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REPORT TO THE BOARD

June 12, 2018

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, 2018 and have issued our report thereon dated June 12, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated March 1, 2018. 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 2 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 retirement 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 report, 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.

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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

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

Financial Statements and Management's
Discussion and Analysis

March 31, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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.

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 12, 2018, 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 12, 2018

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, 2018 and 2017, 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, 2018 and 2017 and the percentage changes between March 31, 2018 and 2017:

	2018	2017	% Change
Current and investments	$ 73,637,656	72,139,611	2%
Long-term receivables	4,816,438	-	100%
Capital assets, net	77,739,455	75,337,353	3%
Total assets	156,193,549	147,476,964	6%
Deferred outflows of resources - pensions	1,122,734	2,065,057	-46%
Liabilities	45,405,669	44,991,994	1%
Deferred inflows of resources - pensions	212,731	262,610	-19%
Net position:			
Net investment in capital assets	77,739,455	75,337,353	3%
Restricted for capital projects	16,829,640	19,715,202	-15%
Unrestricted	17,128,788	9,234,862	85%
Total net position	$ 111,697,883	104,287,417	7%

On RIOC's Statement of Net Position at March 31, 2018 total assets of $156,193,549 and deferred outflow of resources - pensions of $1,122,734 exceeded total liabilities of $45,405,669 and deferred inflows of resources - pensions of $212,731 by $111,697,883 (total net position). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling $77,739,455, noncurrent assets totaling $14,826,708, cash and cash equivalents totaling $57,990,247 and other assets of $5,637,139. Liabilities are comprised of accounts payable and accrued expenses of $1,674,289, compensated absences of $733,812, unearned revenues of $36,701,164 (prepaid rents), other postemployment benefits of $5,158,666, and other liabilities totaling $1,137,738. 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, $16,829,640 is available to be used to meet ongoing capital obligations. Additionally, $17,128,788 is available for ongoing operational expenses.

Total assets increased by $8,716,585 or 6%. This was mainly due to the settlement with Rivercross in the amount of $9,883,343 for exiting Mitchell Lama program. See notes to the financial statements 2(l) and 4(b).

Decreases in the deferred outflows of resources - pensions in the amount of $942,323 or 46% and deferred inflows of resources - pensions in the amount of $49,879 or 19% 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 to the financial statements 2(k) 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, 2018 were $34,347,714. For the fiscal year ended March 31, 2018, operating revenues increased by $4,475,519 or 15% over the last fiscal year. This was mainly due to an increase in ground rent revenue of $10,065,062 or 91%, mostly from the settlement with Rivercross in amount of $9,883,343 for exiting the Mitchell Lama program. This increase was offset by one-time transaction fee received in FY16-17 from the refinancing of the existing mortgage of MEPT Octagon LLC in the amount of $1,733,775, the sale of a block of condominium units from Riverwalk 7 LLC to Memorial Sloan Kettering in the amount of $2,011,335, and the sale of units in Island House House; all one-time income realized in FY16-17 that did not recur in FY17-18. Tramway revenues decreased by $1,030,267 or 20% due to reduced ridership and the temporary shutdown of portions of the Tramway for scheduled major overhauls and renovation of the Tramway platforms.

RIOC's total operating expenses for the fiscal year ended March 31, 2018 were $26,937,248 and $26,304,824 for the last fiscal year ended March 31, 2017, including depreciation of $3,671,280 and $3,201,584, respectively. For fiscal year ended March 31, 2018, total operating expenses before depreciation increased by $162,728 or 1% over the last fiscal year.

The following summarizes RIOC's change in net position for the fiscal years ended March 31, 2018 and 2017:

	2018	2017	% Change
Operating revenues:			
Residential fees	$ 1,597,203	6,223,217	-74%
Ground rent	21,134,048	11,068,986	91%
Commercial rent	1,616,027	1,608,345	0%
Tramway revenue	4,205,271	5,235,538	-20%
Public safety reimbursement	1,971,791	1,993,429	-1%
Transport/parking revenue	2,543,302	2,608,721	-3%
Interest income	163,154	133,012	23%
Unrealized loss	(29,384)	-	0%
Other revenues	1,146,302	1,000,947	15%
Total operating revenues	34,347,714	29,872,195	15%
Operating expenses:			
Personal services	12,522,916	12,235,986	2%
Insurance	1,851,010	1,703,176	9%
Professional services and legal services	1,223,322	820,660	49%
Management fees	4,991,085	4,636,373	8%
Telecommunications	137,156	141,801	-3%
Repairs and maintenance	509,275	336,184	51%
Vehicles maintenance	246,305	267,605	-8%
Equipment purchases/lease	162,442	1,534,458	-89%
Supplies/services	1,090,289	975,397	12%
Other expenses	532,168	451,600	18%
Total operating expenses excluding depreciation	23,265,968	23,103,240	1%
Operating income before depreciation	11,081,746	6,768,955	64%
Depreciation expenses	(3,671,280)	(3,201,584)	15%
Change in net position	7,410,466	3,567,371	108%
Total net position, beginning of year	104,287,417	100,720,046	4%
Total net position, end of year	$ 111,697,883	104,287,417	7%

CAPITAL ASSETS

The following summarizes RIOC's capital assets for the fiscal years ended March 31, 2018 and 2017 and the percentage change between fiscal years:

	2018	2017	% Change
Seawall	$ 3,396,261	3,043,016	10%
Buildings	20,310,134	20,037,618	1%
Landmarks	6,643,207	6,395,508	4%
Vehicles and equipment	2,301,593	1,872,311	19%
Infrastructure	45,002,863	43,895,606	2%
Leasehold improvements	85,397	93,294	-9%
Total capital assets	$ 77,739,455	75,337,353	3%

The capital assets of $77,739,455 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of $2,402,102 from the prior year is comprised of the addition of new capital assets of $6,120,461 offset by annual depreciation of $3,671,280, and the disposition of old capital assets in the amount of $3,290,480 with the corresponding accumulated depreciation on assets disposed of $3,243,401. Total depreciation expense for all capital assets amounted to $3,671,280 and $3,201,584 for the years ended March 31, 2018 and 2017, respectively. A more detailed analysis of RIOC's capital assets is presented in the notes to financial statements on pages 23-24.

INFRASTRUCTURE ASSETS

The amounts reported in the accompanying statements of net position for capital assets (net of depreciation) of RIOC of $77,739,455 and $75,337,353 at March 31, 2018 and 2017, 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, subsequent improvements to such infrastructure items have been capitalized.

