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, 2013 and 2012

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

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

FINANCIAL STATEMENTS
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Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

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, 2013 and 2012, 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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 30, 2013

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, 2013 and 2012. 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 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.

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 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 has undertaken an ambitious capital program to bring the Island's infrastructure into the 21st century and build extraordinary new park and public spaces. Mayor Bloomberg and elected officials broke ground on the first phase of the Park and Public Space Plan in May 2012. This phase will add key visitor amenities throughout the Historic District and 30 new acres of park on the Island's southern end, which will be completed in 2013. Capital investment will also bring potable water to the Island, upgrade its electrical system, rebuild the seawall, and ensure safe 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, 2013, TGI had current assets of $27,316,366 consisting of cash and cash equivalents of $11,872,374, accounts and grants receivable of $15,439,630, and prepaid expenses of $4,362. These are presented below in greater detail and in comparison to the prior year.

Current Assets	2013	2012	2011	2013 (%)	2012 (%)
Cash and cash equivalents	$ 1,433,360	$ 2,802,035	$ 1,873,463	(49%)	50%
Restricted cash and cash equivalents	10,439,014	14,883,367	9,982,956	(30%)	49%
Accounts receivable	167,717	228,742	104,898	(27%)	118%
Grants & contributions receivable from government sources	14,609,641	7,397,976	-	97%	
Grants & contributions receivable from private sources	662,272	25,000	-	2549%	
Prepaid expenses	4,362	3,138	9,544	39%	(67%)
Investments	-	25,000	-	(100%)	
Total current assets	$ 27,316,366	$ 25,365,258	$ 11,970,861	8%	112%

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Grants and contributions receivable from government sources consist of capital funds due from the City for multiple projects on the island and from a Federal Transit Administration grant being used on the Soissons Dock project.

Grants and contributions receivable from private sources are a result of TGI's fundraising efforts, which began in 2012. These efforts focus on private donations for construction of Phase 2 of the Park and Public Space project and on an art commissioning program to be integrated into the Park. In the year ended June 30, 2013, several contributions were received and are now held in restricted cash and cash equivalent accounts. Also in the year ended June 30, 2013, grants and contributions receivable from private sources totaled $662,272.

Noncurrent Assets

The following chart shows TGI's noncurrent (i.e., capital) assets for the years ended June 30, 2013, 2012 and 2011.

Capital Assets Summary	**2013**	**2012**	**2011**
Beginning Balance	$ 46,251,179	$ 21,115,941	$ -
Asset Transfer from GIPEC	-	-	5,532,132
Additions (Net of Depreciation)	114,620,050	25,135,238	15,583,809
Ending Balance	$ 160,871,229	$ 46,251,179	$ 21,115,941

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 to the project since then. Capital assets transferred to TGI consist of title to 150 acres of Governors Island, vessels, vehicles and other equipment valued at $5,532,132 in total. Capital expenditures of $115,263,789 and $25,650,994 were incurred during the years ended June 30, 2013 and 2012, respectively; and $12,324,182 for the period ended June 30, 2011. These are presented in greater detail in Note 3. Capital expenditures were funded primarily by government grants.

As of June 30, 2013, noncurrent assets, consisting of capital assets, net of accumulated depreciation, were $160,871,228 ($162,853,761 less $1,982,533 accumulated depreciation). Net additions to capital assets (based on construction in progress) account for this 248% increase over the $46,251,179 balance as of June 30, 2012. The net additions to capital assets in fiscal year 2012 represented a 119% increase over the $21,115,941 balance as of June 30, 2011.

Total assets as of June 30, 2013, were $188,187,594, an increase of 163% over fiscal year 2012 based on cash and cash equivalents, receivables from government sources, as well as capital assets recorded during the year. Total assets as of June 30, 2012, were $71,616,437, an increase of 116% over the prior year.

