

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

Financial Statements and Management's
Discussion and Analysis

March 31, 2011
(With Comparative Figures for 2010)

(With Independent Auditors' Report Thereon)

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements:	
Statement of Assets	8
Statement of Revenues, Expenses and Changes in Fund Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 23
Supplemental Information:	
Schedule of Operations by Department for the year ended March 31, 2011	24
Schedule of Operations by Department for the year ended March 31, 2010	25
Budget Variance for the year ended March 31, 2011	26-27
Budget Variance for the year ended March 31, 2010	28-29
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 <i>Government Auditing Standards</i>	30-31
Independent Auditors' Report on Compliance with Investment Guidelines	32

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Roosevelt Island Operating Corporation

We have audited the accompanying statement of assets of Roosevelt Island Operating Corporation ("RIOC"), a component unit of the State of New York, as of March 31, 2011 and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of RIOC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of RIOC as of March 31, 2010 were audited by other auditors whose report dated June 4, 2010 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roosevelt Island Operating Corporation as of March 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedules listed in the accompanying Table of Contents under the heading of Supplemental Information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dacia Valles-Vandora LLP

Elmhurst, New York
May 18, 2011

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

Management's Discussion and Analysis
March 31, 2011 and 2010

The following management's discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Roosevelt Island Operating Corporation at March 31, 2011 and 2010, 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 detailed sub-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.

FINANCIAL ANALYSIS OF THE CORPORATION

NET ASSETS

The following is a summary of the RIOC's statement of assets at March 31, 2011 and 2010 and the percentage changes between March 31, 2011 and March 31, 2010:

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Current and other assets	\$ 48,103,655	\$ 62,827,301	-23%
Capital assets, net	<u>66,395,699</u>	<u>52,340,229</u>	<u>27%</u>
Total assets	<u>\$ 114,499,354</u>	<u>\$ 115,167,530</u>	<u>-1%</u>
Liabilities	<u>\$ 33,737,618</u>	<u>\$ 33,703,534</u>	<u>0%</u>
Net assets:			
Investment in capital assets	\$ 66,395,699	\$ 52,340,229	27%
Restricted for capital projects	13,743,612	28,884,694	-52%
Unrestricted	<u>622,425</u>	<u>239,073</u>	<u>160%</u>
Total net assets	<u>\$ 80,761,736</u>	<u>\$ 81,463,996</u>	<u>-1%</u>

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

Management's Discussion and Analysis
March 31, 2011 and 2010
(continued)

On RIOC's statement of assets at March 31, 2011, total assets of \$114,499,354 exceeded total liabilities of \$33,737,618 by \$80,761,736 (total net assets). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling \$66,395,699, cash and short-term investments totaling \$45,175,251 and other assets of \$2,928,404. Liabilities are comprised of accounts payable of \$534,283, deferred revenue of \$30,814,428, other post-employment benefits of \$1,708,479, and other liabilities totaling \$680,428. Deferred revenue represents the net present value of ground rent revenue received for the Southtown and Octagon development projects that will be recognized over their respective lease terms. Of total net assets, \$13,743,612 is available to be used to meet ongoing capital obligations. Additionally, \$622,425 is available for ongoing operational expenses.

Short-term investments decreased by \$16,357,415 or 27%. This was mainly due to purchases of capital assets (infrastructure) totaling \$17,391,710.

OPERATING ACTIVITIES

RIOC's statements of revenues, expenses and changes in fund net assets are used to report changes in the net assets, including depreciation expense. Note that revenues reported here is based on a standard of recognition whereby revenues is recorded when earned. The statement of revenues, expenses and changes in fund net assets details program revenues by major source and expenses by natural classification and indicates the change in net assets. RIOC's total revenues for the year ended March 31, 2011 amounted to \$17,688,648, which includes \$17,314,264 in revenues identified as program revenues and \$374,384 of non-program specific revenue, primarily interest income earned on investments. During the fiscal year 2011, operating revenues decreased by \$5,721,177 or 24%. Tramway revenue dropped by \$2,529,639 or 72% since the tramway was out of service for eight (8) months for an overhaul. Residential fees decreased by \$3,631,381 or 77% primarily because this fiscal year, there is no more one-time fee of \$3,050,000 for a mortgage recording fee on the Octagon Development project.

Expenses were \$18,871,719 in 2011 and \$20,114,324 in 2010, including depreciation of \$3,336,240 and \$3,243,359, respectively. This is mainly due to decrease in management fees by \$1,611,543 or 47% related to tramway's non-operation for 8 months.

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

Management's Discussion and Analysis
March 31, 2011 and 2010
(continued)

The following summarizes RIOC's change in net assets for the fiscal years ended March 31, 2011 and 2010 and the percentage changes between fiscal years 2011 and 2010:

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Operating revenues:			
Residential fees	\$ 1,066,734	\$ 4,698,115	-77%
Ground rent	8,801,291	8,648,600	2%
Commercial rent	1,438,078	1,525,403	-6%
Tramway revenue	996,870	3,526,508	-72%
Public safety reimbursement	1,579,764	1,521,494	4%
Transport/ parking revenue	2,546,365	2,384,636	7%
Interest income	374,384	358,972	4%
Other revenues	<u>885,162</u>	<u>746,097</u>	<u>19%</u>
Total operating revenues	<u>17,688,648</u>	<u>23,409,825</u>	<u>-24%</u>
Operating expenses:			
Personal services	9,899,587	9,457,165	5%
Insurance	1,104,969	1,134,571	-3%
Professional services and legal services	334,309	379,789	-12%
Management fees	1,787,125	3,398,668	-47%
Telecommunications	89,099	104,212	-15%
Repairs and maintenance	415,273	305,870	36%
Vehicles maintenance	260,456	240,565	8%
Equipment purchases/lease	103,367	102,854	0%
Supplies/services	999,169	1,091,325	-8%
Other expenses	<u>542,125</u>	<u>655,946</u>	<u>-17%</u>
Total operating expenses excluding depreciation	<u>15,535,479</u>	<u>16,870,965</u>	<u>-8%</u>
Operating income before depreciation	2,153,169	6,538,860	-67%
Depreciation expense	<u>3,336,240</u>	<u>3,243,359</u>	<u>3%</u>
Change in net assets	(1,183,071)	3,295,501	-136%
Capital contributions for stabilization of Renwick Ruins	480,811	213,012	126%
Total net assets, beginning of year	<u>81,463,996</u>	<u>77,955,483</u>	<u>5%</u>
Total net assets, end of year	<u>\$ 80,761,736</u>	<u>\$ 81,463,996</u>	<u>-1%</u>