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. The Leases for Buildings 8 and 9 have been negotiated and were to have closed in December 2017 - a timeline that was necessary for the Hudson Companies and the Related Companies to satisfy all the necessary requirements of New York City programs providing additional financial support to the majority of the contemplated affordable housing units. However, the closing was delayed in anticipation of the new federal tax bill that passed in late December of last year. RIOC anticipates that the lease closings on both buildings are expected to occur during the third quarter of 2018. 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 ("Withdrawal Date"), Rivercross Tenants Corp. ("Housing Company") exited the Mitchell-Lama program without settling the financial terms required under Amendment 1 to the Restated Ground Lease. The parties subsequently entered into arbitration and concluded with a settlement agreement, which was approved by RIOC's Board on April 18, 2018, with authorization for a second amendment to the Restated Ground Lease, with an effective date of May 30, 2018 ("Effective Date"). Details of the settlement agreement are presented in the notes to the financial statement under section 2(l) Subsequent Events on page 22, and the financial impact under section 4(b) Ground Rents on page 26.

The Modernized Aerial Tramway ("Tram"), which was placed in service on November 31, 2010, is an efficient, safe, and relatively quick mode of transportation between Roosevelt Island and mid-town Manhattan. During the fiscal year ended March 31, 2018 total ridership on the Tram decreased again to $2,141,493 from $2,686,543 last year and Tramway revenues decreased by $1,030,268 or 20% over the prior fiscal year ended March 31, 2017. The reduction in ridership may be attributed to reduced service during construction of the new Tram Platforms that occurred between September 2017 and early December 2017; difficulties collecting fares related to construction; the opening of the New York City Ferry in late August 2017 that now offers ferry service from Roosevelt Island to other shore points around Manhattan and Queens; and direct F train connections offered by the opening of the new 2nd Avenue subway line on January 1, 2017.

On March 1, 2017, following the issuance of a Request for Proposal and procurement process, RIOC entered into a five-year agreement (along with an optional five-year renewal) with Leitner-Poma for the operation and maintenance of the Tram. This contract ensures 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.

In addition to securing the above agreement with Leitner-Poma, in February 2018, RIOC entered into a five-year agreement with Hardesty and Hanover, a qualified Engineering Consultant, to provide engineering consulting services for long-term overhaul and maintenance projects for the Tram. This contract will provide RIOC with independent engineering assessments, particularly for long-term overhaul projects with large price estimates. The contract duration is for four years (along with up to five optional one-year renewals), at an hourly rate with a minimum annual cost of $50,000, and runs concurrently with Leitner-Poma's Operation and Maintenance contract.

RIOC will soon complete necessary repairs to the Tram Platforms at a cost of $2,266,145. This rehabilitation project repaired and resurfaced the existing platforms on both the Roosevelt Island and Manhattan Stations of the Tram.

These improvements included the installation of a new ADA-compliant access ramp on the North Ramp of the Tram on Roosevelt Island, as well as the removal of deteriorated top surfaces and waterproofing at both Tram Stations, while also conducting repairs of the structural slabs and metal columns; and replacing the top surfaces with new concrete slabs, new waterproofing, and new traffic coating. The project took place in three phases, the final phase of which was substantially completed in late November 2017, with additional work commencing on May 15, 2018 and expected to be completed in 30 days.

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 subsequently issued a Request for Proposal for construction bids. RIOC entered into contract with a qualified general contractor to execute this project on December 5, 2017. Mobilization for construction began in May 2018 and the work is anticipated to last for approximately 12 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 $5.6 million dollars.

The New York City Economic Development Corporation expansion of the Citywide Ferry Service to Roosevelt Island launched in August 2017. The ferry provides service to Astoria, Roosevelt Island, Long Island City and Manhattan. RIOC and EDC worked together to create the design for the beautification of the upland portion of the ferry landing as part of its agreement with RIOC. All design and construction of the ferry dock and landing was undertaken and paid for by New York City, and have yet to be completed.

The revitalization of Main Street and improvement of the retail spaces continues. 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 was 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, 2017, Hudson Related Retail LLC invested $3,250,807 and incurred a loss of ($51,137). According to the Agreement, RIOC will share future profits equally once HRR is paid back its investment. HRR has yet to make any profit sharing payments.

Roosevelt Island was selected by the City of New York ("City") for the site of the Cornell Tech 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 Phase I construction and will continue coordination throughout all construction phases. RIOC received, 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. A capital contribution of $25,028,000 to the Roosevelt Island Capital Program is included in the New York State 2019 Capital Program and Financing Plan that has been approved by the legislature and signed by the Governor. In addition, Cornell pays RIOC $400,000 annually for 55 years, (increasing by 2% every 10 years).

Three of the five buildings in Phase I of the Cornell project, an academic building, a corporate co-location building, and graduate student housing, were completed in August 2017, and the campus officially opened for classes in the same month. Cornell has begun construction of the remainder of Phase I, which includes two additional buildings, an approximately 100-room hotel and an executive education center. This construction began in August 2017 and is projected to be completed within early 2020. Phases II and III of the Cornell project, are not required to be proposed before 2027.

The Island's residential population continues to increase as development projects are completed, necessitating infrastructure upgrades. 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 supplies 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 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 have also established 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. As part of a final phase of this work, Consolidated Edison also connected the residential buildings along Main Street to this high-pressure gas line which is a considerable upgrade from the old low gas pressure system. Having completed all necessary upgrades for this project, Consolidated Edison restored all Z-Brick areas of Main Street where trenching was done to its original appearance before work began. Consolidated Edison contemplates additional upgrades for Roosevelt Island, but those plans are not anticipated to begin before 2020.

RIOC reopened its Sportspark facility in March 2017, after performing major repairs to the roof, skylights, boiler systems and pool; however, further renovations are contemplated. Indeed, RIOC will go to its' Architectural and Engineering Panel in June 2018, seeking to renovate the men's and women's locker rooms, the workout/weight room, the windows and doors, as well as the HVAC system. Renovations will also add a more welcoming entrance on the west side, an update of the façade, a repurposing of the facility's second floor - currently underutilized open space - providing for additional workout rooms where Zumba, yoga, and other types of aerobic classes may be held. This renovation project is expected be completed in 2020 at an estimated total cost of $12 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 Blackwell House, New York City's sixth oldest house and Roosevelt Island's oldest landmarked building. Following that procurement process, RIOC engaged a qualified general contractor to perform all necessary repairs, which began in August 2017. Repairs include stabilizing and waterproofing the building's infrastructure, installing new windows, and installing an ADA-compliant access ramp. At an estimated cost of $1.2 million dollars, the project will restore the interior of the house to make it a community space for Roosevelt Island residents, as well as a tourism focal point of Main Street for visitors. Construction is expected to be completed in September 2018.

