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

Financial Statements and Management's
Discussion and Analysis

March 31, 2017 and 2016

(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:

Report on the Financial Statements

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, 2017 and 2016, 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 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, 2017 and 2016, 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(l) 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 required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise RIOC's basic financial statements. The accompanying other supplementary 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 is the responsibility of management and 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 8, 2017, 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

Williamsville, New York
June 8, 2017

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, 2017 and 2016, 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.

FINANCIAL ANALYSIS OF THE CORPORATION NET POSITION

The following is a summary of the RIOC's Statement of Net Position at March 31, 2017 and 2016 and the percentage changes between March 31, 2017 and 2016:

	2017	2016	% Change
Current and other assets	$ 72,139,611	73,226,800	-1%
Capital assets, net	75,337,353	70,351,219	7%
Total assets	$ 147,476,964	143,578,019	3%
Deferred outflows of resources - pensions	$ 2,065,057	560,848	268%
Liabilities	$ 44,991,994	43,378,801	4%
Deferred inflows of resources - pensions	$ 262,610	40,020	556%
Net position:			
Net investment in capital assets	$ 75,337,353	70,351,219	7%
Restricted for capital projects	19,715,202	24,086,583	-18%
Unrestricted	9,234,862	6,282,244	47%
Total net position	$ 104,287,417	100,720,046	4%

On RIOC’s Statement of Net Position at March 31, 2017, total assets of $147,476,964 and deferred outflow of resources - pensions of $2,065,057 exceeded total liabilities of $44,991,994 and deferred inflows of resources - pensions of $262,610 by $104,287,417 (total net position). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling $75,337,353, cash and cash equivalents totaling $61,548,832 and other assets of $601,658. Liabilities are comprised of accounts payable and accrued expenses of $558,338, compensated absences of $650,001 unearned revenues of $37,424,339 (prepaid rents), other post-employment benefits of $4,510,404, and other liabilities totaling $1,848,912. 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, $19,715,202 is available to be used to meet ongoing capital obligations. Additionally, $9,234,862 is available for ongoing operational expenses.

Total assets increased by $3,898,945 or 3%. This was mainly due to the receipt of one-time transactions fees from the refinancing of the existing mortgage of MEPT Octagon LLC in the amount of $1,733,775, and the sale of a block of condominium units from the Riverwalk 7 LLC to Memorial Sloan Kettering in the amount of $2,011,335.

Increases in the deferred outflows of resources - pensions in the amount of $1,504,209 or 268% and deferred inflows of resources - pensions in the amount of $222,590 or 556% are due to RIOC’s compliance with 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.” See notes (2) k-l for additional information and (7) c-h for the financial statement impact of compliance on the financial statements.

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 ended March 31, 2017 were $29,872,195. For the fiscal year ended March 31, 2017, operating revenues increased by $2,722,351 or 10% over the last fiscal year. This was mainly due to an increase in residential fees revenue of $2,955,895 or 90%, which includes one-time transaction fee received from the refinancing of the existing mortgage of MEPT Octagon LLC in the amount of $1,733,775, and the sale of a block of condominium units from Riverwalk 7 LLC to Memorial Sloan Kettering in the amount of $2,011,335. Tramway revenues decreased by $275,267 or 5% due to reduced ridership and the temporary shutdown of the Tramway for scheduled major overhauls. Other revenues decreased by $602,340 or 38% mainly due to the temporary shutdown of the Sportspark facility for renovations and reduced usage of the sports fields.

RIOC's total operating expenses for the fiscal year ended March 31, 2017 were $26,304,824 and $23,417,463 for the last fiscal year ended March 31, 2016, including depreciation of $3,201,584 and $3,299,771, respectively. For fiscal year ended March 31, 2017, total operating expenses before depreciation increased by $2,985,548 or 15% over the last fiscal year, which is mainly due to increases in: (a) personal services by $968,142 or 9% for the filling of vacant positions and rising benefits primarily health, pension and post-employment benefits, (b) professional and legal services by $366,777 or 81% mostly for negotiating real estate transactions, and (c) equipment purchases/lease by $1,479,057 or 2,670% primarily for a temporary heating system at the Sportspark facility.

The following summarizes RIOC's change in net position for the fiscal years ended March 31, 2017 and 2016:

	2017	2016	% Change
Operating revenues:			
Residential fees	$ 6,223,217	3,267,322	90%
Ground rent	11,068,986	10,738,129	3%
Commercial rent	1,608,345	1,564,597	3%
Tramway revenue	5,235,538	5,510,805	(5%)
Public safety reimbursement	1,993,429	1,823,337	9%
Transport/parking revenue	2,608,721	2,542,058	3%
Interest income	133,012	100,309	33%
Other revenues	1,000,947	1,603,287	(38%)
Total operating revenues	29,872,195	27,149,844	10%
Operating expenses:			
Personal services	12,235,986	11,267,844	9%
Insurance	1,703,176	1,662,105	2%
Professional services and legal services	820,660	453,883	81%
Management fees	4,636,373	4,378,564	6%
Telecommunications	141,801	114,183	24%
Repairs and maintenance	336,184	421,798	(20%)
Vehicles maintenance	267,605	297,905	(10%)
Equipment purchases/lease	1,534,458	55,401	2,670%
Supplies/services	975,397	1,065,638	(8%)
Other expenses	451,600	400,371	13%
Total operating expenses excluding depreciation	23,103,240	20,117,692	15%
Operating income before depreciation	6,768,955	7,032,152	(4%)
Depreciation expenses	(3,201,584)	(3,299,771)	(3%)
Change in net position	3,567,371	3,732,381	(4%)
Total net position, beginning of year	100,720,046	96,994,366	4%
Cumulative effect of change in accounting principle	-	(6,701)	(100%)
Total net position, end of year	$ 104,287,417	100,720,046	4%