Current and Noncurrent Liabilities

Current liabilities of $34,923,438 were recorded as of June 30, 2013, an increase of 97% over the prior year. In accounts payable and accrued expenses, the increase is due primarily to anticipated invoices for ongoing capital projects; and in unearned revenue, to receipt of a private grant for construction of Phase 2 of the Park and Public Space project.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

In the prior year, liabilities of $17,769,913 were attributed to pending invoices for ongoing capital projects in accounts payable and accrued expenses (totaling $9,216,093); and to receipt of City operating funds and an advance of State capital funds in unearned revenue (totaling $7,703,768). City funds were provided to TGI for landscape design work related to Phase 2 of the Park and Public Space project for the Hills. State capital funds also were provided to TGI based on a 2010 agreement, comprising $6,790,069 of the total $7.7 million unearned revenue as of June 30, 2012.

Current Liabilities	2013	2012	2011	2013 vs 2012 (%)	2012 vs 2011 (%)
Accounts payable and accrued expenses					
Operations	$ 1,196,561	$ 850,052	$ 326,333		
City Capital	21,716,154	8,741,595	202,908		
State Capital	1,683,420	474,498	2,854,063		
Total accounts payable and accrued expenses	24,596,135	10,066,145	3,383,304	144%	198%
Unearned revenue					
Operating revenue	173,171	913,699	173,171		
Private Grant	7,500,000	-	-		
State Capital	2,654,132	6,790,069	-		
Total unearned revenue	10,327,303	7,703,768	173,171	34%	4349%
Total current liabilities	$ 34,923,438	$ 17,769,913	$ 3,556,475	97%	400%

In addition, noncurrent liabilities of $224,645 consist entirely of TGI's other postemployment benefits obligation ("OPEB"); the same was true in the prior year, when TGI's OPEB obligation was $196,189. As of June 30, 2013 and 2012, TGI's total liabilities were $35,148,083 and $17,966,102, respectively.

Net Position

Net position as of June 30, 2013 was $153,039,511; $160,871,228 was invested in capital assets and ($7,831,717) was unrestricted. The overall increase of 185% in net position represents TGI's multimillion-dollar capital program, including design and construction of new park and public spaces, as well as infrastructure improvements throughout the property.

Net position as of June 30, 2012 was $53,650,335, of which $46,251,179 was invested in capital assets and $7,399,156 was unrestricted. TGI's 2012 net position represented an increase of 83% over 2011.

Operating Revenue

For the year ended June 30, 2013, TGI's total operating revenue of $12,480,040 consisted of $571,171 in fee income and $11,908,869 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. The 61% decrease compared to the prior year, however, is due primarily to TGI no longer receiving fees from the Harbor School for custodial services, which were $682,547 in the year ended June 30, 2012. The school now contracts for such services independently. In addition, it has not been possible to plan large, fee-generating events while construction activity is at a high point.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

For the year ended June 30, 2012, TGI's total operating revenue of $13,773,383 consisted of $1,468,388 in fee income (from site fees, event-related reimbursements, and Harbor School payments for custodial services) and $12,304,994 in operating grants and contributions from the City.

				Variance (%)	
	2013	2012	2011	2013 vs 2012	2012 vs 2011
OPERATING REVENUES:					
Permits and fees	$ 571,171	$ 1,468,389	$ 1,769,582	-61%	-17%
Operating grants and contributions	11,908,869	12,304,994	13,522,531	-3%	-9%
TOTAL OPERATING REVENUES	$ 12,480,040	$ 13,773,383	$ 15,292,113	-9%	-10%

Operating Expenses

Total operating expenses of $13,796,600 for the year ended June 30, 2013 include TGI's facilities management contract with the Turner Construction Company of $9,967,717, as well as TGI's internal expenses.

				Variance (%)	
	2013	2012	2011	2013 vs 2012	2012 vs 2011
OPERATING EXPENSES:					
Facilities management contract	$ 9,967,717	$ 10,404,527	$ 11,329,718	-4%	-8%
Personnel costs	2,516,714	1,750,388	1,846,960	44%	-5%
Utilities	362,236	305,966	571,974	18%	-47%
Depreciation and amortization	696,815	695,085	590,633	0%	18%
Other general and administrative expenses	253,118	339,590	231,954	-25%	46%
TOTAL OPERATING EXPENSES	$ 13,796,600	$ 13,495,556	$ 14,571,239	2%	-7%

Operating (loss) income was ($1,316,560) for the year ended June 30, 2013 and $277,827 for the year ended June 30, 2012. The 2013 differential between operating revenue and expenses is primarily a result of TGI spending in advance of reimbursement from government sources. For example, included in personnel costs are the salaries and fringe benefits of staff overseeing capital projects, for which TGI may be reimbursed by the City capital budget following the same approval procedures as for all other capital work. Additional costs were incurred to repair damage caused by Hurricane Sandy's impact on the Island. Funds on hand were used for immediate expenses, which TGI anticipates will be reimbursed by Federal emergency grants.

