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

Basic Financial Statements,
Supplementary Information and
Independent Auditors' Report

March 31, 2019 and 2018

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, 2019 and 2018, and the related notes to financial statements, which collectively comprise RIOC's basic 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 financial position of Roosevelt Island Operating Corporation as of March 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

As discussed in note 2(b) to the financial statements, RIOC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," during the year ended March 31, 2019. Our opinion is not modified with respect to this matter.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14 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 18, 2019, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RIOC's 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 18, 2019

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

Management's Discussion and Analysis

March 31, 2019

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, 2019 and 2018, 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, 2019 and 2018 and the percentage changes between March 31, 2019 and 2018:

| | 2019 | 2018 | % Change |
|---|---|---|---|
| Current and other assets | $ 82,169,128 | 73,637,656 | 12% |
| Long-term receivables | 4,679,452 | 4,816,438 | (3%) |
| Capital assets, net | 92,971,424 | 77,739,455 | 20% |
| Total assets | 179,820,004 | 156,193,549 | 15% |
| Deferred outflows of resources | 1,629,022 | 1,122,734 | 45% |
| Liabilities | 51,147,881 | 45,405,669 | 13% |
| Deferred inflows of resources | 3,135,017 | 212,731 | 1374% |
| Net position: | | | |
| Net investment in capital assets | 92,971,424 | 77,739,455 | 20% |
| Restricted for capital projects | 30,622,724 | 16,829,640 | 82% |
| Unrestricted | 3,571,980 | 17,128,788 | (79%) |
| Total net position | $ 127,166,128 | 111,697,883 | 14% |

On RIOC's Statement of Net Position at March 31, 2019 total assets of $179,820,004 and deferred outflow of resources of $1,629,022 exceeded total liabilities of $51,147,881 and deferred inflows of resources of $3,135,017 by $127,166,128 (total net position). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling $92,971,424, noncurrent assets totaling $14,710,876, cash and cash equivalents totaling $70,729,097 and other assets of $1,408,607. Liabilities are comprised of accounts payable and accrued expenses of $2,725,534, compensated absences of $770,317, unearned revenues of $35,977,989 (prepaid rents), total (OPEB) liability of $11,255,264, and other liabilities totaling $418,777. 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, $30,622,724 is available to be used to meet ongoing capital obligations. Additionally, $3,571,980 is available for ongoing operational expenses.

Total assets increased by $23,626,455 or 15%. This was mainly due to the receipt of $25,028,000 from NYS for surrendering 2.62 acres of land to Cornell/Technion Applied Sciences Graduate School ("Cornell") on December 21, 2018.

Increases in the deferred outflows of resources in the amount of $506,288 or 45% and deferred inflows of resources in the amount of $2,922,286 or 1374% 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," GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," and GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." See notes 2(k) for additional information and 7(c-h) for the financial statement impact of compliance on the financial statements for pensions; and notes 10 and 13 for OPEB.

The Corporation implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," effective for its fiscal year beginning April 1, 2018. As a result, the net position as of April 1, 2018 was restated. See notes 10 and 13 for additional information.

## 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 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, 2019 were $53,346,507. For the fiscal year ended March 31, 2019, operating revenues increased by $18,998,793 or 55% over the last fiscal year. This was mainly due to an increase in ground rent revenue of $17,852,177. The increase was mainly due to a one-time receipt of $25,028,000 from NYS for surrendering 2.62 acres of land to Cornell offset by a one-time receipt of $9,883,343 from the settlement with Rivercross for exiting Mitchell-Lama in FY 17-18 that did not occur in FY 18-19.

RIOC's total expenses for the fiscal year ended March 31, 2019 were $30,574,250 and $26,937,248 for the last fiscal year ended March 31, 2018, including depreciation of $4,159,719 and $3,671,280, respectively. For fiscal year ended March 31, 2019, total operating expenses before depreciation increased by $3,148,536 or 14% over the last fiscal year. This was mainly due to increases in personal services of $1,045,466, professional and legal services of $621,381, management fees of $237,891, repairs and maintenance of $761,266 and supplies/services of $249,575.

The following summarizes RIOC's change in net position for the fiscal years ended March 31, 2019 and 2018:

| | 2019 | 2018 | % Change |
|---|---|---|---|
| Operating revenues: | | | |
| Residential fees | $ 1,963,911 | 1,597,203 | 23% |
| Ground rent | 38,986,225 | 21,134,048 | 84% |
| Commercial rent | 1,602,508 | 1,616,027 | (1%) |
| Tramway revenue | 4,443,715 | 4,205,271 | 6% |
| Public safety reimbursement | 2,031,810 | 1,971,791 | 3% |
| Transport/parking revenue | 2,462,039 | 2,543,302 | (3%) |
| Interest income | 561,359 | 163,154 | 244% |
| Unrealized loss | (7,410) | (29,384) | 75% |
| Other revenues | 1,302,350 | 1,146,302 | 14% |
| Total operating revenues | 53,346,507 | 34,347,714 | 55% |
| Operating expenses: | | | |
| Personal services | 13,568,382 | 12,522,916 | 8% |
| Insurance | 1,886,341 | 1,851,010 | 2% |
| Professional services and legal services | 1,844,703 | 1,223,322 | 51% |
| Management fees | 5,228,976 | 4,991,085 | 5% |
| Telecommunications | 184,108 | 137,156 | 34% |
| Repairs and maintenance | 1,270,541 | 509,275 | 149% |
| Vehicles maintenance | 338,077 | 246,305 | 37% |
| Equipment purchases/lease | 145,932 | 162,442 | (10%) |
| Supplies/services | 1,339,864 | 1,090,289 | 23% |
| Other expenses | 607,607 | 532,168 | 14% |
| Total operating expenses, excluding depreciation | 26,414,531 | 23,265,968 | 14% |
| Operating income before depreciation | 26,931,976 | 11,081,746 | 143% |
| Depreciation expense | (4,159,719) | (3,671,280) | 13% |
| Change in net position | 22,772,257 | 7,410,466 | 207% |
| Net position at beginning of year, as originally stated | 111,697,883 | 104,287,417 | 7% |
| Cumulative effect of change in accounting principle | (7,304,012) | - | 100% |
| Net position at beginning of year, restated | 104,393,871 | 104,287,417 | |
| Total net position, end of year | $ 127,166,128 | 111,697,883 | 14% |

