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, 2014 and 2013

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, 2014 AND 2013

CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12-21

Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
www.markspaneth.com

Manhattan
Long Island
Westchester
Cayman Islands

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, 2014 and 2013, 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, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Marks Paneth LLP

New York, NY
September 30, 2014

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, 2014 and 2013. 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 (the "Island") plus surrounding lands underwater, located in New York Harbor, in the Borough of Manhattan, City of New York. The remaining 22 acres of the Island were declared the Governors Island National Monument and are overseen by the National Park Service. TGI is a New York State not-for-profit corporation, governed by a 13-member board of directors appointed by the Mayor of the City of New York and nominated by the Mayor, the Governor of the State of New York, and local officials.

To further its purpose, TGI launched an ambitious capital program to build extraordinary new park and public spaces and bring the Island's infrastructure into the 21st century. TGI broke ground on the first phase of the Park and Public Space Plan in May 2012, creating 30 new acres of park on the Island's southern end that recently opened to the public. Phase 2 of the park project is underway, adding four hills of varying height and design to the landscape. Capital investment is also bringing potable water to the Island, upgrading its electrical system, rebuilding the seawall, and ensuring 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, 2014, TGI had current assets of $34,152,709 consisting of cash and cash equivalents of $24,664,312, accounts and grants receivable of $9,485,151, and prepaid expenses of $3,246. These are presented below in greater detail and in comparison to prior years.

Current Assets	2014	2013	2012	2014(%)	2013(%)
Cash and cash equivalents	$ 1,335,988	$ 1,433,361	$ 2,802,035	-7%	-49%
Restricted cash and cash equivalents	23,328,324	10,439,014	14,883,367	123%	-30%
Accounts receivable	209,866	167,717	228,742	25%	-27%
Grants and contributions receivable from government sources	8,944,769	14,609,641	7,397,976	-39%	97%
Grants and contributions receivable from private sources	330,516	662,272	25,000	-50%	2549%
Prepaid expenses	3,246	4,362	3,138	-26%	39%
Investments	-	-	25,000	0%	-100%
Total current assets	**$ 34,152,709**	**$ 27,316,367**	**$ 25,365,258**	25%	8%

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 Highway Administration grant for 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 for an art commissioning program to be integrated into the Park. In the year ended June 30, 2014, several contributions were received and are now held in restricted cash and cash equivalent accounts. In the year ended June 30, 2014, grants and contributions receivable from private sources totaled $330,516.

Noncurrent Assets

The following chart shows TGI's noncurrent (i.e., capital) assets for the years ended June 30, 2014, 2013 and 2012.

Capital Assets Summary	2014	2013	2012
Beginning Balance	$ 160,871,228	$ 46,251,179	$ 21,115,941
Additions (Net of Depreciation)	101,477,938	114,620,049	25,135,238
Ending Balance	**$ 262,349,166**	**$ 160,871,228**	**$ 46,251,179**

TGI's capital assets are comprised of property transferred in July 2010 from the Governors Island Preservation and Education Corporation ("GIPEC"), TGI's predecessor, as well as improvements made since then. Capital assets transferred to TGI consist of title to 150 acres of Governors Island, vessels, vehicles and other equipment valued at $5,532,132 in total. For the year ended June 30, 2014, $114,531,022 was transferred from construction in progress to site improvements for work completed and in use in the new park. Capital expenses of $115,263,789 and $25,650,994 were incurred during the years ended June 30, 2013 and 2012, respectively. These are presented in greater detail in Note 3. Capital expenses were funded primarily by government grants.

As of June 30, 2014, total noncurrent assets, consisted of capital assets, net of accumulated depreciation, of $262,349,166 ($265,516,445 less $3,167,279 accumulated depreciation) and restricted cash – security deposits of $173,220. Net additions to capital assets (based on construction in progress) represent a 63% increase over the $160,871,228 balance as of June 30, 2013. Net additions to capital assets in fiscal year 2013 represented a 248% increase over the $46,251,179 balance as of June 30, 2012.

Total assets as of June 30, 2014, were $296,675,095, an increase of 58% over fiscal year 2013 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, 2013, were $188,187,594, an increase of 163% over the prior year.