CAPITAL ASSETS

The following summarizes RIOC's capital assets for the fiscal years ended March 31, 2017 and 2016 and the percentage change between fiscal years:

	2017	2016	% Change
Seawall	$ 3,043,016	3,057,028	0%
Buildings	20,037,618	15,465,834	23%
Landmarks	6,395,508	6,433,174	(1%)
Vehicles and equipment	1,872,311	1,263,607	33%
Infrastructure	43,895,606	44,030,384	0%
Leasehold improvements	93,294	101,192	(8%)
Total capital assets	$ 75,337,353	70,351,219	7%

The capital assets of $75,337,353 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of $4,986,134 from the prior year is comprised of the addition of new capital assets of $9,390,569, the disposition of old capital assets in the amount of $1,297,161 and the corresponding offset by annual depreciation and accumulated depreciation on assets disposed of $3,107,274. Total depreciation expense for all capital assets amounted to $3,201,584 and $3,299,771 for the years ended March 31, 2017 and 2016, 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 $75,337,353 and $70,351,219 at March 31, 2017 and 2016, 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.

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. 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, however negotiations on the Building 8 and 9 Leases continue and Lease Closings on both buildings are expected during the 2018 fiscal year. Should development fail to occur within the expected timeframe, RIOC is protected by a Letter of Credit in the amount of $2,438,400.

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. After the arbitration process began, the parties entered into a standstill agreement and upon its expiration, the parties agreed to proceed with arbitration, which is ongoing. RIOC 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 residents and visitors alike in that 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. During the fiscal year ended March 31, 2017, total ridership on the Tram decreased to 2,686,543, from 2,813,751 last year and Tramway revenues decreased by $275,267 or 5% over the prior fiscal year ended March 31, 2016 due to temporary shutdown of the Tram for scheduled major overhauls and reduced ridership.

On September 8, 2016, RIOC issued a Request for Proposal for the operation and maintenance of the Aerial Tramway. Following that procurement process, RIOC entered into a five-year agreement (along with an optional five-year renewal) with Leitner-Poma on March 1, 2017. This contract will ensure that the Tram continues to operate in a state-of-the-art condition. Additionally, any long-term repairs or overhauls that are needed will also be covered under the terms of this contract. All major Tramway capital projects will be approved by RIOC on an annual basis for the duration of the contract and will be budgeted for in RIOC's ten-year Capital Plan.

RIOC recently completed necessary repairs to the Tramway roof at a cost of $752,230. This rehabilitation project repaired the existing Tramway roof and constructed a new roof over the southern staircase at the Roosevelt Island Tramway Station in Manhattan. These improvements now provide adequate shelter to the Tramway platform from inclement weather and other elements, thereby making the conditions safer and more comfortable for riders.

RIOC also issued and received bids for the repair of the Manhattan and Roosevelt Island side Tram platforms, at a cost estimate of $2 million dollars. Construction for this project is expected to take about 180 days to complete and should begin in summer 2017. This project will be completed in multiple, small phases in order to maintain the operation of at least one cabin at all times. Detailed coordination between RIOC and the MTA is also required for the modification and moving of fare collection equipment.

The Tram elevator on the Manhattan side of the Tram, located at 60th Street and Second Avenue, has lasted beyond its useful life. RIOC commissioned an architect to design a two-cab glass elevator, replacing the existing elevator, and has issued an RFP for construction bids. This construction is expected to last approximately 18 months. The new elevators will have an all glass façade improving the appearance and the functionality of the station. The estimated cost of this project is $4 million dollars.

RIOC entered into a Memorandum of Understanding ("MOU") with the New York City Economic Development Corporation to expand the Citywide Ferry Service to Roosevelt Island. This expansion, expected to launch in August 2017, includes ferry service to Astoria, Queens and Long Island City, Roosevelt Island and Manhattan. RIOC and EDC worked together to create the design for the beautification of upland portion of the ferry landing, which New York City plans to construct as part of its agreement with RIOC. All design and construction of the ferry dock and landing will be completed and paid for by New York City in anticipation of the August 2017 launch date. Once the ferry is up and running, RIOC will be responsible for maintaining the ferry landing's surrounding landscape.

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, 2016, Hudson Related Retail LLC invested $2,883,749 and incurred a loss of ($159,907). 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.

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, forecasted to be built in three phases over a twenty-year period, will be located on the City's Goldwater Hospital site ("Goldwater Site"). As a result of resolutions passed by the Board of Directors, RIOC worked with Cornell throughout demolition and will continue coordination throughout all construction phases and will receive, among other things, new roads and a new sewage system around the construction site as a result of its contributions to this project.

On December 21, 2013, the RIOC Board of Directors resolved, among other things, to amend its' Master Lease with the City to exclude an additional 2.62 acres ("Parcel") surrounding the Goldwater Site so that it could be incorporated into the 9.8 acres being used for Cornell. As part of the surrender of the Parcel back to the City, the State made a commitment to fund an amount equivalent to $1,000,000 annually for 55 years (escalating 2.5% every 10 years) with payment fully made by December 31, 2018, to support capital infrastructure improvements on Roosevelt Island as determined in accordance with State Budgetary procedure. In addition, Cornell pays RIOC $400,000 annually for 55 years, (increasing by 2% every 10 years).

Phase I of the Cornell project opens soon, with faculty and students occupying the campus in late summer 2017 and an official opening is scheduled for September 2017. Phase I consists of an academic building, a corporate co-location building, and graduate student housing. Cornell also plans to break ground for the construction of two additional buildings, an approximately 100-room hotel and an executive education center, in August 2017. Phase II of the campus construction is not required to begin until 2027.