## CAPITAL ASSETS

The following summarizes RIOC's net capital assets for the fiscal years ended March 31, 2019 and 2018 and the percentage change between fiscal years:

| | 2019 | 2018 | % Change |
|---|---|---|---|
| Seawall | $ 9,407,192 | 3,396,261 | 64% |
| Buildings | 20,218,443 | 20,310,134 | 0% |
| Landmarks | 8,600,275 | 6,643,207 | 23% |
| Vehicles and equipment | 2,958,417 | 2,301,593 | 22% |
| Infrastructure | 51,388,913 | 45,002,863 | 12% |
| Leasehold improvements | 398,184 | 85,397 | 79% |
| Total capital assets, net | $ 92,971,424 | 77,739,455 | 16% |

The capital assets of $92,971,424 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of $15,231,969 from the prior year is comprised of the addition of new capital assets of $19,399,098, which are part of RIOC's approved ten-year Capital Plan, offset by annual depreciation of $4,159,719, and the disposition of old capital assets in the amount of $33,828 with the corresponding accumulated depreciation on assets disposed of $26,418. Total depreciation expense for all capital assets amounted to $4,159,719 and $3,671,280 for the years ended March 31, 2019 and 2018, 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 $92,971,424 and $77,739,455 at March 31, 2019 and 2018, respectively, do not include an amount for two infrastructure items: (1) the bulk of the seawall; and (2) Main Street (the road). Pursuant to the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, addressing the capitalization of infrastructure assets, infrastructure assets dating from prior to 1980 are not required to be recognized. However, improvements to such infrastructure items are disclosed.

## ECONOMIC FACTORS AFFECTING RIOC'S FUTURE FINANCIAL POSITION

Seven (7) of the anticipated nine (9) buildings (collectively, the "Buildings") of the Southtown Development Project have been completed. The Lease for Building 8 ("Ground Lease") was executed as of December 26, 2018 ("Commencement Date"). From the Commencement Date to the earlier of (i) the date upon which one or more Temporary Certificates of Occupancy is issued by the New York City Department of Buildings for at least ninety percent (90%) of the Units in Building 8, or (ii) the second (2$^{nd}$) anniversary of the Commencement Date, Construction Period Ground Rent shall be payable at the rate of $24,000 monthly ($288,000 annually). The earlier of (i) or (ii) in the preceding sentence is the Rent Commencement Date ('RCD").

Commencing on the RCD, currently projected to be in December of 2020, Ground Rent shall be $576,000 annually, which shall increase by 3% annually and be re-set, as set forth in the Ground Lease. In addition, Developer shall pay to RIOC a Specified Rental Payment of $16,800,000, which is due on the Rent Commencement Date. Building 9 Lease closing shall occur no later than 30 months after the Building 8 Lease Closing. Should closing fail to occur within the expected timeframe, RIOC is protected by a Letter of Credit in the amount of $2,438,400.

On July 26, 2018, the ground lease with NORTH TOWN PHASE III HOUSES, INC ("Westview") was amended to: (1) extend the term through December 22, 2068; and (2) document the exit from the Mitchell Lama program in exchange for Westview to be maintained as an affordable housing complex for a period of 30 years pursuant to an Affordability Plan. The Affordability Plan provides that for the next 30 years at least 55% of the 361 residential units, (i.e. at least 199 units) will either be affordable restricted price cooperative apartments or affordable rental units. The existing ground rent with respect to the Residential Portion in the amount of $70,681 per annum remains in effect until the First Ground Rent Adjustment Date. Commencing as of the First Ground Rent Adjustment Date and continuing through and including the day preceding the fifth anniversary of the First Ground Rent Adjustment Date, the Ground Rent shall be $325,000 per annum, and would increase by 10% every 5 years during the 30-year affordable period, and thereafter at 4% per year. As used herein, the term "First Ground Rent Adjustment Date" means the later of (a) the first day of the Project's fiscal year immediately following the Master Cooperative Closing (provided the Master Cooperative Closing shall occur within three years of the date of this Fourth Amendment), or (b) the date of this Fourth Amendment, if the Master Cooperative Closing does not occur within three years of the date of this Fourth Amendment. If the Master Cooperative Closing occurs more than three years after the date of this Fourth Amendment, then the difference between the ground rent payable on the First Ground Rent Adjustment Date and the existing ground rent for the period between the date of this Fourth Amendment and the Master Cooperative Closing shall be paid to RIOC in twenty-four equal installments, commencing on the first day of the first month following the Master Cooperative Closing.

As of March 27, 2014 ("Withdrawal Date"), Rivercross Tenants Corp. 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 ("Second Amendment"), with an effective date of May 30, 2018 ("Effective Date"). Pursuant to the Second Amendment, the ground rent was reset to $2,500,000 ("Re-Set Ground Rent") per year as of the Withdrawal Date. As of April 1, 2022, and on each fifth anniversary of that date thereafter, the Re-Set Ground Rent will increase by 10%. On the Effective Date, a settlement in the amount of $10,287,489 ("Settlement Amount") was made for the underpayment of ground rent during the period from the Withdrawal Date to the Effective Date. $5,273,791 of the Settlement Amount was paid on the Effective Date and the remaining $5,013,698 was recorded as long-term receivable and 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.

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. On March 1, 2017, following the issuance of a Request for Proposal ("RFP") 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 ("OM") of the Tram at a fixed cost of $21,767,456 for 5 years. Upon expiration of the 5-year term, there will be new negotiations for the optional five-year renewal. 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. The cost of the long-term repairs or overhauls are additional expenses that RIOC is responsible for and are approved in advance on an annual basis and included in RIOC's approved ten-year Capital Plan.

In addition to securing the above agreement with Leitner-Poma, on February 1, 2018, RIOC entered into an 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 that are contemporaneous with Leitner-Poma's OM contract (along with up to five optional one-year renewals); and the fees are at an hourly rate ranging from $180 to $260 with a minimum annual cost of $50,000. For the fiscal year ending March 31, 2019, the cost was $66,000.

In February 2019, RIOC completed necessary repairs to the Tram platforms at a cost of $2.4 million. 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. This work was part of RIOC's approved ten-year Capital Plan and its cost was provided through RIOC's working capital.

During the fiscal year ended March 31, 2019, total ridership on the Tram increased to 2,255,324 from 2,141,493 and Tramway revenues increased by $238,444 or 5% over the prior fiscal year ended March 31, 2018. The increase in ridership is attributed to the completion of the new Tram platforms and return to full service. However, the ridership is yet to reach full capacity due to reduced service for replacement of the Tram's cabin load cells and overhaul of the Tram's ropes and gear boxes; the availability of the New York City Ferry that now offers ferry service from Roosevelt Island to other shore points around Manhattan and Queens; and direct F subway train connections offered by the opening of the new 2$^{nd}$ Avenue subway line. The cost and revenue of the Tram were $4,689,332 and $4,443,715, respectively. The Tram's rope was replaced during the period February 11$^{th}$ to March 20$^{th}$ 2019. This was part of RIOC's approved ten-year Capital Plan and its cost was provided through RIOC's working capital.