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

Management's Discussion and Analysis
March 31, 2011 and 2010
(continued)

CAPITAL ASSETS

The following summarizes RIOC's capital assets for the fiscal years ended March 31, 2011 and 2010 and the percentage change between March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Seawall	\$ 2,897,836	\$ 2,948,781	-2%
Buildings	13,221,428	12,639,482	5%
Land improvements	6,324,364	6,483,356	-2%
Machinery and equipment	3,621,793	3,949,972	-8%
Infrastructure	<u>40,330,278</u>	<u>26,318,638</u>	<u>53%</u>
Net capital assets	<u>\$ 66,395,699</u>	<u>\$ 52,340,229</u>	<u>27%</u>

The capital assets of \$66,395,699 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of \$14,055,470 from the prior year represents additions of new capital assets valued at \$17,391,710 less depreciation expense of \$3,336,240. Total depreciation expense for all capital assets amounted to \$3,336,240 and \$3,243,359 for the years ended March 31, 2011 and 2010, respectively. A more detailed analysis of RIOC's capital assets is presented in the notes to financial statements on pages 15 to 16.

INFRASTRUCTURE ASSETS

The amount reported in the accompanying statement of assets for the capital assets (net of depreciation) of RIOC of \$66,395,699 and \$52,340,229 at March 31, 2011 and 2010, respectively, does not include an amount for two infrastructure items: the bulk of the seawall, and 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. Improvements to such infrastructure items, however, are reported.

ECONOMIC FACTORS AFFECTING RIOC'S FUTURE FINANCIAL POSITION

The Tram Modernization project was substantially completed and back in operation on November 30, 2010. The Tram stations improvements are scheduled to be completed by the end of 2012. The infrastructure improvement was funded through a \$15 million grant from the State of New York and \$10 million from RIOC. The dual Tram system now better meets the transportation needs of the residents and visitors: more passengers are shuttled quickly and safely; there is greater availability – 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.

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

Management's Discussion and Analysis
March 31, 2011 and 2010
(continued)

Six (6) of the anticipated nine (9) buildings of the Southtown Development Project have been completed. The developer, Hudson/Related Joint Venture, has an option to develop the remaining three (3) that expires December 31, 2012. Should development fail to occur within the expected timeframe, RIOC is protected by a letter of credit in the amount of \$1,420,800. The downturn in the housing market may delay the development of the three buildings. However, RIOC believes that the development will occur as the economy recovers and the housing market rebounds.

The construction of the Franklin D. Roosevelt Four Freedoms Park, located at the southern tip of the island, is progressing as scheduled. Phase I is about 80% complete and is expected to be finished by July 2011. Phase II was accelerated and is about 15% complete with expected completion by June 2012. Phase III has not begun and is expected to be completed by Fall 2012. The developer, Franklin and Eleanor Roosevelt Institute, "FERI", estimates that the entire project, phases 1-3, will cost approximately \$44,000,000, whereby the majority will come from private funds raised by FERI. Funds for Phase I were secured from New York City, \$4,738,000, New York State, \$4,000,000, and private donations in the amount of \$6,905,000. Funds for Phase II consist of appropriations from New York State, \$2,000,000, New York City \$5,500,000, and private donations of \$12,826,704. Funds for Phase III consist of Federal appropriation, \$500,000 and private donations in the amount of \$7,053,309.

The development of Southpoint Park is progressing. Phase I, which include the stabilization of the Renwick Ruins, was completed and Phase II is expected to be completed by Spring 2011. The \$13,300,000 project is funded by appropriations from the City of New York for \$4,500,000, the State of New York for \$4,400,000, and \$4,400,000 from RIOC. To date, the City of New York has paid \$4,465,938 of the agreed funding.

The revitalization of Main Street and improvement of the retail businesses are in process. RIOC is negotiating with Hudson/Related Realty LLC to enter into a Master Sublease Agreement to redevelop, improve, market, lease and professionally operate the Retail Spaces controlled by RIOC. RIOC is expected to receive an annual guaranteed rent of about \$900,000 and participation in the profits of the Master Sublessee.

RIOC continues to implement its five-year capital management plan. The Octagon Field Project was completed in August 2010. The repairs to the Motorgate parking facility are in progress and are expected to be completed by June 2011. Phase 1 of the wireless security camera system is completed and Phase II is in progress. Projects slated for fiscal year 11/12 include, but are not limited to: Tram stations renovations, Motorgate garage lightning, seawall railings and wall repairs, and rehabilitation of the Warehouse/Bus Garage.

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)
Statement of Assets
March 31, 2011
(With Comparative Figures for 2010)

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 867,434	\$ 503,357
Short-term investments	44,307,817	60,665,232
Receivables	1,098,961	553,868
Prepaid expenses	<u>488,390</u>	<u>195,920</u>
Total current assets	46,762,602	61,918,377
Noncurrent investments	1,279,824	847,695
Security deposits	61,229	61,229
Capital assets, net of accumulated depreciation	<u>66,395,699</u>	<u>52,340,229</u>
 Total assets	 <u>\$ 114,499,354</u>	 <u>\$ 115,167,530</u>

Liabilities and Net Assets

Current liabilities - Accounts payable and accrued expenses	\$ 534,283	\$ 311,573
Security deposits	61,229	61,229
Compensated absences	514,730	566,497
Deferred revenue	30,814,428	31,376,617
Postemployment benefits other than pension	1,708,479	1,279,812
Other liabilities	<u>104,469</u>	<u>107,806</u>
 Total liabilities	 <u>33,737,618</u>	 <u>33,703,534</u>
Net assets:		
Investment in capital assets	66,395,699	52,340,229
Restricted for capital projects	13,743,612	28,884,694
Unrestricted net assets	<u>622,425</u>	<u>239,073</u>
Total net assets	<u>80,761,736</u>	<u>81,463,996</u>
 Commitments and contingencies (Note 9)		
 Total liabilities and net assets	 <u>\$ 114,499,354</u>	 <u>\$ 115,167,530</u>