The Turner contract, representing 72% of total operating expenses, covers the cost of Turner staff working on daily Island operations and well as all of the subcontractors who provide services: ferry, security, janitorial and repairs, among others. TGI personnel costs were $2,516,714, an increase of 44% from 2012. Several new staff members were hired in late 2012; their full annualized costs are included in 2013. These new staff members fill essential roles in TGI's organization, with responsibility for capital improvements, finances, and fundraising. TGI's gas and water bills were higher in 2013 than in 2012, accounting for part of the 18% increase in utilities between 2013 and 2012. Other general and administrative expenses were $253,118, a decrease of 25%, primarily due to a decrease in administrative fees paid to EDC for accounting services.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

In the prior year, personnel costs were $1,750,388, a decrease of 5% from 2011. Other general and administrative expenses were $339,590, an increase of 46%, the most significant portion of which was a $50,000 refund to a producer whose two concerts had to be cancelled when Hurricane Irene struck in the summer of 2011.

Nonoperating Revenues

Nonoperating revenues totaled $100,705,736, $24,009,914 and $28,641,720 for the years ended June 30, 2013, 2012 and 2011, respectively. The increase in capital grants and funding represents progress on TGI's Island-wide capital improvement program. Details are provided below.

				Variance (%)	
	2013	2012	2011	2013 vs 2012	2012 vs 2011
NONOPERATING REVENUES:					
Capital grants and contributions from government sources	$ 99,282,391	$ 23,331,198	$ 23,079,630	326%	1%
Grants and contributions from private sources	1,417,272	875,600	-	62%	100%
Transfer of assets from GIPEC	-	-	5,532,132	0%	-100%
Unrealized and realized loss on investment	(17,720)	(275,000)	-	-94%	-100%
Interest income	14,405	24,554	29,958	-41%	-18%
Other income	9,388	53,562	-	-82%	100%
NONOPERATING REVENUES	$ 100,705,736	$ 24,009,914	$ 28,641,720	319%	-16%

Related Issues

Additional expenses were incurred during the year ended June 30, 2013, due to Hurricane Sandy. The Island was hit by high winds and portions of the Island were flooded as water rose above the seawall, causing significant damage to the Island property and at the Battery Maritime Building in Manhattan. While emergency debris removal and emergency repair measures are complete, permanent restoration work is ongoing. Total recovery costs are currently estimated at $7 million, of which close to $1 million has been paid to contractors. Federal grant funds have been allocated to TGI for these costs, which will flow through the City to TGI. This allocation totals $4.9 million, having been budgeted prior to all damage being fully assessed, and may be adjusted as part of the City's next financial plan.

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, 2013 AND 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2D and 7A)	$ 1,433,360	$ 2,802,035
Restricted cash and cash equivalents (Notes 2D, 2E and 7)	10,439,014	14,883,367
Accounts receivable	167,717	228,742
Grants and contributions receivable from government sources	14,609,641	7,397,976
Grants and contributions receivable from private sources	662,272	25,000
Prepaid expenses	4,362	3,138
Investments (Note 7B)	-	25,000
Total current assets	27,316,366	25,365,258
Noncurrent assets		
Capital assets, net of accumulated depreciation (Notes 2F and 3)	160,871,228	46,251,179
Total assets	$ 188,187,594	$ 71,616,437
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 24,596,135	$ 10,066,145
Unearned revenue	10,327,303	7,703,768
Total current liabilities	34,923,438	17,769,913
Noncurrent liabilities		
Other postemployment benefits obligation (Notes 2I and 6)	224,645	196,189
Total liabilities	35,148,083	17,966,102
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET POSITION (Note 2G)		
Invested in capital assets	160,871,228	46,251,179
Unrestricted	(7,831,717)	7,399,156
Total net position	153,039,511	53,650,335
TOTAL LIABILITIES AND NET POSITION	$ 188,187,594	$ 71,616,437