Current and Noncurrent Liabilities

Current liabilities of $42,698,205 were recorded as of June 30, 2014, an increase of 23% 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 state capital funds and to private grants 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 $34,923,438 were attributed to pending invoices for ongoing capital projects in accounts payable and accrued expenses (totaling $24,596,135); an advance of State capital funds in unearned revenue (balance of $2,654,133); and a private grant provided to TGI for Phase 2 of the Park and Public Space project, the Hills (totaling $7,500,000). The balance of $173,170 represents a prepayment by the Harbor School.

Current Liabilities	2014	2013	2012	2014 vs 2013(%)	2013 vs 2012(%)
Accounts payable and accrued expenses					
Operations	$ 419,268	$ 1,196,561	$ 850,052		
Private grants	539,187	-	-		
City Capital	18,222,651	21,716,154	8,741,595		
State Capital	20,852	1,683,420	474,498		
Total accounts payable and accrued expenses	19,201,958	24,596,135	10,066,145	-22%	144%
Unearned revenue					
Operations	1,800	173,171	913,699		
Private grants	18,706,952	7,500,000			
State Capital	4,787,494	2,654,132	6,790,069		
Total unearned revenue	23,496,247	10,327,303	7,703,768	128%	34%
Total current liabilities	42,698,205	34,923,438	17,769,913	22%	97%
Noncurrent Liabilities					
Security deposits	173,220	-	-		
OPEB obligation	352,302	224,645	196,189		
Total noncurrent liabilities	525,522	224,645	196,189	134%	15%
TOTAL LIABILITIES	$ 43,223,727	$ 35,148,083	$ 17,966,102	23%	96%

In addition, noncurrent liabilities of $525,522 consist $173,220 of security deposits payable and $352,302 of TGI's other postemployment benefits obligation ("OPEB"). Noncurrent liabilities consist entirely of OPEB in the prior year which was $224,645. As of June 30, 2014 and 2013, TGI's total liabilities were $43,223,727 and $35,148,083, respectively.

Net Position

Net position as of June 30, 2014 was $253,451,368; $262,349,166 was invested in capital assets and ($8,897,798) was unrestricted. The overall increase of 66% 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, 2013 was $153,039,511, of which $160,871,228 was invested in capital assets and ($7,831,717) was unrestricted. TGI's 2013 net position represented an increase of 185% over 2012.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Operating Revenue

For the year ended June 30, 2014, TGI's total operating revenue of $12,497,596 consisted of $1,142,206 in fee income and $11,355,390 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 100% increase over the prior year is due to several factors including: charging a modest fare for the ferry to visitors during public access season (amounting to $125,768 for fiscal year 2014); contracting with a new bike rental company; and hosting a greater number of events and food vendors with the opening of the new park and public space.

For the year ended June 30, 2013, TGI's total operating revenue of $12,480,040 consisted of $571,171 in fee income (from site fees and event-related reimbursements) and $11,908,869 in operating grants and contributions from the City.

	2014	2013	2012	Variance (%) 2014 vs 2013	Variance (%) 2013 vs 2012
OPERATING REVENUES:					
Permits and fees	$ 1,142,206	$ 571,171	$ 1,468,389	100%	-61%
Operating grants and contributions	11,355,390	11,908,869	12,304,994	-5%	-3%
	$ 12,497,596	$ 12,480,040	$ 13,773,383	0%	-9%

Operating Expenses

Total operating expenses of $16,057,248 for the year ended June 30, 2014 include TGI's facilities management contract with the Turner Construction Company of $11,089,207, as well as TGI's internal expenses.

	2014	2013	2012	Variance (%) 2014 vs 2013	Variance (%) 2013 vs 2012
OPERATING EXPENSES:					
Facilities management contract	$ 11,089,207	$ 9,967,717	$ 10,404,527	11%	-4%
Personnel costs	2,700,941	2,516,714	1,750,388	7%	44%
Utilities	536,368	362,236	305,966	48%	18%
Depreciation and amortization	1,184,745	696,815	695,085	70%	0%
Other general and administrative expenses	545,987	253,118	339,590	116%	-25%
TOTAL OPERATING EXPENSES	$ 16,057,248	$ 13,796,600	$ 13,495,556	16%	2%
OPERATING (LOSS) INCOME	$ (3,559,652)	$ (1,316,560)	$ 277,827	-244%	98%

