

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Financial Statements and Management's
Discussion and Analysis
March 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Roosevelt Island Operating Corporation:

We have audited the accompanying financial statements of Roosevelt Island Operating Corporation (RIOC), a component unit of the State of New York, as of and for the years ended March 31, 2016 and 2015, and the related notes to financial statements, which collectively comprise the RIOC's financial statements as listed in the table of contents.

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.

Auditor's 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 RIOC'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 RIOC'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 net position of Roosevelt Island Operating Corporation as of March 31, 2016 and 2015, and the respective changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in note 2(k) to the financial statements, the RIOC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," during the year ended March 31, 2016. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 13 and the other required supplementary information as listed in the table of contents, be presented to supplement the basic combined 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 audit 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise RIOC's basic financial statements. The accompanying supplemental information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2016, on our consideration of RIOC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering RIOC's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC
(Formerly Toski & Co., CPAs, P.C.)

Williamsville, New York
June 23, 2016

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Management's Discussion and Analysis

March 31, 2016

The following management's discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Roosevelt Island Operating Corporation (RIOC) at March 31, 2016 and 2015, and the results of its operations for the years then ended. Management has prepared the financial statements and related footnote disclosures along with this MD&A in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board for state and local governments. This MD&A should be read in conjunction with the audited financial statements and accompanying notes to financial statements, which directly follow the MD&A.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: management's discussion and analysis (this section), basic financial statements, and supplemental information. RIOC was created by the New York State Legislature in 1984 as a public benefit corporation charged with maintaining, operating, and developing Roosevelt Island. RIOC follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities of the Corporation. These statements are presented in a manner similar to a private business. While additional information is not presented, separate accounts are maintained for each fund to control and manage transactions for specific purposes and to demonstrate that RIOC is properly performing its contractual obligations.

During the year, the Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68." Additional information can be found in notes 7(c-h) and 12 to the financial statements.

FINANCIAL ANALYSIS OF THE CORPORATION NET POSITION

The following is a summary of the RIOC's Statement of Net Position at March 31, 2016 and 2015 and the percentage changes between March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Current and other assets	\$ 73,226,800	60,309,201	21%
Capital assets, net	<u>70,351,219</u>	<u>70,241,543</u>	0%
Total assets	\$ <u>143,578,019</u>	<u>130,550,744</u>	10%
Deferred outflows of resources - pensions	\$ <u>560,848</u>	<u>-</u>	100%
Liabilities	\$ <u>43,378,801</u>	<u>33,556,378</u>	29%

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Management's Discussion and Analysis, Continued

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Deferred inflows of resources - pensions	\$ <u>40,020</u>	<u>-</u>	100%
Net position:			
Net investment in capital assets	\$ 70,351,219	70,241,543	0%
Restricted for capital projects	24,086,583	23,425,543	3%
Unrestricted	<u>6,282,244</u>	<u>3,327,280</u>	89%
Total net position	\$ <u>100,720,046</u>	<u>96,994,366</u>	4%

On RIOC's Statement of Net Position at March 31, 2016, total assets of \$143,578,019 and deferred outflow of resources - pensions of \$560,848 exceeded total liabilities of \$43,378,801 and deferred inflows of resources - pensions of \$40,020 by \$100,720,046 (total net position). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling \$70,351,219, cash and cash equivalents totaling \$62,921,032 and other assets of \$10,305,768. Liabilities are comprised of accounts payable and accrued expenses of \$350,329, unearned revenues of \$38,147,515 (prepaid rents), other post-employment benefits of \$3,833,013, and other liabilities totaling \$1,047,944. Unearned revenues represent the prepaid ground rent revenue received for the Southtown and Octagon development projects that will be recognized over their respective lease terms. Of total net position, \$24,086,583 is available to be used to meet ongoing capital obligations. Additionally, \$6,282,244 is available for ongoing operational expenses.

Current and other assets increased by \$12,917,599 or 21%. This was mainly due to a lump-sum prepayment in the amount of \$10,080,000 for a portion of the future Ground rent from Southtown Building #7 and transactions fees in the amount of \$2,189,574 from the initial sponsor sales of Cooperative Apartments from Island House. Liabilities increased \$9,822,423 or 29%. This was mainly due to the aforementioned prepayment of \$10,080,000.

OPERATING ACTIVITIES

RIOC's Statements of Revenues, Expenses and Changes in Net Position are used to report changes in the net position, including depreciation expense. Revenues reported here are based on a standard of recognition whereby revenues are recorded when earned. The Statements of Revenues, Expenses and Changes in Net Position detail program revenues by major source and expenses by natural classification and indicate the change in net position.

RIOC's total operating revenues for the fiscal year ending March 31, 2016 were \$27,149,844. For the fiscal year ending March 31, 2016, operating revenues decreased by \$12,060,795 or 31% over the last fiscal year. This was mainly due to a decrease in Residential Fee revenue of \$13,096,619 or 80%, which includes one-time transaction fees received from the refinancing of the existing mortgage of Manhattan Park in the amount of \$12,600,000, and the assignment of the Eastwood lease to BSREP UA Roosevelt Landing LLC, in the amount of \$2,737,658 in the prior fiscal year ending March 31, 2015; and the receipt of transactions fees in the amount of \$2,189,574 from the initial sponsor sales of Cooperative Apartments from Island House during the current fiscal year ending March 31, 2016. Declining interest rates led to a decline in interest income of \$37,524 or

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Management's Discussion and Analysis, Continued

27% as a result of the low-interest rate bearing short-term nature of RIOC's investments in accordance with the State's investment guidelines.

RIOC's total operating expenses for the fiscal year ending March 31, 2016 were \$23,417,463 and \$23,295,944 for the last fiscal year ending March 31, 2015, including depreciation of \$3,299,771 and \$3,518,632, respectively. For fiscal year ending March 31, 2016, total operating expenses before depreciation increased by \$340,380 or 2% over the last fiscal year, which is due primarily to increases in insurance by \$81,873 and management fees by \$232,278. Personal services increased by \$338,893 or 3% due mainly to the filling of vacant positions and increases in benefits primarily health and workers compensation insurance. Professional and legal services decreased by \$117,388 or 21% due mainly to reduced real estate transactions.

The following summarizes RIOC's change in net position for the fiscal years ended March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Operating revenues:			
Residential fees	\$ 3,267,322	16,363,941	(80%)
Ground rent	10,738,129	10,465,282	3%
Commercial rent	1,564,597	1,446,680	8%
Tramway revenue	5,510,805	5,211,790	6%
Public safety reimbursement	1,823,337	1,713,231	6%
Transport/parking revenue	2,542,058	2,331,339	9%
Interest income	100,309	137,833	(27%)
Unrealized loss	-	(807)	(100%)
Other revenues	<u>1,603,287</u>	<u>1,541,350</u>	4%
Total operating revenues	<u>27,149,844</u>	<u>39,210,639</u>	(31%)
Operating expenses:			
Personal services	11,267,844	10,928,951	3%
Insurance	1,662,105	1,580,232	5%
Professional services and legal services	453,883	571,271	(21%)
Management fees	4,378,564	4,146,286	6%
Telecommunications	114,183	108,115	6%
Repairs and maintenance	421,798	481,890	(12%)
Vehicles maintenance	297,905	288,763	3%
Equipment purchases/lease	55,401	91,929	(40%)
Supplies/services	1,065,638	1,158,788	(8%)
Other expenses	<u>400,371</u>	<u>421,087</u>	(5%)
Total operating expenses excluding depreciation	<u>20,117,692</u>	<u>19,777,312</u>	2%

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Management's Discussion and Analysis, Continued

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Operating income before depreciation	\$ 7,032,152	19,433,327	(64%)
Depreciation expenses	<u>(3,299,771)</u>	<u>(3,518,632)</u>	(6%)
Change in net position	<u>3,732,381</u>	<u>15,914,695</u>	(77%)
Total net position, beginning of year	96,994,366	81,079,671	20%
Cumulative effect of change in accounting principle	<u>(6,701)</u>	-	100%
Total net position, end of year	<u>\$ 100,720,046</u>	<u>96,994,366</u>	4%

CAPITAL ASSETS

The following summarizes RIOC's capital assets for the fiscal years ended March 31, 2016 and 2015 and the percentage change between fiscal years:

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Seawall	\$ 3,057,028	3,065,121	0%
Buildings	15,465,834	13,929,241	11%
Landmarks	6,433,174	6,687,030	(4%)
Vehicles and equipment	1,263,607	1,597,155	(21%)
Infrastructure	44,030,384	44,853,909	(2%)
Leasehold improvements	<u>101,192</u>	<u>109,087</u>	(7%)
Total capital assets	<u>\$ 70,351,219</u>	<u>70,241,543</u>	0%

The capital assets of \$70,351,219 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of \$109,676 from the prior year is comprised of the addition of new capital assets of \$3,409,447 and offset by annual depreciation of \$3,299,771. Total depreciation expense for all capital assets amounted to \$3,299,771 and \$3,518,632 for the years ended March 31, 2016 and 2015, respectively. A more detailed analysis of RIOC's capital assets is presented in the notes to financial statements on pages 22-23.

INFRASTRUCTURE ASSETS

The amounts reported in the accompanying statements of net position for capital assets (net of depreciation) of RIOC of \$70,351,219 and \$70,241,543 at March 31, 2016 and 2015, respectively, do not include an amount for two infrastructure items: (1) the bulk of the seawall; and (2) Main Street (the road). Pursuant to the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, addressing the capitalization of infrastructure assets, infrastructure assets dating from prior to 1980 are not required to be recognized. However, improvements to such infrastructure items are disclosed.

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Management's Discussion and Analysis, Continued

ECONOMIC FACTORS AFFECTING RIOC'S FUTURE FINANCIAL POSITION

Seven (7) of the anticipated nine (9) buildings (collectively, the "Buildings") of the Southtown Development Project have been completed. Building 7 Lease was closed on October 10, 2013 and construction was completed on September 21, 2015 (Rent Commencement Date). In accordance with the provisions of the ground lease between RIOC and Riverwalk 7, LLC ("Ground Lease"), on the Rent Commencement Date, RIOC began receiving annual ground rent of \$725,760, subject to a yearly increase of three (3%) for the first thirty (30) years. Also, RIOC received a lump-sum prepayment in an amount equal to \$10,080,000 as provided for in the Ground Lease. Further, RIOC is receiving a Fixed Public Safety Payment at the rate of \$20.00 per unit per month, increasing 4% annually.

According to the lease documents, the Building 8 Lease Closing shall occur no later than 30 months after the Building 7 Lease Closing; and the Building 9 Lease Closing shall occur no later than 30 months after the Building 8 Lease Closing. The Building 8 Lease was not closed by April 10, 2016. Should development fail to occur within the expected timeframe, RIOC is protected by a Letter of Credit in the amount of \$2,438,400. RIOC believes that the development will continue and has begun negotiations for Buildings 8 and 9.