The Island's residential population continues to increase as construction projects are completed and infrastructure upgrades have also become necessary. In a three-phased project, Consolidated Edison Company of New York, Inc. ("Consolidated Edison"), 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, including the AVAC building, Motorgate and Sportspark. Moreover, the new electrical feeder cables will allow for more efficient and reliable electrical service around the Island while mitigating certain failures that have occurred with the existing feeders in the past. 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. Consolidated Edison plans to begin connecting the residential buildings along Main Street to this high-pressure gas line in the coming months.

In the fall of 2016, after awarding contracts for the façade and roof repairs and the installation of a new boiler, RIOC also completed necessary repairs and recommended upgrades to the pool shell and diving platforms, as well as other small upgrades to its Sportspark facility. Construction on Sportsparks' roofing system included replacement of the skylights and the installation of thicker insulation, along with a reflective white high-performance membrane that will collectively save energy in heating and cooling while providing a 3-year warranty.

RIOC also dismantled the temporary boiler system that had been in place since November 2014, and installed three (3) new high-performance energy efficient, permanent boiler systems in the facility which now operate on the new medium-pressure gas main. Additionally, a new heat exchanger for pool water was installed along with the boilers. The entire project of repairing the roof and façade, installing the new boilers, and repairing the pool, was substantially completed in December 2016. However, due to delays in permitting, RIOC was not able to reopen Sportspark until mid-March 2017. The approximate total cost for these projects was $4.8 million dollars.

In March 2017, RIOC issued a request for proposal seeking a qualified contractor with landmark restoration experience to perform renovations for the interior of the Blackwell House, New York City's sixth oldest house and Roosevelt Island's oldest landmark building. At an estimated cost of $1.2 million dollars, the project will entail restoring the interior of the house to make it a community space for Roosevelt Island residents as well as a tourist focal point of Main Street for visitors. Minimal exterior work will also be done in order to make points of ingress and egress ADA-compliant. RIOC expects construction to begin this summer and to complete construction by the end of 2018.

In March 2017, RIOC issued a request for proposal for the first phase of enhancements at its Youth Center, located on Main Street. As part of the contemplated renovations, RIOC plans to replace the roof and terrace, as well as the main room windows overlooking the courtyard. RIOC also intends to update, modernize, and beautify the layout and interior design of the facility, inclusive of upgrades to the bathrooms to conform to ADA standards, expanding the teaching kitchen, new lighting, doors and other critical measures. The total estimated cost of these projects is around $500,000 dollars, with renovations to be implemented in phases. The entire project is expected to be completed December 2017.

RIOC commissioned a consulting engineer to update the repair and restoration documents for the Helix Ramp, including the main elevated platform at the top of the Helix. The document updates are expected to be finished in the summer of 2017, and once completed, RIOC will make a determination of the timing to issue a request for proposal seeking bids for construction.

RIOC is building a dedicated ramp for bicyclists traveling between the Roosevelt Island Bridge and street level on the Island. The project is currently in the design phase and will improve safety for both cyclists and motorists, and ease of access for cyclists. In October 2016, RIOC submitted an application to the State of New York for a grant of $2,936,705 in federal transportation funds available through the Transportation Alternative Program (TAP) - Congestion Mitigation and Air Quality (CMAQ) Improvement Program. Projects throughout New York were evaluated through a competitive scoring process and RIOC was notified of approval of the grant application in April 2017. The funds will pay a portion of the estimated construction cost of $5,000,000 and RIOC will fund the remainder of the project through its capital program. RIOC is also in discussions with select state and local officials concerning additional contributions of capital funds. The project provides a vital link for cyclists between the Island and dedicated bike lanes in Queens and is expected to be used by Island residents, visitors and commuters.

RIOC is in the process of completing the last of a multi-phased, multi-year refurbishment of the Bus Garage. The project included a full renovation of the maintenance garage and support areas such as the restroom and locker facilities. It also included new offices which will become space dedicated for RIOC's engineering, maintenance, and Island transportation services staff.

Between June and September 2016, RIOC performed additional renovations at the Cultural Center to correct previous work. The additional work included leveling and replacing the floors, repainting the walls, replacing the wall trim, and repairing the HVAC system. RIOC also made aesthetic improvements, showcasing paintings by Island residents from Roosevelt Island Day.

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 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.

The planning design firm commissioned for this project has since given a presentation to the RIOC Board of Directors and members of the community, outlining various plans that can be implemented to maximize the usage of the park's space. RIOC will implement some of the firm's immediate recommendations and intends to start phased work, including the installation of new benches and decorative way signage to make the park more appealing to visitors. RIOC is exploring creating a public art program and a walking tour that will encourage usage of this outdoor space.

Repairs to the South Point Seawall, extending from the northern tip of the park to the beginning of the Four Freedoms State Park on both the east and west sides, extending approximately 1600 linear feet, are in the planning and permitting phase. RIOC previously estimated that the repairs will cost approximately $16.5 million and these estimates are currently being updated. 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 at a Federal share of 75% of eligible costs. The project is scheduled to go out to bid later in calendar 2017.

Before and during Hurricane Irene, RIOC staff took measures to mitigate potential damage and to protect lives and property. Under Federal guidelines, these efforts and repairs for damaged RIOC property were eligible for reimbursement by FEMA. RIOC incurred $374,992 in eligible expenses for certain projects, with a Federal share of 75%. As of March 31, 2017 these projects are closed out and RIOC has received full reimbursement of $283,499 in the aggregate.