See accompanying notes to financial statements.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year ended March 31, 2011
(With Comparative Figures for 2010)

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Residential fees	\$ 1,066,734	\$ 4,698,115
Ground rent	8,801,291	8,648,600
Commercial rent	1,438,078	1,525,403
Tramway revenue	996,870	3,526,508
Public safety reimbursement	1,579,764	1,521,494
Transport/ Parking revenue	2,546,365	2,384,636
Interest income	374,384	358,972
Other revenue	<u>885,162</u>	<u>746,097</u>
Total revenues	<u>17,688,648</u>	<u>23,409,825</u>
Operating expenses:		
Personal services	9,899,587	9,457,165
Insurance	1,104,969	1,134,571
Professional services and legal services	334,309	379,789
Management fees	1,787,125	3,398,668
Telecommunications	89,099	104,212
Repairs and maintenance	415,273	305,870
Vehicles maintenance	260,456	240,565
Equipment purchases/lease	103,367	102,854
Supplies/services	999,169	1,091,325
Other expenses	<u>542,125</u>	<u>655,946</u>
Total operating expenses excluding depreciation	<u>15,535,479</u>	<u>16,870,965</u>
Operating income before depreciation	2,153,169	6,538,860
Depreciation expense	<u>3,336,240</u>	<u>3,243,359</u>
Change in net assets	(1,183,071)	3,295,501
Net assets, beginning of year	81,463,996	77,955,483
Capital contributions for stabilization of Renwick Ruins	<u>480,811</u>	<u>213,012</u>
Net assets, end of year	<u>\$ 80,761,736</u>	<u>\$ 81,463,996</u>

See accompanying notes to financial statements.

ROOSEVELT ISLAND OPERATING CORPORATION

(A Component Unit of the State of New York)

Statement of Cash Flows

Year ended March 31, 2011

(With Comparative Figures for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipts from tenants and customers	\$ 17,005,154	\$ 39,525,439
Payments related to employees	(9,899,737)	(9,343,791)
Payments to vendors	<u>(5,755,727)</u>	<u>(7,840,910)</u>
Net cash provided by operating activities	<u>1,349,690</u>	<u>22,340,738</u>
Cash flow from investing activities		
Purchase of capital assets	(17,391,710)	(13,002,674)
Purchase of noncurrent investments	(432,129)	(847,695)
Purchase of short-term investments	(25,676,024)	(60,183,149)
Sale of short-term investments	<u>42,033,439</u>	<u>47,772,327</u>
Net cash provided by (used in) investing activities	<u>(1,466,424)</u>	<u>(26,261,191)</u>
Cash flow from financing activities		
Capital contributions for Renwick Ruins Project	<u>480,811</u>	<u>3,985,127</u>
Net cash provided by financing activities	<u>480,811</u>	<u>3,985,127</u>
Net increase in cash	364,077	64,674
Cash, beginning of year	<u>503,357</u>	<u>438,683</u>
Cash, end of year	<u>\$ 867,434</u>	<u>\$ 503,357</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (1,183,071)	\$ 3,295,501
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,336,240	3,243,359
Provision for bad debt	2,980	-
Gain on disposition of assets	-	(828)
Changes in:		
Receivables	(548,073)	157,875
Prepaid expenses	(292,470)	(171,853)
Accounts payable and accrued expenses	222,710	(407,303)
Compensated absences	(51,767)	88,346
Deferred revenue	(562,189)	15,730,504
Postemployment benefits other than pension	428,667	432,117
Other liabilities	<u>(3,337)</u>	<u>(26,980)</u>
Net cash provided by operating activities	<u>\$ 1,349,690</u>	<u>\$ 22,340,738</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, 2011 and 2010

(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 (RIOC) 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 RIOC 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 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 RIOC. However, RIOC is considered a component unit of the State of New York.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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 detailed sub-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.

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 Governmental Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989, unless they conflict with GASB pronouncements.

(b) Budgetary Information

During the year ended March 31, 2011, RIOC did not request appropriations for the State of New York and, as such, a budget was not required to be adopted by law. Accordingly, budgetary information was not included in the notes to financial statements. However, the Board did approve an operating budget for management's internal use, and is included under supplementary information.

(c) Cash and Short-Term Investments

The following is a summary of cash and short-term investments as of March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash - deposits	\$ 867,434	\$ 503,357
Short-term investments:		
Certificates of deposit (CDARS)	31,052,404	20,742,420
Money market accounts	<u>13,255,413</u>	<u>39,922,812</u>
	<u>44,307,817</u>	<u>60,665,232</u>
 Total Cash and Short-term investments	 <u>\$ 45,175,251</u>	 <u>\$ 61,168,589</u>

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

The money market 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 \$14,362,095 and \$42,690,346 as of March 31, 2011 and March 31, 2010, respectively.

Investments managed internally consist of certificates of deposit, "CDARS", a FDIC insured program administered by Amalgamated Bank, with purchased maturities twelve months or less and interest bearing cash deposit accounts. RIOC is limited under its investment guidelines primarily to the investment of funds in obligations of the United States of America (United States Government

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)

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, 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.

