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)

Year Ended June 30, 2012
And the Period from the Commencement of
Operations (July 14, 2010) Through June 30, 2011

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

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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 June 30, 2012 and 2011 and for the year ended June 30, 2012 and the period from the commencement of operations (July 14, 2010) through June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of TGI's management. Our responsibility is to express an opinion on these financial statements based on our 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic 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, 2012 and 2011 and the changes in its financial position and its cash flows for the year ended June 30, 2012 and the period from the commencement of operations (July 14, 2010) through June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 2 through 5 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 & Shron LLP

New York, NY
September 28, 2012

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 year ended June 30, 2012 and the period from the commencement of operations (July 14, 2010) through June 30, 2011. It should be read in conjunction with TGI's financial statements and accompanying notes.

The financial statements consist of two parts: management's discussion and analysis (this section); and the financial statements. The basic financial statements, which include the statement of net assets, the statement of revenues, expenses and changes in net assets, the statement of cash flows, and the notes to the financial statements, are presented to display information about TGI in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended. This presentation 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 was declared the Governors Island National Monument and is 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.

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 is planned to add key visitor amenities throughout the Historic District and 30 new acres of park on the island's southern end, which is scheduled to open in 2013. Capital investments are also planned to bring potable water to the island, upgrade its electrical and telecommunication systems, stabilize historic buildings, rehabilitate the seawall and storm water systems, 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, 2012, TGI had current assets of $25,365,258 consisting of cash and cash equivalents of $17,685,402, accounts receivable of $7,651,718, prepaid expenses of $3,138, and an investment of $25,000. These are presented below in greater detail and in comparison to the prior period.

Current Assets	**2012**	**2011**	**% Change**
Cash and cash equivalents	$ 2,802,035	$ 1,873,463	50%
Restricted cash and cash equivalents	14,883,367	9,982,956	49%
Accounts receivable	228,742	104,898	118%
Grants & contributions receivable from government sources	7,397,976	-	
Grants & contributions receivable from private sources	25,000	-	
Prepaid expenses	3,138	9,544	-67%
Investments	25,000	-	
Total current assets	$ 25,365,258	$ 11,970,861	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 ("FTA") grant being used on the Soissons Dock project. The year 2012 also saw the start of TGI's fundraising efforts, leading to a pledge receivable from private sources of $25,000. In addition, TGI has an investment valued at $25,000 as of June 30, 2012.

Noncurrent assets, consisting of capital assets net of accumulated depreciation, were $46,251,179 ($47,536,897 less $1,285,718 accumulated depreciation). Net additions to capital assets account for this 119% increase over 2011 (which was $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 the aforementioned 150 acres of Governors Island, vessels, vehicles and other equipment, valued at $5,532,132 in total. In addition, TGI completed $3,850,260 in site improvements during its first year of operation and had capital expenditures of $12,324,182 as of June 30, 2011. Capital expenditures totaling $25,650,994 were made as of June 30, 2012.

Total assets as of June 30, 2012, were $71,616,437, an increase of 116% over last year based on cash and cash equivalents, receivables from government sources, as well as capital assets recorded during the past year.

Current and Noncurrent Liabilities

Current liabilities of $17,769,913, detailed below, are approximately five times higher than 2011. In accounts payable and accrued expenses, the increase is due primarily to anticipated invoices for work performed for ongoing capital projects ($9,216,093); and in deferred revenue, to receipt of City operating funds and to unspent funds related to an advance of State capital funds ($10,000,000 received in August 2011 with $6,790,069 remaining to be spent).

Current Liabilities	2012	2011	% Change
Accounts payable and accrued expenses			
Operations	$ 850,052	$ 326,333	
City Capital	8,741,595	202,908	
State Capital	474,498	2,854,063	
Total, Accounts payable and accrued expenses	10,066,145	3,383,304	198%
Deferred revenue			
Operating revenue	913,699	173,171	
State Capital	6,790,069	-	
Total, Deferred revenue	7,703,768	173,171	4349%
Total current liabilities	$ 17,769,913	$ 3,556,475	400%

In addition, noncurrent liabilities of $196,189 consist entirely of TGI's other postemployment benefits obligation ("OPEB"). As of June 30, 2012, TGI's total liabilities were $17,966,102.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Net Assets

Net assets at year-end were $53,650,335, of which $46,251,179 was invested in capital assets and $7,399,156 was unrestricted. The net assets restricted for capital projects as of June 30, 2012 is zero since the liabilities related to the restricted assets exceeded the restricted assets as of June 30, 2012. The negative amount was reported as a reduction to unrestricted net assets. This represents an increase of 83% over last year, due to the start of TGI's multimillion-dollar capital program, including design and construction of new park and public spaces as well as infrastructure improvements throughout the property.