As of March 27, 2014, Rivercross Tenants Corp. ("Housing Company") exited the Mitchell-Lama program. Section Six of Amendment #1 to Restated Ground Lease ("Amendment"), which extended the term until 2068, provides that if the parties are unable to reach an agreement on the Financial Terms by no later than sixty days prior to the effective date the Housing Company is leaving the Mitchell-Lama program, the dispute shall be settled by arbitration in the City of New York subject to certain procedures set forth in the Amendment. The arbitration process was begun but subsequently a standstill agreement was entered into by the parties. RIOC also anticipates an increase of future revenue from Rivercross because the ground lease for that property currently remains at Mitchell Lama rates.

The Modernized Tram, which was placed in service on November 31, 2010, now better meets the transportation needs of the residents and visitors: more passengers are shuttled quickly and safely; there is greater availability as the system allows for one cabin to continue operations while the other is down for preventive maintenance; and it is more reliable with redundant generators to power the system resulting in increased efficiency and reliability of the system. The infrastructure improvement is being funded by a \$15 million grant from the State of New York and \$10 million from RIOC. Ridership on the Tram is increasing due to increased activities on the Island including the development of Southtown and Cornell Technion, and higher visitorship to the Four Freedoms State Park. During the fiscal year ended March 31, 2016, Tramway revenue increased by \$299,015 or 5.74% over the prior fiscal year ended March 31, 2015.

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Management's Discussion and Analysis, Continued

Further, RIOC has recently procured a contractor to perform necessary repairs to the Tramway roof at an estimated cost of \$719,000. This project includes the rehabilitation of the existing Tramway roof as well as the construction of a roof over the southern staircase at the Roosevelt Island Tramway Station in Manhattan. As the Design Drawings have been approved and a contract duly executed, between RIOC and the contractor, repairs to the roof are currently in progress. With an anticipated completion date in the fall of 2016, these improvements will provide adequate shelter to the Tramway platform from inclement weather and other elements, thereby making the conditions that much safer and comfortable for riders. RIOC will be issuing an RFP for the Tramway Operation which includes a maintenance component for routine repairs to the Tramway infrastructure. RIOC also provisioned an annual Tram Capital Reserve in its ten-year Capital Plan, which will serve to cover major structural and equipment replacements that are anticipated to be needed within the next ten years.

RIOC is negotiating a Memorandum of Understanding ("MOU") with the New York City Economic Development Corporation to expand the Citywide Ferry Service to Roosevelt Island. This expansion will also include ferry service to Astoria, Queens and Long Island City of which Roosevelt Island will be a destination along the East side of the Island. This service is expected to also serve Manhattan. RIOC has agreed to allow EDC and its contractors land and water access to conduct the appropriate surveys, inspections and testing necessary to prepare a preliminary design for the landing site. A traffic mitigation and environmental study must also be done, however, once complete and approved by RIOC, construction and installation of the ferry landing will be done by EDC and RIOC expects that ferry service will launch in 2017.

The revitalization of Main Street and improvement of the retail businesses are in progress. On August 1, 2011 ("Commencement Date"), RIOC entered into a Master Sublease Agreement ("Agreement") with Hudson Related Retail LLC ("HRR") to redevelop, improve, market, lease and professionally operate the Retail Spaces controlled by RIOC. RIOC receives an annual guaranteed rent of \$900,000 - increasing by 2% annually beginning on the first anniversary of the Commencement Date for the first five years and 2.5% annually thereafter - as well as participation in the profits of the Master Sub-Lessee. HRR is required to invest no less than \$2,365,000 in the aggregate in capital improvements during the first five years of the Agreement. According to its certified financial statements as of December 31, 2015, Hudson Related Retail LLC invested \$2,584,216 and incurred a loss of (\$359,141). According to the Agreement, RIOC will share future profits equally once HRR is paid back its investment. HRR has yet to recoup any of its investment and has not made any profit sharing payments.

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Management's Discussion and Analysis, Continued

Roosevelt Island was selected by the City of New York ("City") for the site of the Cornell/Technion Applied Sciences Graduate School ("Cornell"). The project, which is projected to be built in three phases over a twenty-year period, will be located on the City's Goldwater Hospital site ("Goldwater Site"). To facilitate this project, on December 12, 2013, RIOC's Board resolved to: (1) amend its Master Lease with the City to exclude the 2.62 acre surrounding the site ("Parcel") so that it may be incorporated into the City's 9.8 acre Goldwater Site for the Cornell Campus; (2) approve and adopt the State Environmental Quality Review Act Findings Statement ("SEQRA"); (3) execute the Letter of Resolution regarding State Historic Preservation Act ("SHPA"); (4) enter into agreements with the State of New York ("State"), Cornell, and New York City Economic Development Corporation ("NYCEDC"), including a Development Agreement with Cornell; and (5) authorize all related actions.

For the surrender of the Parcel back to the City, RIOC will receive a financial contribution from the State of \$1,000,000 annually for 55 years payable to RIOC (increasing by 2.5% every 10 years) in accordance with State budgetary procedure, with the present value of the payment fully made by December 31, 2018, to support capital infrastructure improvements on Roosevelt Island. In addition, Cornell will pay RIOC \$400,000 annually for 55 years (increasing by 2% every 10 years).

RIOC is responsible for the surrounding seawall and promenade but Cornell, at its sole cost, will be responsible for the following: mitigation under SEQRA and SHPA; infrastructure improvements on, around, and under Loop Road (including new roadway, sewers, relocation of electrical duct banks, and gas service); access to the RIOC premises under permits and License Agreements providing work plans, bonding and insurance, and incorporating construction protocols including but not limited to truck access, all approved by RIOC; air and noise pollution mitigation; payment for RIOC's Engineer and Consultant to review Work Plans for work to occur on the RIOC premises and to monitor performance of work by Cornell or its agents pursuant to Work Plans; repair of damage on the Island caused by Cornell or its agents; general indemnification for work performed by Cornell or its agents; environmental indemnification for environmental liabilities caused by Cornell or its agents; and increased security by Cornell at southern end of the Island. Cornell has commenced construction on the project site, and will continue limited barging.

As the Island's residential population continues to increase as construction projects are completed, infrastructural upgrades have also become necessary. In this regard, Consolidated Edison Company of New York, Inc. ("Consolidated Edison"), in a three-phased project, installed a high pressure gas pipeline along Main Street and an electrical feeder cable and electrical wiring upgrades along the Queensboro Bridge. The high pressure gas line will supply high pressure gas to the residents of Roosevelt Island as well as RIOC facilities such as RIOC's AVAC building, Motorgate, and Sportspark. Moreover, the new electrical feeder cables allowed for more efficient and reliable electrical service around the Island while mitigating certain failures that have occurred with the

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Management's Discussion and Analysis, Continued

existing feeders. These upgrades will also establish a redundancy of gas and electricity on the Island in the event that gas or electricity from the main lines are disrupted, and substantially reduces potential hazardous conditions.

The New York City Health and Hospitals Corporation ("HHC") initially announced its intention to close and abandon in place, a large steam plant located on the Island on or by March 31, 2014, but did not do so until November of that year. The plant provided heat to the Goldwater Site, Coler Hospital and several RIOC-owned facilities including Sportspark, AVAC, and the Bus Garage/Warehouse. Ownership and issues of responsibility concerning the steam plant and Steam Tunnel remain unresolved. The anticipated closure of the steam plant compelled RIOC to install a costly, temporary heating system at its Sportspark facility in advance of that date to prevent the interruption of heat if the steam plant were closed.

In November 2014, when the steam plant finally did close, the temporary heating system had been in operation for several months, and is still the case today. RIOC is in the process of replacing this temporary heating system with a permanent one, at an estimated cost of \$1.1 million. RIOC obtained the services of a qualified engineering firm which provided a complete design subject to the review of NYC Department of Buildings ("DOB"). After DOB approves the design, a contractor will be selected via a competitive bidding process. The new system will operate on medium pressure gas which must be connected to the new high pressure gas line, currently being installed by Consolidated Edison. Consolidated Edison anticipates that the new gas line will reach the Cornell Campus by June 2016 and once installed, RIOC can proceed with issuing a RFP to obtain a contractor to connect the permanent heating system to the new gas line.

Additional engineering services were also retained for necessary repairs and recommended upgrades at the Sportspark facility. The consultants prepared a report of the facility's lighting, plumbing, and roofing systems. The analysis is complete, and it is anticipated that some of the recommended repairs and upgrades will increase the efficiency of the aforementioned permanent heating system. In addition, the report identified certain necessary repairs, such as the facility's roof which is expected to cost around \$3 million - and needs to be completed before the other repair work can be done. RIOC procured the services of a qualified engineer to assist with this project and issued RFPs for roofing repairs and the installation of the permanent heat system in May 2016. RIOC expects construction to begin in mid-August, which should be completed by November 2016.

Southpoint Park, located on the southern part of Roosevelt Island, is a seven acre, open space park, featuring indigenous plants, waterfront views, and nine sustainable rain gardens. It is also home to the James Renwick Smallpox Hospital and the Strecker Laboratory. RIOC, through its procurement process, engaged the services of a facilitator to prepare a draft plan and implementation strategy, for review and adoption by RIOC, for the purpose of optimizing the open space for community programming.

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Management's Discussion and Analysis, Continued

The Corporation had engaged a consultant to provide engineering design and marine permitting services for the completion of the Southpoint Park ("SPP") shorelines. The consultant identified failures due to deterioration along both shores, and the west shore seawall. The eastern seawall, while in generally better condition, does have some localized failures including but not limited to damage to some 100 linear feet that was breached during Hurricane Irene. The portion damaged by the storm event has been approved by FEMA as a project for disaster recovery funding.

As noted above, Roosevelt Island was affected by Hurricane Irene. Before and during the storm, RIOC staff took measures to mitigate potential damage and to protect lives and property. Under Federal guidelines, these efforts were eligible for reimbursement by FEMA. The following projects to rehabilitate portions of the Island impacted by Hurricane Irene were approved by FEMA and completed: (1) repairs to fencing damaged by falling trees; (2) repairs to damaged stone benches and walkways; (3) replacement of safety mulch washed away from playgrounds; (4) repairs to damaged streetlights adorning the open space at Lighthouse Park and the underlying electric wiring; and (5) repairs to several hundred linear feet of the West Side Sidewalk. For the aforementioned projects and other eligible expenses, RIOC incurred \$374,992. FEMA will reimburse RIOC 75% of the eligible costs, based upon approved claims. As of March 31, 2016, RIOC received \$174,176. RIOC expects that the final approval of the remaining eligible claims and completion of this project will be December 2017.