In March 2017, RIOC issued a request for proposal for the first phase of enhancements at its Youth Center, located on Main Street. Construction for the first phase was completed in October 2017 and included replacement of the roof and terrace. Phase II of this project continues with replacing the windows in the main room that overlooks the courtyard, modernizing and beautifying the layout and interior design of the facility, including 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 $1.3 million dollars and completion is expected in December 2018.

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. After the document updates were finalized last summer, RIOC issued a Request for Proposal seeking bids for construction. Following that bid process, RIOC engaged a qualified contractor to begin work on February 15, 2018. Spalling and concrete repairs will be made to all exposed areas of the flat plaza and the Helix Ramp, as well as all surrounding road-surface areas that exhibit structural "wear-and-tear". Protective road railings that have been damaged by impacts will also be repaired or replaced. The project is expected to be completed by August 2018 and will cost an estimated $4.3 million dollars.

On March 13, 2108, RIOC issued a Request for Proposal, seeking architectural design services for a dedicated ramp for bicyclists traveling between the Roosevelt Island Bridge and street level on the Island, as well as a Bike Lane Promenade. Submissions were received on April 27, 2018 and the successful bidder will be expected to see the project through from design through construction, which is anticipated to be approximately five years.

The Bike Ramp will improve safety for both cyclists and motorists and increase ease of access for cyclists coming onto the Island. The estimated cost is $5 million dollars. RIOC intends to fund the project in part by use of a grant in the amount of $2,936,705 in federal transportation funds awarded to RIOC through the Transportation Alternative Program (TAP) - Congestion Mitigation and Air Quality (CMAQ) Improvement Program, with the remainder funded through RIOC's capital program. RIOC has also had 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.

The multi-phased, multi-year refurbishment of the Bus Garage was substantially completed in September 2017. The entire project, costing $4.4 million dollars, included a full renovation of the maintenance garage and support areas, such as the restroom and locker facilities. It also included new offices housing RIOC's Department of Capital Projects and Planning, (formerly known as the Department of Engineering), RIOC's Maintenance Department, and the Island transportation services staff.

Repairs to the South Point Park 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 $17.12 million dollars and these estimates are currently being updated. FEMA has deemed an estimated $1,191,692.85 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 2018.

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, 2018, RIOC received $246,617 in the aggregate.

Design drawings for the Seawall Railings Replacement project were finalized and approved by all requisite agencies/entities in March 2017. Following those approvals, RIOC issued a Request for Proposal for the construction phase of the project. The Contract, following the procurement process and subsequent Board approval, was awarded and construction of the new Seawall Railings is underway. The entire Seawall Railings project, spanning approximately 3.5 miles of railings, is expected to be completed in February 2019. The total cost is currently estimated at $8,740,000.

In 2014, the City of New York 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, operated by HHC, provides rehabilitation and specialty nursing services to its residents. The City 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. RIOC and the City of New York entered into a Memorandum of Understanding for this project and have agreed to collaborate on best options of constructing a berm around Coler Hospital.

The City is still conducting feasibility tests and assessments for this effort with RIOC's consent. Once the feasibility study is finalized, and it is determined that a berm is possible, RIOC will work with New York City to create an easement to implement this plan.

On February 15, 2018, RIOC issued a Request for Proposal seeking professional services from a qualified firm to redevelop and repair Octagon Field, one of Roosevelt Island's most popular outdoor fields. Octagon Field is used by residents and visitors, from mid-March to mid-November for activities including soccer, football, lacrosse, and rugby. RIOC is seeking to replace the turf and redevelop the surrounding fixtures and facilities such as the comfort stations, seating benches, security features and lighting design. The project is expected to last for one year from commencement, at an estimated cost of $3.5 million dollars.

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, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash	$ 4,356,629	4,707,376
Short-term investments	53,633,618	56,841,456
Receivables	5,595,896	520,830
Prepaid expenses	41,243	80,828
Total current assets	63,627,386	62,150,490
Noncurrent investments	10,010,270	9,989,121
Long-term receivables	4,816,438	-
Capital assets, net of accumulated depreciation	77,739,455	75,337,353
Total assets	156,193,549	147,476,964
Deferred outflows of resources - pensions	1,122,734	2,065,057
Liabilities		
Current liabilities - accounts payable and accrued expenses	1,674,289	558,338
Compensated absences	733,812	650,001
Unearned revenue	36,701,164	37,424,339
Postemployment benefits other than pension	5,158,666	4,510,404
Net pension liability - proportionate share - ERS	1,137,738	1,848,752
Other liabilities	-	160
Commitments and contingencies (note 9)		
Total liabilities	45,405,669	44,991,994
Deferred inflows of resources - pensions	212,731	262,610
Net position:		
Net investment in capital assets	77,739,455	75,337,353
Restricted for capital projects	16,829,640	19,715,202
Unrestricted	17,128,788	9,234,862
Total net position	$ 111,697,883	104,287,417

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, 2018 and 2017

	2018	2017
Operating revenue:		
Residential fees	$ 1,597,203	6,223,217
Ground rent	21,134,048	11,068,986
Commercial rent	1,616,027	1,608,345
Tramway revenue	4,205,271	5,235,538
Public safety reimbursement	1,971,791	1,993,429
Transport/parking revenue	2,543,302	2,608,721
Interest income	163,154	133,012
Unrealized loss	(29,384)	-
Other revenue	1,146,302	1,000,947
Total operating revenue	34,347,714	29,872,195
Operating expenses:		
Personal services	12,522,916	12,235,986
Insurance	1,851,010	1,703,176
Professional services and legal services	1,223,322	820,660
Management fees	4,991,085	4,636,373
Telecommunications	137,156	141,801
Repairs and maintenance	509,275	336,184
Vehicles maintenance	246,305	267,605
Equipment purchases/lease	162,442	1,534,458
Supplies/services	1,090,289	975,397
Other expenses	532,168	451,600
Total operating expenses	23,265,968	23,103,240
Operating income before depreciation	11,081,746	6,768,955
Depreciation expense	(3,671,280)	(3,201,584)
Change in net position	7,410,466	3,567,371
Net position at beginning of year	104,287,417	100,720,046
Net position at end of year	$ 111,697,883	104,287,417

