revenues, expenses and changes in net assets.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS

TGI's employees are eligible to participate in EDC's retiree health care plan. EDC sponsors a single employer defined benefit health care plan that provides postemployment medical for eligible retirees and their spouses. Employees who attain age 60 or more and have 10 years or more of service to retire from TGI are eligible. TGI is not required to and does not issue a publicly available financial report for the plan.

Benefit provisions and contribution requirements for the plan are established and amended through EDC's Board of Directors and there is no statutory requirement for EDC to continue this plan for future employees of EDC and 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 EDC or TGI employee pays, based on his or her family status. Employer contributions are made on a pay as you go basis. At June 30, 2011, there were only two employees of TGI who met the required benefit eligibility of age 60 with at least 10 years of service as of the plan close date of June 30, 2022. There were no retirees of TGI receiving benefits from the plan as of June 30, 2011.

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.

**GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

TGI's annual OPEB cost for the current year and the related information for the plan are as follows:

Annual required contribution	\$ 28,456
Actuarial accrued liability for GIPEC employees as of June 30, 2010 recognized as expense by TGI in the current period	<u>139,277</u>
Increase in net OPEB obligation	167,733
Net OPEB obligation – beginning of period	<u>-</u>
Net OPEB obligation – end of period	167,733
Funded OPEB plan assets – end of period	<u>-</u>
Unfunded actuarial accrued liability – end of period	<u>\$ 167,733</u>

The actuarial valuation date is June 30, 2010. As of June 30, 2011, the actuarial accrued liability for benefits was \$167,733, all of which was unfunded. 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. Since this is the first measurement of TGI's obligation, the net OPEB obligation at June 30, 2011 was recognized as an expense in the current year and there is no funding progress or contribution schedule to be presented.

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, 2010 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 8% and grading down to an ultimate rate of 5%.

NOTE 7 – CASH AND INVESTMENTS

A. *Cash and Cash Equivalents*

The bank balance of TGI's deposits was \$11,773,622, of which \$250,000 was covered by Federal Deposit Insurance Corporation ("FDIC") insurance and the rest was uninsured. The uninsured balance was exposed to custodial risk on the basis that the uninsured bank balance is not collateralized.

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,

**GOVERNORS ISLAND CORPORATION
(d/b/a THE TRUST FOR GOVERNORS ISLAND)
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 7 – CASH AND INVESTMENTS (Continued)

- Bankers' acceptances and time deposits of banks with worldwide assets in excess of \$50 million.
- Certificates of deposit with New York banks. Such certificates of deposit must be FDIC insured, except when otherwise collateralized.
- Other investments approved by the Comptroller of the City for the investment of City funds.

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

- High quality 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 held no investments as of June 30, 2011 and had no investment transactions during the period from the commencement of operations (July 14, 2010) through June 30, 2011.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. *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 liability insurance of TGI, 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.

B. *Facilities Management and Construction Management Services Contract*

TGI has entered into an agreement with a company (the "Contractor") 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 is for three years expiring on July 1, 2012 with two two-year options to extend at TGI's discretion. The agreement allows the Contractor to enter into agreements with subcontractors for the maintenance, operation, construction and improvement of the Project. Amounts paid to the Contractor for facilities management services are recognized as expense in the period incurred while amounts paid to the Contractor for construction management services are capitalized and included in capital assets.

NOTE 9 – FUNDING AGREEMENT WITH EDC

Prior to the July 14, 2010 transfer of the Project from GIPEC to TGI, GIPEC entered into a funding agreement with EDC pursuant to which EDC provided \$5 million in funding to GIPEC for use in operating and maintaining the Project. Such amount was paid to GIPEC by EDC and any unspent funds were subsequently transferred to TGI pursuant to the Asset Purchase Agreement dated July 14, 2010. In December 2010, TGI requested an additional \$2 million in funding from EDC to pay for eligible operating expenses. In May 2011 and subsequent to the receipt of operating funds from the City, TGI reimbursed EDC for the \$7 million in funding that was previously provided.