(e) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported on the statement of assets 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 asset 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 is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Seawall (improvement of 1995)	73
Buildings	40
Building improvements	15
Infrastructure	50
Vehicles	10
Office equipment	5
Computer equipment	5

(f) Deferred Revenue

Deferred revenue reported in the statement of assets represents amounts collected in advance for lease-related payments related to subsequent fiscal years. These amounts will be recognized as income on an annual basis over a period of the remaining fifty-eight 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)

Breakdown is as follows:

<u>Buildings</u>	<u>Balance at</u> <u>April 01, 2010</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance at</u> <u>March 31, 2011</u>
Octagon	\$ 2,782,069	\$ -	\$ (47,354)	\$ 2,734,715
Southtown Bldg. #1	1,870,336	-	(31,835)	1,838,501
Southtown Bldg. #2	1,784,706	-	(30,378)	1,754,328
Southtown Bldg. #3	3,814,074	-	(64,920)	3,749,154
Southtown Bldg. #4	4,972,702	-	(84,642)	4,888,060
Southtown Bldg. #5	6,350,085	-	(108,087)	6,241,998
Southtown Bldg. #6	9,774,039	-	(166,367)	9,607,672
Verizon	<u>28,606</u>	<u>-</u>	<u>(28,606)</u>	<u>-</u>
Total	<u>\$ 31,376,617</u>	<u>\$ -</u>	<u>\$ (562,189)</u>	<u>\$ 30,814,428</u>

(g) Compensated Absences

It is RIOC's policy to accrue for unused compensated absences for all full time employees. Accrued compensated time as of March 31, 2011 and 2010 were \$514,730 and \$566,497, respectively.

(h) Public Purpose Grants

Included in "Other Expenses" are expenditures for public purpose grants totaling \$275,000 per year for the years ended 2011 and 2010. The Roosevelt Island Youth Center was awarded \$175,000 each year to help fund operating expenses. This is a contractual obligation between RIOC and Roosevelt Landings which was agreed to as one of the terms of Roosevelt Landings Lease agreement (the Youth Center's Landlord) in exchange for free rent and utilities. The remaining grants of \$100,000 are awarded to various Island based not-for-profits that must apply each year and require Board approval.

(i) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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, 2011 are summarized as follows:

	<u>Balance at</u> <u>April 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at</u> <u>March 31, 2011</u>
Capital assets:				
Seawall	\$ 3,719,049	\$ -	\$ -	\$ 3,719,049
Building and building improvements	38,226,377	1,698,566	-	39,924,943
Landmarks	12,870,977	118,208	-	12,989,185
Vehicles	3,910,302	367,250	-	4,277,552
Equipment	2,839,076	265,052	-	3,104,128
Infrastructure	<u>31,233,888</u>	<u>14,942,634</u>	-	<u>46,176,522</u>
Total capital assets	<u>92,799,669</u>	<u>17,391,710</u>	-	<u>110,191,379</u>
Less accumulated depreciation:				
Seawall	(770,267)	(50,946)	-	(821,213)
Building and building improvements	(25,587,340)	(1,116,175)	-	(26,703,515)
Landmarks	(6,387,515)	(277,306)	-	(6,664,821)
Vehicles	(1,115,160)	(418,587)	-	(1,533,747)
Equipment	(1,684,245)	(541,895)	-	(2,226,140)
Infrastructure	<u>(4,914,913)</u>	<u>(931,331)</u>	-	<u>(5,846,244)</u>
Total accumulated depreciation	<u>(40,459,440)</u>	<u>(3,336,240)</u>	-	<u>(43,795,680)</u>
Net capital assets	<u>\$ 52,340,229</u>	<u>\$ 14,055,470</u>	<u>\$ -</u>	<u>\$ 66,395,699</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, 2010 are summarized as follows:

	Balance at <u>April 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	Balance at <u>March 31, 2010</u>
Capital assets:				
Seawall	\$ 3,639,688	\$ 79,361	\$ -	\$ 3,719,049
Building and building improvements	34,825,328	3,402,308	(1,259)	38,226,377
Landmarks	12,041,888	949,089	(120,000)	12,870,977
Vehicles	2,763,779	1,202,616	(56,093)	3,910,302
Equipment	3,240,376	200,086	(601,386)	2,839,076
Infrastructure	<u>26,341,001</u>	<u>7,169,144</u>	<u>(2,276,257)</u>	<u>31,233,888</u>
Total capital assets	<u>82,852,060</u>	<u>13,002,604</u>	<u>(3,054,995)</u>	<u>92,799,669</u>
Less accumulated depreciation:				
Seawall	(719,486)	(50,781)	-	(770,267)
Building and building improvements	(24,649,621)	(937,719)	-	(25,587,340)
Landmarks	(6,226,661)	(280,854)	120,000	(6,387,515)
Vehicles	(857,422)	(313,831)	56,093	(1,115,160)
Equipment	(1,766,592)	(519,039)	601,386	(1,684,245)
Infrastructure	<u>(6,052,192)</u>	<u>(1,141,135)</u>	<u>2,278,414</u>	<u>(4,914,913)</u>
Total accumulated depreciation	<u>(40,271,974)</u>	<u>(3,243,359)</u>	<u>3,055,893</u>	<u>(40,459,440)</u>
Net capital assets	<u>\$ 42,580,086</u>	<u>\$ 9,759,245</u>	<u>\$ 898</u>	<u>\$ 52,340,229</u>

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

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

(a) Residential Housing Companies

Manhattan Park - Under the terms of a land lease, dated August 4, 1986, expiring in 2068, with the housing company operating Manhattan Park ("Operator"), the Operator is required to make annual payments of base ground rent of \$100,000 to RIO. Additional fixed ground rent of \$1,900,000 is due annually, to be paid in monthly installments subject to certain rent credit adjustments set forth in the lease, and increased \$100,000 annually through August 4, 2007. Rents after August 4, 2007 are based on several factors including a fixed base; gross income of the operator; a percentage of the appraised value of the Manhattan Park; and a percentage of the revenue of the Motorgate parking facility. Ground rents earned under the terms of this lease totaled approximately \$3,925,000 and \$3,825,000 for the years ended March 31, 2011 and 2010, respectively.

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)

Roosevelt Landings (formerly Eastwood) - The ground lease between RIOC and North Town Phase 1 Houses, Inc. was amended and restated with the base ground rent increasing to \$1 million per year effective October 1, 2006, plus a percentage interest in subsequent increasing rent rolls. Ground rents earned totaled \$1,216,459 and \$1,205,133 for the years ended March 31, 2011 and 2010, respectively.

Public Safety Cost Reimbursement - Reimbursements from four housing companies (known as the WIRE projects) Westview, Island House, Rivercross, Eastwood and Manhattan Park for no less than 50% of the cost of maintaining a public safety department are included in public safety reimbursement on the accompanying statements of revenues, expenses, and changes in fund net assets. Additionally, the Operator of the Southtown and the Octagon project are responsible for their respective share of the cost of RIOC's public safety department.