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, handicap accessible, glass elevator, which will replace the existing elevator, and subsequently issued an RFP for construction bids. RIOC entered into contract with a qualified general contractor to execute this project on December 5, 2017. The new elevators will have an all glass façade improving the appearance and the functionality of the station. Mobilization for construction began in May 2018 and the work was anticipated to be completed in February 2020. The estimated cost of this project is $6.9 million dollars. However, the project has been delayed due to site conditions related to soil composition and is now expected to be completed by Fall 2020. Additionally, RIOC has received a delay claim from the general contractor, which could potentially increase the final cost of the project. RIOC is currently evaluating the details of the claim. This project is part of RIOC's approved ten-year Capital Plan and its cost will be provided from RIOC's working capital.

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 received 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. The Agreement was amended on September 30, 2018 due to the expiration and non-renewal of the Westview Commercial Sublease ("Sublease") on July 24, 2018, and the removal of Sublease commercial space from the Agreement. Thus, on July 25, 2018, the compounded annual guaranteed rent of $1,023,507 was reduced to $910,746.

In addition, RIOC paid HRR $329,846 for the unamortized cost of Initial Capital Improvements and subsequent alterations to the commercial space under the Sublease, and Retail Brokerage Fees incurred by HRR in marketing and leasing such commercial space. 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, 2018, Hudson Related Retail LLC invested $3,282,606 and made a gain of $657,205. 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 payment.

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"). Because 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 because 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. RIOC received the full payment in the amount of $25,028,000 in December 2018. In addition, Cornell pays RIOC $400,000 annually for 55 years, (increasing by 2% every 10 years) for the parcel of land that it received.

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 projects, are not required to be proposed before 2027.

RIOC is in the design phase to continue the renovation of the Sport Park facility. Renovations will overhaul the HVAC system, improve and repair other critical systems, improve the men's and women's locker rooms and bathrooms, and replace the windows and doors. The design phase of this renovation project is expected be completed by the end of 2019 and the construction phase by Fall 2020 at an estimated total cost of $13 million dollars. The cost of this project will be funded through RIOC's working capital.

In March 2017, RIOC issued an RFP 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. 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. Following that procurement process, RIOC entered into a contract with the successful bidder to perform all necessary repairs including stabilizing and waterproofing the building's infrastructure, installing new windows, and ADA-compliant access ramps. The project reached substantial completion in February 2019 at a cost of $2.7 million dollars and was funded through RIOC's working capital.

In March 2017, RIOC issued an RFP for the first phase of enhancements at its Youth Center, located on Main Street. Construction for the first phase, which included replacement of the roof and terrace, was completed in October 2017. 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 systems. The scope of the project was expanded and, as a result, the original contract for the project was terminated; another RFP was issued in January 2019. The project is expected to resume in May 2019 and be completed by the end of the same year. The estimated cost for this project is $2.5 million dollars and will be funded through RIOC's working capital.

In September 2017, RIOC issued an RFP seeking bids to repair and restore the Helix Ramp including the main elevated platform at the top of the Helix. In February 2018, RIOC entered into a contract with the successful bidder to perform the work including spalling and concrete repairs 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 were also repaired or replaced. The project was completed in February 2019 at a cost of $4.7 million dollars and was funded through RIOC's working capital. The engineering firm that provided construction inspection and construction support services during construction has an outstanding claim of $220,000 for such services, which is currently under review.

On March 13, 2018, RIOC issued an RFP seeking bids for architectural design services for a dedicated Bike Ramp for bicyclists traveling between the Roosevelt Island Bridge and street level on the Island. On July 23, 2018, RIOC entered into contract with the successful bidder to provide the design services and collaborate on the project from design through construction.

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 $2,963,705 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. This project is expected to start in the Fall 2020 and be completed by the Fall 2022.

On April 24, 2019, New York State Department of Transportation awarded RIOC $5,000,000 for funding a Bike Lane. This is a reimbursement funding that will cover up to 80% of eligible cost. This project is in the planning phase.

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 design phase. RIOC estimates that the repairs will cost approximately $16 million dollars. The pro-rata shares of expenses to be incurred for the repair of approximately 100 linear feet of seawall breached during Hurricane Irene are eligible for reimbursement from FEMA at a Federal share of 75% of eligible cost. The application for FEMA reimbursement expired in December 2018. An application for extension through January 2020 is under consideration by FEMA. RIOC anticipates receiving $600,000 from FEMA. The balance of the cost will be provided through RIOC's working capital.

Design drawings for the Seawall Railings Replacement ("Railings") project were finalized and approved by all requisite agencies/entities in March 2017. Following those approvals, RIOC issued an RFP for the construction phase of the Railings project. RIOC entered into a contract with the successful bidder on December 8, 2017. The Railings, which span approximately 3.5 miles, is expected to be completed in August 2019. The total cost is currently estimated at $9.7 million dollars and will be provided through RIOC's working capital.

On February 7, 2019, RIOC issued an RFP 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.

RIOC entered into a contract for the first phase on April 8, 2019 for the replacement of the turf, which began in May 2019. Improvements to the facilities are in the design phase and are projected to go for bidding in June 2019. The project is expected to be completed by Fall 2019, at an estimated cost of $3.7 million dollars, which will be provided through RIOC's working capital.

On January 9, 2019, RIOC issued an RFP seeking bids to renovate a section of the Motorgate structure. Motorgate is the central parking facility for Roosevelt Island residents. Renovation includes repair of spalled and delaminated concrete support beams inside the garage, repair of concrete deck and ceilings, including connecting joints, application of waterproofing system on parking deck, ramps, walkways, and curbs, removal and replacement of existing floor drains, and restriping of parking spaces, installation of electric charging stations, and installation of new directional signage. Bids were received on March 6, 2019 and the selection of the successful bidder was made in April 2019. The project is estimated to be completed in two phases: the 1st phase will occur from June through November 2019, and the 2nd phase will occur from April through October 2020 at a total cost of $20 million dollars, which will be provided through RIOC's working capital.

Roosevelt Island's Automated Vacuum Collection system ("AVAC") is a network of underground pneumatic tubes that connects every building to a central garbage collection station ("Terminal Station"). AVAC uses vacuum to pull garbage through these tubes and empties it into large containers for carting off the Island. AVAC, one of the first full-scale pneumatic installations in the world, is now in need of upgrading as its original equipment is near the end of its expected life. The upgrade includes electric work to restore the controls currently affecting daily service, upgrade of the control system and installation of new blowers in the Terminal Station, and new valves in existing buildings. ENVAC, the company that constructed AVAC has been maintaining the system for over 40 years. In November 2018, RIOC entered into a sole source contract with ENVAC to perform the upgrades at a cost of $2 million dollars, which will be provided through RIOC's working capital.