Similarly, the Island experienced damage caused by Hurricane Sandy during October 2012. Again, before and during the storm, RIOC staff took measures to mitigate potential damage and to protect lives and property. Projects that RIOC has completed and/or expects to complete in the future include: (1) repairs to damaged electric wiring in Lighthouse Park; (2) repairs to the footbridges in Lighthouse Park; (3) repairs to the Westside Pier; and (4) repairs to undermined Z-Bricks on the promenades. Both completed and in-progress work have been deemed eligible under Federal guidelines for reimbursement by FEMA/OEM. For the aforementioned projects and other eligible expenses, RIOC incurred \$264,422. As of March 31, 2016, RIOC received \$141,348. All projects resulting from Hurricane Sandy have been filed and must be completed prior to November 3, 2016.

Repairs to the South Point Seawall, extending from the northern tip of the SPP to the beginning of the Four Freedoms State Park on both the east and west side of approximately 1600 linear feet, are in the planning phase. RIOC estimates that the repairs will cost approximately \$16.5 million. Of the estimated \$16.5 million, FEMA has deemed an estimated \$1,098,656 of expenses to be incurred for the repair of approximately 100 linear feet of seawall breached during Hurricane Irene as eligible for reimbursement. Of this \$1,098,656 in eligible expenses RIOC has incurred \$22,933 to date. FEMA will reimburse 75% of the eligible costs based upon approved claims.

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(A Component Unit of the State of New York)

Management's Discussion and Analysis, Continued

The Seawall Railings are also in need of replacement and/or repair. In this regard, RIOC has engaged the services of a qualified engineer to develop the design for the Seawall Railings and to remain as a consultant through the RFP process. The Seawall Railings project will ultimately replace approximately four (4) miles of railings on Roosevelt Island, at an estimated cost of \$16 million dollars. However, because of the various construction projects currently underway, RIOC intends to implement this project in phases.

It is important to note that RIOC is aware of plans by the City of New York to obtain funding for the construction of a berm near the northern end of Roosevelt Island in an effort to protect Coler Hospital from catastrophic damage in the event of a super storm like Hurricane Sandy. Coler Hospital is a facility operated by HHC that provides rehabilitation and specialty nursing services to its residents. This effort comes as part of a \$1.6 billion dollar federal commitment by FEMA to advance the City's comprehensive, five-borough resiliency plan and fund improvements at four New York City Health and Hospitals Corporation facilities. The City of New York will request an easement from RIOC to implement this plan.

As further noted in Section VI of this report, RIOC's Capital Plan provides the framework to renew existing infrastructure, and maintain the quality of life for the Island's residents, workers, and visitors. The Corporation achieves this by making capital improvements and strategically acquiring capital assets that support essential services such as transit, sanitation, and public safety through a number of significant projects currently underway.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of RIOC's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer, The Roosevelt Island Operating Corporation, 591 Main Street, Roosevelt Island, New York 10044.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Statements of Net Position
March 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 28,571,327	1,130,550
Short-term investments	34,349,705	53,821,717
Receivables	714,320	865,847
Prepaid expenses	<u>51,748</u>	<u>1,595,684</u>
Total current assets	63,687,100	57,413,798
Noncurrent investments	9,539,700	2,895,403
Capital assets, net of accumulated depreciation	<u>70,351,219</u>	<u>70,241,543</u>
Total assets	<u>143,578,019</u>	<u>130,550,744</u>
Deferred outflows of resources - pensions	<u>560,848</u>	<u>-</u>
<u>Liabilities</u>		
Current liabilities - accounts payable and accrued expenses	350,329	773,869
Compensated absences	606,067	654,762
Unearned revenue	38,147,515	28,680,095
Postemployment benefits other than pension	3,833,013	3,395,875
Net pension liability - proportionate share - ERS	391,340	-
Other liabilities	<u>50,537</u>	<u>51,777</u>
Commitments and contingencies (note 9)		
Total liabilities	<u>43,378,801</u>	<u>33,556,378</u>
Deferred inflows of resources - pensions	<u>40,020</u>	<u>-</u>
Net position:		
Net investment in capital assets	70,351,219	70,241,543
Restricted for capital projects	24,086,583	23,425,543
Unrestricted net assets	<u>6,282,244</u>	<u>3,327,280</u>
Total net position	<u>\$ 100,720,046</u>	<u>96,994,366</u>

See accompanying notes to financial statements.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Statements of Revenues, Expenses and Changes in Net Position
Years ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenue:		
Residential fees	\$ 3,267,322	16,363,941
Ground rent	10,738,129	10,465,282
Commercial rent	1,564,597	1,446,680
Tramway revenue	5,510,805	5,211,790
Public safety reimbursement	1,823,337	1,713,231
Transport/parking revenue	2,542,058	2,331,339
Interest income	100,309	137,833
Unrealized loss	-	(807)
Other revenue	<u>1,603,287</u>	<u>1,541,350</u>
Total operating revenue	<u>27,149,844</u>	<u>39,210,639</u>
Operating expenses:		
Personal services	11,267,844	10,928,951
Insurance	1,662,105	1,580,232
Professional services and legal services	453,883	571,271
Management fees	4,378,564	4,146,286
Telecommunications	114,183	108,115
Repairs and maintenance	421,798	481,890
Vehicles maintenance	297,905	288,763
Equipment purchases/lease	55,401	91,929
Supplies/services	1,065,638	1,158,788
Other expenses	<u>400,371</u>	<u>421,087</u>
Total operating expenses	<u>20,117,692</u>	<u>19,777,312</u>
Operating income before depreciation	7,032,152	19,433,327
Depreciation expense	<u>3,299,771</u>	<u>3,518,632</u>
Change in net position	3,732,381	15,914,695
Net position at beginning of year	96,994,366	81,079,671
Cumulative effect of change in accounting principle	<u>(6,701)</u>	<u>-</u>
Net position at end of year	<u>\$ 100,720,046</u>	<u>96,994,366</u>

See accompanying notes to financial statements.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Statements of Cash Flows
Years ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from tenants and customers	\$ 36,582,369	39,650,759
Payments related to employees	(11,252,708)	(10,832,430)
Payments to vendors	<u>(7,307,152)</u>	<u>(9,183,049)</u>
Net cash provided by operating activities	<u>18,022,509</u>	<u>19,635,280</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(3,409,447)	(6,260,865)
Purchase of noncurrent investments	19,472,012	(12,488,430)
Sale of short-term investments	<u>(6,644,297)</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>9,418,268</u>	<u>(18,749,295)</u>
Net increase in cash	27,440,777	885,985
Cash at beginning of year	<u>1,130,550</u>	<u>244,565</u>
Cash at end of year	<u>\$ 28,571,327</u>	<u>1,130,550</u>
Cash flows from operating activities:		
Change in net position	3,732,381	15,914,695
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	3,299,771	3,518,632
Loss on disposition of asset	-	18,017
Cumulative effect of change in accounting principle	(6,701)	-
Changes in:		
Receivables	151,527	456,635
Prepaid expenses	1,543,936	(50,550)
Deferred outflows of resources - pensions	(560,848)	-
Accounts payable and accrued expenses	(423,540)	(316,143)
Compensated absences	(48,695)	75,014
Unearned revenue	9,467,420	(533,584)
Postemployment benefits other than pension	437,138	503,419
Net pension liability - proportionate share - ERS	391,340	-
Other liabilities	(1,240)	49,145
Deferred inflows of resources - pensions	<u>40,020</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 18,022,509</u>	<u>19,635,280</u>

See accompanying notes to financial statements.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements

March 31, 2016

(1) Organization

In 1969, the City of New York entered into a lease with the New York State Urban Development Corporation (UDC) for the development of Roosevelt Island. In May 1981, pursuant to a memorandum of understanding between UDC and the New York State Division of Housing and Community Renewal (DHCR), responsibility for Roosevelt Island was assigned to DHCR. DHCR then assigned all of its rights and responsibilities to Safe Affordable Housing for Everyone, Inc. (SAHE), a corporation under the direct control of the New York State Commissioner of Housing.

Effective April 1, 1981, SAHE, a Community Development Corporation (formed under Article (6) of the Private Housing Finance Law), became responsible for the day-to-day operation of the services and facilities of Roosevelt Island.

On September 4, 1984, Roosevelt Island Operating Corporation (RIOCI) was organized pursuant to Chapter 899 of the New York Unconsolidated Law as a public benefit corporation. The responsibility for the operation, security and maintenance of Roosevelt Island was transferred from SAHE to RIOCI on April 1, 1985.

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board (GASB) codification 2100, The Financial Reporting Entity, have been considered and there are no agencies or entities which should be, but are not, combined with the financial statements of RIOCI. However, RIOCI is considered a component unit of the State of New York.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

RIOCI was created by the New York State Legislature in 1984 as a public benefit corporation charged with maintaining, operating, and developing Roosevelt Island. RIOCI follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities of the Corporation. These statements are presented in a manner similar to a private business. While additional information is not presented, separate accounts are maintained for each fund to control and manage transactions for specific purposes and to demonstrate that RIOCI is properly performing its contractual obligations.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(a) Basis of Presentation, Continued

The financial statements of RIOC are prepared in accordance with generally accepted accounting principles (GAAP). RIOC's reporting entity applies all relevant Government Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions issued before November 30, 1989, unless they conflict with GASB pronouncements.

(b) Budgetary Information

During the year ended March 31, 2016, RIOC did not request appropriations from the State of New York. Accordingly, budgetary information was not included in the notes to financial statements. However, the Board did approve an operating budget, which is included under supplementary information.

(c) Cash and Cash Equivalents

The following is a summary of cash and cash equivalents as of March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash - deposits	\$ <u>28,571,327</u>	<u>1,130,550</u>
Short-term investments:		
Certificates of deposit (CDARS)	21,486,062	21,218,472
Money market accounts	<u>12,863,643</u>	<u>32,603,245</u>
	<u>34,349,705</u>	<u>53,821,717</u>
Total cash and short-term investments	\$ <u>62,921,032</u>	<u>54,952,267</u>

RIOC defines cash and cash equivalents as short-term, highly liquid investments with purchased maturities of three months or less.

The money market and cash accounts are secured by collateral securities held in escrow by JP Morgan Chase Bank, NA and managed by the National Collateral Management Group with market values totaling \$51,228,067 and \$37,915,593 as of March 31, 2016 and 2015, respectively.