Operating (loss) income was ($3,559,652) for the year ended June 30, 2014 and ($1,316,560) for the year ended June 30, 2013. The 2014 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 is reimbursed by the City capital budget following the same approval procedures as for all other capital work. TGI continues to incur costs to repair damage caused by Hurricane Sandy's impact on the Island. Funds on hand were used for this purpose, which TGI anticipates will be reimbursed by Federal emergency grants.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

The Turner contract, representing 70% of total operating expenses, covers the cost of Turner staff working on daily Island operations as well as all of the subcontractors who provide services: ferry, security, janitorial and repairs, among others. TGI personnel costs were $2,700,941, an increase of 7% from 2013. TGI's gas and water bills were higher in 2014 than in 2013, accounting for part of the 48% increase in utilities between 2014 and 2013. Other general and administrative expenses were $545,987, an increase of 116%. This increase reflects the launch of TGI's donor-funded Public Art Program – expenditures of $259,432 covered curatorial services as well as fabrication and installation of several new artworks on the Island.

In the prior year, notable operating expenses included personnel costs of $2,516,714, an increase of 44% from 2012 based on the annualized salaries of several new staff members. 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.

Nonoperating Revenues

Nonoperating revenues totaled $103,971,509, $100,705,736 and $24,009,914 for the years ended June 30, 2014, 2013 and 2012, respectively. The increase in capital grants and funding represents progress on TGI's Island-wide capital improvement program. Details are provided below.

				Variance (%)	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
NONOPERATING REVENUES:					
Capital grants and contributions from government sources	$ 96,437,557	$ 99,282,391	$ 23,331,198	-3%	326%
Grants and contributions from private sources	7,492,816	1,417,272	875,600	429%	100%
Unrealized and realized loss on investment	-	(17,720)	(275,000)	-100%	-100%
Interest income	32,370	14,405	24,554	125%	-41%
Other income	8,766	9,388	53,562	-7%	100%
	$ 103,971,509	$ 100,705,736	$ 24,009,914	3%	319%
Change in net position	$ 100,411,855	$ 99,389,176	$ 24,287,741	1%	309%
Net position - beginning of year	153,039,511	53,650,335	29,362,594	185%	100%
Net position - end of year	$ 253,451,366	$ 153,039,511	$ 53,650,335	66%	185%

Related Issues

Additional expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Hurricane Sandy. While emergency debris removal and emergency repair measures are complete, permanent restoration work continues. For work completed, approximately $2.5 million has been paid to contractors. For non-emergency, non-essential work – meaning not essential to day-to-day operations – TGI is engaged in the project review process with the Federal Emergency Management Agency ("FEMA") and will not move forward until FEMA provides funding approval. These project costs are currently estimated to be $4.5 million. The FEMA review, approval and budgeting process is being coordinated with the New York City Office of Management and Budget.

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, 2014 AND 2013

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2D and 7A)	$ 1,335,988	$ 1,433,361
Restricted cash and cash equivalents (Notes 2D, 2E and 7)	23,328,324	10,439,014
Accounts receivable	209,866	167,717
Grants and contributions receivable from government sources	8,944,769	14,609,641
Grants and contributions receivable from private sources	330,516	662,272
Prepaid expenses	3,246	4,362
Total current assets	34,152,709	27,316,367
Noncurrent assets		
Restricted cash - security deposits	173,220	-
Capital assets, net of accumulated depreciation (Notes 2F and 3)	262,349,166	160,871,228
Total noncurrent assets	262,522,386	160,871,228
Total assets	$ 296,675,095	$ 188,187,595
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 19,201,958	$ 24,596,135
Unearned revenue	23,496,247	10,327,303
Total current liabilities	42,698,205	34,923,438
Noncurrent liabilities		
Security deposits	173,220	-
Other postemployment benefits obligation (Notes 2I and 6)	352,302	224,645
Total noncurrent liabilities	525,522	224,645
Total liabilities	43,223,727	35,148,083
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET POSITION (Note 2G)		
Invested in capital assets	262,349,166	160,871,228
Unrestricted	(8,897,798)	(7,831,717)
Total net position	253,451,368	153,039,511
TOTAL LIABILITIES AND NET POSITION	$ 296,675,095	$ 188,187,594