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from tenants and customers	$ 23,733,033	29,342,509
Payments related to employees	(11,572,051)	(11,305,003)
Payments to vendors	(9,577,957)	(9,569,716)
Net cash provided by operating activities	2,583,025	8,467,790
Cash flows from capital and related financing activities:		
Purchase of capital assets	(6,120,461)	(9,390,569)
Sale (purchase) of noncurrent investments	3,207,838	(22,491,751)
Sale of short-term investments	(21,149)	(449,421)
Net cash used in capital and related financing activities	(2,933,772)	(32,331,741)
Net decrease in cash	(350,747)	(23,863,951)
Cash at beginning of year	4,707,376	28,571,327
Cash at end of year	$ 4,356,629	4,707,376
Cash flows from operating activities:		
Change in net position	7,410,466	3,567,371
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	3,671,280	3,201,584
Loss on disposition of asset	47,079	1,202,851
Changes in:		
Receivables	(9,891,504)	193,490
Prepaid expenses	39,585	(29,080)
Deferred outflows of resources - pensions	942,323	(1,504,209)
Accounts payable and accrued expenses	1,115,951	208,009
Compensated absences	83,811	43,934
Unearned revenue	(723,175)	(723,176)
Postemployment benefits other than pension	648,262	677,391
Net pension liability - proportionate share - ERS	(711,014)	1,457,412
Other liabilities	(160)	(50,377)
Deferred inflows of resources - pensions	(49,879)	222,590
Net cash provided by operating activities	$ 2,583,025	8,467,790

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, 2018, 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, 2018 and 2017:

	2018	2017
Cash - deposits	$ 4,356,629	4,707,376
Short-term investments:		
Certificates of deposit (CDARS)	31,612,460	31,519,721
Money market accounts	22,021,158	25,321,735
	53,633,618	56,841,456
Total cash and short-term investments	$ 57,990,247	61,548,832

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

(c) 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 $36,170,990 and $39,320,676 as of March 31, 2018 and 2017, 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.

(d) Noncurrent Investments

This represents funds set aside to satisfy the obligation of the postemployment benefits other than pension under GASB Statement No. 45 and are invested in collateralized money market and CDARS and are fully insured or collateralized. The carrying amount of these investments are $10,010,270 and $9,989,121 for the years ended March 31, 2018 and 2017, respectively. The CDARS are stated at fair value using Level 2 valuations.

(e) Capital Assets

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

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

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

(2) Summary of Significant Accounting Policies, Continued

(f) Compensated Absences

It is RIOC's policy to accrue for unused absences for all full time employees. Accrued compensatory time as of March 31, 2018 and 2017 were $733,812 and $650,001, respectively.

(g) Unearned Revenue

Unearned revenue reported in the statement of net position represents amounts collected in advance for lease-related payments pertaining to subsequent fiscal years. These amounts will be recognized as income on an annual basis over a period of the remaining fifty 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, 2017	Additions	Amortization	Balance at March 31, 2018
Octagon	$ 2,450,588	-	(47,354)	2,403,234
Southtown Bldg #1	1,647,488	-	(31,835)	1,615,653
Southtown Bldg #2	1,572,060	-	(30,378)	1,541,682
Southtown Bldg #3	3,359,630	-	(64,920)	3,294,710
Southtown Bldg #4	4,380,210	-	(84,642)	4,295,568
Southtown Bldg #5	5,593,478	-	(108,087)	5,485,391
Southtown Bldg #6	8,609,474	-	(166,367)	8,443,107
Southtown Bldg #7	9,811,411	-	(189,592)	9,621,819
Total	$ 37,424,339	-	(723,175)	36,701,164

(h) Public Purpose Grants

Included in "Other Expenses" are expenditures for public purpose grants of $311,457 and $217,000 for the years ended March 31, 2018 and 2017 respectively. The Roosevelt Island Youth Program, Inc. was granted $175,000 each year to help fund operating expenses. The remaining grants were awarded to various Island-based not-for-profits upon evaluation of their applications and Board approval.

(i) Estimates

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

(2) Summary of Significant Accounting Policies, Continued

(j) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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.

(k) Accounting and Financial Reporting for Pensions

The Corporation has 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." These Statements require 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, 2017 measurement date. See notes (7)c-h.

(2) Summary of Significant Accounting Policies, Continued

(l) Subsequent Events

As of March 27, 2014 ("Withdrawal Date"), Rivercross Tenants Corp. ("Housing Company") exited the Mitchell-Lama program without settling the financial terms required under Amendment 1 to the Restated Ground Lease. The parties subsequently entered into arbitration and concluded with a settlement agreement, which was approved by RIOC's Board on April 18, 2018, with authorization for a second amendment to the Restated Ground Lease, which was executed on May 30, 2018 ("Effective Date").

Effective as of March 27, 2014 the Housing Company will pay an annual aggregate rent of $2,500,000 ("Re-Set Ground Rent"). As of April 1, 2022, and on each fifth anniversary of that date thereafter, the Re-Set Ground Rent will increase by 10%.

With reference to the additional Re-Set Ground Rent to be paid by the Housing Company for the period from the Withdrawal Date to the Effective Date (the "Interim Period"), the Housing Company will pay RIOC an amount equal to the difference between (i) the sum of the Residential Ground Rent and the Commercial Ground Rent paid by the Housing Company under the Restated Ground Lease during the Interim Period, and (ii) the sum of $1,300,000 for each year of the Interim Period, pro-rated as necessary for partial years. This amount will be paid to RIOC upon the Effective Date. In addition to the amount set forth in paragraph (a) above, the Housing Company will pay RIOC the sum of $1,200,000 for each year of the Interim Period, pro-rated as necessary for partial years. This amount will be paid in fifteen (15) equal annual installments of principal, together with interest thereon from the Effective Date at the rate of four percent (4%) per annum, commencing on the first anniversary of the Effective Date, and on each anniversary of such date in subsequent years.

In addition, as of the Effective Date, RIOC will not be obligated to pay any Ground Rent, Basic Rent or Tax Equivalent for Commercial Space for the commercial spaces it is subleasing from the Housing Company, and the Housing Company will waive all claims for unpaid Ground Rent, Basic Rent or Tax Equivalent for Commercial Space, if any, under the Commercial Space Sublease for all periods prior to the Effective Date.