Investments managed internally consist of certificates of deposit, "CDARS", a FDIC insured program administered by Amalgamated Bank, with purchased maturities of twelve months or less, and interest bearing cash deposit accounts. RIOC's investment guidelines limited its investments of funds primarily to obligations of the United States of America (United States Government Securities), the State of New York, high grade Corporate Securities or certificates of deposit. All cash and funds invested in certificates in any fiduciary bank or trust company must be secured at all times by United States Government Securities or obligations of the State of New York, with a market value,

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ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(c) Cash and Cash Equivalents, Continued

combined with any FDIC coverage, at least equal to the amount of such deposits. Monies held by the Trustees are only secured by obligations guaranteed by the United States of America.

(d) Noncurrent Investments

This represents funds set aside to satisfy the obligation of the postemployment benefits other than pension under GASB Statement No. 45 and are invested in collateralized money market and CDARS. The carrying amount of these investments are \$9,539,700 and \$2,895,403 for the years ended March 31, 2016 and 2015, respectively.

(e) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported on the statements of net position in the accompanying financial statements. Capital assets are defined by RIOC as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of RIOC are depreciated using the straight-line method over the following estimated useful lives:

Seawall (improvement of 1995)	73
Buildings	40
Building improvements	15
Infrastructure	50
Vehicles	10
Office equipment	5
Computer equipment	5
Leasehold improvements	15

(f) Compensated Absences

It is RIOC's policy to accrue for unused absences for all full time employees. Accrued compensatory time as of March 31, 2016 and 2015 were \$606,067 and \$654,762, respectively.

(g) Unearned Revenue

Unearned revenue reported in the statement of net position represents amounts collected in advance for lease-related payments pertaining to subsequent fiscal years. These amounts will be recognized as income on an annual basis over a period of the remaining fifty-two years on the ground lease for the City of New York expiring in 2068 under the accrual basis of accounting.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(g) Unearned Revenue, Continued

Breakdown is as follows:

<u>Buildings</u>	Balance at April 1, 2015	<u>Additions</u>	<u>Amortization</u>	Balance at March 31, 2016
Octagon	\$ 2,545,298	-	(47,355)	2,497,943
Southtown Bldg #1	1,711,158	-	(31,835)	1,679,323
Southtown Bldg #2	1,632,816	-	(30,378)	1,602,438
Southtown Bldg #3	3,489,474	-	(64,922)	3,424,552
Southtown Bldg #4	4,549,492	-	(84,641)	4,464,851
Southtown Bldg #5	5,809,652	-	(108,087)	5,701,565
Southtown Bldg #6	8,942,205	-	(166,365)	8,775,840
Southtown Bldg #7	<u>-</u>	<u>10,080,000</u>	<u>(78,997)</u>	<u>10,001,003</u>
Total	<u>\$ 28,680,095</u>	<u>10,080,000</u>	<u>(612,580)</u>	<u>38,147,515</u>

(h) Public Purpose Grants

Included in "Other Expenses" are expenditures for public purpose grants of \$218,000 and \$275,500 for the years ended March 31, 2016 and 2015 respectively. The Roosevelt Island Youth Center was granted \$175,000 each year to help fund operating expenses. The remaining grants were awarded to various Island-based not-for-profits upon evaluation of their applications and Board approval.

(i) Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

(j) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation has two items that qualify for reporting in this category, both related to pensions. The first item represents changes in the Corporation's proportion of the collective net pension liability (ERS System) and includes differences between expected and actual experience with regard to economic and demographic factors and the net difference between projected and actual investment earnings on pension plan investments. The second item is Corporation contributions to the pension system (ERS System) subsequent to the measurement date.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(j) Deferred Outflows and Inflows of Resources, Continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Corporation has one item that qualifies for reporting in this category. This item is related to pensions and represents changes in the Corporation's proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the Corporation's contributions and its proportion share of total contributions to the pension system not included in pension expense

(k) Accounting and Financial Reporting for Pensions

During the fiscal year ended March 31, 2016, the Corporation adopted the provisions of GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transitions for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68." The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements requires the Corporation to report as an asset and/or liability its portion of the collective pension asset and/or liability in the New York State Employees' Retirement System. The implementation of the Statements also requires the Corporation to report a deferred outflow and/or inflow for the effect of the net change in the Corporation's proportion of the collective net pension asset and/or liability and difference during the measurement period between the Corporation's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. Also included as deferred outflows are the Corporation contributions to the pension systems subsequent to the March 31, 2015 measurement date. See notes 7 c-h and 12 for the financial statement impact of implementation on the financial statements.

(l) Subsequent Events

Management has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(3) Capital Assets

Capital assets for the year ended March 31, 2016 are summarized as follows:

<u>Buildings</u>	Balance at April 1, <u>2015</u>	<u>Increase</u>	<u>Decrease</u>	Balance at March 31, <u>2016</u>
Capital assets:				
Seawall	\$ 4,096,335	48,473	-	4,144,808
Building and building improvements	45,669,409	2,750,038	-	48,419,447
Landmarks	14,542,486	60,810	-	14,603,296
Vehicles	4,304,187	42,617	-	4,346,804
Equipment	3,718,202	168,377	-	3,886,579
Infrastructure	55,339,761	339,132	-	55,678,893
Leasehold improvement	<u>118,457</u>	<u>-</u>	<u>-</u>	<u>118,457</u>
Total capital assets	<u>127,788,837</u>	<u>3,409,447</u>	<u>-</u>	<u>131,198,284</u>
Less accumulated depreciation:				
Seawall	(1,031,214)	(56,566)	-	(1,087,780)
Building and building improvements	(31,740,168)	(1,213,445)	-	(32,953,613)
Landmarks	(7,855,456)	(314,666)	-	(8,170,122)
Vehicles	(3,143,849)	(381,312)	-	(3,525,161)
Equipment	(3,281,387)	(163,228)	-	(3,444,615)
Infrastructure	(10,485,852)	(1,162,657)	-	(11,648,509)
Leasehold improvement	<u>(9,368)</u>	<u>(7,897)</u>	<u>-</u>	<u>(17,265)</u>
Total accumulated depreciation	<u>(57,547,294)</u>	<u>(3,299,771)</u>	<u>-</u>	<u>(60,847,065)</u>
Net capital assets	\$ <u>70,241,543</u>	<u>109,676</u>	<u>-</u>	<u>70,351,219</u>

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(3) Capital Assets, Continued

Capital assets for the year ended March 31, 2015 are summarized as follows:

<u>Buildings</u>	Balance at April 1, <u>2014</u>	<u>Increase</u>	<u>Decrease</u>	Balance at March 31, <u>2015</u>
Capital assets:				
Seawall	\$ 3,989,825	106,510	-	4,096,335
Building and building improvements	42,943,973	2,725,436	-	45,669,409
Landmarks	14,217,014	325,472	-	14,542,486
Vehicles	4,286,979	61,330	(44,122)	4,304,187
Equipment	3,392,366	325,836	-	3,718,202
Infrastructure	52,674,648	2,665,113	-	55,339,761
Leasehold improvements	<u>67,289</u>	<u>51,168</u>	<u>-</u>	<u>118,457</u>
Total capital assets	<u>121,572,094</u>	<u>6,260,865</u>	<u>(44,122)</u>	<u>127,788,837</u>
Less accumulated depreciation:				
Seawall	(975,534)	(55,680)	-	(1,031,214)
Building and building improvements	(30,411,054)	(1,329,114)	-	(31,740,168)
Landmarks	(7,543,580)	(311,876)	-	(7,855,456)
Vehicles	(2,733,959)	(435,995)	26,105	(3,143,849)
Equipment	(3,098,028)	(183,359)	-	(3,281,387)
Infrastructure	(9,289,462)	(1,196,390)	-	(10,485,852)
Leasehold improvement	<u>(3,150)</u>	<u>(6,218)</u>	<u>-</u>	<u>(9,368)</u>
Total accumulated depreciation	<u>(54,054,767)</u>	<u>(3,518,632)</u>	<u>26,105</u>	<u>(57,547,294)</u>
Net capital assets	\$ <u>67,517,327</u>	<u>2,742,233</u>	<u>(18,017)</u>	<u>70,241,543</u>

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(4) Operating Revenues, Basic Rent and Housing Company Reimbursement

Operating revenues in the accompanying statement of revenues, expenses and changes in net position consist of income derived from the following sources:

(a) Residential Fees

The net present value (NPV) fee for Octagon and Southtown buildings #1, 2, 3, 4, 5, 6 and 7 were collected in advance and recognized over the term of the lease - see above section 2 (g) Unearned Revenue. Tax equivalent payments (TEP) are collected and recognized from Southtown buildings #5, 6 and 7 over the term of the lease. Condo sales fees are collected and recognized upon closing of a sale. TEP and NPV are fixed and the Condo fees vary according to sales.

(b) Ground Rent

Ground rents are derived from ground subleases between RIOC and various developers of housing on Roosevelt Island. Most of the ground subleases expire in 2068, which coincides with the expiration of the master lease between RIOC and New York City, the owner of Roosevelt Island. Ground rents account for nearly 40% of annual revenues. The two main sources of ground rents are Manhattan Park and Roosevelt Landings (formerly Eastwood). The other streams of ground rents are from Southtown Buildings #1, 2, 3, 4, 5, 6 and 7; Island House; Rivercross; and Octagon.

Manhattan Park - Under the terms of the ground sublease between RIOC and Roosevelt Island Associates dated August 4, 1986 and expiring in 2068, annual rent, which commenced on the Rent Commencement Date of January 1, 1991, consists of a base ground rent of \$100,000 and additional fixed ground rent of \$1,900,000, increasing \$100,000 annually through December 31, 2011. As of January 1, 2012 and continuing through December 31, 2026, annual ground rent consists of the base ground rent of \$100,000 and additional fixed ground rent of \$4,000,000. Beyond 2026 until expiration in 2068, the ground rent is based upon the appraised value of the property times an applicable percentage, which is the market rate of return. Ground rents earned under the terms of the ground sublease were \$4,100,000 for the years ended March 31, 2016 and 2015.

In addition to the ground rent mentioned above, RIOC received a percentage payment, which is based on a tiered percentage formula of Manhattan Park's gross income. As of January 1, 2012 and continuing through December 31, 2026, the percentage payment will increase by the excess of the applicable percentages of gross income over the sum of the prior year's fixed ground rent of \$4,100,000 and percentage rent of \$2,040,649. For the year ended March 31, 2016, the percentage rent earned was \$2,040,649; and the same amount, \$2,040,649, for the year ended March 31, 2015.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(4) Operating Revenues, Basic Rent and Housing Company Reimbursement, Continued

(b) Ground Rent, Continued

BSREP UA Roosevelt Landings (formerly Eastwood) - Pursuant to an Amended and Restated Lease between RIOC and North Town Roosevelt, LLC ("North Town") dated September 21, 2006 (the "Eastwood Lease"), the base ground rent increased to \$1 million per year effective October 1, 2006, plus a percentage increase in accordance with annual rent rolls increases. Ground rents earned totaled \$1,453,064 and \$1,416,484 for the years ended March 31, 2016 and 2015, respectively.