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, 2014 AND 2013

	2014	2013
OPERATING REVENUES:		
Permits and other fees	$ 1,142,206	$ 571,171
Operating grants and contributions (Notes 2C and 4)	11,355,390	11,908,869
TOTAL OPERATING REVENUES	12,497,596	12,480,040
OPERATING EXPENSES:		
Facilities management contract (Note 8C)	11,089,207	9,967,717
Personnel costs (Notes 5 and 6)	2,700,941	2,516,714
Utilities	536,368	362,236
Depreciation and amortization	1,184,745	696,815
Other general and administrative expenses	545,987	253,118
TOTAL OPERATING EXPENSES	16,057,248	13,796,600
OPERATING LOSS	(3,559,652)	(1,316,560)
NONOPERATING REVENUES (EXPENSES):		
Capital grants and contributions from government sources (Notes 2C and 4)	96,437,557	99,282,391
Capital grants and contributions from private sources (Notes 2C)	7,492,816	1,417,272
Realized and unrealized loss on investment (Note 7B)	-	(17,720)
Interest income	32,370	14,405
Other income	8,766	9,388
TOTAL NONOPERATING REVENUES AND EXPENSES	103,971,509	100,705,736
CHANGE IN NET POSITION	100,411,857	99,389,176
Net position, beginning of year	153,039,511	53,650,335
NET POSITION, END OF YEAR	$ 253,451,368	$ 153,039,511

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, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Customer payments	$ 1,100,057	$ 632,196
Operating grants and contributions	11,184,020	11,168,341
Total cash receipts from operating activities	12,284,077	11,800,537
Cash payments for:		
Personnel costs	(2,698,415)	(2,436,539)
Services and supplies	(12,822,609)	(10,289,506)
Total cash payments for operating activities	(15,521,024)	(12,726,045)
Net Cash Used in Operating Activities	(3,236,947)	(925,508)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments from lessees - security deposits	173,220	-
Other receipts	8,766	9,388
Sale of investments	-	7,280
Net Cash Provided by Noncapital Financing Activities	181,986	16,668
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions from government sources	115,442,742	95,434,789
Capital grants and contributions from private sources	7,824,574	780,000
Capital asset expenditures	(107,279,567)	(101,133,382)
Net Cash Provided by (Used in) Capital and Related Financing Activities	15,987,749	(4,918,593)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	32,370	14,405
Net Cash Provided by Investing Activities	32,370	14,405
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,965,158	(5,813,028)
Cash and cash equivalents - beginning of year	11,872,374	17,685,402
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 24,837,532	$ 11,872,374
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	$ (3,559,652)	$ (1,316,560)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:		
Depreciation and amortization	1,184,745	696,815
Changes in operating assets and liabilities:		
Accounts receivable	(42,149)	61,025
Prepaid expenses	1,116	(1,224)
Accounts payable and accrued expenses	(777,293)	346,508
Unearned revenue	(171,371)	(740,528)
Other postemployment benefits obligation	127,657	28,456
Net Cash Used in Operating Activities	$ (3,236,947)	$ (925,508)
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	$ 1,335,988	$ 1,433,361
Restricted cash and cash equivalents	23,501,544	10,439,014
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 24,837,532	$ 11,872,375
Supplemental Disclosure of Cash Flow Information:		
Noncash capital and related financing transactions:		
Accrued capital asset expenditures	$ 18,782,691	$ 23,399,575
Realized and unrealized loss on investments	$ -	$ (17,720)

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 destination with great public open space, as well as educational, not-for-profit and commercial facilities. TGI opened 30 acres of new park spaces in 2014 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 projects being place in service, site improvement costs are reclassified from construction in progress and amortized over the estimated useful lives of the assets.