Operating Revenue

For the year ended June 30, 2012, TGI's total operating revenue of $13,773,383 consisted of $1,468,389 in fee income (including usage fees, site fees and reimbursements for event-related expenses) and $12,304,994 in operating grants and contributions from the City. Fee income decreased by 17% mainly because TGI received revenue last year for large concerts. These concerts were an interim use, staged on an otherwise vacant area of the island that is now being redeveloped as open space. TGI experienced a 9% percent decrease in operating grants and contributions due to a City-wide budget reduction program. Commensurate reductions in expenses were implemented to stay within budget.

	2012	2011	% Change
OPERATING REVENUES			
Permits and other fees	$ 1,468,389	$ 1,769,582	-17%
Operating grants and contributions	12,304,994	13,522,531	-9%
TOTAL OPERATING REVENUES	$ 13,773,383	$ 15,292,113	-10%

Operating Expenses

Total operating expenses of $13,495,556 include TGI's facilities management contract with the Turner Construction Company of $10,404,527, which represents 77% of total operating expenses, as seen in the following chart.

	2012	2011	% Change
OPERATING EXPENSES:			
Facilities management contract	$ 10,404,527	$ 11,329,718	-8%
Personnel costs	1,750,388	1,846,960	-5%
Utilities	305,966	571,974	-47%
Depreciation and amortization	695,085	590,633	18%
Other general and administrative expenses	339,590	231,954	46%
TOTAL OPERATING EXPENSES	$ 13,495,556	$ 14,571,239	-7%

The Turner contract covers Turner staff working on daily island operations as well as all of the subcontractors who provide services: ferry, security, janitorial, repairs, among others. The 8% decrease from 2011 is based on the budget reduction mentioned above. Personnel costs were $1,750,388, a decrease of 5% from 2011. While gross payroll and fringe benefits increased moderately, the decrease is based on the difference between the required annual contribution to OPEB ($28,456) and the full amount of expense recorded in 2011 ($167,733). TGI's gas and water bills were lower in 2012 than 2011, accounting for part of the 47% decrease in utilities between 2012 and 2011. Electricity is now billed directly to the City. Other general and administrative expenses were $339,590, an increase of 46%, the most significant portion of which is a $50,000 refund to a producer whose concerts were cancelled when Hurricane Irene struck in the summer of 2011.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (Continued)

Operating income was $277,827 for the year ended June 30, 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses of $24,009,914 were comprised of:

- $23,331,198 in capital grants and contributions from the City ($17,335,473), the State of New York ($3,209,931) and the Federal government ($2,785,794)
- $875,600 in grants and contributions from private sources, over half of which are restricted
- $24,554 in interest income
- $53,562 in other income
- $275,000 of unrealized loss on investment

City capital grants and contributions were comparable to 2011, which was $23,079,630. The 2012 number does not reflect the full breadth of construction work currently underway. It represents the total of contractor invoices submitted to the City for payment for work performed through June 30, 2012, so far a small fraction of the funding scheduled in the City capital plan and approved by TGI's board.

TGI held one investment as of June 30, 2012, which consisted of common stock received as a gift from a private donor, 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 from an initial market value of $300,000, leading to the unrealized loss listed above.