Similarly, RIOC is eligible to receive reimbursement from FEMA for damages to RIOC property and staff efforts to mitigate damage before and during Hurricane Sandy in October 2012, at a 90% Federal share. Related eligible expenses have been incurred in the amount of $264,422. As of March 31, 2017, RIOC received $246,617 in the aggregate.

The Seawall Railings are also in need of replacement and/or repair. RIOC engaged the services of a qualified engineer for the development of the related construction drawings, which was completed in March 2017. RIOC plans to issue a RFP later this calendar year for the construction phase of the project, which is expected to be performed in several phases, with each phase expected to range between 2 and 5 months for completion. The entire Seawall Railings project will ultimately replace approximately four (4) miles of railings on Roosevelt Island at a total cost currently estimated at $15 million.

The City of New York has obtained a $1.6 billion dollar federal commitment in funding by FEMA to repair and protect the City's public hospitals that were damaged during Hurricane Sandy. The allocation, as part of a citywide resiliency plan, includes Coler Hospital on Roosevelt Island. Coler Hospital is a facility operated by HHC that provides rehabilitation and specialty nursing services to its residents. The City has proposed building a berm near the northern end of Roosevelt Island in an effort to protect Coler Hospital from future, potentially catastrophic damage in the event of another super storm. In this regard, the City is currently conducting feasibility tests and taking soil samples for this effort with RIOC's consent. Once the feasibility study is complete, and it is determined that a berm is possible, RIOC will work with New York City to create an easement to implement this plan.

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, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash	$ 4,707,376	28,571,327
Short-term investments	56,841,456	34,349,705
Receivables	520,830	714,320
Prepaid expenses	80,828	51,748
Total current assets	62,150,490	63,687,100
Noncurrent investments	9,989,121	9,539,700
Capital assets, net of accumulated depreciation	75,337,353	70,351,219
Total assets	147,476,964	143,578,019
Deferred outflows of resources - pensions	2,065,057	560,848
Liabilities		
Current liabilities - accounts payable and accrued expenses	558,338	350,329
Compensated absences	650,001	606,067
Unearned revenue	37,424,339	38,147,515
Postemployment benefits other than pension	4,510,404	3,833,013
Net pension liability - proportionate share - ERS	1,848,752	391,340
Other liabilities	160	50,537
Commitments and contingencies (note 9)		
Total liabilities	44,991,994	43,378,801
Deferred inflows of resources - pensions	262,610	40,020
Net position:		
Net investment in capital assets	75,337,353	70,351,219
Restricted for capital projects	19,715,202	24,086,583
Unrestricted	9,234,862	6,282,244
Total net position	$ 104,287,417	100,720,046

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, 2017 and 2016

	2017	2016
Operating revenue:		
Residential fees	$ 6,223,217	3,267,322
Ground rent	11,068,986	10,738,129
Commercial rent	1,608,345	1,564,597
Tramway revenue	5,235,538	5,510,805
Public safety reimbursement	1,993,429	1,823,337
Transport/parking revenue	2,608,721	2,542,058
Interest income	133,012	100,309
Other revenue	1,000,947	1,603,287
Total operating revenue	29,872,195	27,149,844
Operating expenses:		
Personal services	12,235,986	11,267,844
Insurance	1,703,176	1,662,105
Professional services and legal services	820,660	453,883
Management fees	4,636,373	4,378,564
Telecommunications	141,801	114,183
Repairs and maintenance	336,184	421,798
Vehicles maintenance	267,605	297,905
Equipment purchases/lease	1,534,458	55,401
Supplies/services	975,397	1,065,638
Other expenses	451,600	400,371
Total operating expenses	23,103,240	20,117,692
Operating income before depreciation	6,768,955	7,032,152
Depreciation expense	3,201,584	3,299,771
Change in net position	3,567,371	3,732,381
Net position at beginning of year	100,720,046	96,994,366
Cumulative effect of change in accounting principle	-	(6,701)
Net position at end of year	$ 104,287,417	100,720,046

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from tenants and customers	$ 29,342,509	36,582,369
Payments related to employees	(11,305,003)	(11,252,708)
Payments to vendors	(9,569,716)	(7,307,152)
Net cash provided by operating activities	8,467,790	18,022,509
Cash flows from capital and related financing activities:		
Purchase of capital assets	(9,390,569)	(3,409,447)
Purchase of noncurrent investments	(22,491,751)	19,472,012
Sale of short-term investments	(449,421)	(6,644,297)
Net cash provided by (used in) capital and related financing activities	(32,331,741)	9,418,268
Net increase (decrease) in cash	(23,863,951)	27,440,777
Cash at beginning of year	28,571,327	1,130,550
Cash at end of year	$ 4,707,376	28,571,327
Cash flows from operating activities:		
Change in net position	3,567,371	3,732,381
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	3,201,584	3,299,771
Loss on disposition of asset	1,202,851	-
Cumulative effect of change in accounting principle	-	(6,701)
Changes in:		
Receivables	193,490	151,527
Prepaid expenses	(29,080)	1,543,936
Deferred outflows of resources - pensions	(1,504,209)	(560,848)
Accounts payable and accrued expenses	208,009	(423,540)
Compensated absences	43,934	(48,695)
Unearned revenue	(723,176)	9,467,420
Postemployment benefits other than pension	677,391	437,138
Net pension liability - proportionate share - ERS	1,457,412	391,340
Other liabilities	(50,377)	(1,240)
Deferred inflows of resources - pensions	222,590	40,020
Net cash provided by operating activities	$ 8,467,790	18,022,509

See accompanying notes to financial statements.

(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 or the Corporation) 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 (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 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 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.