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, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Permits and other fees	$ 571,171	$ 1,468,389
Operating grants and contributions (Notes 2C and 4)	11,908,869	12,304,994
TOTAL OPERATING REVENUES	12,480,040	13,773,383
OPERATING EXPENSES:		
Facilities management contract (Note 8C)	9,967,717	10,404,527
Personnel costs (Notes 5 and 6)	2,516,714	1,750,388
Utilities	362,236	305,966
Depreciation and amortization	696,815	695,085
Other general and administrative expenses	253,118	339,590
TOTAL OPERATING EXPENSES	13,796,600	13,495,556
OPERATING (LOSS) INCOME (Note 2B)	(1,316,560)	277,827
NONOPERATING REVENUES (EXPENSES):		
Capital grants and contributions from government sources (Notes 2C and 4)	99,282,391	23,331,198
Grants and contributions from private sources (Notes 2C)	1,417,272	875,600
Realized and unrealized loss on investment (Note 7B)	(17,720)	(275,000)
Interest income	14,405	24,554
Other income	9,388	53,562
TOTAL NONOPERATING REVENUES AND EXPENSES	100,705,736	24,009,914
CHANGE IN NET POSITION	99,389,176	24,287,741
Net position, beginning of year	53,650,335	29,362,594
NET POSITION, END OF YEAR	$ 153,039,511	$ 53,650,335

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, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Customer payments	$ 632,196	$ 1,344,545
Operating grants and contributions	11,168,341	13,045,522
Total cash receipts from operating activities	11,800,537	14,390,067
Cash payments for:		
Personnel costs	(2,436,539)	(1,619,048)
Services and supplies	(10,289,506)	(10,622,842)
Total cash payments for operating activities	(12,726,045)	(12,241,890)
Net Cash (Used) Provided by Operating Activities	(925,508)	2,148,177
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants and contributions from private sources	780,000	550,600
Other receipts	9,388	53,562
Sale of investments	7,280	-
Net Cash Provided by Noncapital Financing Activities	796,668	604,162
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions from government sources	95,434,789	22,723,291
Capital asset expenditures	(101,133,382)	(19,671,201)
Net Cash (Used) Provided by Capital and Related Financing Activities	(5,698,593)	3,052,090
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	14,405	24,554
Net Cash Provided by Investing Activities	14,405	24,554
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,813,028)	5,828,983
Cash and cash equivalents - beginning of year	17,685,402	11,856,419
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 11,872,374	$ 17,685,402
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss) income	$ (1,316,560)	$ 277,827
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	696,815	695,085
Changes in operating assets and liabilities:		
Accounts receivable	61,025	(123,844)
Prepaid expenses	(1,224)	6,406
Accounts payable and accrued expenses	346,508	523,719
Unearned revenue	(740,528)	740,528
Other postemployment benefits obligation	28,456	28,456
Net Cash (Used) Provided by Operating Activities	$ (925,508)	$ 2,148,177
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	$ 1,433,360	$ 2,802,035
Restricted cash and cash equivalents	10,439,014	14,883,367
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 11,872,374	$ 17,685,402
Supplemental Disclosure of Cash Flow Information:		
Noncash capital and related financing transactions:		
Accrued capital asset expenditures	$ 23,399,575	$ 9,216,093
Donated stocks	$ -	$ 300,000
Realized and unrealized loss on investments	$ (17,720)	$ (275,000)

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 into a destination with great public open space, as well as educational, not-for-profit and commercial facilities. TGI broke ground on 30 acres of new park spaces scheduled to be complete in the fall of 2013 and is proceeding with 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 Governors Island Preservation and Education Corporation ("GIPEC"), a subsidiary of the New York State Urban Development Corporation (a corporate governmental agency of the State constituting a political subdivision and public benefit corporation doing business as the Empire State Development Corporation), were acquired by TGI for a nominal price of $1 under the Asset Purchase Agreement dated July 14, 2010 between GIPEC and TGI. The Governors Island property acquired by TGI from GIPEC is subject to the restrictions, conditions, covenants and easements associated with the property, such as certain acreage required to be converted to public open space and other historic areas prohibited from new development.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Measurement Focus and Basis of Accounting*

TGI's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred.