Northtown Phase II Houses, Inc. (Island House) - The ground sublease between RIOC and North Town Phase II Houses, Inc., dated October 30, 1972, was amended with the base rent increasing from \$136,000 to \$236,000 per year effective January 01, 2013 - increasing by 10% on each 5th anniversary for 30 years.

Northtown Phase IV Houses, Inc. (Rivercross) - An amendment to the restated ground sublease was executed with Rivercross Tenants Corp, as successor in interest to Northtown Phase IV Associates effective March 29, 2011 ("Effective Date"). On the first anniversary of the Effective Date, residential ground rent to RIOC increased 4% from \$2,624.48 to \$2,729.46 per month - increasing by 4% on each anniversary of the Effective Date through 2068.

Ground rents for Southtown Buildings #1, 2, 3, 4 and for a portion of Buildings #5, 6, and 7, as well as the Octagon were paid in advance and are reflected under note 2 paragraph (g) Unearned revenue. Ground rents earned for Building #1-7 totaled \$2,264,969 and \$2,030,118 for fiscal years ended March 31 2016 and 2015, respectively.

(c) Commercial Rent

On August 1, 2011, RIOC entered into a Master Sublease Agreement with Hudson Related Retail LLC (HRR) to redevelop, improve, market, lease and professionally operate the Commercial Retail Spaces controlled by RIOC. HRR will pay RIOC an annual guaranteed rent of \$900,000 - escalating by 2% annually for the first five years and 2.5% annually thereafter, plus participation in the profits of HRR. According to the agreement, RIOC will share future profits evenly once HRR is paid back its investment. According to its certified financial statements as of December 31, 2015, Hudson Related Retail LLC invested \$2,584,216 and incurred a loss of (\$359,141).

In addition, RIOC entered into a license with HCK Recreation, Inc. ("HCK") on November 16, 1989 for the operation of a tennis facility, which was amended three times with the latest amendment requiring HCK to pay the greater of \$250,000 per annum or 10% of gross receipts for the period May 1, 2011 to April 30, 2016. Furthermore, on January 15, 2002, RIOC entered into an agreement with The Child School ("School") to develop and operate the School. The agreement requires the School to pay \$275,000 per annum with an escalation in an amount equal to the percentage increase in the State's Education Department tuition reimbursement received by the School.

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(4) Operating Revenues, Basic Rent and Housing Company Reimbursement, Continued

(d) Tramway Revenue

During February 2004, RIOC entered into an agreement with The New York City Transit Authority (“NYCTA”) for revenue collection from the Tramway. In the agreement, RIOC receives from the NYCTA a fare of \$2.00 for all swipes of full-fare Metro Cards, including transfers, in turnstiles located in RIOC’s tram stations. The funds are transmitted to RIOC via electronic funds transfer and the NYCTA supplies appropriate reports for the reconciliation of the revenue and ridership. There is a franchise fee expense associated with this agreement that is ½ of 1 percent of gross sales. Tramway revenues were \$5,510,805 and \$5,211,790 for the years ended March 31, 2016 and 2015, respectively.

(e) Public Safety Reimbursement

The intent of the initial agreements with the four original Mitchell-Lama housing projects (the “WIRE Projects”) was for RIOC to recoup approximately 50% of the cost of maintaining a public safety department on the Island. Accordingly, no less than 50% of such costs have been reimbursed by the WIRE Projects and are included in public safety reimbursement on the accompanying statements of revenues, expenses, and changes in fund net position. Additionally, Manhattan Park, Southtown and the Octagon projects are responsible for their respective share of the cost of RIOC’s public safety department. Public safety reimbursements were \$1,823,337 and \$1,713,231 for the years ended March 31, 2016 and 2015, respectively.

(f) Transportation and Parking Fees

The Motorgate Garage, the Roosevelt Island parking facility, is managed by an agent, Central Parking System (“Central”). This agreement is cancelable by RIOC on 30-day notice and by Central on 180-day notice. Central collects the parking fees and pays the operating costs in connection with the management of the garage. The excess of parking revenues over operating costs is returned to RIOC. RIOC shares the Motorgate revenue with Roosevelt Island Associates, operator of Manhattan Park, with RIOC receiving 61% of the net income. RIOC’s share of Motorgate revenues totaled \$2,092,736 and \$1,962,485 for the years ended March 31, 2016 and 2015, respectively.

Transportation revenues from the provision of bus services totaled \$119,080 and \$117,615 for the years ended March 31, 2016 and 2015, respectively. The cost of running the bus service totaled \$1,541,775 and \$1,467,270 for the same respective periods. Additionally, revenues from street parking meters for these periods totaled \$330,243 and \$251,239, respectively.

(g) Interest and Other Revenues

Interest income is derived from deposits that are either FDIC insured or collateralized by government securities according to the investment guidelines of the State of New York. Other revenues comprised of fees for usage of the sports fields and facilities.

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(4) Operating Revenues, Basic Rent and Housing Company Reimbursement, Continued

(h) De-designation Fee Income

The Development Agreement for Southtown buildings (“Buildings”) seven (7) through nine (9) between Hudson Related Joint Venture (“Developer”) and RIOC included a contingent de-designation (cancellation of project or portion of) fee of \$2,438,400. The Development Agreement is collateralized by a Guaranty Letter of Credit issued by Deutsche Bank Trust Company, NA in the amount of \$2,438,400 maturing on August 15, 2016, to be renewed annually. The Building 7 Lease was closed on October 10, 2013 and construction was completed on September 21, 2015. The Building 8 Lease Closing shall occur no later than 30 months after the Building 7 Lease Closing; and the Building 9 Lease Closing shall occur no later than 30 months after the Building 8 Lease Closing. The Building 8 Lease was not closed by April 10, 2016. In the event that the Developer fails to close a Building lease in accordance with the foregoing schedule, except if due to RIOC, RIOC may draw the entire balance of the Guaranty Letter of Credit and apply same at its sole discretion, and in addition thereto, at its sole option, de-designate the Developer for each such Building and for the remainder of the Building. RIOC believes that the development will continue and has begun negotiations for Buildings 8 and 9.

(i) Future Minimum Payments Due

Future minimum payments due to RIOC under current leases all with the housing companies and leases for commercial space are as follows:

Years ending <u>March 31</u>	Housing <u>Companies</u>	Commercial <u>Leases</u>
2017	\$ 13,213,065	1,602,853
2018	13,568,366	1,637,755
2019	15,347,980	1,903,579
2020	15,740,350	2,202,352
2021	<u>16,963,694</u>	<u>2,355,099</u>
Total	\$ <u>74,833,455</u>	<u>9,701,638</u>

(5) Management Agreements

The Roosevelt Island Tramway System is operated by Leitner-Poma of America, Inc., a subsidiary of Pomagalski S.A, the designer and builder of the modernized Tramway system, which went into operation on November 30, 2010. RIOC entered into a 5-year fixed fee operating agreement at a minimal annual cost of \$3,397,200 plus certain operating costs associated with operation of the Tramway System. The agreement was extended for six months to May 2016 at a monthly cost of \$299,527. RIOC is in the process of negotiating an additional six months extension and re-bidding for an operator.

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Notes to Financial Statements, Continued

(5) Management Agreements, Continued

RIOC also has a parking management agreement with Central Parking System (“Central”) for the management of Motorgate Garage. This agreement is cancelable by RIOC on 30-day notice and by Central on 180-day notice. RIOC pays a minimal annual management fee of \$40,000 and certain maintenance and operating costs in connection with the management of the garage.

(6) Income Taxes

RIOC is a public benefit corporation of the State of New York and as such is exempt from income tax under Section 115 of the Internal Revenue Code. Accordingly, no income taxes have been provided for in the financial statements.

(7) Retirement Plans

Retirement plans in which RIOC contributes are detailed as follows:

(a) Non-Union Employees

RIOC’s non-union employees participate in the New York State and Local Employees’ Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. ERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of ERS and for the custody and control of their funds. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Albany, New York 12244.

Funding Policy

ERS is contributory (3%) except for employees who joined the System before July 27, 1976. Employees who joined the System after July 27, 1976, but prior to January 1, 2011, and have been members of the System for at least ten years, or have at least ten years of credited service are not required to contribute 3% of their salaries. Employee hired after January 1, 2011 shall contribute 3% of salary for the duration of employment. For Tier 6 employees, beginning April 1, 2013, contributions are as follows: Up to \$45K = 3%; \$45,001 to \$55K = 3.5%; \$55,001 to \$75K = 4.5%; \$75,001 to \$100K = 5.75%; Greater than \$100K = 6% for the entire duration of State employment. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated fund.

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(7) Retirement Plans, Continued

(a) Non-Union Employees, Continued

New York State Employees Retirement System (“NYSERS”) eligibility requirements:

Tier 1 (Member before July 1, 1973):

- a. For reduced pension benefits: Age 55 with 5 years of service.
- b. For full pension benefits: Age 55 with 20 years of service.

Tiers 2, 3, and 4 (Became a member after July 1, 1973):

- a. For reduced pension benefits: Age 55 with 5 years of service.
- b. For full pension benefits: Age 55 with 30 years of service or age 62 with 20 years of service.

Tier 5 (Became a member on or after January 1, 2010):

- a. For reduced pension benefits: Age 55 with 10 years of service.
- b. For full pension benefits: Age 62 with 10 years of service.

Tier 6 (Became a member on or after April 1, 2012):

- a. For reduced pension benefits: Age 55 with 10 years of service.
- b. For full pension benefits: Age 63 with 10 years of service.

RIOC is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were approximately:

March 31, 2014	\$ 540,970
March 31, 2015	\$ 516,769
March 31, 2016	\$ 480,350

RIOC has made the required contributions for each year.

(b) Union Employees

Union employees participate in separate defined contribution plans, which are administered by each union. RIOC contributed \$134,011 and \$256,793 for the years ended March 31, 2016 and 2015, respectively, to union employees’ defined contribution plans.

(c) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At March 31, 2016, the Corporation reported the following liability for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Corporation’s proportionate share of the net pension liability was based on a projection of the Corporation’s long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by ERS in reports provided to the Corporation.