(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) Adoption of New Accounting Standards

During the year ended March 31, 2017, the Corporation adopted GASB Statement No. 72 - "Fair Value Measurement and Application." This Statement provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest prior to unobservable inputs (Level 3). The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

- Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the component units have the ability to access.
- Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable directly, or indirectly.
- Level 3 - Valuations are based on inputs that are observable and significant to the overall fair value measurement.

(c) Budgetary Information

During the year ended March 31, 2017, 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.

(d) Cash and Cash Equivalents

The following is a summary of cash and cash equivalents as of March 31, 2017 and 2016:

	2017	2016
Cash - deposits	$ 4,707,376	28,571,327
Short-term investments:		
Certificates of deposit (CDARS)	31,519,721	21,486,062
Money market accounts	25,321,735	12,863,643
	56,841,456	34,349,705
Total cash and short-term investments	$ 61,548,832	62,921,032

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

(2) Summary of Significant Accounting Policies, Continued

(d) Cash and Cash Equivalents, Continued

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 $39,320,676 and $51,228,067 as of March 31, 2017 and 2016, 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, 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. The CDARS are stated at fair value using Level 2 valuations.

(e) 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 $9,989,121 and $9,539,700 for the years ended March 31, 2017 and 2016, respectively. The CDARS are stated at fair value using Level 2 valuations.

(f) 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

(2) Summary of Significant Accounting Policies, Continued

(g) Compensated Absences

It is RIOC's policy to accrue for unused absences for all full time employees. Accrued compensatory time as of March 31, 2017 and 2016 were $650,001 and $606,067, respectively.

(h) 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.

Breakdown is as follows:

Buildings	Balance at April 1, 2016	Additions	Amortization	Balance at March 31, 2017
Octagon	$ 2,497,943	-	(47,355)	2,450,588
Southtown Bldg #1	1,679,323	-	(31,835)	1,647,488
Southtown Bldg #2	1,602,438	-	(30,378)	1,572,060
Southtown Bldg #3	3,424,552	-	(64,922)	3,359,630
Southtown Bldg #4	4,464,851	-	(84,641)	4,380,210
Southtown Bldg #5	5,701,565	-	(108,087)	5,593,478
Southtown Bldg #6	8,775,840	-	(166,366)	8,609,474
Southtown Bldg #7	10,001,003	-	(189,592)	9,811,411
Total	$ 38,147,515	-	(723,176)	37,424,339

(i) Public Purpose Grants

Included in "Other Expenses" are expenditures for public purpose grants of $217,000 and $218,000 for the years ended March 31, 2017 and 2016 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.

(j) 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.

(2) Summary of Significant Accounting Policies, Continued

(k) 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, 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.

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, 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.

(l) 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, 2016 measurement date. See notes (7) c-h and (12) for the financial statement impact of implementation on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

(m) 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.

(3) Capital Assets

Capital assets for the year ended March 31, 2017 are summarized as follows:

	Balance at April 1, 2016	Increase	Decrease	Balance at March 31, 2017
Capital assets:				
Seawall	$ 4,144,808	42,960	-	4,187,768
Building and building improvements	48,419,447	7,143,779	(1,297,161)	54,266,065
Landmarks	14,603,296	179,401	-	14,782,697
Vehicles	4,346,804	874,640	-	5,221,444
Equipment	3,886,579	142,092	-	4,028,671
Infrastructure	55,678,893	1,007,697	-	56,686,590
Leasehold improvement	118,457	-	-	118,457
Total capital assets	131,198,284	9,390,569	(1,297,161)	139,291,692
Less accumulated depreciation:				
Seawall	(1,087,780)	(56,972)	-	(1,144,752)
Building and building improvements	(32,953,613)	(1,369,144)	94,310	(34,228,447)
Landmarks	(8,170,122)	(217,067)	-	(8,387,189)
Vehicles	(3,525,161)	(261,324)	-	(3,786,485)
Equipment	(3,444,615)	(146,704)	-	(3,591,319)
Infrastructure	(11,648,509)	(1,142,475)	-	(12,790,984)
Leasehold improvement	(17,265)	(7,898)	-	(25,163)
Total accumulated depreciation	(60,847,065)	(3,201,584)	94,310	(63,954,339)
Net capital assets	$ 70,351,219	6,188,985	(1,202,851)	75,337,353

(3) Capital Assets, Continued

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

	Balance at April 1, 2015	Increase	Decrease	Balance at March 31, 2016
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	118,457	-	-	118,457
Total capital assets	127,788,837	3,409,447	-	131,198,284
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	(9,368)	(7,897)	-	(17,265)
Total accumulated depreciation	(57,547,294)	(3,299,771)	-	(60,847,065)
Net capital assets	$ 70,241,543	109,676	-	70,351,219

(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 37% 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, 2017 and 2016.

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 years ended March 31, 2017 and 2016, the percentage rent earned was $2,040,649.

(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 $1,567,082 and $1,453,064 for the years ended March 31, 2017 and 2016, 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 and 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 $2,480,333 and $2,264,969 for the years ended March 31 2017 and 2016, 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, 2016, Hudson Related Retail LLC invested $2,883,749 and incurred a loss of ($159,907).

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 $275,000 per annum or 10% of gross receipts for the period May 1, 2016 to April 30, 2021. 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.

(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 $5,235,538 and $5,510,805 for the years ended March 31, 2017 and 2016, 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 $1,993,429 and $1,823,337 for the years ended March 31, 2017 and 2016, 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 $2,124,315 and $2,092,736 for the years ended March 31, 2017 and 2016, respectively.