Other property and equipment purchased for use in operations by TGI in excess of $5,000 is capitalized and depreciated using the straight-line method over the estimated useful life assigned.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Net Position*

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

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

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

H. *Use of Estimates*

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

I. *Other Postemployment Benefits*

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

J. *Recent Accounting Pronouncements*

- 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 were effective for financial statements for periods beginning after December 15, 2012. GASB 66 did not have an impact on TGI's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 67 are effective for financial statements for fiscal years beginning after June 15, 2013. TGI implemented GASB 67 in fiscal year 2014 but the adoption of GASB 67 did not have an impact on TGI's financial statements as TGI is not an applicable pension-administered entity.

- 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 implemented GASB 68 in fiscal year 2014 but the adoption of GASB 68 did not have an impact on TGI's financial statements.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* ("GASB 69") is effective for fiscal years beginning after December 15, 2013. GASB 69 establishes standards of accounting and financial reporting related to government combinations and disposals of government operations. GASB 69 requires the use of carrying values to measure the assets and liabilities in a government merger or transfer of operations, and gives accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. TGI implemented GASB 69 in fiscal year 2014 but the adoption of GASB 69 did not have an impact on TGI's financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* ("GASB 70") is effective for reporting periods beginning after June 30, 2013. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB 70 specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, GASB 70 requires new information to be disclosed by governments that receive nonexchange financial guarantees. TGI implemented GASB 70 in fiscal year 2014 but the adoption of GASB 70 did not have an impact on TGI's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* ("GASB No. 71") is effective for fiscal periods beginning after June 15, 2014. GASB No. 71 eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, "Accounting and Financial Reporting for Pensions ("GASB No. 68")." To correct this potential understatement, GASB No. 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of GASB No. 68, which is required to be applied in fiscal years beginning after June 15, 2014. TGI implemented GASB 71 in fiscal year 2014 but the adoption of GASB 71 did not have an impact on TGI's financial statements.

NOTE 3 – CAPITAL ASSETS

The changes in capital assets for the years ended June 30, 2014 and 2013, respectively, reflect the growth in current construction activity on the Island. In particular, the park and public space project opened to the public for use in May 2014 and was therefore added to the asset list. The changes in capital assets for the year ended June 30, 2014 were as follows:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Land	$ 1	$ -	$ -	$ 1
Site Improvements	3,850,260	114,531,022	-	118,381,282
Vessels	4,750,000	-	-	4,750,000
Equipment	779,635	25,045	-	804,680
Vehicles	228,671	-	-	228,671
Software	6,230	-	-	6,230
Total Project Assets	9,614,797	114,556,067	-	124,170,864
Less: Accumulated Depreciation				
Site Improvements	(531,017)	(664,237)	-	(1,195,254)
Vessels	(923,611)	(316,667)	-	(1,240,278)
Equipment	(392,092)	(156,029)	-	(548,121)
Vehicles	(133,391)	(45,735)	-	(179,126)
Software	(2,423)	(2,077)	-	(4,500)
Total Accumulated Depreciation	(1,982,534)	(1,184,745)	-	(3,167,279)
Construction in Progress	153,238,965	102,637,638	(114,531,022)	141,345,581
Net Project Assets	$ 160,871,228	$ 216,098,960	$(114,531,022)	$ 262,349,166

NOTE 3 – CAPITAL ASSETS (Continued)

The changes in capital assets for the year ended June 30, 2013 were 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	(246,780)	(145,312)	-	(392,092)
Vehicles	(87,657)	(45,734)	-	(133,391)
Software	(346)	(2,077)	-	(2,423)
Total Accumulated Depreciation	(1,285,719)	(696,815)	-	(1,982,534)
Construction in Progress	37,975,177	115,263,788	-	153,238,965
Net Project Assets	$ 46,251,180	$114,620,048	$ -	$160,871,228

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 $18,782,691 and $23,399,575 were accrued as of June 30, 2014 and 2013, respectively, which will be paid upon receipt and review of the contractor invoices.

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

NOTE 4 – CONTRIBUTIONS

During the years ended June 30, 2014 and 2013, TGI recognized the amount spent for eligible project costs totaling $96,437,557 and $99,282,391, 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 $100,231,173 and $103,568,954 for the years ended June 30, 2014 and 2013, respectively. Such amounts represented approximately 86% and 92% of total revenues for the years ended June 30, 2014 and 2013, respectively.