Housing Company will pay RIOC a transfer fee on all sales of apartments (both initial sales following the Withdrawal Date and all subsequent sales) equal to one percent (1%) of the gross sales price paid to the selling tenant-shareholder (the "Transfer Fees"). Transfer Fees for all sales occurring during the Interim Period will be paid to RIOC upon the Effective Date. Transfer Fees for each sale occurring after the Effective Date will be paid to RIOC at the time of the closing of such sale.

The Corporation has recognized a receivable of $9,883,343 as of March 31, 2018, of which $5,217,008 will be paid on the Effective Date, and $4,816,438 to be paid in fifteen annual payments after the effective date, with interest at 4%.

(3) Capital Assets

Capital assets for the year ended March 31, 2018 are summarized as follows:

	Balance at April 1, 2017	Increase	Decrease	Balance at March 31, 2018
Capital assets:				
Seawall	$ 4,187,768	411,092	-	4,598,860
Building and building improvements	54,266,065	1,993,879	-	56,259,944
Landmarks	14,782,697	467,949	-	15,250,646
Vehicles	5,221,444	119,936	(1,684,123)	3,657,257
Equipment	4,028,671	859,895	(1,606,357)	3,282,209
Infrastructure	56,686,590	2,267,710	-	58,954,300
Leasehold improvement	118,457	-	-	118,457
Total capital assets	139,291,692	6,120,461	(3,290,480)	142,121,673
Less accumulated depreciation:				
Seawall	(1,144,752)	(57,847)	-	(1,202,599)
Building and building improvements	(34,228,447)	(1,721,363)	-	(35,949,810)
Landmarks	(8,387,189)	(220,250)	-	(8,607,439)
Vehicles	(3,786,485)	(295,473)	1,644,486	(2,437,472)
Equipment	(3,591,319)	(207,997)	1,598,915	(2,200,401)
Infrastructure	(12,790,984)	(1,160,453)	-	(13,951,437)
Leasehold improvement	(25,163)	(7,897)	-	(33,060)
Total accumulated depreciation	(63,954,339)	(3,671,280)	3,243,401	(64,382,218)
Net capital assets	$ 75,337,353	2,449,181	(47,079)	77,739,455

(3) Capital Assets, Continued

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

(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 46% 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, 2018 and 2017.

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, 2018 and 2017, 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 $1,663,243 and $1,567,082 for the years ended March 31, 2018 and 2017, 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) - Pursuant to the Second Amendment of the Restated Lease between RIOC and Rivercross with an effective date of May 30, 2018 ("Effective Date"), the ground rent was reset to $2,500,000 ("Re-Set Ground Rent") per year effective as of March 27, 2014. As of April 1, 2022, and on each fifth anniversary of that date thereafter, the Re-Set Ground Rent will increase by 10%. The amount earned through March 31, 2018 net of previous billings was $9,883,343. Of this amount, $4,816,438 will be paid in fifteen (15) equal annual installments of principal, together with interest thereon from the Effective Date at the rate of four percent (4%) per annum, commencing on the first anniversary of the Effective Date, and on each anniversary of such date in subsequent years

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(g) Unearned revenue. Ground rents earned for Building #1-7 totaled $2,546,358 and $2,480,333 for the years ended March 31 2018 and 2017, 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, 2017, Hudson Related Retail LLC invested $3,250,807 and incurred a loss of ($51,137).

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

(c) Commercial Rent, Continued

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.

(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 $4,205,271 and $5,235,538 for the years ended March 31, 2018 and 2017, 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 $1,971,791 and $1,993,429 for the years ended March 31, 2018 and 2017, 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 $2,081,629 and $2,124,315 for the years ended March 31, 2018 and 2017, respectively.

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

(f) Transportation and Parking Fees, Continued

Transportation revenues from the provision of bus services totaled $122,915 and $121,129 for the years ended March 31, 2018 and 2017, respectively. The cost of running the bus service totaled $1,587,116 and $1,661,266 for the same respective periods. Additionally, revenues from street parking meters for these periods totaled $338,758 and $363,277, 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.

(h) De-designation Fee Income

The Development Agreement for Southtown buildings (“Buildings”) seven (7) through nine (9) between the Hudson Companies and the Related Companies (“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, 2018, to be renewed annually. The Building 7 Lease was closed on October 10, 2013 and construction was completed on September 21, 2015. The Leases for Buildings 8 and 9 have been negotiated and were to have closed in December 2017 - a timeline that was necessary for Hudson Related to satisfy all the necessary requirements of New York City programs providing additional financial support to the majority of the contemplated affordable housing units. However, the closing was delayed in anticipation of the new federal tax bill that passed in late December of last year. RIOC anticipates that the lease closings on both buildings are expected during the third quarter 2018.

(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
2019	$ 14,337,510	1,644,241
2020	15,673,172	1,673,872
2021	16,407,099	1,710,451
2022	17,269,880	1,760,246
2023	17,756,242	1,792,023
Total	$ 81,443,903	8,580,833

(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.

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.

(7) Retirement Plans, Continued

(a) Non-Union Employees, Continued

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.

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, 2016	$ 480,350
March 31, 2017	$ 465,927
March 31, 2018	$ 459,071

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 $230,226 and $256,767 for the years ended March 31, 2018 and 2017, respectively, to union employees' defined contribution plans.

(7) Retirement Plans, Continued

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

At March 31, 2018 and 2017, the Corporation reported the following liability for its proportionate share of the net pension liability for ERS which were measured as of March 31, 2017 and 2016, 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.