Transportation revenues from the provision of bus services totaled $121,129 and $119,080 for the years ended March 31, 2017 and 2016, respectively. The cost of running the bus service totaled $1,661,266 and $1,541,775 for the same respective periods. Additionally, revenues from street parking meters for these periods totaled $363,277 and $330,243, 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.

(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, 2017, 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 as of the date of these financial statements. 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 March 31	Housing Companies	Commercial Leases
2018	$ 13,430,519	1,630,490
2019	13,612,937	1,659,772
2020	15,222,058	1,689,742
2021	15,444,665	1,720,417
2022	16,592,889	1,774,730
Total	$ 74,303,068	8,475,151

(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. On March 1, 2017, RIOC negotiated a 5-year fixed fee operating agreement at an annual cost of $4,100,000 with an increase of 3% every year.

(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.

(7) Retirement Plans, Continued

(a) Non-Union Employees, Continued

New York State and Local Employees Retirement System (ERS) 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, 2015	$ 516,769
March 31, 2016	$ 480,350
March 31, 2017	$ 465,927

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 $256,767 and $134,011 for the years ended March 31, 2017 and 2016, 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, 2017 and 2016, the Corporation reported the following liability for its proportionate share of the net pension liability for ERS which were measured as of March 31, 2016 and 2015, respectively. 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.

(7) Retirement Plans, Continued

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

Measurement valuation date	3/31/2016	3/31/2015
Net pension liability	$1,848,752	391,340
Corporation's proportion of the Plan's net pension liability	0.0115185%	0.015584%

For the years ended March 31, 2017 and 2016, the Corporation recognized pension expense of $641,720 and $344,161, respectively, for ERS. At March 31, 2017 the Corporation's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,342	219,139	12,527	-
Changes of assumptions	493,007	-	-	-
Net difference between projected and actual earnings on pension plan investments	1,096,781	-	67,971	-
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	-	43,471	-	40,020
Corporation's contributions subsequent to the measurement date	465,927	-	480,350	-
Total	$ 2,065,057	262,610	560,848	40,020

Corporation contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending March 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	ERS
2017	$ 336,632
2018	336,632
2019	336,632
2020	326,624
2021	-
Thereafter	-

(7) Retirement Plans, Continued

(d) Actuarial Assumptions

The total pension liability as of the March 31, 2016 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:

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2016
Actuarial valuation date	April 1, 2015
Interest rate	7%
Salary scale	3.8% Average
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

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, 2016
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Private equity	11.00%
Real estate	8.25%
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%

(7) Retirement Plans, Continued

(e) Discount Rate

The discount rate used to calculate the total pension liability was 7%. 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%, 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%) or 1-percentage point higher (8%) than the current rate:

	1% Decrease (6%)	Current Assumption (7%)	1% Increase (8%)
Corporation's proportionate share of the net pension liability (asset)	$ 4,168,803	1,848,752	(111,591)

(g) Pension Plan Fiduciary Net Position

The components of the net pension liability, asset of all participating employers as of the respective valuation dates, were as follows:

	(Dollars in Millions)	
Valuation date	3/31/2016	3/31/15
Employers' total pension liability	$ 172,303	164,592
Plan net position	(156,253)	(161,213)
Employers' net pension liability	$ 16,050	3,379
Ratio of plan net position to the Employers' total pension liability	90.7%	97.5%

(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, 2017 and 2016 represent the projected employer contribution for the period of April 1, 2016 through March 31, 2017 and April 1, 2015 through March 31, 2016, 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.

(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, 2017 were appropriately increased to provide adequate protection for RIOC as follows:

Coverages	2017-2018 Coverage Amount
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, 2017 and 2016 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, 2017 and 2016 were approximately $118,484 and $132,203; 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, (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

(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 (RIOC), Continued

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 RIOC.

(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 RIOC. 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, 2017 and 2016 amounted to $774,318 and $579,478, respectively. At March 31, 2017, the liability for active and retired employees included in non-current accrued fringe benefits amounted to $4,510,404.

The number of participants as of February 1, 2017 was as follows:

Active employees	44
Retired employees	11
Spouses of retired employees	5
Total	60

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.

(10) Postemployment Benefits Other Than Pensions, Continued

Benefit Obligations and Normal Cost	2017	2016
Actuarial accrued liability (AAL):		
Actuarial accrued liability	$ 7,862,519	6,860,975
Less: Actuarial value of assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 7,862,519	6,860,975
Normal cost	$ 450,723	299,361
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 786,573	584,312
Interest on net OPEB obligation	153,321	135,835
Adjustment to annual required contribution	(165,576)	(140,669)
Annual OPEB cost (expense)	774,318	579,478
Contribution made on a pay-as-you-go basis	(96,927)	(142,340)
Increase in net OPEB obligation	677,391	437,138
Net OPEB obligation at beginning of year	3,833,013	3,395,875
Net OPEB obligation at end of year	$ 4,510,404	3,833,013

Actuarial methods and assumptions:

Valuation method *	Entry Age Normal
Amortization period	30 years
Amortization method	Level percent of pay, open group
Interest rate	4.0%
Inflation rate	2.2%
Annual payroll growth rate	3.0%
Retirement rates	Later of age 65 and first eligibility

* The valuation method has been changed from project unit credit to entry age normal for the most recent valuation as required by GASB Statement No. 75.

Healthcare cost trend:

Year	Medical Trend Rate
2017	5.5%
2018	5.6%
2019	6.4%
2020	6.2%
2030	5.3%
2040	5.1%
2050	4.8%
Ultimate	3.8%

(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	$ 96,994,366
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	516,769
Cumulative effect of implementation	(6,701)
Net position at beginning of year, as restated	$ 96,987,665

(13) Accounting Standards Issued But Not Yet Implemented

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. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

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

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.