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.

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 permit and other fees and operating grants and contributions from the City. Major operating expenses include facilities management costs, personnel costs, professional fees and utilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 City's 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.

TGI also records contributions of cash and other assets from private donors when an unconditional promise to give is received from a donor. Contributions are recorded at the fair value of the assets received and are classified as unrestricted or restricted net position in the accompanying statement of net position depending on any donor restriction.

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 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 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

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. The negative amount is 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***

- 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. Beginning in the year ended June 30, 2013, TGI changed the format of the financial statements to comply with the new requirements and changed the statements of net assets to statements of net position, and the statements of revenues, expenses, and changes in net assets to the statement of revenues, expenses, and changes in net position. In addition, the format of the financial statements for June 30, 2012 has been changed accordingly for comparative purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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. GASB 64 did not have an impact on TGI's financial statements.

- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 establishes accounting and reporting standards that reclassify certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and recognize certain items currently being reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The provisions of GASB 65 are effective for financial statement for periods beginning after December 15, 2012. TGI implemented GASB 65 in fiscal year 2013 but the adoption of GASB 65 had no impact on its financial statements.

- In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 an Amendment of GASB Statements No. 10 and No.* 62 ("GASB 66"). GASB 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions,* and Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements.* The provisions of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. TGI has not completed the process of evaluating GASB 66, but does not expect it to have an impact on its financial statements.

- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). GASB 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and GASB Statement No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules. The provisions of GASB 66 are effective for financial statements for fiscal years beginning after June 15, 2013. TGI has not completed the process of evaluating GASB 67, but does not expect it to have an impact on its financial statements.

- In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014. TGI has not completed the process of evaluating GASB 68, but does not expect it to have an impact on its financial statements.

NOTE 3 – CAPITAL ASSETS

The changes in capital assets for the years ended June 30, 2013 and 2012, respectively, reflect the growth in current construction activity on the Island. The changes in capital assets for the year ended June 30, 2012 are as follows:

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Land	$ 1	$ -	$ -	$ 1
Site Improvements	3,850,260	-	-	3,850,260
Vessels	4,750,000	-	-	4,750,000
Equipment	726,559	53,076	-	779,635
Vehicles	228,671	-	-	228,671
Software	6,230	-	-	6,230
Total Project Assets	9,561,721	53,076	-	9,614,797
Less: Accumulated Depreciation				
Site Improvements	(343,991)	(187,026)	-	(531,017)
Vessels	(606,945)	(316,666)	-	(923,611)
Equipment	(246,779)	(145,312)	-	(392,091)
Vehicles	(87,657)	(45,734)	-	(133,391)
Software	(346)	(2,077)	-	(2,423)
Total Accumulated Depreciation	(1,285,718)	(696,815)	-	(1,982,533)
Construction in Progress	37,975,176	115,263,788	-	153,238,964
Net Project Assets	$ 46,251,179	$114,620,049	$ -	$160,871,228

The changes in capital assets for the year ended June 30, 2012 are as follows:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Land	$ 1	$ -	$ -	$ 1
Site Improvements	3,850,260	-	-	3,850,260
Vessels	4,750,000	-	-	4,750,000
Equipment	553,460	173,099	-	726,559
Vehicles	228,671	-	-	228,671
Software	-	6,230	-	6,230
Total Project Assets	9,382,392	179,329	-	9,561,721
Less: Accumulated Depreciation				
Site Improvements	(156,965)	(187,026)	-	(343,991)
Vessels	(290,278)	(316,667)	-	(606,945)
Equipment	(101,467)	(145,312)	-	(246,779)
Vehicles	(41,923)	(45,734)	-	(87,657)
Software	-	(346)	-	(346)
Total Accumulated Depreciation	(590,633)	(695,085)	-	(1,285,718)
Construction in Progress	12,324,182	25,650,994	-	37,975,176
Net Project Assets	$ 21,115,941	$ 25,135,238	$ -	$ 46,251,179

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. Capital expenditures totaling to $23,399,575 and $9,216,093 were accrued as of June 30, 2013 and 2012, respectively, which will be paid upon receipt and review of the contractor invoices.