Measurement valuation date	3/31/2017	3/31/2016
Net pension liability	$1,137,738	1,848,752
Corporation's proportion of the Plan's net pension liability	0.0121085%	0.0115185%

For the years ended March 31, 2018 and 2017, the Corporation recognized pension expense of $640,501 and $641,720, respectively, for ERS. At March 31, 2018 the Corporation's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 28,511	172,772	9,342	219,139
Changes of assumptions	388,693	-	493,007	-
Net difference between projected and actual earnings on pension plan investments	227,252	-	1,096,781	-
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	19,207	39,959	-	43,471
Corporation's contributions subsequent to the measurement date	459,071	-	465,927	-
Total	$ 1,122,734	212,731	2,065,057	262,610

(7) Retirement Plans, Continued

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

Corporation contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending March 31, 2019. 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
2018	$ 204,130
2019	204,130
2020	193,100
2021	(150,428)
2022	-
Thereafter	-

(d) Actuarial Assumptions

The total pension liability as of the March 31, 2017 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, 2017
Actuarial valuation date	April 1, 2016
Investment rate of return, including inflation rate	7% compounded annually, net of expenses
Salary scale	3.8%
Decrement tables	April 1, 2010 - March 31, 2015 System’s Experience
Inflation rate	2.5%
Mortality improvement	Society of Actuaries Scale MP-2014

(7) Retirement Plans, Continued

(d) Actuarial Assumptions, Continued

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. The target allocation and 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, 2017	
	Target allocation	Long-term expected real rate of return
Asset type:		
Domestic equity	36.00%	4.55%
International equity	14.00%	6.35%
Private equity	10.00%	7.75%
Real estate	10.00%	5.80%
Absolute return strategies	2.00%	4.00%
Opportunistic portfolio	3.00%	5.89%
Real assets	3.00%	5.54%
Bonds and mortgages	17.00%	1.31%
Cash	1.00%	(0.25%)
Inflation - indexed bonds	4.00%	1.50%

The real rate of return is net of the long-term inflation assumption of 2.50%.

(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 determined. Based upon these 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.

(7) Retirement Plans, Continued

(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)	$ 3,633,709	1,137,738	(972,601)

(g) Pension Plan Fiduciary Net Position

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

	(Dollars in Millions)	
Valuation date	3/31/2017	3/31/2016
Employers' total pension liability	$ 177,400	172,303
Plan fiduciary net position	(168,004)	(156,253)
Employers' net pension liability	$ 9,396	16,050
System fiduciary net position as a percentage of total pension liability	94.7%	90.7%

(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, 2018 and 2017 represent the projected employer contribution for the period of April 1, 2017 through March 31, 2018 and April 1, 2016 through March 31, 2017, 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, 2018 were appropriately increased to provide adequate protection for RIOC as follows:

(8) Risk Management, Continued

Coverages	2018-2019 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, 2018 and 2017 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, 2018 and 2017 were approximately $132,694 and $118,484, 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 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, 2018 and 2017 amounted to $803,398 and $774,318, respectively. At March 31, 2018, the liability for active and retired employees included in non-current accrued fringe benefits amounted to $5,158,666.

The number of participants as of February 1, 2018 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	2018	2017
Actuarial accrued liability (AAL):		
Actuarial accrued liability	$ 8,736,691	7,862,519
Less: Actuarial value of assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 8,736,691	7,862,519
Normal cost plus amortization of unfunded liability	$ 817,820	786,573
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 817,820	786,573
Interest on net OPEB obligation	180,416	153,321
Adjustment to annual required contribution	(194,838)	(165,576)
Annual OPEB cost (expense)	803,398	774,318
Contribution made on a pay-as-you-go basis	(155,136)	(96,927)
Increase in net OPEB obligation	648,262	677,391
Net OPEB obligation at beginning of year	4,510,404	3,833,013
Net OPEB obligation at end of year	$ 5,158,666	4,510,404

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

Healthcare cost trend:

Year	Medical Trend Rate
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) Accounting Standards Issued But Not Yet Implemented

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. 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.

GASB Statement No. 87 - "Leases." This Statement, issued in June 2017, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019, which is the fiscal year beginning April 1, 2020 for the Corporation. Management is in 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. 88 - "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This Statement, issued in April of 2018, requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions 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 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

	Actuarial					
Valuation Date	Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
February 1, 2018	$ -	8,736,691	8,736,691	0%	3,494,884	249.98%
February 1, 2017	-	7,862,519	7,862,519	0%	3,291,106	238.90%
October 23, 2015	-	6,860,975	6,860,975	0%	2,714,505	252.75%

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
Year ended March 31, 2018

NYSERS Pension Plan

	2018	2017	2016
Entity's proportion of the net pension liability	0.0121085%	0.0115185%	0.0115841%
Entity's proportionate share of the net pension liability	$1,137,738	$1,848,752	$ 391,340
Entity's covered payroll	$3,494,884	$3,291,106	$2,734,022
Entity's proportionate share of the net pension liability as a percentage of its covered - employee payroll	32.55%	56.17%	14.31%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.5%

* This schedule is presented to illustrate the requirements to show information for 10 years. However, information is presented for those years that are available.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Required Supplementary Information
Schedule of Entity's Employer Pension Contributions
Year ended March 31, 2018

NYSERS Pension Plan

	2018	2017	2016	2015	2014	2013
Contractually required contribution	$ 459,071	465,927	480,350	516,769	540,970	583,380
Contributions in relation to the contractually required contribution	459,071	465,927	480,350	516,769	540,970	583,380
Contribution deficiency (excess)	$ -	-	-	-	-	-
Entity's covered employee payroll	$ 3,494,884	3,291,106	2,734,023	2,665,135	2,662,409	2,906,547
Contributions as a percentage of covered employee payroll	13.14%	14.16%	17.57%	19.39%	20.32%	20.07%

* This schedule is presented to illustrate the requirements to show information for 10 years. However, information is presented for those years that are available.