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(7) Retirement Plans, Continued

(c) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Actuarial valuation date	3/31/2015
Net pension liability	\$ 391,340
Corporation's proportion of the Plan's net pension liability	0.011584%

For the year ended March 31, 2016, the Corporation recognized pension expense of \$344,161 for ERS. At March 31, 2016 the Corporation's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,527	-
Net difference between projected and actual earnings on pension plan investments	67,971	-
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	-	40,020
Corporation's contributions subsequent to the March 31, 2015 measurement date	<u>480,350</u>	<u>-</u>
Total	<u>\$ 560,848</u>	<u>40,020</u>

Corporation contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended</u>	<u>ERS</u>
2016	\$ 10,121
2017	10,119
2018	10,119
2019	10,119
2020	-
Thereafter	-

(d) Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

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Notes to Financial Statements, Continued

(7) Retirement Plans, Continued

(d) Actuarial Assumptions, Continued

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2015
Actuarial valuation date	April 1, 2014
Interest rate	7.5%
Salary scale	4.9% Average
Decrement tables	April 1, 2005 - March 31, 2010 System's Experience
Inflation rate	2.7%

Annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

Measurement date	March 31, 2015
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Real estate	8.25%
Private equity	11.00%
Absolute return strategies	6.75%
Opportunities portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation - indexed bonds	4.00%

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(7) Retirement Plans, Continued

(e) Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(f) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Corporation's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability (asset)	\$ <u>2,608,448</u>	<u>391,340</u>	<u>(1,480,450)</u>

(g) Pension Plan Fiduciary Net Position

The components of the current-year net pension asset/(liability) of all participating employers as of the respective valuation dates, were as follows:

	(Dollars in Millions)
Valuation date	3/31/2015
Employers' total pension liability	(164,592)
Plan net position	<u>161,213</u>
Employers' net pension asset/(liability)	<u>(3,379)</u>
Ratio of plan net position to the Employers' total pension asset/(liability)	97.95%

(h) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Retirement contributions as of March 31, 2016 and 2015 represent the projected employer contribution for the period of April 1, 2015 through March 31, 2016 and April 1, 2014 through March 31, 2015, respectively based on paid ERS wages multiplied by the employer's contribution rate, by tier. This amount has been recorded as deferred outflows of resources in the accompanying financial statements.

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(8) Risk Management

RIOC purchases commercial insurance policies to adequately protect against potential loss stemming from general liability, vehicle liability, property damage, and public officials and employee liability. Coverages for the forthcoming fiscal year ended March 31, 2016 were appropriately increased to provide adequate protection for RIOC as follows:

<u>Coverages</u>	<u>2016-2017 Coverage Amount</u>
General liability - RIOC and Tram	\$125 million limit
Property	\$75 million limit
Boiler and machinery	\$100 million limit
Automobile	\$1 million limit
Public officials liability	\$5 million limit

(9) Commitments and Contingencies

Commitments and contingencies at March 31, 2016 and 2015 are detailed as follows:

(a) Leases

RIOC has agreements with four (4) housing companies operating on the Island to sublease commercial space occupied by the housing companies. Rent expense for the years ended March 31, 2016 and 2015 were approximately \$132,203 and \$155,984; respectively.

(b) Litigation

RIOC is a defendant in various lawsuits. In the opinion of RIOC's legal counsel, these suits should not result in judgments which in the aggregate would have a material adverse effect on RIOC's financial statements.

(c) Revenue Allocation Agreement - between New York State Urban Development Corporation (UDC), now known as the Empire State Development (ESD) and Roosevelt Island Operating Corporation (RIOC)

On August 3rd, 1988 ESD and RIOC entered into an agreement in the sharing of all revenues derived by RIOC in order for ESD to recover its investment in Roosevelt Island. The total amount invested in developing the Roosevelt Island infrastructure and funding of ESD's operating deficits prior to the assignment of operations to RIOC amounted to \$170,356,976 along with a stated interest rate of 5.74%. In addition, there are other State Operating Subsidies and State Capital Investments that were received and may have to be repaid under the terms of the Revenue Allocation Agreement. The agreement calls for revenues to be allocated in the following manner; (1) RIOC Operating Expenditures, (2) Satisfaction of UDC's Accrued Operating Deficit,

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Notes to Financial Statements, Continued

(9) Commitments and Contingencies, Continued

(c) Revenue Allocation Agreement - between New York State Urban Development Corporation (UDC), now known as the Empire State Development (ESD) and Roosevelt Island Operating Corporation (RIOCI) - continued

(3) Satisfaction of UDC's Public Facilities Debt, (4) Satisfaction of other State Operating Subsidies, and (5) Satisfaction of other State Capital Investments. To date, no revenues have been allocated for the satisfaction of ESD debt other than "Tax Equivalency Payments" ("TEP") payments for Roosevelt Island's original affordable "Mitchell-Lama" buildings. ESD has acknowledged that there are significant projected future capital investments to be made by RIOCI.

(10) Postemployment Benefits Other Than Pensions

The Corporation implemented the accounting and disclosure requirements of GASB Statement No. 45 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (OPEB) effective for its fiscal year beginning April 1, 2007.

Plan Description - The Corporation provides continuation of medical coverage to administrative, non-represented employees (those categorized as M/C) that retire at age 55 or older with five (5) years of service with the Corporation or a combination of service with a previous NYS public employer and a minimum of one (1) year service with RIOCI. The employee must meet the requirements for retiring as a member of the NYS Employees Retirement System, and the employee must be enrolled in NYSHIP. The Corporation contributes 88% for employees and 73% for an employee's spouse.

The Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's non-union employees may become eligible for these benefits if they reach the normal retirement age, of the respective tier of the New York State Employees' Retirement System, while working for the Corporation. The Corporation, on an annual basis, accrues the cost which represents the present value of these benefits to be paid over the estimated lives of the retirees.

Total expenditures charged to operations for the years ended March 31, 2016 and 2015 amounted to \$579,478 and \$643,553, respectively. At March 31, 2016, the liability for active and retired employees included in non-current accrued fringe benefits amounted to \$3,833,013.

The number of participants as of January 1, 2015 was as follows:

Active employees	36
Retired employees	12
Spouses of retired employees	<u>4</u>
Total	<u>52</u>

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(10) Postemployment Benefits Other Than Pensions, Continued

Funding Policy - The Corporation currently pays for post-retirement health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue. The funds have been set aside for this purpose and are discussed in note 2(d), but a trust has not been established. Currently, OPEB trusts are not allowed in New York State.

<u>Benefit Obligations and Normal Cost</u>	<u>2016</u>	<u>2015</u>
Actuarial accrued liability (AAL):		
Actuarial accrued liability	\$ 6,860,975	6,833,798
Less: Actuarial value of assets	<u> -</u>	<u> -</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>6,860,975</u>	<u>6,833,798</u>
Normal cost	\$ <u>299,361</u>	<u>363,865</u>

<u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution	\$ 584,312	647,671
Interest on net OPEB obligation	135,835	115,698
Adjustment to annual required contribution	<u>(140,669)</u>	<u>(119,816)</u>
Annual OPEB cost (expense)	579,478	643,553
Contribution made on a pay-as-you-go basis	<u>(142,340)</u>	<u>(140,134)</u>
Increase in net OPEB obligation	437,138	503,419
Net OPEB obligation at beginning of year	<u>3,395,875</u>	<u>2,892,456</u>
Net OPEB obligation at end of year	\$ <u>3,833,013</u>	<u>3,395,875</u>

Actuarial methods and assumptions:	
Valuation method	Projected Unit Credit Method
Amortization period	30 years
Amortization method	Level percent of pay, open group
Interest rate	4.0%
Inflation rate	2.5%
Annual payroll growth rate	3.0%
Retirement rates	Later of age 65 and first eligibility

Healthcare cost trend:	
<u>Year</u>	<u>Medical Trend Rate</u>
2015	6.1%
2016	5.5%
2020	5.4%
2030	5.5%
2040	5.5%
2050	5.1%
Ultimate	4.2%

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Notes to Financial Statements, Continued

(11) Pollution Remediation Obligations

In accordance with the GASB Statement No. 49 - "Accounting for Pollution Remediation Obligations," management has concluded that no obligating event has occurred that would require recognition of a future pollution remediation obligation in the accompanying financial statements.

(12) Cumulative Effect of Change in Accounting Principle

During the fiscal year ended March 31, 2016, the Corporation implemented GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date." The implementation of these Statements resulted in the reporting of an asset, deferred outflow of resources, liability and deferred inflow of resources related to the Corporation's participation in the New York State Employees' retirement systems. The Corporation's net position at April 1, 2015 has been restated as follows:

Net position at beginning of year, as previously stated	\$ <u>96,994,366</u>
GASB Statement No. 68 implementation:	
Beginning System liability - Employees' Retirement System as of March 31, 2015	(523,470)
Beginning deferred outflow of resources resulting from contributions subsequent to the measurement date	<u>516,769</u>
Cumulative effect of implementation	<u>(6,701)</u>
Net position at beginning of year, as restated	\$ <u>96,987,665</u>

(13) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 72 - "Fair Value Measurement and Application." This Statement issued in February 2015, provides guidance regarding accounting and financial reporting related to fair value measures of certain investments. The requirements of this Statement are effective for periods beginning after June 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

ROOSEVELT ISLAND OPERATING CORPORATION
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Notes to Financial Statements, Continued

(13) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This Statement, issued in June 2015, establishes requirements for defined benefit pension plans and defined contribution pension plans that are not within the scope of Statement No. 68 - "Accounting and Financial Reporting for Pensions," as well as requirements for the assets accumulated for purposes of providing those pensions. The requirements of this Statement for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. Requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions as well as the requirements for pension plans within the scope of Statements 67 and 68 are effective for fiscal years beginning after June 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This Statement, issued in June 2015, replaces existing standards of accounting and financial reporting for post employment benefit plans other than pension plans and also replaces existing requirements for defined contribution OPEB plans. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement, issued in June 2015, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning April 1, 2018 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

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Notes to Financial Statements, Continued

(13) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." This Statement, issued in June 2015, supersedes Statement No. 55 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements for this Statement are effective for financial statements for periods beginning after June 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

GASB Statement No. 77 - "Tax Abatement Disclosures." This Statement requires disclosure of the tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

GASB Statement No. 78 - "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans." This Statement, issued in December 2015, amends GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

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Notes to Financial Statements, Continued

(13) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants." This Statement, issued in December 2015, addresses the accounting and financial reporting for certain external investment pools and pool participants. It establishes the criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. For the Corporation, this Statement becomes effective for the fiscal year beginning April 1, 2016. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

GASB Statement No. 80 - "Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14." This Statement, issued in January 2016, amends blending requirements established in paragraph 53 of GASB Statement No. 14 - "The Financial Reporting Entity, as Amended" for the financial statement presentation of component units of all state and local governments. An additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39 - "Determining Whether Certain Organizations are Component Units." The provisions of this Statement are effective for financial statements for years beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