The Lighthouse, a historical landmark located at the northern tip of the Island, needs an overhaul to restore its interior and exterior. Also, there are two wooden bridges leading to the Lighthouse that have deteriorated and need to be replaced. The renovation of the Lighthouse is in the design phase and construction is estimated to commence in October 2019. Replacement of the wooden bridges commenced in April 2019 and was completed in May 2019. The total estimated cost for both projects is $2 million dollars, which will be provided through RIOC's working capital.

The Smallpox Hospital, another historical landmark located on the southern end of the Island, was the first major U.S. hospital dedicated to the care of victims of smallpox. It is now a ruin in need of stabilization and restoration.

With approval from RIOC, a stabilization study was done by the Four Freedoms Park Conservancy, operator of the Franklin D. Roosevelt Four Freedom Park, which is adjacent to the Smallpox Hospital. The stabilization study concluded in Schematic Design drawings detailing the structural needs of the ruin and an estimated cost to complete the restoration work is being evaluated. RIOC subsequently applied and received funding in the amount of $500,000 from New York State to complete the stabilization studies and prepare full construction documents. This is in progress with completion projected by May 2020 at a cost of $600,000. The balance of the cost will be provided through RIOC's working capital.

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 Health and Hospital Corporation ("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 a Memorandum of Understanding for this project and have agreed to collaborate on best options of constructing a berm around Coler Hospital. RIOC has no financial responsibility for the plan.

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. In consultation with NYC Office of Resiliency and Recovery, NYC Emergency Management is developing a design for flood protection at Coler Hospital. Measures are intended to mitigate storm surge flood risk using a combination of pre-deployed Hesco barriers and just in time features like an inflatable Tiger dam.

## 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, 2019 and 2018

| Assets | 2019 | 2018 |
|---|---|---|
| Current assets: | | |
| Cash | $ 4,406,746 | 4,356,629 |
| Short-term investments | 66,322,351 | 53,633,618 |
| Receivables | 1,009,220 | 5,595,896 |
| Prepaid expenses | 399,387 | 41,243 |
| Total current assets | 72,137,704 | 63,627,386 |
| Noncurrent investments | 10,031,424 | 10,010,270 |
| Long-term receivables | 4,679,452 | 4,816,438 |
| Capital assets, net of accumulated depreciation | 92,971,424 | 77,739,455 |
| Total assets | 179,820,004 | 156,193,549 |
| Deferred outflows of resources: | | |
| Pensions | 1,577,834 | 1,122,734 |
| OPEB | 51,188 | - |
| Total deferred outflows of resources | 1,629,022 | 1,122,734 |
| Liabilities | | |
| Current liabilities - accounts payable and accrued expenses | 2,725,534 | 1,674,289 |
| Compensated absences | 770,317 | 733,812 |
| Unearned revenue | 35,977,989 | 36,701,164 |
| Total OPEB liability | 11,255,264 | 5,158,666 |
| Net pension liability - proportionate share - ERS | 418,777 | 1,137,738 |
| Commitments and contingencies (note 9) | | |
| Total liabilities | 51,147,881 | 45,405,669 |
| Deferred inflows of resources: | | |
| Pensions | 1,390,917 | 212,731 |
| OPEB | 1,744,100 | - |
| Total deferred inflows of resources | 3,135,017 | 212,731 |
| Net position: | | |
| Net investment in capital assets | 92,971,424 | 77,739,455 |
| Restricted for capital projects | 30,622,724 | 16,829,640 |
| Unrestricted | 3,571,980 | 17,128,788 |
| Total net position | $ 127,166,128 | 111,697,883 |

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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Operating revenue: | | |
| Residential fees | $ 1,963,911 | 1,597,203 |
| Ground rent | 38,986,225 | 21,134,048 |
| Commercial rent | 1,602,508 | 1,616,027 |
| Tramway revenue | 4,443,715 | 4,205,271 |
| Public safety reimbursement | 2,031,810 | 1,971,791 |
| Transport/parking revenue | 2,462,039 | 2,543,302 |
| Interest income | 561,359 | 163,154 |
| Unrealized loss | (7,410) | (29,384) |
| Other revenue | 1,302,350 | 1,146,302 |
| Total operating revenue | 53,346,507 | 34,347,714 |
| Operating expenses: | | |
| Personal services | 13,568,382 | 12,522,916 |
| Insurance | 1,886,341 | 1,851,010 |
| Professional services and legal services | 1,844,703 | 1,223,322 |
| Management fees | 5,228,976 | 4,991,085 |
| Telecommunications | 184,108 | 137,156 |
| Repairs and maintenance | 1,270,541 | 509,275 |
| Vehicles maintenance | 338,077 | 246,305 |
| Equipment purchases/lease | 145,932 | 162,442 |
| Supplies/services | 1,339,864 | 1,090,289 |
| Other expenses | 607,607 | 532,168 |
| Total operating expenses, excluding depreciation | 26,414,531 | 23,265,968 |
| Operating income before depreciation | 26,931,976 | 11,081,746 |
| Depreciation expense | (4,159,719) | (3,671,280) |
| Change in net position | 22,772,257 | 7,410,466 |
| Net position at beginning of year, as originally stated | 111,697,883 | 104,287,417 |
| Cumulative effect of change in accounting principle (note 13) | (7,304,012) | - |
| Net position at beginning of year, restated | 104,393,871 | 104,287,417 |
| Net position at end of year | $ 127,166,128 | 111,697,883 |

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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from tenants and customers | $57,354,404 | 23,733,033 |
| Payments related to employees | (12,523,282) | (11,572,051) |
| Payments to vendors | (12,672,020) | (9,577,957) |
| Net cash provided by operating activities | 32,159,102 | 2,583,025 |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | (19,399,098) | (6,120,461) |
| Sale (purchase) of noncurrent investments | (12,688,733) | 3,207,838 |
| Sale of short-term investments | (21,154) | (21,149) |
| Net cash used in capital and related financing activities | (32,108,985) | (2,933,772) |
| Net change in cash | 50,117 | (350,747) |
| Cash at beginning of year | 4,356,629 | 4,707,376 |
| Cash at end of year | $ 4,406,746 | 4,356,629 |
| Cash flows from operating activities: | | |
| Change in net position | 22,772,257 | 7,410,466 |
| Adjustments to reconcile change in net position to net cash provided by operating activities: | | |
| Depreciation | 4,159,719 | 3,671,280 |
| Loss on disposition of asset | 7,410 | 47,079 |
| Changes in: | | |
| Receivables | 4,723,662 | (9,891,504) |
| Prepaid expenses | (358,144) | 39,585 |
| Deferred outflows of resources | (506,288) | 942,323 |
| Accounts payable and accrued expenses | 1,051,245 | 1,115,951 |
| Compensated absences | 36,505 | 83,811 |
| Unearned revenue | (723,175) | (723,175) |
| Total OPEB liability | (1,207,414) | 648,262 |
| Net pension liability - proportionate share - ERS | (718,961) | (711,014) |
| Other liabilities | - | (160) |
| Deferred inflows of resources | 2,922,286 | (49,879) |
| Net cash provided by operating activities | $32,159,102 | 2,583,025 |

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 fiscal year ended March 31, 2019, the Corporation adopted GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (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.