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, 2018

	Total General Fund	General Fund: Operations	Public Safety	Transportation	Parking	Parks/Rec.	Tram	Public purpose fund	Capital fund	Reserved fund	Total
Revenue:											
Residential fees	$ 573,235	573,235	-	-	-	-	-	-	710,522	313,446	1,597,203
Ground rent	20,734,048	20,734,048	-	-	-	-	-	-	400,000	-	21,134,048
Commercial rent	1,616,027	1,616,027	-	-	-	-	-	-	-	-	1,616,027
Tramway revenue	4,205,271	-	-	-	-	-	4,205,271	-	-	-	4,205,271
Public safety reimbursement	1,971,791	-	1,971,791	-	-	-	-	-	-	-	1,971,791
Transportation and parking	2,543,302	-	-	122,915	2,420,387	-	-	-	-	-	2,543,302
Interest income	39,271	39,271	-	-	-	-	-	-	3,777	120,106	163,154
Unrealized loss	-	-	-	-	-	-	-	-	(29,384)	-	(29,384)
Other revenue	1,146,302	384,808	-	-	-	761,494	-	-	-	-	1,146,302
Total revenue	32,829,247	23,347,389	1,971,791	122,915	2,420,387	761,494	4,205,271	-	1,084,915	433,552	34,347,714
Expenses:											
Personal services:											
Salaries	7,953,658	4,058,068	2,180,874	947,714	-	767,002	-	-	-	-	7,953,658
Temporary employees	138,517	120,614	-	-	-	17,903	-	-	-	-	138,517
Employee benefits	4,346,930	2,795,953	903,581	351,477	-	295,919	-	-	-	-	4,346,930
Compensated absences	83,811	83,811	-	-	-	-	-	-	-	-	83,811
Total personal services	12,522,916	7,058,446	3,084,455	1,299,191	-	1,080,824	-	-	-	-	12,522,916
Other than personal services:											
Insurance	1,851,010	1,668,377	-	-	-	-	182,633	-	-	-	1,851,010
Professional services	774,627	649,724	-	-	-	124,353	550	-	-	-	774,627
Management fees	4,991,085	-	-	-	843,043	-	4,148,042	-	-	-	4,991,085
Legal services	448,695	448,695	-	-	-	-	-	-	-	-	448,695
Telecommunications	137,156	137,156	-	-	-	-	-	-	-	-	137,156
Island improvements/capital plan	139,694	139,694	-	-	-	-	-	-	-	-	139,694
Repairs and maintenance	369,581	310,911	3,668	16,991	8,571	36,880	(7,440)	-	-	-	369,581
Vehicles maintenance	246,305	58,105	9,899	178,276	-	25	-	-	-	-	246,305
Equipment purchases/lease	162,442	150,141	662	7,562	-	3,279	798	-	-	-	162,442
Supplies/services	1,090,289	538,913	50,839	81,821	46,799	210,383	161,534	-	-	-	1,090,289
Other expenses	220,711	108,940	9,338	3,275	-	99,158	-	311,457	-	-	532,168
Total other than personal services	10,431,595	4,210,656	74,406	287,925	898,413	474,078	4,486,117	311,457	-	-	10,743,052
Total operating expenses, excluding depreciation	22,954,511	11,269,102	3,158,861	1,587,116	898,413	1,554,902	4,486,117	311,457	-	-	23,265,968
Operating income (loss) before depreciation	9,874,736	12,078,287	(1,187,070)	(1,464,201)	1,521,974	(793,408)	(280,846)	(311,457)	1,084,915	433,552	11,081,746
Depreciation expense	-	-	-	-	-	-	-	-	(3,671,280)	-	(3,671,280)
Operating income (loss)	$ 9,874,736	12,078,287	(1,187,070)	(1,464,201)	1,521,974	(793,408)	(280,846)	(311,457)	(2,586,365)	433,552	7,410,466

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

	Total General Fund	General Fund						Public purpose fund	Capital fund	Reserved fund	Total
		Operations	Public Safety	Transportation	Parking	Parks/Rec.	Tram				
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
Budget Variance Report
For the year ended March 31, 2018

	Actual	Budget	Favorable (Unfavorable) Variance	Percent
Revenue:				
Residential fees	$ 1,597,203	2,017,000	(419,797)	-21%
Ground rent	21,134,048	12,124,000	9,010,048	74%
Commercial rent	1,616,027	1,615,000	1,027	0%
Tramway revenue	4,205,271	5,715,000	(1,509,729)	-26%
Public safety reimbursement	1,971,791	1,958,000	13,791	1%
Transport/parking revenue	2,543,302	2,645,000	(101,698)	-4%
Interest income	163,154	106,000	57,154	54%
Unrealized loss	(29,384)	-	(29,384)	0%
Other revenue	1,146,302	1,789,000	(642,698)	-36%
Total revenue	34,347,714	27,969,000	6,378,714	23%
Expenses:				
Personal services (PS) :				
Salaries	7,569,544	8,329,477	759,933	9%
Salaries OT	384,114	343,000	(41,114)	-12%
Temporary employees	138,517	166,000	27,483	17%
Workers compensation and disability	221,235	352,391	131,156	37%
ER payroll taxes	686,882	730,192	43,310	6%
Health insurance	1,610,045	1,877,607	267,562	14%
Dental/vision	86,519	85,862	(657)	-1%
Pension	870,727	1,123,010	252,283	22%
Other employee benefits	871,522	383,438	(488,084)	-127%
Compensated absences expenses	83,811	-	(83,811)	-100%
Total personal services (PS)	12,522,916	13,390,977	868,061	6%
Other than personal services (OTPS) :				
Insurance	1,851,010	1,831,000	(20,010)	-1%
Professional services	753,974	1,156,917	402,943	35%
Marketing/advertising	20,653	25,500	4,847	19%
Management fees	4,991,085	4,550,000	(441,085)	-10%
Legal services	448,695	555,000	106,305	19%
Telecommunications	137,156	137,200	44	0%
Island improvements - capital plan	139,694	207,000	67,306	33%
Repairs and maintenance	239,928	317,000	77,072	24%
Repairs and maintenance equipment	49,825	31,000	(18,825)	-61%
Other repairs and maintenance	79,828	90,000	10,172	11%

(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	Favorable (Unfavorable) Percent
Expenses, Continued:				
Other than personal services (OTPS), continued:				
Vehicles gas	$ 122,899	127,500	4,601	4%
Vehicles repair and maintenance	104,125	110,000	5,875	5%
Vehicles parts	19,281	32,000	12,719	40%
Equipment lease	27,531	23,000	(4,531)	-20%
Office equipment purchase	21,075	15,000	(6,075)	-41%
Equipment purchases	64,377	21,500	(42,877)	-199%
Other equipment purchases	49,459	1,000	(48,459)	-4846%
Exterminator	4,708	13,500	8,792	65%
Uniforms	49,239	64,500	15,261	24%
Light, power, heat	658,445	780,000	121,555	16%
Water and sewer	33,607	27,000	(6,607)	-24%
Office supplies	30,157	18,400	(11,757)	-64%
Parts and supplies	250,683	211,600	(39,083)	-18%
Service maintenance agreement	63,450	108,055	44,605	41%
Employee travel and meal	7,391	10,400	3,009	29%
Employee training	25,291	50,000	24,709	49%
Shipping	18,447	17,650	(797)	-5%
Subscriptions/membership	17,922	23,600	5,678	24%
Other expenses	362,165	603,950	241,785	40%
Island events - community relations	100,952	86,000	(14,952)	-17%
Total other than personal services (OTPS)	10,743,052	11,245,272	502,220	4%
Total expenses	23,265,968	24,636,249	1,370,281	6%
Operating income before depreciation	11,081,746	3,332,751	7,748,995	233%
Depreciation expense	(3,671,280)	(3,991,106)	(319,826)	8%
Net surplus (deficit)	$ 7,410,466	(658,355)	8,068,821	1226%

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

	Actual	Budget	Favorable (Unfavorable) Variance	Favorable (Unfavorable) 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

	Actual	Budget	Favorable (Unfavorable) Variance	Favorable (Unfavorable) 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%

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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, 2018, and the related notes to financial statements, which collectively comprise RIOC's basic financial statements, and have issued our report thereon dated June 12, 2018.