(b) Commercial Space Rental

Leases for commercial space on the Island are negotiated under varying terms with merchants operating on the Island. Lease terms generally range from 5 to 10 years. RIOC is negotiating with Hudson/Related Realty LLC to enter into a Master Sublease Agreement to redevelop, improve, market, lease and professionally operate the Retail Spaces controlled by RIOC. RIOC is expected to receive an annual guaranteed rent of about \$900,000 and participation in the profits of the Master Sublessee.

(c) Tramway Fees

During February 2004, RIOC entered into an agreement with The New York Transit Authority (NYCTA) for revenue from the Tramway. In the agreement, RIOC receives from the NYCTA a base fare of the current prevailing transit fare 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. The Tramway was out of service for 9 months (March – November 2010) for an overhaul. Both revenues and expenses dropped by almost 70% from a year ago.

(d) 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. Motorgate revenue approximated \$1,937,000 and \$1,828,000 for the years ended March 31, 2011 and 2010, respectively.

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)

Bus and parking meter revenues totaled \$609,617 and \$557,157 for the years ended March 31, 2011 and 2010, respectively.

(e) De-designation Fee Income

The development agreement for Southtown buildings five through nine between Hudson/Related Joint Venture and RIOC included a contingent de-designation (cancellation of project or portion of) fee of \$2,252,198. As of the date of this report, Southtown building five and six were completed within the agreed upon timeframe, and resulted in the pro-rata reduction of the de-designation fee to \$1,420,800. The remaining Southtown buildings seven, eight and nine may not be developed before the determination date of December 31, 2012, which would result in de-designation fee income to the corporation. The agreement is collateralized by a letter of credit issued by Deutsche Bank Trust Company, NA in the amount of \$1,420,800 maturing on August 15, 2011, to be renewed annually.

(f) 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>
2012	\$ 10,814,330	\$ 1,606,505
2013	11,110,244	1,831,627
2014	11,596,177	1,862,015
2015	12,332,879	1,893,314
2016	<u>13,524,104</u>	<u>1,950,232</u>
	<u>\$ 59,377,734</u>	<u>\$ 9,143,693</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 an annual cost of \$3,397,200.

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

Notes to Financial Statements
(continued)

(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:

Plan Description

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 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. 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. 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, 2009	\$ 264,157
March 31, 2010	357,700
March 31, 2011	389,011

RIOC has made the required contributions for each year.

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

Notes to Financial Statements
(continued)

(7) Retirement Plans (continued)

(b) Union Employees

Union employees participate in separate defined contribution plans, which are administered by each union. RIOC contributed \$200,676 and \$163,576 for the years ended March 31, 2011 and 2010, respectively, to union employees' defined contribution plans.

(8) Risk Management

RIOC purchases commercial insurance policies in varying amounts for general liability, vehicle liability, damage to fixed assets, and public officials and employee liability coverage. Coverage has not been materially reduced, nor have settled claims exceeded commercial coverage in any of the three years.

(9) Commitments and Contingencies

Commitments and contingencies at March 31, 2011 and 2010 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, 2011 and 2010 approximated \$86,000 per year.

(b) Litigation

RIOC is a defendant in various lawsuits. In the opinion of RIOC's legal counsel, these suits are without substantial merit and should not result in judgments which in the aggregate would have a material adverse effect on RIOC's financial statements.

(c) Prior Years' New York State Appropriations

On February 1, 2011, the Office of the State Comptroller of the State of New York, requested confirmation of the following potential liabilities:

Appropriation # 0060083	fiscal year 89/90	\$ 1,299,964
Appropriation # 0066230	fiscal year 90/91	2,463,531
Appropriation # 0078460	fiscal year 92/93	1,346,400
Appropriation # 0084266	fiscal year 93/94	<u>1,648,254</u>
		\$ <u>6,758,149</u>

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

Notes to Financial Statements
(continued)

(9) Commitments and Contingencies (continued)

The above were appropriations paid to RIOC to subsidize general fund operations. Management's position is that all appropriations were fully spent resulting in no unspent funds. It is management's view, based on internal findings, that due to the fact that there were no unspent funds, the above potential liability will be resolved with an outcome of no amount due to the State of New York.

(d) Claims

The contractor for the modernization of the Roosevelt Island Aerial Tramway has submitted claims to RIOC for additional compensation in the amount of \$18,794,956 (on top of the fixed fee contracted price of \$16,693,894) on account of various items of alleged extra work and alleged interferences to its work. RIOC believes that these claims are without merit.

In addition, the contractor also claims a Contract Sum balance of \$1,995,230 under the Design/Build Agreement. The claimed Contract Sum balance is disputed by RIOC for reason of various incomplete items of Work and contractor's failure to return the Tramway to service within the Contract Time.

The Corporation's legal counsels are reviewing these claims and have not yet formed an opinion on these matters.

(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" effective for its fiscal year beginning April 1, 2007.

Plan Description - The Corporation provides continuation of medical coverage to employees that retire at age 55 or older with five years of service if hired before April 1, 1975 or ten years of service if hired after April 1, 1975. For employees with a date of retirement after April 1, 1983 and at least ten years of service, the Corporation contributes 90% for employees and 75% 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, 2011 and 2010 amounted to \$488,603 and \$473,981, respectively. At March 31, 2011, the liability for retired employees included in non-current accrued fringe benefits amounted to \$1,708,479.

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

Notes to Financial Statements
(continued)

(10) Postemployment Benefits Other Than Pensions (continued)

The number of participants as of January 1, 2011 was as follows:

Active employees	45
Retired employees	6
Spouses of retired employees	-
Total	<u>51</u>

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 fund set aside for this purpose is discussed in Note 2 (d).