GASB Statement No. 81 - "Irrevocable Split-Interest Agreements." This Statement, issued in March 2016, establishes accounting and reporting standards for irrevocable split-interest agreements with characteristics that are equivalent to irrevocable split-interest agreements in which a donor irrevocably transfers resources to an intermediary who administers these resources for the unconditional benefit of a government and at least one other beneficiary. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(13) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73." This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning April 1, 2018 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Required Supplementary Information - Schedule of Funding Progress
Other Postemployment Benefits
Last Three Fiscal Years

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Covered Payroll</u>
October 23, 2015	\$ -	6,860,975	6,860,975	0%	2,714,505	252.75%
October 23, 2014	-	6,833,798	6,833,798	0%	2,635,442	259.30%
October 23, 2013	-	6,636,223	6,636,223	0%	2,558,682	259.36%

ROOSEVELT ISLAND OPERATING CORPORATION
Required Supplementary Information
Schedule of Entity's Proportionate Share of the Net Pension Liability
For the year ended March 31, 2016

NYSERS Pension Plan

Entity's proportion of the net pension liability	0.0115841%
Entity's proportionate share of the net pension liability	\$ 391,340
Entity's covered payroll	\$ 2,734,022
Entity's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	14.31%
Plan fiduciary net position as a percentage of the total pension liability	97.95%

ROOSEVELT ISLAND OPERATING CORPORATION
 Required Supplementary Information
 Schedule of Entity's Employer Pension Contributions
 For the year ended March 31, 2016

	NYSERS Pension Plan				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 480,350	516,769	540,970	583,380	639,065
Contributions in relation to the contractually required contribution	<u>480,350</u>	<u>516,769</u>	<u>540,970</u>	<u>583,380</u>	<u>639,065</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Entity's covered employee payroll	\$2,734,023	2,665,135	2,662,409	2,906,547	3,132,491
Contributions as a percentage of covered employee payroll	17.57%	19.39%	20.32%	20.07%	20.40%

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Schedule of Operations by Department
Year ended March 31, 2016

	General Fund										Total	
	General Fund	Operations	Public Safety	Transportation	Parking	Parks/Rec.	Tram	Public purpose fund	Capital fund	Reserved fund		
Revenue:												
Residential fees	\$ 572,128	572,128	-	-	-	-	-	-	2,447,000	248,194	3,267,322	
Ground rent	10,338,129	10,338,129	-	-	-	-	-	-	400,000	-	10,738,129	
Commercial rent	1,564,597	1,564,597	-	-	-	-	-	-	-	-	1,564,597	
Tramway revenue	5,510,805	-	-	-	-	5,510,805	-	-	-	-	5,510,805	
Public safety reimbursement	1,823,337	-	1,823,337	-	-	-	-	-	-	-	1,823,337	
Transportation and parking	2,542,058	-	-	119,080	2,422,978	-	-	-	-	-	2,542,058	
Interest income	8,037	8,037	-	-	-	-	-	1	8,049	84,222	100,309	
Other revenue	1,521,998	562,653	-	-	-	959,345	-	-	81,289	-	1,603,287	
Total revenue	23,881,089	13,045,544	1,823,337	119,080	2,422,978	959,345	5,510,805	1	2,936,338	332,416	27,149,844	
Expenses:												
Personal services:												
Salaries	7,375,014	3,702,816	2,213,807	919,964	-	538,427	-	-	-	-	7,375,014	
Temporary employees	186,241	173,836	-	-	-	12,405	-	-	-	-	186,241	
Employee benefits	3,755,284	2,346,092	894,203	328,369	-	186,620	-	-	-	-	3,755,284	
Compensated absences	(48,695)	(48,695)	-	-	-	-	-	-	-	-	(48,695)	
Total personal services	11,267,844	6,174,049	3,108,010	1,248,333	-	737,452	-	-	-	-	11,267,844	
Other than personal services:												
Insurance	1,662,105	1,490,660	-	-	-	-	171,445	-	-	-	1,662,105	
Professional services	259,460	207,178	2,938	-	-	49,344	-	-	-	-	259,460	
Management fees	4,378,564	-	-	-	872,828	-	3,505,736	-	-	-	4,378,564	
Legal services	194,423	194,423	-	-	-	-	-	-	-	-	194,423	
Telecommunications	114,183	114,183	-	-	-	-	-	-	-	-	114,183	
Island improvements/capital plan	137,204	137,204	-	-	-	-	-	-	-	-	137,204	
Repairs and maintenance	284,594	262,837	3,586	3,782	12,146	1,633	610	-	-	-	284,594	
Vehicles maintenance	297,905	61,692	20,946	215,267	-	-	-	-	-	-	297,905	
Equipment purchases/lease	55,401	36,717	4,743	2,373	-	3,127	8,441	-	-	-	55,401	
Supplies/services	1,065,638	508,153	61,993	70,078	49,412	215,702	160,300	-	-	-	1,065,638	
Other expenses	182,356	108,300	2,023	1,942	-	70,025	66	218,015	-	-	400,371	
Total other than personal services	8,631,833	3,121,347	96,229	293,442	934,386	339,831	3,846,598	218,015	-	-	8,849,848	
Total operating expenses, excluding depreciation	19,899,677	9,295,396	3,204,239	1,541,775	934,386	1,077,283	3,846,598	218,015	-	-	20,117,692	
Operating income (loss) before depreciation	3,981,412	3,750,148	(1,380,902)	(1,422,695)	1,488,592	(117,938)	1,664,207	(218,014)	2,936,338	332,416	7,032,152	
Depreciation expense	-	-	-	-	-	-	-	-	(3,299,771)	-	(3,299,771)	
Operating income (loss)	\$ 3,981,412	3,750,148	(1,380,902)	(1,422,695)	1,488,592	(117,938)	1,664,207	(218,014)	(363,433)	332,416	3,732,381	

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Schedule of Operations by Department
Year ended March 31, 2015

	General Fund										Total	
	General Fund	Operations	Public Safety	Transportation	Parking	Parks/Rec.	Tram	Public purpose fund	Capital fund	Reserved fund		
Revenue:												
Residential fees	\$15,908,997	15,908,997	-	-	-	-	-	-	253,358	201,386	16,363,941	
Ground rent	10,065,282	10,065,282	-	-	-	-	-	-	400,000	-	10,465,282	
Commercial rent	1,446,680	1,446,680	-	-	-	-	-	-	-	-	1,446,680	
Tramway revenue	5,211,790	-	-	-	-	5,211,790	-	-	-	-	5,211,790	
Public safety reimbursement	1,713,231	-	1,713,231	-	-	-	-	-	-	-	1,713,231	
Transportation and parking	2,331,339	-	-	117,615	2,213,724	-	-	-	-	125,202	2,331,339	
Interest income	6,784	6,784	-	-	-	-	-	2	5,845	-	137,833	
Unrealized loss	-	-	-	-	-	-	-	-	(807)	-	(807)	
Other revenue	1,541,350	833,023	-	-	-	708,327	-	-	-	-	1,541,350	
Total revenue	38,225,453	28,260,766	1,713,231	117,615	2,213,724	708,327	5,211,790	2	658,396	326,788	39,210,639	
Expenses:												
Personal services:												
Salaries	6,897,711	3,435,939	2,070,511	882,454	-	508,807	-	-	-	-	6,897,711	
Temporary employees	165,994	157,579	-	-	-	8,415	-	-	-	-	165,994	
Employee benefits	3,790,231	2,420,548	877,569	321,296	-	170,818	-	-	-	-	3,790,231	
Compensated absences	75,015	75,015	-	-	-	-	-	-	-	-	75,015	
Total personal services	10,928,951	6,089,081	2,948,080	1,203,750	-	688,040	-	-	-	-	10,928,951	
Other than personal services:												
Insurance	1,580,232	1,410,348	-	-	-	-	169,884	-	-	-	1,580,232	
Professional services	260,737	172,386	41,811	-	-	46,540	-	-	-	-	260,737	
Management fees	4,146,286	-	-	-	706,770	-	3,439,516	-	-	-	4,146,286	
Legal services	310,534	310,534	-	-	-	-	-	-	-	-	310,534	
Telecommunications	108,115	108,115	-	-	-	-	-	-	-	-	108,115	
Island improvements/capital plan	163,984	163,984	-	-	-	-	-	-	-	-	163,984	
Repairs and maintenance	317,906	198,844	7,093	4,958	1,154	36,541	69,316	-	-	-	317,906	
Vehicles maintenance	288,763	69,126	24,328	194,752	-	557	-	-	-	-	288,763	
Equipment purchases/lease	91,929	80,271	2,145	2,230	-	-	7,283	-	-	-	91,929	
Supplies/services	1,158,788	482,957	93,154	60,387	51,319	276,025	194,946	-	-	-	1,158,788	
Other expenses	145,587	69,831	14,690	1,193	-	59,873	-	275,500	-	-	421,087	
Total other than personal services	8,572,861	3,066,396	183,221	263,520	759,243	419,536	3,880,945	275,500	-	-	8,848,361	
Total operating expenses, excluding depreciation	19,501,812	9,155,477	3,131,301	1,467,270	759,243	1,107,576	3,880,945	275,500	-	-	19,777,312	
Operating income (loss) before depreciation	18,723,641	19,105,289	(1,418,070)	(1,349,655)	1,454,481	(399,249)	1,330,845	(275,498)	658,396	326,788	19,433,327	
Depreciation expense	-	-	-	-	-	-	-	-	(3,518,632)	-	(3,518,632)	
Operating income (loss)	\$18,723,641	19,105,289	(1,418,070)	(1,349,655)	1,454,481	(399,249)	1,330,845	(275,498)	(2,860,236)	326,788	15,914,695	

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Budget Variance Report
For the year ended March 31, 2016