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 ASSETS
AS OF JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2D and 7A)	$ 2,802,035	$ 1,873,463
Restricted cash and cash equivalents (Notes 2D, 2E and 7)	14,883,367	9,982,956
Accounts receivable	228,742	104,898
Grants and contributions receivable from government sources	7,397,976	-
Grants and contributions receivable from private sources	25,000	-
Prepaid expenses	3,138	9,544
Investments (Note 7B)	25,000	-
Total current assets	25,365,258	11,970,861
Noncurrent assets		
Capital assets, net of accumulated depreciation (Notes 2F and 3)	46,251,179	21,115,941
Total assets	$ 71,616,437	$ 33,086,802
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 10,066,145	$ 3,383,304
Deferred revenue	7,703,768	173,171
Total current liabilities	17,769,913	3,556,475
Noncurrent liabilities		
Other postemployment benefits obligation (Notes 2I and 6)	196,189	167,733
Total liabilities	17,966,102	3,724,208
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Note 2G)		
Invested in capital assets	46,251,179	21,115,941
Restricted for capital projects	-	6,925,985
Unrestricted net assets	7,399,156	1,320,668
Total net assets	53,650,335	29,362,594
TOTAL LIABILITIES AND NET ASSETS	$ 71,616,437	$ 33,086,802

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 ASSETS
FOR THE YEAR ENDED JUNE 30, 2012 AND THE PERIOD FROM THE COMMENCEMENT OF OPERATIONS (JULY 14, 2010) THROUGH JUNE 30, 2011

	2012	2011
OPERATING REVENUES:		
Permits and other fees	$ 1,468,389	$ 1,769,562
Operating grants and contributions (Notes 2C and 4)	12,304,994	13,522,531
TOTAL OPERATING REVENUES	13,773,383	15,292,113
OPERATING EXPENSES:		
Facilities management contract (Note 8C)	10,404,527	11,329,718
Personnel costs (Notes 5 and 6)	1,750,388	1,846,960
Utilities	305,966	571,974
Depreciation and amortization	695,085	590,633
Other general and administrative expenses	339,590	231,954
TOTAL OPERATING EXPENSES	13,495,556	14,571,239
OPERATING INCOME (Note 2B)	277,827	720,874
NONOPERATING REVENUES (EXPENSES):		
Capital grants and contributions from government sources (Notes 2C and 4)	23,331,198	23,079,630
Grants and contributions from private sources (Notes 2C)	875,600	-
Transfer of assets from Governors Island Preservation and Education Corporation (Note 4)	-	5,532,132
Unrealized loss on investment (Note 7B)	(275,000)	-
Interest income	24,554	29,958
Other income	53,562	-
TOTAL NONOPERATING REVENUES AND EXPENSES	24,009,914	28,641,720
CHANGE IN NET ASSETS	24,287,741	29,362,594
Net assets, beginning of year	29,362,594	-
NET ASSETS, END OF YEAR	$ 53,650,335	$ 29,362,594

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 CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 AND THE PERIOD FROM THE
COMMENCEMENT OF OPERATIONS (JULY 14, 2010) THROUGH JUNE 30, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Customer payments	$ 1,344,545	$ 1,837,855
Operating grants and contributions	13,045,522	13,522,531
Total cash receipts from operating activities	14,390,067	15,360,386
Cash payments for:		
Personnel costs	(1,619,048)	(1,627,136)
Services and supplies	(10,622,842)	(8,811,977)
Total cash payments for operating activities	(12,241,890)	(10,439,113)
Net Cash Provided by Operating Activities	2,148,177	4,921,273
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants and contributions from private sources	550,600	-
Other receipts	53,562	-
Operating funds received from the New York City Economic Development Corporation	-	7,000,000
Operating funds repaid to the New York City Economic Development Corporation	-	(7,000,000)
Net Cash Provided by Noncapital Financing Activities	604,162	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions from government sources	22,723,291	23,079,630
Capital asset expenditures	(19,671,201)	(16,174,442)
Net Cash Provided by Capital and Related Financing Activities	3,052,090	6,905,188
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	24,554	29,958
Net Cash Provided by Investing Activities	24,554	29,958
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,828,983	11,856,419
Cash and cash equivalents - beginning of year	11,856,419	-
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 17,685,402	$ 11,856,419
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 277,827	$ 720,874
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	695,085	590,633
Changes in operating assets and liabilities:		
Accounts receivable	(123,844)	(104,898)
Prepaid expenses	6,406	(9,544)
Accounts payable and accrued expenses	523,719	3,383,304
Deferred revenue	740,528	173,171
Other postemployment benefits obligation	28,456	167,733
Net Cash Provided by Operating Activities	$ 2,148,177	$ 4,921,273
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	$ 2,802,035	$ 1,873,463
Restricted cash and cash equivalents	14,883,367	9,982,956
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 17,685,402	$ 11,856,419
Supplemental Disclosure of Cash Flow Information:		
Noncash capital and related financing transactions:		
Capital assets transferred from Governors Island Preservation and Education Corp.	$ -	$ 5,532,132
Accrued capital asset expenditures	$ 9,216,093	$ 3,056,971
Donated stocks	$ 300,000	$ -
Unrealized loss on investments	$ (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 is breaking ground on 30 acres of new park space scheduled to open in 2013 and 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 through a contract with the City. TGI receives funding from the City and State of New York for the Project. TGI is governed by a 13-member board of directors appointed by the Mayor of the City of New York.