Benefit Obligations and Normal Cost

	<u>2011</u>	<u>2010</u>
Actuarial accrued liability (AAL):		
Actuarial accrued liability	\$ 4,114,910	\$ 3,609,128
Less Actuarial Value of Assets	<u>0</u>	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>4,114,910</u>	<u>3,609,128</u>
Normal cost	\$ <u>323,259</u>	\$ <u>402,657</u>

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$ 486,790	\$ 472,806
Interest on net OPEB obligation	51,192	16,454
Adjustment to annual required contribution	<u>(49,379)</u>	<u>(15,279)</u>
Annual OPEB cost (expense)	488,603	473,981
Contribution made on a pay-as-you-go basis	<u>(59,936)</u>	<u>(41,864)</u>
Increase in net OPEB obligation	428,667	432,117
Net OPEB obligation at beginning of year	<u>1,279,812</u>	<u>847,695</u>
Net OPEB obligation at end of year	\$ <u>1,708,479</u>	\$ <u>1,279,812</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	3.0%
Annual payroll growth rate	3.5%
Retirement rates	Later of age 65 and first eligibility

Healthcare cost trend:	<u>Year</u>	<u>Medical Trend Rate</u>
	2010	9.0%
	2011	8.0%
	2012	7.5%

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

Notes to Financial Statements
(continued)

(10) Postemployment Benefits Other Than Pensions (continued)

2013	7.0%
2014	6.5%
2015	6.0%
2016	5.5%
2017 and beyond	5.0%

(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) Accounting Standards Issued But Not Implemented

GASB Statement No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions," enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The requirements of the statement are effective for periods beginning after June 15, 2010, which is the fiscal year beginning April 1, 2011 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The requirements of the statement are effective for periods beginning after June 15, 2011, which is the fiscal year beginning April 1, 2012 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Schedule of Operations by Department
Year Ended March 31, 2011

	General Fund						Public Purpose Fund	Capital Fund	Reserved Fund	Total
	Operations	Public Safety	Bus	Parking	Parks/Rec.	Tram				
Operating Revenues:										
Residential fees	\$ 369,739	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,509	\$ 535,486	\$ 1,066,734
Ground rent	8,801,291	-	-	-	-	-	-	-	-	8,801,291
Commercial rent	1,438,078	-	-	-	-	-	-	-	-	1,438,078
Tramway revenue	-	-	-	-	-	996,870	-	-	-	996,870
Public safety reimbursement	-	1,579,764	-	-	-	-	-	-	-	1,579,764
Transport/ parking revenue	-	-	484,772	2,061,593	-	-	-	-	-	2,546,365
Interest income	9,246	-	-	-	-	-	17	5,902	359,219	374,384
Other revenue	179,000	-	-	-	456,162	-	-	250,000	-	885,162
Total operating revenues	10,797,354	1,579,764	484,772	2,061,593	456,162	996,870	17	417,411	894,705	17,688,648
Operating Expenses:										
Personal Services:										
Salaries	3,623,233	1,967,898	690,290	-	477,136	-	-	-	-	6,758,557
Temporary employees	152,500	9,000	-	-	55,571	-	-	-	-	217,071
Employee benefits	1,936,630	624,596	253,392	-	161,108	-	-	-	-	2,975,726
Compensated absences expenses	(51,767)	-	-	-	-	-	-	-	-	(51,767)
Total personal services	5,660,596	2,601,494	943,682	-	693,815	-	-	-	-	9,899,587
Other Than Personal Services:										
Insurance	993,647	-	-	-	-	111,322	-	-	-	1,104,969
Professional services	264,761	2,500	-	-	54,294	-	-	-	-	321,555
Management fees	-	-	-	633,948	-	1,153,177	-	-	-	1,787,125
Legal services	11,120	-	-	-	-	-	-	1,634	-	12,754
Telecommunications	89,099	-	-	-	-	-	-	-	-	89,099
Repairs and maintenance	254,768	3,500	33,537	11,055	89,096	23,317	-	-	-	415,273
Vehicles maintenance	55,895	32,053	170,481	-	2,027	-	-	-	-	260,456
Equipment purchases/ lease	88,987	3,909	4,922	-	-	5,549	-	-	-	103,367
Supplies/ services	492,135	96,726	30,121	69,648	128,939	181,600	-	-	-	999,169
Other expenses	151,682	10,665	13,827	-	89,670	1,246	275,000	-	35	542,125
Total other than personal services	2,402,094	149,353	252,888	714,651	364,026	1,476,211	275,000	1,634	35	5,635,892
Total operating expenses	8,062,690	2,750,847	1,196,570	714,651	1,057,841	1,476,211	275,000	1,634	35	15,535,479
Operating income (loss) excluding depreciation	2,734,664	(1,171,083)	(711,798)	1,346,942	(601,679)	(479,341)	(274,983)	415,777	894,670	2,153,169
Depreciation expense	-	-	-	-	-	-	-	3,336,240	-	3,336,240
Operating income (loss)	\$ 2,734,664	\$ (1,171,083)	\$ (711,798)	\$ 1,346,942	\$ (601,679)	\$ (479,341)	\$ (274,983)	\$ (2,920,463)	\$ 894,670	\$ (1,183,071)

Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Schedule of Operations by Department
Year Ended March 31, 2010

