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

Date: September 21, 2012

To: The Trust for Governors Island ("TGI")

From: Marks Paneth & Shron LLP

Re: **Observations and Recommendations Resulting From the June 30, 2012 Audit**

Matters in this memorandum are as of the date above. If matters should arise between this date and the date of our audit report on the financial statements, we will communicate them to you in a separate letter.

Included in Exhibit I are observations and recommendations from the prior year's audit that appear to require further action. Included in Exhibit II are those observations and recommendations from the prior year's audit that appear not to require further attention.

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Exhibit I – Prior Year Recommendations That Appear to Require Further Action

1. ACCOUNT RECONCILIATION

Prior Year Observation: During our audit process, 17 adjusting entries were proposed by the management of TGI and the audit team. These adjustments were necessary to properly state certain account balances and many of the adjustments were material to the financial statements of TGI. There were cases where reconciliation schedules supporting the year-end account balances were not readily available so the audit team assisted in the preparation of accounts reconciliations and analysis using the information from the general ledger detail. Accordingly, timely preparation and periodic review of account reconciliation is not evident for many of the general ledger accounts.

Prior Year Recommendation: Account analysis is the most effective method in determining whether the balance of an account is accurate or whether any adjustments are necessary. Although the form of the analysis may vary from one account to another, the information desired is virtually the same, namely: (1) the composition of the account, (2) the validity of the balance and (3) any adjustments required to correct the account.

We recommend that account reconciliations and analyses be prepared timely and on a periodic basis by personnel involved in the accounting processes and be reviewed by a supervisor. The account analysis should also be dated and signed off by both the prepared and the reviewer to evidence timely preparation and review. This process would enable management to have current and accurate information and also help reduce the amount of time spent by management and the auditors on year-end account reconciliation.

***Management's Prior Year Response*:** TGI was formed in June 2010, and assumed its assets from the Governors Island Preservation and Education Corporation ("GIPEC"), a subsidiary of the Empire State Development Corporation) on July 14, 2010. At that time, the TGI Board authorized TGI to enter into an MOU with the New York City Economic Development Corporation ("EDC") to provide finance, accounting, and human resources functions to TGI in the absence of a staff to perform those functions at TGI.

In June of 2011, TGI hired Willa Padgett as TGI CFO, and her appointment as an officer of the corporation was ratified by the Board on July 19, 2011. The CFO's responsibilities include day to day authority and responsibility for all aspects of TGI's accounts, including payments, receivables, investments, contracts, and related matters. Ms. Padgett has an extensive background in local non-profit and government finance and accounting, including past employment at both the Brooklyn Navy Yard Development Corporation and the New York City Office of Management and Budget. In addition, TGI has finalized a job description and will be recruiting for the position of Controller. This individual will assist the CFO in all matters relating to accounting, billing, and finance.

The addition of these two positions to the TGI staff will ensure clear and full responsibility and accountability for all fiscal functions moving forward, and will address many of the items noted in this audit.

For FY 2012 and beyond, the TGI CFO and Controller will meet on a monthly basis with EDC staff to produce a monthly reconciliation report. TGI and EDC staffs have established a monthly meeting to focus on reconciliation of the month's transactional information. This meeting will focus on ensuring that clear and well organized backup material is included with each transaction, that each transaction has been properly accounted for, and that there is full reconciliation at the end of each month.

Taken together, these two improvements from the beginning of the fiscal year will ensure that the auditor's recommendations can be effectively implemented immediately.

2012 Status: In the prior period ended June 30, 2011, there were 17 adjustments which increased net assets by approximately $18.5 million. For the year ended June 30, 2012, there were 7 adjustments (including one reclassifying entry) proposed by TGI or our audit team subsequent to the start of our fieldwork which increased net assets by approximately $3 million. Although there was clear improvement in the financial close process of TGI resulting in a fewer number and lower dollar amount of audit adjustments, we still consider the number and dollar amount of the adjustments to be less than ideal. We recommend that TGI continue to make improvements on the year-end account analysis to further reduce the amount of year-end audit adjustments. However, we no longer consider this deficiency in internal control to be a significant deficiency.

2012 Management's Response: For the period from July 1, 2011, to June 30, 2012, TGI implemented procedures intended to improve the accounting process. These include preparation of monthly schedules and financial statements, account analysis and reconciliation for each month's close, and monthly meetings with the Accounting Department of the NYC Economic Development Corporation (which was responsible for accounting services during the period). In addition, TGI hired a controller as of December 2011 so there are now two full-time financial professionals on staff.

As of July 1, 2012, TGI implemented its own accounting system. Going forward, we will continue the monthly account analysis and reconciliation process, which will be completed entirely in-house. TGI is committed to continuous improvement of our accounting and financial reporting systems, with the goal of limiting adjustments to an immaterial level. The seven adjustments made subsequent to the start of the auditor's field work increased TGI's net assets by approximately $3 million. These adjustments represent just six percent of TGI's total net assets of $53,650,335 and a marked improvement over last year.

**** END OF PRIOR YEAR RECOMMENDATIONS REQUIRING FURTHER ACTION ****

Exhibit II – Prior Year Recommendations That Appear Not to Require Further Action

2. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

3. DOCUMENTATION OF REVIEW OF JOURNAL ENTRIES

4. COMMUNICATION BETWEEN TGI AND EDC

5. REIMBURSABLE EXPENSES

6. BOARD COMMITTEE MINUTES

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8. ACCRUED VACATION

9. CASH DEPOSITS IN EXCESS OF FDIC INSURANCE LIMIT

10. DOCUMENTATION OF ACCOUNTING TRANSACTIONS

**** END ****