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.

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

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.

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.

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning April 1, 2019 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.

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

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning April 1, 2019 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. 85 - "Omnibus 2017." This Statement, issued in March 2017, addresses issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods 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.

GASB Statement No. 86 - "Certain Debt Extinguishment Issues." This Statement, issued in May 2017, addresses issues related to in-substance defeasances occurring through repayment of debt from existing sources. The requirements of this Statement are effective for reporting periods 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.

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

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
February 1, 2017	$ -	7,862,519	7,862,519	0%	*	N/A
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%

* Information not available.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Required Supplementary Information
Schedule of Entity's Proportionate Share of the Net Pension Liability
For the year ended March 31, 2017

NYSERS Pension Plan

	2017	2016
Entity's proportion of the net pension liability	0.0115185%	0.0115841%
Entity's proportionate share of the net pension liability	$ 1,848,752	$ 391,340
Entity's covered payroll	$ 3,291,106	$ 2,734,022
Entity's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	56.17%	14.31%
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.5%

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Required Supplementary Information
Schedule of Entity's Employer Pension Contributions
For the year ended March 31, 2017

NYSERS Pension Plan

	2017	2016	2015	2014	2013
Contractually required contribution	$ 465,927	480,350	516,769	540,970	583,380
Contributions in relation to the contractually required contribution	465,927	480,350	516,769	540,970	583,380
Contribution deficiency (excess)	$ -	-	-	-	-
Entity's covered employee payroll	$3,291,106	2,734,023	2,665,135	2,662,409	2,906,547
Contributions as a percentage of covered employee payroll	14.16%	17.57%	19.39%	20.32%	20.07%

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Other Supplementary Information
Schedule of Operations by Department

Year ended March 31, 2017

	General Fund										
	General Fund	Operations	Public Safety	Transportation	Parking	Parks/Rec.	Tram	Public purpose fund	Capital fund	Reserved fund	Total
Revenue:											
Residential fees	$ 4,318,344	4,318,344	-	-	-	-	-	-	1,591,427	313,446	6,223,217
Ground rent	10,668,986	10,668,986	-	-	-	-	-	-	400,000	-	11,068,986
Commercial rent	1,608,345	1,608,345	-	-	-	-	-	-	-	-	1,608,345
Tramway revenue	5,235,538	-	-	-	-	-	5,235,538	-	-	-	5,235,538
Public safety reimbursement	1,993,429	-	1,993,429	-	-	-	-	-	-	-	1,993,429
Transportation and parking	2,608,721	-	-	121,129	2,487,592	-	-	-	-	-	2,608,721
Interest income	31,363	31,363	-	-	-	-	-	-	7,617	94,032	133,012
Other revenue	1,000,947	530,287	-	-	-	470,660	-	-	-	-	1,000,947
Total revenue	27,465,673	17,157,325	1,993,429	121,129	2,487,592	470,660	5,235,538	-	1,999,044	407,478	29,872,195
Expenses:											
Personal services:											
Salaries	7,621,229	3,935,657	2,139,404	961,709	-	584,459	-	-	-	-	7,621,229
Temporary employees	164,678	132,769	-	-	-	31,909	-	-	-	-	164,678
Employee benefits	4,406,145	2,818,285	960,596	368,690	-	258,574	-	-	-	-	4,406,145
Compensated absences	43,934	43,934	-	-	-	-	-	-	-	-	43,934
Total personal services	12,235,986	6,930,645	3,100,000	1,330,399	-	874,942	-	-	-	-	12,235,986
Other than personal services:											
Insurance	1,703,176	1,511,927	-	-	-	-	191,249	-	-	-	1,703,176
Professional services	384,563	328,135	-	-	-	56,428	-	-	-	-	384,563
Management fees	4,636,373	-	-	-	801,296	-	3,835,077	-	-	-	4,636,373
Legal services	436,097	436,097	-	-	-	-	-	-	-	-	436,097
Telecommunications	141,801	141,801	-	-	-	-	-	-	-	-	141,801
Island improvements/capital plan	122,484	122,484	-	-	-	-	-	-	-	-	122,484
Repairs and maintenance	213,700	174,189	2,714	26,239	1,717	8,646	195	-	-	-	213,700
Vehicles maintenance	267,605	48,012	24,592	195,001	-	-	-	-	-	-	267,605
Equipment purchases/lease	1,534,458	1,505,231	3,026	17,404	-	3,052	5,745	-	-	-	1,534,458
Supplies/services	975,397	496,881	53,340	88,355	46,127	140,196	150,498	-	-	-	975,397
Other expenses	234,600	138,925	4,523	3,868	-	87,208	76	217,000	-	-	451,600
Total other than personal services	10,650,254	4,903,682	88,195	330,867	849,140	295,530	4,182,840	217,000	-	-	10,867,254
Total operating expenses, excluding depreciation	22,886,240	11,834,327	3,188,195	1,661,266	849,140	1,170,472	4,182,840	217,000	-	-	23,103,240
Operating income (loss) before depreciation	4,579,433	5,322,998	(1,194,766)	(1,540,137)	1,638,452	(699,812)	1,052,698	(217,000)	1,999,044	407,478	6,768,955
Depreciation expense	-	-	-	-	-	-	-	-	(3,201,584)	-	(3,201,584)
Operating income (loss)	$ 4,579,433	5,322,998	(1,194,766)	(1,540,137)	1,638,452	(699,812)	1,052,698	(217,000)	(1,202,540)	407,478	3,567,371

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Other Supplementary Information
Schedule of Operations by Department