	General Fund						Public Purpose Fund	Capital Fund	Reserved Fund	Total
	Operations	Public Safety	Bus	Parking	Parks/Rec.	Tram				
Operating Revenues:										
Residential fees	\$ 419,664	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,678	\$ 4,168,773	\$ 4,698,115
Ground rent	8,648,600	-	-	-	-	-	-	-	-	8,648,600
Commercial rent	1,525,403	-	-	-	-	-	-	-	-	1,525,403
Tramway revenue	-	-	-	-	-	3,526,508	-	-	-	3,526,508
Public safety reimbursement	-	1,521,494	-	-	-	-	-	-	-	1,521,494
Transport/ parking revenue	-	-	442,126	1,942,510	-	-	-	-	-	2,384,636
Interest income	25,853	-	-	-	-	-	2,498	25,228	305,393	358,972
Other revenue	180,315	-	-	-	388,282	177,500	-	-	-	746,097
Total operating revenues	10,799,835	1,521,494	442,126	1,942,510	388,282	3,704,008	2,498	134,906	4,474,166	23,409,825
Operating Expenses:										
Personal services :										
Salaries	3,468,107	1,864,431	617,117	-	415,236	-	-	-	-	6,364,891
Temporary employees	169,121	7,770	-	-	31,282	-	-	-	-	208,173
Employee benefits	1,877,082	554,723	223,276	-	140,674	-	-	-	-	2,795,755
Compensated absences expenses	88,346	-	-	-	-	-	-	-	-	88,346
Total personal services	5,602,656	2,426,924	840,393	-	587,192	-	-	-	-	9,457,165
Other Than Personal Services:										
Insurance	1,014,571	-	-	-	-	120,000	-	-	-	1,134,571
Professional services	249,864	635	-	-	17,989	66,039	-	68	-	334,595
Management fees	-	-	-	647,782	-	2,750,886	-	-	-	3,398,668
Legal services	4,327	-	-	-	-	-	-	40,867	-	45,194
Telecommunications	104,212	-	-	-	-	-	-	-	-	104,212
Repairs and maintenance	224,838	2,965	10,558	4,505	27,035	35,969	-	-	-	305,870
Vehicles maintenance	26,331	27,799	186,201	-	234	-	-	-	-	240,565
Equipment purchases/ lease	73,664	8,131	6,727	-	2,056	12,276	-	-	-	102,854
Supplies/ services	502,835	28,455	28,389	84,679	209,846	237,121	-	-	-	1,091,325
Other expenses	135,361	14,448	5,572	-	88,067	138,038	274,460	-	-	655,946
Total other than personal services	2,336,003	82,433	237,447	736,966	345,227	3,360,329	274,460	40,935	-	7,413,800
Total operating expenses	7,938,659	2,509,357	1,077,840	736,966	932,419	3,360,329	274,460	40,935	-	16,870,965
Operating income (loss) excluding depreciation	2,861,176	(987,863)	(635,714)	1,205,544	(544,137)	343,679	(271,962)	93,971	4,474,166	6,538,860
Depreciation expense	-	-	-	-	-	-	-	3,243,359	-	3,243,359
Operating income (loss)	\$ 2,861,176	\$ (987,863)	\$ (635,714)	\$ 1,205,544	\$ (544,137)	\$ 343,679	\$ (271,962)	\$ (3,149,388)	\$ 4,474,166	\$ 3,295,501

Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Budget Variance Report
For The Year Ended March 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>	
			<u>Variance</u>	<u>Percent</u>
Operating revenues:				
Residential fees	\$ 1,066,734	\$ 1,209,125	\$ (142,391)	-12%
Ground rent	8,801,291	8,821,573	(20,282)	0%
Commercial rent	1,438,078	1,501,609	(63,531)	-4%
Tramway revenue	996,870	2,359,000	(1,362,130)	-58%
Public safety reimbursement	1,579,764	1,576,362	3,402	0%
Transport/ parking revenue	2,546,365	2,507,000	39,365	2%
Interest income	374,384	455,875	(81,491)	-18%
Other revenue	<u>885,162</u>	<u>594,654</u>	<u>290,508</u>	<u>49%</u>
Total revenues	<u>17,688,648</u>	<u>19,025,198</u>	<u>(1,336,550)</u>	<u>-7%</u>
Operating expenses:				
Personal services :				
Salaries	6,653,053	6,462,299	(190,754)	-3%
Salaries-overtime	105,503	175,000	69,497	40%
Temporary employees	217,071	175,000	(42,071)	-24%
Workers compensation and disability	156,548	182,030	25,482	14%
ER payroll taxes	599,700	583,963	(15,737)	-3%
Health insurance	1,026,071	1,080,627	54,556	5%
Dental/vision	69,377	71,507	2,130	3%
Pension	589,687	583,260	(6,427)	-1%
Othet employee benefits	534,344	466,471	(67,873)	-15%
Compensated absences expenses	<u>(51,767)</u>	<u>-</u>	<u>51,767</u>	<u>-100%</u>
Total personal services	<u>9,899,587</u>	<u>9,780,157</u>	<u>(119,430)</u>	<u>-1%</u>
Other than personal services (OTPS) :				
Insurance	1,104,969	1,180,000	75,031	6%
Professional services	294,273	450,900	156,627	35%
Marketing / advertisting	27,282	27,600	318	1%
Management fees	1,787,125	2,305,500	518,375	22%
Legal services	12,754	325,000	312,246	96%
Telecommunications	89,099	104,820	15,721	15%

continued

Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Budget Variance Report
For The Year Ended March 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>	
			<u>Variance</u>	<u>Percent</u>
Repairs and maintenance	328,304	394,600	66,296	17%
Repairs and maintenance equipment	28,443	31,200	2,757	9%
Other repairs and maintenance	58,526	75,000	16,474	22%
Vehicles gas	150,256	146,100	(4,156)	-3%
Vehicles repair and maintenance	79,998	137,600	57,602	42%
Vehicles parts	30,202	30,200	(2)	0%
Equipment lease	9,523	25,880	16,357	63%
Office equipment purchase	20,063	25,200	5,137	20%
Equipment purchases	48,371	66,200	17,829	27%
Other equipment purchases	25,410	26,000	590	2%
Exterminator	7,095	15,600	8,505	55%
Uniforms	32,421	102,245	69,824	68%
Light, power, heat	670,590	558,700	(111,890)	-20%
Water and sewer	3,109	30,000	26,891	90%
Office supplies	18,705	27,720	9,015	33%
Parts and supplies	231,094	275,100	44,006	16%
Service maintenance agreement	36,155	91,700	55,545	61%
Employee travel and meal	8,760	18,480	9,720	53%
Employee training	65,987	84,478	18,491	22%
Shipping	11,329	13,440	2,111	16%
Subscriptions/membership	13,412	13,100	(312)	-2%
Other expenses	354,544	424,200	69,656	16%
Island events - Community relations	<u>88,093</u>	<u>92,000</u>	<u>3,907</u>	<u>4%</u>
Total other than personal services	<u>5,635,892</u>	<u>7,098,563</u>	<u>1,462,671</u>	<u>21%</u>
Total expenses excluding depreciation	15,535,479	16,878,720	1,343,241	8%
Operating income (loss) excluding depreciation	2,153,169	2,146,478	6,691	0%
Depreciation expense	<u>3,336,240</u>	<u>3,363,000</u>	<u>26,760</u>	<u>1%</u>
Operating income (loss)	<u>\$ (1,183,071)</u>	<u>\$ (1,216,522)</u>	<u>\$ 33,451</u>	<u>3%</u>

Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Budget Variance Report
For The Year Ended March 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u> <u>Variance</u>	<u>Percent</u>
Operating revenues:				
Residential fees	\$ 4,698,115	\$ 1,178,847	\$ 3,519,268	299%
Ground rent	8,648,600	8,265,626	382,974	5%
Commercial rent	1,525,403	1,547,783	(22,380)	-1%
Tramway revenue	3,526,508	1,850,000	1,676,508	91%
Public safety reimbursement	1,521,494	1,515,935	5,559	0%
Transport/ Parking revenue	2,384,636	2,504,040	(119,404)	-5%
Interest income	358,972	374,700	(15,728)	-4%
Other revenue	<u>746,097</u>	<u>550,580</u>	<u>195,517</u>	<u>36%</u>
Total revenues	<u>23,409,825</u>	<u>17,787,511</u>	<u>5,622,314</u>	<u>32%</u>
Operating expenses:				
Personal services :				
Salaries	6,231,737	6,402,782	171,045	3%
Salaries-overtime	133,155	125,000	(8,155)	-7%
Temporary employees	208,173	135,000	(73,173)	-54%
Workers compensation and disability	151,426	188,800	37,374	20%
ER payroll taxes	566,450	540,244	(26,206)	-5%
Health insurance	971,600	960,872	(10,728)	-1%
Dental/Vision	67,885	72,064	4,179	6%
Pension	521,276	442,964	(78,312)	-18%
Other employee benefits	517,117	77,957	(439,160)	-563%
Compensated absences expenses	<u>88,346</u>	<u>-</u>	<u>(88,346)</u>	<u>-100%</u>
Total personal services	<u>9,457,165</u>	<u>8,945,683</u>	<u>(511,482)</u>	<u>-6%</u>
Other than personal services (OTPS) :				
Insurance	1,134,571	1,119,000	(15,571)	-1%
Professional services	321,462	356,000	34,538	10%
Marketing/advertising	13,133	17,400	4,267	25%
Management fees	3,398,668	2,140,000	(1,258,668)	-59%
Legal services	45,194	325,000	279,806	86%
Telecommunications	104,212	102,300	(1,912)	-2%

continued

Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Budget Variance Report
For The Year Ended March 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>	
			<u>Variance</u>	<u>Percent</u>
Repairs and maintenance	230,255	325,000	94,745	29%
Repairs and maintenance equipment	17,388	64,000	46,612	73%
Other repairs and maintenance	58,227	56,000	(2,227)	-4%
Vehicles gas	109,121	166,500	57,379	34%
Vehicles repair and maintenance	49,544	193,600	144,056	74%
Vehicles parts	81,900	20,000	(61,900)	-310%
Equipment lease	14,786	16,200	1,414	9%
Office equipment purchase	19,464	32,000	12,536	39%
Equipment purchases	41,484	69,500	28,016	40%
Other equipment purchases	27,120	40,000	12,880	32%
Exterminator	14,659	15,600	941	6%
Uniforms	23,608	91,000	67,392	74%
Light, power, heat	599,101	544,800	(54,301)	-10%
Water and sewer	126,700	140,000	13,300	10%
Office supplies	22,375	30,400	8,025	26%
Parts and supplies	246,754	299,800	53,046	18%
Service maintenance agreement	58,126	111,500	53,374	48%
Employee travel and meal	6,832	18,500	11,668	63%
Employee training	26,867	84,800	57,933	68%
Shipping	12,197	18,700	6,503	35%
Subscriptions/membership	11,353	12,400	1,047	8%
Other expenses	510,205	430,900	(79,305)	-18%
Island events-Community relations	<u>88,494</u>	<u>165,000</u>	<u>76,506</u>	<u>46%</u>
Total other than personal services	<u>7,413,800</u>	<u>7,005,900</u>	<u>(407,900)</u>	<u>-5%</u>
Total expenses excluding depreciation	<u>16,870,965</u>	<u>15,951,583</u>	<u>(919,382)</u>	<u>-5%</u>
Operating income excluding depreciation	<u>6,538,860</u>	<u>1,835,928</u>	<u>4,702,932</u>	<u>256%</u>
Depreciation expense	<u>3,243,359</u>	<u>3,186,700</u>	<u>(56,659)</u>	<u>-2%</u>
Operating income (loss)	<u>\$ 3,295,501</u>	<u>\$ (1,350,772)</u>	<u>\$ 4,646,273</u>	<u>344%</u>

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

The Board of Directors
Roosevelt Island Operating Corporation

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, 2011 and have issued our report thereon dated May 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RIOC's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RIOC's internal control over financial reporting.

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 combination of significant deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIOC's financial statements are free of 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*.

This report is intended solely for the information and use of the board of directors, management of the Corporation and appropriate officials of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Dadia Valles-Venolida LLP

Elmhurst, New York
May 18, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH INVESTMENT GUIDELINES

The Board of Directors
Roosevelt Island Operating Corporation

We have audited Roosevelt Island Operating Corporation's ("RIOC") compliance with the State Comptroller's Investment Guidelines as required by 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, 2011. Management is responsible for RIOC's compliance with those requirements. Our responsibility is to express an opinion on RIOC's compliance based on our examination.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and State of New York Investment Guidelines for Public Authorities. Those standards and State of New York Comptroller's Investment Guidelines for Public Authorities require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on investment compliance occurred. An audit includes examining on a test basis, evidence about Roosevelt Island Operating Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Roosevelt Island Operating Corporation's compliance with those requirements.

In our opinion, Roosevelt Island Operating Corporation complied, in all material respects, with the aforementioned requirements for the year ended March 31, 2011.

This report is intended solely for the information and use of the board of directors, management of the Corporation and appropriate officials of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Dadia Valles Vendiola LLP

Elmhurst, New York
May 18, 2011