### (c) Budgetary Information

During the fiscal year ended March 31, 2019, 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, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Cash - deposits | $ 4,406,746 | 4,356,629 |
| Short-term investments: | | |
| Certificates of deposit (CDARS) | 63,880,711 | 31,612,460 |
| Money market accounts | 2,441,640 | 22,021,158 |
| | 66,322,351 | 53,633,618 |
| Total cash and short-term investments | $ 70,729,097 | 57,990,247 |

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

The money market and cash accounts are secured by a letter of credit from Federal Home Loan Bank of Chicago and collateral securities held in escrow by JP Morgan Chase Bank, NA and managed by the National Collateral Management Group with market values totaling $50,000,000 and $36,170,990 as of March 31, 2019 and 2018, respectively.

## (2) Summary of Significant Accounting Policies, Continued

### (c) Cash and Cash Equivalents, Continued

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.

### (d) Noncurrent Investments

This represents funds set aside to satisfy the obligation for postemployment benefits other than pensions under GASB Statement No. 75 and are invested in collateralized money market and CDARS. The carrying amount of these investments are $10,031,424 and $10,010,270 for the years ended March 31, 2019 and 2018, respectively. The CDARS are fully insured by FDIC.

### (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, 2019 and 2018 were $770,317 and $733,812, 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, 2018 | Additions | Amortization | Balance at March 31, 2019 |
|---|---|---|---|---|
| Octagon | $ 2,403,234 | - | (47,354) | 2,355,880 |
| Southtown Bldg #1 | 1,615,653 | - | (31,835) | 1,583,818 |
| Southtown Bldg #2 | 1,541,682 | - | (30,378) | 1,511,304 |
| Southtown Bldg #3 | 3,294,712 | - | (64,920) | 3,229,792 |
| Southtown Bldg #4 | 4,295,567 | - | (84,642) | 4,210,925 |
| Southtown Bldg #5 | 5,485,392 | - | (108,087) | 5,377,305 |
| Southtown Bldg #6 | 8,443,106 | - | (166,367) | 8,276,739 |
| Southtown Bldg #7 | 9,621,818 | - | (189,592) | 9,432,226 |
| Total | $ 36,701,164 | - | (723,175) | 35,977,989 |

### (h) Public Purpose Grants

Included in "Other Expenses" are expenditures for public purpose grants of $233,803 and $311,457 for the years ended March 31, 2019 and 2018 respectively. The Roosevelt Island Youth Center "Youth Center" was granted $175,000 each year to help fund its operating expenses. During the year ended March 31, 2019, RIOC took over the operations of the Youth Center and no longer provides such a grant. 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, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets, deferred outflows of resources and deferred inflows of resources 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

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. Pensions and OPEB have deferred outflows of resources. For pensions, the Corporation has two items that qualify for reporting in this category. 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 the Corporation contributions to the pension system (ERS System) subsequent to the measurement date. For OPEB, the Corporation has one item that qualifies for reporting in this category, which is the estimated net contributions subsequent to the measurement date.

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Pensions and OPEB have deferred inflows of resources. For pensions, 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. For OPEB, the Corporation has two items that qualify for reporting in this category; the first represents the difference between actual and expected experience, and the second represents the changes of assumptions or other inputs.

(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 and Local Retirement System. The implementation of these Statements also requires the Corporation to report deferred outflows and/or inflows of resources 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 of resources are the Corporation contributions to the pension system subsequent to the March 31, 2018 measurement date. See notes 7(c-h).

## (3) Capital Assets

Capital assets for the year ended March 31, 2019 are summarized as follows:

| | Balance at April 1, 2018 | Increase | Decrease | Balance at March 31, 2019 |
|---|---|---|---|---|
| Capital assets: | | | | |
| Seawall | $ 4,598,860 | 6,108,272 | - | 10,707,132 |
| Building and building improvements | 56,259,944 | 1,753,112 | - | 58,013,056 |
| Landmarks | 15,250,646 | 2,214,159 | - | 17,464,805 |
| Vehicles | 3,657,257 | 878,662 | (33,828) | 4,502,091 |
| Equipment | 3,282,209 | 479,903 | - | 3,762,112 |
| Infrastructure | 58,954,300 | 7,635,144 | - | 66,589,444 |
| Leasehold improvement | 118,457 | 329,846 | - | 448,303 |
| Total capital assets | 142,121,673 | 19,399,098 | (33,828) | 161,486,943 |
| Less accumulated depreciation: | | | | |
| Seawall | (1,202,599) | (97,341) | - | (1,299,940) |
| Building and building improvements | (35,949,810) | (1,844,803) | - | (37,794,613) |
| Landmarks | (8,607,439) | (257,091) | - | (8,864,530) |
| Vehicles | (2,437,472) | (346,979) | 26,418 | (2,758,033) |
| Equipment | (2,200,401) | (347,352) | - | (2,547,753) |
| Infrastructure | (13,951,437) | (1,249,094) | - | (15,200,531) |
| Leasehold improvement | (33,060) | (17,059) | - | (50,119) |
| Total accumulated depreciation | (64,382,218) | (4,159,719) | 26,418 | (68,515,519) |
| Net capital assets | $ 77,739,455 | 15,239,379 | (7,410) | 92,971,424 |

## (3) Capital Assets, Continued

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 |

## (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.

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

(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 73% 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, 2019 and 2018.

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, 2019 and 2018, the percentage rent earned was $2,040,649.

Cornell - The Master Lease between RIOC and the City dated December 23, 1969 was amended on December 19, 2013 ("Effective Date") 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. RIOC received the full payment in the amount of $25,028,000 in December 2018. Commencing on the Effective Date, Cornell pays RIOC $400,000 annually for 55 years, (increasing by 2% every 10 years) for the Parcel that it received.