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

B. *Revenue and Expense Classification*

TGI distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from TGI's ongoing operations. The principal operating revenues include 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 after approval of a certificate to proceed for each capital project by the City's Office of Management and Budget, registration of contracts with the New York City Comptroller's Office, and processing of payment requests by the New York City 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 assets in the accompanying statement of net assets depending on any donor restriction.

D. *Cash Equivalents*

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

E. *Restricted Cash and Investments*

Contributions and other non-exchange transactions as defined under GASB 33 Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, with purpose restrictions are reported in the resulting net assets and fund balance as restricted until the resources are used for the specified purpose.

Restricted assets consist of cash and cash equivalents and investments held and to be used for eligible project costs pursuant to funding agreements with the City, the State and other funding sources. Accordingly, such amounts are not available for general corporate purposes.

F. *Capital Assets*

Costs incurred by TGI in developing the project are capitalized as project assets and are recorded at cost. The costs of normal maintenance of the project that do not add value to the project or extend its useful life are not capitalized. Upon completion, site improvement costs are reclassified from construction-in-progress and amortized over the estimated useful lives.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Net Assets*

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

Restricted net assets represent 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 assets. The negative amount is reported as a reduction to unrestricted net assets.

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 November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements.* The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011. TGI has not completed the process of evaluating GASB 60, but does not expect it to have an impact on its financial statements.

- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.* The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity. The Statement is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on TGI or its status as a discretely presented component unit of the City.

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements.* The Statement incorporates a large volume of Financial Accounting Standards Board and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The statement is effective for financial statement periods beginning after December 15, 2011. TGI has not completed the process of the evaluation of GASB 62, but does not expect it to have an impact on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* is effective for financial statements for periods beginning after December 15, 2011. The Statement establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. TGI has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of TGI's financial statements to Net Position and components thereof, with no overall financial impact.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision,* is effective for financial statements for periods beginning after June 15, 2011. The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. 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 has not completed the process of evaluating GASB 65, but it is expected to change only the formatting and naming of TGI's statement of position and components thereof, with no overall financial impact.

- 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 period 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"). 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. 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 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

The changes in capital assets for the period ended June 30, 2011 are as follows:

	Balance at July 14, 2010	Additions	Deletions	Balance at June 30, 2011
Land	$ -	$ 1	$ -	$ 1
Site Improvements	-	3,850,260	-	3,850,260
Vessels	-	4,750,000	-	4,750,000
Equipment	-	553,460	-	553,460
Vehicles	-	228,671	-	228,671
Total Project Assets	-	9,382,392	-	9,382,392
Less: Accumulated Depreciation				
Site Improvements	-	(156,965)	-	(156,965)
Vessels	-	(290,278)	-	(290,278)
Equipment	-	(101,467)	-	(101,467)
Vehicles	-	(41,923)	-	(41,923)
Total Accumulated Depreciation	-	(590,633)	-	(590,633)
Construction in Progress		12,324,182		12,324,182
Net Project Assets	$ -	$ 21,115,941	$ -	$ 21,115,941

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 $9,216,093 and $3,056,971 were accrued as of June 30, 2012 and 2011, 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. Other premises are occupied by a not-for-profit organization for which TGI receives annual permit fees of $1.

NOTE 4 – CONTRIBUTIONS

During the year ended June 30, 2012 and the period ended June 30, 2011, TGI recognized the amount spent for eligible project costs totaling to $23,331,198 and $23,079,630, respectively, as capital contributions in the accompanying statements of revenues, expenses and changes in net assets while the unspent funds at year-end are included in deferred revenue in the accompanying statements of net assets.