NOTE 5 – PENSION PLAN

TGI's employees participate in retirement plans through Extensis, a professional employer organization. The plan sponsor and plan administrator is Extensis Holdings, LLC, which has ultimate authorization over the plan and any amendments, plan terminations, vesting, distributions, and all plan activity as it is a Multiple Employer Plan. Plan forfeitures are used to either reduce employer contributions, or are applied to plan fees. The employer-funded plan is a defined contribution plan, which covers substantially all of TGI's employees. It provides for variable contribution rates by TGI ranging from 3% to 14% of the employee's eligible wages as defined in the plan document. Pension expense for the years ended June 30, 2014 and 2013 amounted to $195,760 and $178,619, 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 the New York City Economic Development Corporation's ("EDC") retiree health care plan. As of May 25, 2010, TGI became an independent entity responsible for producing its own financial reports and submitting them with those of EDC. As such, a separate independent valuation is required to be completed for TGI.

The plan is a single employer defined benefit health care plan that provides postemployment medical 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.

Benefit provisions and contribution requirements for the plan are established and amended through TGI's Board of Directors and there is no statutory requirement for TGI to continue this plan for future employees of TGI. This plan is a contributory plan with retirees subject to contributions in the amount of $50 a month for single coverage and $100 a month for family coverage. Retirees receiving the postemployment health benefit pay a premium amount equal to what a current TGI employee pays, based on his or her family status. Employer contributions are made on a pay as you go basis. At June 30, 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, 2014.

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.

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, 2013.

TGI's annual OPEB cost for the years ended June 30, 2014 and 2013 and the related information for the plan are as follows:

	2014	2013
Annual required contribution ("ARC")	$ 352,302	$ 28,456
ARC adjustment and interest	(244,645)	28,456
Increase in net OPEB obligation	127,657	28,456
Net OPEB obligation – beginning of period	224,645	196,189
Net OPEB obligation – end of period	352,302	224,645
Funded OPEB plan assets – end of period	-	-
Unfunded actuarial accrued liability ("UAAL") – end of year	$ 352,302	$ 224,645

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

As of June 30, 2014 and 2013, the actuarial accrued liability for benefits was $352,302 and $224,645, 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.

The schedule of funding progress as of June 30, 2014 and 2013 is as follows:

	2014	2013
Unfunded actuarial accrued liability – end of year	$ 352,302	$ 224,645
Funded ratio	0%	0%
Covered payroll	$ 349,000	$ 349,000
UAAL as a percentage of covered payroll	101%	64%

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

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

NOTE 7 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

As of June 30, 2014 and 2013, TGI had cash accounts with the Bank that exceeded the FDIC insurance limits by approximately $24.6 million and $11.6 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 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 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 the realized loss on investments of $17,720 for the year ended June 30, 2013.

TGI had no other investment transactions during the years ended June 30, 2014 and 2013.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

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

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

B. *Litigation*

TGI is involved in several personal injury actions allegedly arising out of accidents and incidents occurring on or about the project. Management believes that any liabilities arising from such claims would be covered either by indemnification protections provided in the master contract between TGI and the City, or by liability insurance/contractual indemnification of third parties, such as contractors or 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.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

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 was extended for a two-year period, expiring June 30, 2014. During the year ended June 30, 2014, the contract was further extended to June 30, 2016. The agreement allows Turner to enter into agreements with subcontractors for the maintenance, operation, construction and improvement of the Project. Amounts paid to Turner for facilities management services are recognized as expense in the period incurred while amounts paid to Turner for construction management services are capitalized and included in capital assets.

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

Additional expenses were incurred during the years ended June 30, 2014 and 2013, due to the damage caused by Hurricane Sandy. While emergency debris removal and emergency repair measures are complete, permanent restoration work continues. For work completed, approximately $2.5 million has been paid to contractors. For non-emergency, non-essential work – meaning not essential to day-to-day operations – TGI is engaged in the project review process with the Federal Emergency Management Agency ("FEMA") and will not move forward until FEMA provides funding approval. These project costs are currently estimated to be $4.5 million. While TGI's management believes reimbursement under Federal and State disaster relief programs will cover a substantial portion of these costs, the share of the total cost of damages expected to be paid by TGI cannot be estimated at this time.