Year ended March 31, 2016

	General Fund										
	General Fund	Operations	Public Safety	Transportation	Parking	Parks/Rec.	Tram	Public purpose fund	Capital fund	Reserved fund	Total
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)
Other Supplementary Information
Budget Variance Report
For the year ended March 31, 2017

			Favorable (Unfavorable)	
	Actual	Budget	Variance	Percent
Revenue:				
Residential fees	$ 6,223,217	1,225,000	4,998,217	408%
Ground rent	11,068,986	11,080,000	(11,014)	-1%
Commercial rent	1,608,345	1,600,000	8,345	1%
Tramway revenue	5,235,538	5,976,000	(740,462)	-12%
Public safety reimbursement	1,993,429	1,888,000	105,429	6%
Transport/parking revenue	2,608,721	2,471,000	137,721	6%
Interest income	133,012	163,000	(29,988)	-18%
Other revenue	1,000,947	1,580,000	(579,053)	-37%
Total revenue	29,872,195	25,983,000	3,889,195	15%
Expenses:				
Personal services (PS) :				
Salaries	7,240,113	7,690,058	449,945	6%
Salaries OT	381,116	350,000	(31,116)	-9%
Temporary employees	164,678	175,000	10,322	6%
Workers compensation and disability	310,450	352,425	41,975	12%
ER payroll taxes	663,006	699,509	36,503	5%
Health insurance	1,613,389	1,641,583	28,194	2%
Dental/vision	79,981	80,975	994	1%
Pension	898,487	1,112,961	214,474	19%
Other employee benefits	840,832	435,389	(405,443)	-93%
Compensated absences expenses	43,934	-	(43,934)	-100%
Total personal services (PS)	12,235,986	12,537,900	301,914	2%
Other than personal services (OTPS) :				
Insurance	1,703,176	1,815,000	111,824	6%
Professional services	379,799	470,500	90,701	19%
Marketing/advertising	4,764	1,000	(3,764)	-376%
Management fees	4,636,373	4,250,000	(386,373)	-9%
Legal services	436,097	393,000	(43,097)	-11%
Telecommunications	141,801	140,300	(1,501)	-1%
Island improvements - capital plan	122,484	207,000	84,516	41%
Repairs and maintenance	95,569	357,500	261,931	73%
Repairs and maintenance equipment	43,718	31,000	(12,718)	-41%
Other repairs and maintenance	74,413	90,000	15,587	17%

(Continued)

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

			Favorable (Unfavorable)	
	Actual	Budget	Variance	Percent
Expenses, Continued:				
Other than personal services (OTPS), continued:				
Vehicles gas	$ 107,122	212,000	104,878	49%
Vehicles repair and maintenance	149,819	114,500	(35,319)	-31%
Vehicles parts	10,664	41,000	30,336	74%
Equipment lease	1,480,268	14,000	(1,466,268)	-10473%
Office equipment purchase	15,529	11,500	(4,029)	-35%
Equipment purchases	28,702	31,500	2,798	9%
Other equipment purchases	9,959	4,000	(5,959)	-149%
Exterminator	2,196	24,000	21,804	91%
Uniforms	53,447	59,800	6,353	11%
Light, power, heat	604,375	763,000	158,625	21%
Water and sewer	30,612	47,000	16,388	35%
Office supplies	20,471	16,800	(3,671)	-22%
Parts and supplies	215,563	259,900	44,337	17%
Service maintenance agreement	48,733	127,600	78,867	62%
Employee travel and meal	7,453	6,000	(1,453)	-24%
Employee training	60,417	50,000	(10,417)	-21%
Shipping	18,583	17,900	(683)	-4%
Subscriptions/membership	22,202	14,700	(7,502)	-51%
Other expenses	255,758	354,100	98,342	28%
Island events - community relations	87,187	78,000	(9,187)	-12%
Total other than personal services (OTPS)	10,867,254	10,002,600	(864,654)	-9%
Total expenses	23,103,240	22,540,500	(562,740)	-2%
Operating income before depreciation	6,768,955	3,442,500	3,326,455	97%
Depreciation expense	3,201,584	3,874,860	673,276	17%
Net surplus (deficit)	$ 3,567,371	(432,360)	3,999,731	925%

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

	Actual	Budget	Favorable (Unfavorable) Variance	Favorable (Unfavorable) Percent
Revenue:				
Residential fees	$ 3,267,322	1,321,000	1,946,322	147%
Ground rent	10,738,129	10,744,000	(5,871)	-1%
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%
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	-1%
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)
Other Supplementary Information
Budget Variance Report, Continued

	Actual	Budget	Favorable (Unfavorable) Variance	Percent
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	3,022	24,000	20,978	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)	8,849,848	10,488,529	1,638,681	16%
Total expenses	20,117,692	22,187,708	2,070,016	9%
Operating income before depreciation	7,032,152	3,177,292	3,854,860	121%
Depreciation expense	3,299,771	3,762,000	462,229	12%
Net surplus (deficit)	$ 3,732,381	(584,708)	4,317,089	738%

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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 year ended March 31, 2017, and the related notes to financial statements, which collectively comprise RIOC's basic financial statements, and have issued our report thereon dated June 8, 2017.

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 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 8, 2017

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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, 2017. 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.

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 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, RIOC complied in all material respects with the aforementioned requirements during the year ended March 31, 2017.

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 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 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 8, 2017

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REPORT TO THE BOARD

June 8, 2017

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, 2017 and have issued our report thereon dated June 8, 2017. 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 January 23, 2017. 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.

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.

- Net pension liability - Management's estimate of the net pension liability is calculated through information provided by the NYSE Employees and Local Employees Retirement System.

- 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 inquires, 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 inquires 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 Untied 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