(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 $1,716,855 and $ $1,663,243 for the years ended March 31, 2019 and 2018, 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 1, 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 dated 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%. On the Effective Date, a settlement in the amount of $10,287,489 ("Settlement Amount") was made for the underpayment of ground rent during the period from the Withdrawal Date to the Effective Date. $5,273,791 of the Settlement Amount was paid on the Effective Date and the remaining $5,013,698 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 paragraph (g) Unearned revenue. Ground rents earned for Building #1-8 totaled $2,669,529 and $2,546,358 for the years ended March 31, 2019 and 2018, 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, 2018, Hudson Related Retail LLC invested $3,282,606 and made a profit of $657,205.

(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 $4,443,715 and $4,205,271 for the years ended March 31, 2019 and 2018, respectively. Tramway costs were $4,689,332 and $4,486,117 for the years ended March 31, 2019 and 2018, 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 ('PSD"). Public safety reimbursements were $2,031,810 and $1,971,791 for the years ended March 31, 2019 and 2018, respectively. PSD costs were $3,811,240 and $3,158,861, for the years ended March 31, 2019 and 2018, respectively.

(f) Transportation and Parking Fees

The Motorgate Garage, the Roosevelt Island parking facility, is managed by SP Plus ("SP") under an agreement which expired but parties are continuing to adhere to its terms. This agreement is cancelable by RIOC on 30-day notice and by SP on 180-day notice. SP 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.

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

### (f) Transportation and Parking Fees

RIOC's share of Motorgate revenues totaled $2,046,844 and $2,081,629 for the years ended March 31, 2019 and 2018, respectively. Parking costs were $1,035,343 and $898,413, for the years ended March 31, 2019 and 2018, respectively. Transportation revenues from the provision of bus services totaled $125,374 and $122,915 for the years ended March 31, 2019 and 2018, respectively. The cost of running the bus service totaled $1,945,529 and $1,587,116 for the same respective periods. Additionally, revenues from street parking meters for these periods totaled $289,821 and $338,758, 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 Hudson Related Joint Venture ("Developer") and RIOC included a contingent de-designation (cancellation of project or portion of) fee of $2,438,400. The Development Agreement is collateralized by a Guaranty Letter of Credit issued by Deutsche Bank Trust Company, NA in the amount of $2,438,400 maturing on August 15, 2019, to be renewed annually. The Building 7 Lease was closed on October 10, 2013 and construction was completed on September 21, 2015. The Building 8 Lease was closed on December 26, 2018 and construction is expected to be completed within 24 months. The Building 9 Lease closing shall occur no later than 30 months after the Building 8 Lease Closing. Should development fail to occur within the expected timeframe, RIOC is protected by a Letter of Credit in the amount of $2,438,400.

### (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 |
|---|---|---|
| 2020 | $ 13,592,140 | 1,650,944 |
| 2021 | 14,673,190 | 1,686,960 |
| 2022 | 15,625,166 | 1,736,175 |
| 2023 | 16,275,236 | 1,767,357 |
| 2024 | 17,202,195 | 1,799,273 |
| Total | $ 77,367,927 | 8,640,709 |

## (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 annual increase of 3% per year.

RIOC also has a parking management agreement with SP for the management of Motorgate Garage. This agreement is cancelable by RIOC on 30-day notice and by SP on 180-day notice. RIOC pays an annual management fee of $40,000 and the 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. Employees 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 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, 2017 | $ 465,927 |
| March 31, 2018 | $ 459,071 |
| March 31, 2019 | $ 489,985 |

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 $204,409 and $230,226 for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, the Corporation reported the following liability for its proportionate share of the net pension liability for ERS which were measured as of March 31, 2018 and 2017, 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 | 3/31/2018 | 3/31/2017 |
| Net pension liability | $ 418,777 | 1,137,738 |
| Corporation's proportion of the Plan's net pension liability | 0.0129755% | 0.0121085% |
| Increase from prior year | .000867 | .00059 |

For the years ended March 31, 2019 and 2018, the Corporation recognized pension expense of $494,110 and $640,501, respectively, for ERS. At March 31, 2019 the Corporation's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ 149,364 | 123,429 | 28,511 | 172,772 |
| Changes of assumptions | 277,684 | - | 388,693 | - |
| Net difference between projected and actual investment earnings on pension plan investments | 608,241 | 1,200,606 | 227,252 | - |
| Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions | 52,560 | 66,882 | 19,207 | 39,959 |
| Corporation's contributions subsequent to the measurement date | 489,985 | - | 459,071 | - |
| Total | $ 1,577,834 | 1,390,917 | 1,122,734 | 212,731 |

## (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, 2020. 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 ending | ERS |
|---|---|
| 2020 | $ 77,477 |
| 2021 | $ 64,941 |
| 2022 | $ (303,426) |
| 2023 | $ (142,060) |
| 2024 | - |
| Thereafter | - |

### (d) Actuarial Assumptions

The total pension liability as of the March 31, 2018 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:

| | |
|---|---|
| Measurement date | March 31, 2018 |
| Actuarial valuation date | April 1, 2017 |
| Investment rate of return, (net of investment expense, including inflation) | 7% |
| Salary increases | 3.8% |
| Inflation rate | 2.5% |
| Cost-of-living adjustments | 1.3% |

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

The actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

## (7) Retirement Plans, Continued

### (d) Actuarial Assumptions, Continued

The long term expected 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 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 are summarized below:

| Measurement date | March 31, 2018 | |
|---|---|---|
| | 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% | 5.55 % |
| Absolute return strategies | 2.00% | 3.75% |
| Opportunistic portfolio | 3.00% | 5.68% |
| Real assets | 3.00% | 5.29% |
| 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 2.5%

### (e) Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. 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 those 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) | $ 3,168,581 | 418,777 | (1,907,447) |

### (g) Pension Plan Fiduciary Net Position

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

| | (Dollars in Millions) | |
|---|---|---|
| Valuation date | 3/31/2018 | 3/31/17 |
| Employers' total pension liability | $ 183,400 | 177,400 |
| Fiduciary net position | (180,173) | (168,004) |
| Employers' net pension liability | $ 3,227 | 9,396 |
| Ratio of fiduciary net position to the Employers' total pension liability | 98.2% | 94.7% |

### (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, 2019 and 2018 represent the projected employer contribution for the period of April 1, 2018 through March 31, 2019 and April 1, 2017 through March 31, 2018, 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, 2019 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, 2019 and 2018 are detailed as follows:

(a) 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") 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.

(b) Leases

RIOC has agreements with four (4) housing companies, namely Westview, Eastwood, Island House, and Rivercross, operating on the Island to sublease commercial space occupied by the housing companies. Rent expense for the years ended March 31, 2019 and 2018 were approximately $239,315 and $132,694, respectively.