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>	
			<u>Variance</u>	<u>Percent</u>
Revenue:				
Residential fees revenue	\$ 3,267,322	1,321,000	1,946,322	147%
Ground rent	10,738,129	10,744,000	(5,871)	0%
Commercial rent	1,564,597	1,549,000	15,597	1%
Tramway revenue	5,510,805	5,793,000	(282,195)	-5%
Public safety reimbursement	1,823,337	1,797,000	26,337	1%
Transport/parking revenue	2,542,058	2,386,000	156,058	7%
Interest income	100,309	159,000	(58,691)	-37%
Unrealized loss	-	-	-	-100%
Other revenue	1,603,287	1,616,000	(12,713)	-1%
Total revenue	27,149,844	25,365,000	1,784,844	7%
Expenses:				
Personal services (PS) :				
Salaries	6,937,105	7,308,580	371,475	5%
Salaries OT	437,909	175,000	(262,909)	-150%
Temporary employees	186,241	175,000	(11,241)	-6%
Workers compensation and disability	336,959	277,442	(59,517)	-21%
ER payroll taxes	642,116	644,021	1,905	0%
Health insurance	1,460,824	1,542,761	81,937	5%
Dental/vision	72,356	78,869	6,513	8%
Pension	614,361	888,660	274,299	31%
Other employee benefits	628,668	608,846	(19,822)	-3%
Compensated absences expenses	(48,695)	-	48,695	-100%
Total personal services (PS)	11,267,844	11,699,179	431,335	4%
Other than personal services (OTPS) :				
Insurance	1,662,105	1,731,000	68,895	4%
Professional services	248,495	850,029	601,534	71%
Marketing/advertising	10,965	8,500	(2,465)	-29%
Management fees	4,378,564	4,145,000	(233,564)	-6%
Legal services	194,423	393,000	198,577	51%
Telecommunications	114,183	127,300	13,117	10%
Island improvements - capital plan	137,204	130,000	(7,204)	-6%
Repairs and maintenance	185,176	469,500	284,324	61%
Repairs and maintenance equipment	20,665	57,000	36,335	64%
Other repairs and maintenance	78,753	90,000	11,247	12%

(Continued)

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Budget Variance Report, Continued

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>	
			<u>Variance</u>	<u>Percent</u>
Expenses, Continued:				
Other than personal services (OTPS), continued:				
Vehicles gas	\$ 114,547	210,000	95,453	45%
Vehicles repair and maintenance	163,587	111,000	(52,587)	-47%
Vehicles parts	19,770	78,000	58,230	75%
Equipment lease	22,498	20,000	(2,498)	-12%
Office equipment purchase	16,007	11,500	(4,507)	-39%
Equipment purchases	16,211	52,000	35,789	69%
Other equipment purchases	685	12,000	11,315	94%
Exterminator	3,020	24,000	20,980	87%
Uniforms	52,835	75,700	22,865	30%
Light, power, heat	720,528	895,600	175,072	20%
Water and sewer	19,165	43,600	24,435	56%
Office supplies	16,494	20,300	3,806	19%
Parts and supplies	201,771	247,900	46,129	19%
Service maintenance agreement	51,825	130,950	79,125	60%
Employee travel and meal	6,022	5,900	(122)	-2%
Employee training	22,716	91,400	68,684	75%
Shipping	14,859	16,250	1,391	9%
Subscriptions/membership	21,401	12,600	(8,801)	-70%
Other expenses	266,542	350,500	83,958	24%
Island events - community relations	68,830	78,000	9,170	12%
Total other than personal services (OTPS)	<u>8,849,846</u>	<u>10,488,529</u>	<u>1,638,683</u>	<u>16%</u>
Total expenses	<u>20,117,690</u>	<u>22,187,708</u>	<u>2,070,018</u>	<u>9%</u>
Operating income before depreciation	7,032,154	3,177,292	3,854,862	121%
Depreciation expense	<u>3,299,771</u>	<u>3,762,000</u>	<u>462,229</u>	<u>12%</u>
Net surplus (deficit)	<u>\$ 3,732,383</u>	<u>(584,708)</u>	<u>4,317,091</u>	<u>738%</u>

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Budget Variance Report
For the year ended March 31, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>	
			<u>Variance</u>	<u>Percent</u>
Revenue:				
Residential fees revenue	\$16,363,941	1,030,000	15,333,941	1489%
Ground rent	10,465,282	10,092,000	373,282	4%
Commercial rent	1,446,680	1,483,000	(36,320)	-2%
Tramway revenue	5,211,790	4,953,000	258,790	5%
Public safety reimbursement	1,713,231	1,763,000	(49,769)	-3%
Transport/parking revenue	2,331,339	2,384,000	(52,661)	-2%
Interest income	137,833	175,000	(37,167)	-21%
Unrealized loss	(807)	-	(807)	-100%
Other revenue	1,541,350	1,260,000	281,350	22%
Total revenue	<u>39,210,639</u>	<u>23,140,000</u>	<u>16,070,639</u>	<u>69%</u>
Expenses:				
Personal services (PS) :				
Salaries	6,614,751	6,952,749	337,998	5%
Salaries OT	282,960	175,000	(107,960)	-62%
Temporary employees	165,994	175,000	9,006	5%
Workers compensation and disability	284,646	162,253	(122,393)	-75%
ER payroll taxes	612,899	612,209	(690)	0%
Health insurance	1,324,997	1,539,259	214,262	14%
Dental/vision	81,381	73,067	(8,314)	-11%
Pension	773,562	830,581	57,019	7%
Other employee benefits	712,746	542,516	(170,230)	-31%
Compensated absences expenses	75,015	-	(75,015)	-100%
Total personal services (PS)	<u>10,928,951</u>	<u>11,062,634</u>	<u>133,683</u>	<u>1%</u>
Other than personal services (OTPS) :				
Insurance	1,580,232	1,380,000	(200,232)	-15%
Professional services	255,049	618,000	362,951	59%
Marketing/advertising	5,688	18,000	12,312	68%
Management fees	4,146,286	4,104,000	(42,286)	-1%
Legal services	310,533	475,000	164,467	35%
Telecommunications	108,115	130,000	21,885	17%
Island improvements - capital plan	163,984	6,000	(157,984)	-2633%
Repairs and maintenance	236,794	383,000	146,206	38%
Repairs and maintenance equipment	28,012	25,500	(2,512)	-10%
Other repairs and maintenance	53,100	100,000	46,900	47%

(Continued)

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Budget Variance Report, Continued

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>	
			<u>Variance</u>	<u>Percent</u>
Expenses, Continued:				
Other than personal services (OTPS), continued:				
Vehicles gas	\$ 175,691	186,000	10,309	6%
Vehicles repair and maintenance	86,228	81,000	(5,228)	-6%
Vehicles parts	26,844	57,000	30,156	53%
Equipment lease	48,638	19,000	(29,638)	-156%
Office equipment purchase	6,138	12,000	5,862	49%
Equipment purchases	26,667	58,000	31,333	54%
Other equipment purchases	10,487	12,000	1,513	13%
Exterminator	1,870	15,000	13,130	88%
Uniforms	63,321	63,000	(321)	-1%
Light, power, heat	743,854	830,000	86,146	10%
Water and sewer	41,982	12,000	(29,982)	-250%
Office supplies	14,768	17,000	2,232	13%
Parts and supplies	231,209	222,900	(8,309)	-4%
Service maintenance agreement	61,783	76,000	14,217	19%
Employee travel and meal	3,241	5,900	2,659	45%
Employee training	14,789	79,400	64,611	81%
Shipping	14,641	11,000	(3,641)	-33%
Subscriptions/membership	12,880	9,000	(3,880)	-43%
Other expenses	316,468	331,000	14,532	4%
Island events - community relations	59,069	91,000	31,931	35%
Total other than personal services (OTPS)	<u>8,848,361</u>	<u>9,427,700</u>	<u>579,339</u>	<u>6%</u>
Total expenses	<u>19,777,312</u>	<u>20,490,334</u>	<u>713,022</u>	<u>3%</u>
Operating income before depreciation	19,433,327	2,649,666	16,783,661	633%
Depreciation expense	<u>3,518,632</u>	<u>3,677,000</u>	<u>158,368</u>	<u>4%</u>
Net surplus (deficit)	<u>\$15,914,695</u>	<u>(1,027,334)</u>	<u>16,942,029</u>	<u>1649%</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Roosevelt Island Operating Corporation:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Roosevelt Island Operating Corporation (RIOC), a component unit of the State of New York, as of and for the years ended March 31, 2016 and 2015, and the related notes to financial statements, which collectively comprise RIOC's basic financial statements, and have issued our report thereon dated June 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RIOC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RIOC's internal control. Accordingly, we do not express an opinion on the effectiveness of RIOC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the RIOC's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIOC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RIOC's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering RIOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 23, 2016

INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE
WITH SECTION 201.3 OF TITLE TWO OF THE OFFICIAL COMPILATION
OF CODES, RULES AND REGULATIONS OF THE STATE OF NEW YORK

The Board of Directors
Roosevelt Island Operating Corporation:

We have examined the Roosevelt Island Operating Corporation's (RIOC), a component unit of the State of New York, compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York during the year ended March 31, 2016. Management is responsible for the RIOC's compliance with those requirements. Our responsibility is to express an opinion on the RIOC's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the RIOC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

In our opinion, the RIOC complied in all material respects with the aforementioned requirements during the year ended March 31, 2016.

In accordance with Government Auditing Standards, we are required to report significant deficiencies in internal control, violations of contracts, or grant agreements, and abuse that are material to the RIOC's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York and any fraud or illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain views of management on those matters. We performed our examination to express an opinion on whether the RIOC complied with the aforementioned requirements and not for the purpose of expressing an opinion on internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of RIOC management, the Board of Directors, the New York State Office of the State Comptroller, and the New York State Authority Budget Office and is not intended and should not be used by anyone other than those specified parties.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 23, 2016

REPORT TO THE BOARD

June 23, 2016

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The Board of Directors
Roosevelt Island Operating Corporation

Dear Board Members:

We have audited the financial statements of Roosevelt Island Operating Corporation (RIOC), a component unit of the State of New York, as of and for the year ended March 31, 2016 and have issued our report thereon dated June 23, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated March 11, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Accounting Principles

Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies used by RIOC are described in note 1 to the financial statements. We noted no transactions entered into by RIOC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

As described in note 2(k) to the financial statements, RIOC adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - "Accounting and Financial reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," during the year ended March 31, 2016.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting RIOC's financial statements were:

- Management's estimate of the accumulated depreciation is based on determining useful lives of assets.

- Collection of receivables - Receivables are stated at the amount management estimates will be collectible on outstanding balances. A valuation allowance is provided based on management's estimate of probable uncollectible amounts.
- OPEB liability - Management's estimate of postemployment benefits is calculated using assumptions for future years health care benefits and contributions on a pay as you go basis. Full detail of assumptions is located in note 10 of the financial statements.

We evaluated the key factors and assumptions used by management in determining that accounting estimates were reasonable in relation to the financial statements taken as a whole.

Significant Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the combined financial statements were:

- The disclosure of pension plans in note 7 to the financial statements.
- The disclosure of commitments and contingencies in note 9 to the financial statements.
- The disclosure of other postemployment benefits in note 10 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements detected as a result of our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to RIOC’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as RIOC’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, the schedule of funding progress - other postemployment benefits, the schedule of entity’s proportionate share of the net pension liability, and the schedule of entity’s employer pension contributions which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

* * * * *

This information is intended solely for the use of the Board of Directors and management of RIOC and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

EFPR Group, CPAs, PLLC

EFPR GROUP, CPAs, PLLC