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 12, 2018

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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 New York State public benefit corporation, compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York (Section 201.3) during the year ended March 31, 2018. Management is responsible for RIOC's compliance with Section 201.3. Our responsibility is to express an opinion on RIOC's compliance with Section 201.3 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about RIOC's compliance with Section 201.3. An examination involves performing procedures to obtain evidence about RIOC's compliance with Section 201.3. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of RIOC's compliance with Section 201.3, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the RIOC complied in all material respects with Section 201.3 during the year ended March 31, 2018.

In accordance with Government Auditing Standards, we are required to report significant deficiencies in internal control, violations of provisions of laws, regulations, contracts, or grant agreements, and abuse that are material to RIOC's compliance with Section 201.3 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 RIOC's compliance with Section 201.3 and not for the purpose of expressing an opinion on internal control over compliance with Section 201.3 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 12, 2018

EFPR GROUP, CPAs PLLC

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June 12, 2018

CONFIDENTIAL

The Board of Directors
Roosevelt Island Operating Corporation

Dear Board Members:

We have completed our audit of the financial statements of the Roosevelt Island Operating Corporation (RIOC) for the year ended March 31, 2018. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. This report is intended solely for the information and use of the Board of Directors, management and others within RIOC. We now present for your consideration our comments and recommendations based upon observations made during our audit.

Uniform Guidance Procurement Requirements

RIOC will begin receiving substantial Federal assistance that requires changes in its procurement policies and procedures. These policy changes are in effect beginning with the fiscal year commencing April 1, 2018.

In December 2013, the US Office of Management and Budget (OMB) issued comprehensive grant reform rules titled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.” With that issuance, there were important updates made to specific areas of Uniform Guidance. Procurement is one of the areas that had significant changes. For all non-Federal entities, the implementation date for the procurement standards 2 CFR 200.317 through 200.326 will start for fiscal years beginning on or after December 26, 2017.

Some of the general standards over procurement include:

- Every non-federal entity receiving federal awards must have documented procurement procedures that reflect federal law, Uniform Guidance standards, and any state regulations.

- Entities should focus on the most economical solution during the procurement process, and must avoid using federal funds for the acquisition of unnecessary items. Organizations are encouraged to consider the use of shared services and intergovernmental agreements to foster greater economy and efficiency.
- Written conflict-of-interest policies are required. No employee or agent of the entity may participate in the selection, award, or administration of a contract funded by federal grant dollars if he or she has an actual or apparent conflict of interest.
- The organization must document the procurement steps and activities required to be completed. This includes the basis for the type of procurement, contract type, and the basis for the contractor selection and price.
- Ultimately, the recipient of federal awards must maintain an appropriate level of oversight to ensure that contractors perform in accordance with the terms of their contract.

The Uniform Guidance also requires full and open competition. Contractors who assist in drafting specifications for requests for proposals (RFP) must be excluded from competing for those opportunities. In addition, RFP specifications cannot have unreasonable requirements that are meant to limit competition. Also, procurements must be conducted in a manner that prohibits the use of geographical preferences in the evaluation of proposals, except in certain case where federal law explicitly requires or encourages geographic preference or when contracting for architectural and engineering services, provided that specifying geographic location leaves an appropriate number of qualified firms.

The Uniform Guidance outlines five methods of procurement:

- Micro-purchase: Purchases where the aggregate dollar amount does not exceed $3,000 (or $2,000 if the procurement is construction and subject to Davis-Bacon). When practical, the entity should distribute micro-purchases equitably among qualified suppliers. No competitive quotes are required if management determines that the price is reasonable.
- Small purchase: Includes purchases up to the Simplified Acquisition threshold, which is currently $150,000. Informal purchasing procedures are acceptable, but price or rate quotes must be obtained from an adequate number of sources.
- Sealed bids: Used for purchases over the Simplified Acquisition Threshold, which is currently $150,000. Under this purchase method, formal solicitation is required, and the fixed price (lump sum or unit price) is awarded to the responsible bidder who conformed to all material terms and is the lowest in price. This method is the most common procurement method for construction contracts.

- Competitive proposals: Used for purchases over the Simplified Acquisition Threshold, which is currently $150,000. This procurement method requires formal solicitation, fixed-price or cost-reimbursement contracts, and is used when sealed bids are not appropriate. The contract should be awarded to the responsible firm whose proposal is most advantageous to the program, with price being one of the various factors.
- Noncompetitive proposals: Also known as sole-source procurement, this may be appropriate only when specific criteria are met. Examples include when an item is available only from one source, when a public emergency does not allow for the time of the competitive proposal process, when the federal awarding agency authorizes, or after a number of attempts at a competitive process, the competition is deemed inadequate.

We recommend that RIOC review its procurement practices to ensure that contracts are in compliance with these rules. While we have outlined many of the key requirements above, it is important to fully read the procurement sections of the Uniform Guidance, located at 2 CFR 200.317 through 200.326, to ensure compliance.

Previous Recommendation

We reviewed the disposition of recommendations included in our letter dated June 8, 2017. The following is a summary of the action taken by RIOC with regard to our recommendations.

Information Technology Concerns

Data Recovery - RIOC implemented a short-term solution and continues to research a Disaster Recovery solution that will best meet the needs of the Corporation.

Cyber Security - RIOC has reviewed and adapted the several Cyber Policies based on NYS ITS Security Policies. Copies of these policies can be found on the Corporation's file server.

Disaster Recovery and Business Continuity - RIOC is researching the Technology portion of Business Continuity that includes:

- Data protection - offsite backup storage or cloud base solutions.
- Provide reliable network that never fails with comprehensive planning, development and testing.
- Disaster/Recovery plan to ensure recovery of data within the timeframe of the plan.

* * * * *

We take this opportunity to thank the staff of the Roosevelt Island Operating Corporation for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

EFPR GROUP, CPAs, PLLC

Douglas E. Zimmerman, CPA
Partner
Chief Operating Officer