NOTE 3 – CAPITAL ASSETS (Continued)

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 was reimbursed by the City for custodial and other services provided by TGI for the premises through July 2012. 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, 2013 and 2012, TGI recognized the amount spent for eligible project costs totaling $99,282,391 and $23,331,198, respectively, as capital contributions in the accompanying statement 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 $103,568,954 and $29,640,467 for the years ended June 30, 2013 and 2012, respectively. Such amounts represented approximately 92% and 78% of total revenues for the years ended June 30, 2013 and 2012, respectively.

NOTE 5 – PENSION PLAN

TGI's employees participate in benefit plans comparable to those of the New York City Economic Development Corporation ("EDC"), a component unit of the City. The pension plan is a defined contribution plan, which covers substantially all of TGI's employees. It 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 years ended June 30, 2013 and 2012 amounted to $178,619 and $141,138, respectively, and is included in personnel costs in the accompanying statement of revenues, expenses and changes in net position.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS

TGI's employees were eligible to participate in EDC's retiree health care plan during the year ended June 30, 2013. 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 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. 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, 2013, 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 June 30, 2022. There were no retirees of TGI receiving benefits from the plan as of June 30, 2013.

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.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

As TGI's OPEB plan has less than 200 members, actuarial valuations are required every three years. The most recent actuarial valuation was for the plan year ended June 30, 2011.

TGI's annual OPEB cost for the years ended June 30, 2013 and 2012 and the related information for the plan are as follows:

	2013	2012
Annual required contribution	$ 28,456	$ 28,456
Increase in net OPEB obligation	28,456	28,456
Net OPEB obligation – beginning of period	196,189	167,733
Net OPEB obligation – end of period	224,645	196,189
Funded OPEB plan assets – end of period	-	-
Unfunded actuarial accrued liability – end of period	$ 224,645	$ 196,189

As of June 30, 2013 and 2012, the actuarial accrued liability for benefits was $224,645 and $196,189, respectively, 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. There was 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, 2011, 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 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, 2013, TGI had cash accounts with the Bank that exceeded the FDIC insurance limits by approximately $11.6 million. 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 7 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

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 one investment as of June 30, 2012 which consisted of common stocks received as a gift from a private donor and reported as investments in the accompanying statement of net position. The stock could not be sold until the expiration of a six-month holding period. During that period the stock declined in value, to $25,000 as of June 30, 2012, from an initial market value of $300,000 and an unrealized loss of $275,000 was recognized for the year ended June 30, 2012. During the year ended June 30, 2013, the stock was sold for $7,280 and TGI recognized a realized loss of $17,720 from the sale. The supplemental disclosure in the accompanying statements of cash flows lists both the donated stock valued at the time of donation and the realized and unrealized loss on investments of $17,720 and $275,000 for the years ended June 30, 2013 and 2012, respectively.

TGI had no other investment transactions during the years ended June 30, 2013 and 2012.

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.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

B. ***Litigation***

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

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

TGI has entered into an agreement with Turner 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 has been extended for a two year period, expiring June 30, 2014. 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.

D. ***Impact of Hurricane Sandy***

Additional expenses were incurred during the year ended June 30, 2013, due to Hurricane Sandy. The Island was hit by high winds and portions of the Island were flooded as water rose above the seawall, causing significant damage to the Island property and at the Battery Maritime Building in Manhattan. While emergency debris removal and emergency repair measures are complete, permanent restoration work is ongoing. Total recovery costs are currently estimated at $7 million, of which close to $1 million has been paid to contractors. TGI's management believes reimbursement under Federal and State disaster relief programs will cover a substantial portion of these costs. However, the total cost of damages expected to be paid by TGI cannot be estimated at this time.