(c) 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.

## (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. The Corporation implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" effective for its fiscal year beginning April 1, 2018. With the adoption of GASB No. 75, the method of calculating and recording the OPEB liability was changed significantly and therefore the Corporation has determined that presentation of GASB No. 45 information for the prior year is not warranted.

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, 2019 and 2018 amounted to $651,018 and $803,398, respectively. At March 31, 2019, the liability for active and retired employees included in non-current accrued fringe benefits amounted to $11,255,264.

The number of participants as of March 31,2019 was as follows:

| | |
|---|---|
| Active employees | 49 |
| Retired employees | 12 |
| Spouses of retired employees | 6 |
| Total | 67 |

Total OPEB Liability

The Corporation's total OPEB liability of $11,255,264 was measured as of March 31, 2019 and was determined by an actuarial valuation as of that date.

## (10) Postemployment Benefits Other Than Pensions, Continued

### Actuarial Assumptions and Other Inputs

The total OPEB liability in the March 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Salary increases | 3.4% |
| Discount rate | 3.7% |
| Healthcare cost trend rates | 5.2% for 2019, decreasing to an ultimate rate of 4.32% |

### Changes in the Total OPEB Liability

| | | |
|---|---|---|
| Original OPEB obligation as of April 1, 2018 (under GASB 45) | $ | 5,158,666 |
| Cumulative effect of change in accounting principle (required by GASB 75) | | 7,304,012 |
| Total OPEB liability as of April 1, 2018 | | 12,462,678 |
| Changes for the year: | | |
| Service cost | | 823,753 |
| Interest on total OPEB liability | | 432,928 |
| Differences between actual and expected experience | | (1,284,925) |
| Changes of benefit terms | | - |
| Changes in assumptions or other inputs | | (972,145) |
| Benefit payments | | (207,025) |
| Total changes | | (1,207,414) |
| Total OPEB liability as of March 31, 2019 | $ | 11,255,264 |

### Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Corporation, as well as what the Corporation’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.7%) or 1-percentage-point higher (4.7%) than the current discount rate:

| | 1% Decrease (2.7%) | Discount Rate (3.7%) | 1% Increase (4.7%) |
|---|---|---|---|
| Total OPEB liability | $ 13,671,112 | 11,255,264 | 9,407,878 |

This analysis represents sensitivity of the OPEB liability as of March 31, 2019.

## (10) Postemployment Benefits Other Than Pensions, Continued

Sensitivity of the total OPEB liability to changes in the healthcare costs trend rates

The following presents the total OPEB liability of the Corporation, as well as what the Corporation's total OPEB liability would be if it were calculated using a rate that is 1-percentage point lower (4.2% to 3.31%) or 1-percentage point higher (6.2% to 5.32%) than the current health care cost trend rate:

| | 1% Decrease (4.2% to 3.32%) | Trend Rate (5.2% to 4.32%) | 1% Increase (6.2% to 5.32%) |
|---|---|---|---|
| Total OPEB liability | $ 8,869,684 | 11,255,264 | 14,399,243 |

This analysis represents sensitivity of the OPEB liability as of March 31, 2019.

At March 31, 2019 the Corporation reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Experience (gain) loss | $ - | 992,897 |
| Changes of assumption | - | 751,203 |
| Contributions subsequent to the measurement date | 51,188 | - |
| | $ 51,188 | 1,744,100 |

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending March 31, 2020. Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ending | |
|---|---|
| 2020 | $ (512,970) |
| 2021 | $ (512,970) |
| 2022 | $ (512,970) |
| 2023 | $ (205,190) |
| Thereafter | - |

## (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. 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.

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. 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.

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.

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

GASB Statement No. 89 - "Accounting for Interest Cost Incurred before the End of a Construction Period." This Statement, issued in June 2018, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" which are superseded by this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, which is the fiscal year beginning April 1, 2020 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. 90 - "Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61." This Statement, issued in August 2018, seeks to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and sets parameters as to whether a majority equity interest is to be reported as an investment or component unit. The requirements of this Statement are 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. 91 - "Conduit Debt Obligations." This Statement, issued in May of 2019, requires a single method be used for the reporting of conduit debt obligations. The focus of the Statement is to improve financial reporting by eliminating diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, which is the fiscal year beginning April 1, 2021 for the Corporation. Management is in the process of evaluating the potential impact of this Statement on the financial statements of the Corporation.

## (13) Cumulative Effect of Change in Accounting Principle

For the fiscal year ended March 31, 2019, the Corporation implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The implementation of this Statement resulted in the reporting of the entire actuarial accrued liability for other postemployment benefits. The Corporation's net position at March 31, 2018 has been restated as follows:

| | | |
|---|---|---|
| Net position at beginning of year, as previously stated | $ | 111,697,883 |
| GASB Statement No. 75 implementation: | | |
| GASB Statement No. 45 total OPEB obligation reversal | | 5,158,666 |
| Beginning total OPEB liability | | (12,462,678) |
| Net position at beginning of year, as restated | $ | 104,393,871 |

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Required Supplementary Information
Schedule of Changes in Corporation's
Total OPEB Liability and Related Ratios
Year ended March 31, 2019

| | |
|---|---|
| Total OPEB liability: | |
| Service cost | $ 823,753 |
| Interest | 432,928 |
| Differences between expected and actual experience | (1,284,925) |
| Change of benefit terms | - |
| Changes in assumptions or other inputs | (972,145) |
| Benefit payments | (207,025) |
| Net change in total OPEB liability | (1,207,414) |
| Total OPEB liability - beginning | 12,462,678 |
| Total OPEB liability- ending | $11,255,264 |
| Covered payroll | $ 4,398,752 |
| Total OPEB liability as a percentage of covered payroll | 255.9% |

Notes to schedule:

Changes of assumptions - Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

| | |
|---|---|
| 2018 | 3.31% |
| 2019 | 3.71% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Corporation is presenting information for those years for which information is available.