Revenues from operating and capital grants from the City amounted to $29,640,467 and $28,684,367 for the year ended June 30, 2012 and the period ended June 30, 2011, respectively. Such amounts represented approximately 78% and 65% of total revenues for the year ended June 30, 2012 and the period ended June 30, 2011, respectively.

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

NOTE 5 – PENSION PLAN

TGI's employees participate in benefit plans administered by the New York City Economic Development Corporation ("EDC"), a component unit of the City. TGI, through EDC, maintains a defined contribution plan, which covers substantially all of TGI's employees. The pension plan provides for variable contribution rates by TGI ranging from 6% to 14% of the employee's eligible wages as defined in the plan document. Pension expense for the year ended June 30, 2012 and the period ended June 30, 2012 amounted to $141,138 and $113,626, respectively.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS

TGI's employees are eligible to participate in EDC's retiree health care plan. EDC sponsors a single employer defined benefit health care plan that provides postemployment medical coverage for eligible retirees and their spouses. Employees who attain age 60 or more and have 10 years or more of service prior to June 30, 2022 are eligible for retiree medical benefits.

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, 2012 and 2011, there were only two employees of TGI who would meet the required benefit eligibility of age 60 with at least 10 years of service as of the plan close date of June 30, 2022. There were no retirees of TGI receiving benefits from the plan as of June 30, 2012 and 2011.

TGI's annual OPEB cost for the plan is calculated based on the annual required contribution "ARC", an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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 year ended June 30, 2012 and the period ended June 30, 2011 and the related information for the plan are as follows:

	2012	2011
Annual required contribution	$ 28,456	$ 28,456
Actuarial accrued liability for GIPEC employees as of July 14, 2010, recognized as expense by TGI in the period ended June 30, 2011	-	139,277
Increase in net OPEB obligation	28,456	167,733
Net OPEB obligation – beginning of period	167,733	-
Net OPEB obligation – end of period	196,189	167,733
Funded OPEB plan assets – end of period	-	-
Unfunded actuarial accrued liability – end of period	$ 196,189	$ 167,733

As of June 30, 2012 and 2011, the actuarial accrued liability for benefits was $196,189 and 167,733, 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 net OPEB obligation at June 30, 2011 was recognized as an expense in the period ended June 30, 2011 since it was the first measurement of TGI's obligation and 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, 2010 actuarial valuation, the projected unit cost method with attribution from date of hire to date of first eligibility for benefits was used. Under this method, the excess of the unfunded actuarial accrued liability over the sum of the actuarial value of assets is amortized as a level dollar amount over a closed 30 year period. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8% and grading down to an ultimate rate of 5%.

NOTE 7 – CASH AND 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. In 2010, the FDIC insurance limit was permanently increased to $250,000 and, beginning December 31, 2010 through December 31, 2012, deposits held in non-interest-bearing accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions.

NOTE 7 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of June 30, 2012, TGI had cash accounts with the Bank that exceeded the FDIC insurance limits by approximately $15.6 million. However, TGI has 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 benefit of TGI pursuant to the Agreement.

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 consists of common stocks received as a gift from a private donor and reported as investments in the accompanying statement of net assets. 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, from an initial market value of $300,000. The supplemental disclosure in the accompanying statements of cash flows lists both the donated stock valued at $300,000 at the time of donation and the unrealized loss on investments of $275,000 through June 30, 2012, which is derived from the same donated stock.

TGI had no other investment transactions during the year ended June 30, 2012 and the period ended June 30, 2011.

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. Management believes that any liabilities arising from such claims would be covered either by indemnification protections provided in the master contract with the City of New York, 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 a company (the "Contractor") to provide facilities management and construction management services to assist TGI in the operation, maintenance and redevelopment of the Project. The term of the agreement is for three years expiring on July 1, 2012 with two two-year options to extend at TGI's discretion. The contract has been extended for a two year period, expiring June 30, 2014. The agreement allows the Contractor to enter into agreements with subcontractors for the maintenance, operation, construction and improvement of the Project. Amounts paid to the Contractor for facilities management services are recognized as expense in the period incurred while amounts paid to the Contractor for construction management services are capitalized and included in capital assets.

NOTE 9 – FUNDING AGREEMENT WITH EDC

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