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Required Supplementary Information
Schedule of Corporation's Proportionate Share of the Net Pension Liability
Year ended March 31, 2019

NYSERS Pension Plan

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Corporation's proportion of the net pension liability | 0.0129755% | 0.0121085% | 0.0115185% | 0.0115841% |
| Corporation's proportionate share of the net pension liability | $ 418,777 | 1,137,738 | 1,848,752 | 391,340 |
| Corporation's covered payroll | $3,887,580 | 3,494,884 | 3,291,106 | 2,734,022 |
| Corporation's proportionate share of the net pension liability as a percentage of its covered payroll | 10.77% | 32.55% | 56.17% | 14.31% |
| Plan fiduciary net position as a percentage of the total pension liability | 98.2% | 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 Corporation's Pension Contributions
Year ended March 31, 2019

NYSERS Pension Plan

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 489,985 | 459,071 | 465,927 | 480,350 | 516,769 | 540,970 | 583,380 |
| Contributions in relation to the contractually required contribution | 489,985 | 459,071 | 465,927 | 480,350 | 516,769 | 540,970 | 583,380 |
| Contribution deficiency (excess) | $ - | - | - | - | - | - | - |
| Corporation's covered payroll | $ 3,887,580 | 3,494,884 | 3,291,106 | 2,734,022 | 2,665,135 | 2,662,409 | 2,906,547 |
| Contributions as a percentage of covered payroll | 12.60% | 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, 2019

| | General Fund | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Operations | Public Safety | Transportation | Parking | Parks/Rec. | Tram | Total General Fund | Public purpose fund | Capital fund | Reserved fund | Total |
| Revenue: | | | | | | | | | | | |
| Residential fees | $ 813,235 | - | - | - | - | - | 813,235 | - | 837,230 | 313,446 | 1,963,911 |
| Ground rent | 13,558,225 | - | - | - | - | - | 13,558,225 | - | 25,428,000 | - | 38,986,225 |
| Commercial rent | 1,602,508 | - | - | - | - | - | 1,602,508 | - | - | - | 1,602,508 |
| Tramway revenue | - | - | - | - | - | 4,443,715 | 4,443,715 | - | - | - | 4,443,715 |
| Public safety reimbursement | - | 2,031,810 | - | - | - | - | 2,031,810 | - | - | - | 2,031,810 |
| Transportation and parking | - | - | 125,374 | 2,336,665 | - | - | 2,462,039 | - | - | - | 2,462,039 |
| Interest income | 225,056 | - | - | - | - | - | 225,056 | - | 6,887 | 329,416 | 561,359 |
| Unrealized loss | - | - | - | - | - | - | - | - | (7,410) | - | (7,410) |
| Other revenue | 717,443 | - | - | - | 584,907 | - | 1,302,350 | - | - | - | 1,302,350 |
| Total revenue | 16,916,467 | 2,031,810 | 125,374 | 2,336,665 | 584,907 | 4,443,715 | 26,438,938 | - | 26,264,707 | 642,862 | 53,346,507 |
| Expenses: | | | | | | | | | | | |
| Personal services: | | | | | | | | | | | |
| Salaries | 4,365,571 | 2,679,675 | 1,222,441 | - | 880,227 | - | 9,147,914 | - | - | - | 9,147,914 |
| Temporary employees | 94,444 | - | - | - | 19,114 | - | 113,558 | - | - | - | 113,558 |
| Employee benefits | 2,637,850 | 979,051 | 353,543 | - | 299,961 | - | 4,270,405 | - | - | - | 4,270,405 |
| Compensated absences | 36,505 | - | - | - | - | - | 36,505 | - | - | - | 36,505 |
| Total personal services | 7,134,370 | 3,658,726 | 1,575,984 | - | 1,199,302 | - | 13,568,382 | - | - | - | 13,568,382 |
| Other than personal services: | | | | | | | | | | | |
| Insurance | 1,698,181 | - | - | - | - | 188,160 | 1,886,341 | - | - | - | 1,886,341 |
| Professional services | 1,269,706 | - | - | - | 190,652 | 22,615 | 1,482,973 | - | - | - | 1,482,973 |
| Management fees | - | - | - | 953,572 | - | 4,275,404 | 5,228,976 | - | - | - | 5,228,976 |
| Legal services | 361,730 | - | - | - | - | - | 361,730 | - | - | - | 361,730 |
| Telecommunications | 184,108 | - | - | - | - | - | 184,108 | - | - | - | 184,108 |
| Island improvements/capital plan | 245,315 | - | - | - | - | - | 245,315 | - | - | - | 245,315 |
| Repairs and maintenance | 931,174 | 25,105 | 16,808 | 21,387 | 19,314 | 11,438 | 1,025,226 | - | - | - | 1,025,226 |
| Vehicles maintenance | 46,358 | 27,416 | 262,902 | - | 1,401 | - | 338,077 | - | - | - | 338,077 |
| Equipment purchases/lease | 116,465 | 9,639 | 15,244 | - | 2,504 | 2,080 | 145,932 | - | - | - | 145,932 |
| Supplies/services | 722,445 | 68,041 | 72,984 | 60,384 | 226,435 | 189,575 | 1,339,864 | - | - | - | 1,339,864 |
| Other expenses | 209,733 | 22,313 | 1,607 | - | 140,076 | 60 | 373,789 | 233,818 | - | - | 607,607 |
| Total other than personal services | 5,785,215 | 152,514 | 369,545 | 1,035,343 | 580,382 | 4,689,332 | 12,612,331 | 233,818 | - | - | 12,846,149 |
| Total operating expenses, excluding depreciation | 12,919,585 | 3,811,240 | 1,945,529 | 1,035,343 | 1,779,684 | 4,689,332 | 26,180,713 | 233,818 | - | - | 26,414,531 |
| Operating income (loss) before depreciation | 3,996,882 | (1,779,430) | (1,820,155) | 1,301,322 | (1,194,777) | (245,617) | 258,225 | (233,818) | 26,264,707 | 642,862 | 26,931,976 |
| Depreciation expense | - | - | - | - | - | - | - | - | (4,159,719) | - | (4,159,719) |
| Operating income (loss) | $3,996,882 | (1,779,430) | (1,820,155) | 1,301,322 | (1,194,777) | (245,617) | 258,225 | (233,818) | 22,104,988 | 642,862 | 22,772,257 |

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

| | General Fund | | | | | | Total | Public | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Public | | | | | General | purpose | Capital | Reserved | |
| | Operations | Safety | Transportation | Parking | Parks/Rec. | Tram | Fund | fund | fund | 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 | - | - | 122,915 | 2,420,387 | - | - | 2,543,302 | - | - | - | 2,543,302 |
| Interest income | 39,271 | - | - | - | - | - | 39,271 | - | 3,777 | 120,106 | 163,154 |
| Unrealized loss | - | - | - | - | - | - | - | - | (29,384) | - | (29,384) |
| Other revenue | 384,808 | - | - | - | 761,494 | - | 1,146,302 | - | - | - | 1,146,302 |
| Total revenue | 23,347,389 | 1,971,791 | 122,915 | 2,420,387 | 761,494 | 4,205,271 | 32,829,247 | - | 1,084,915 | 433,552 | 34,347,714 |
| Expenses: | | | | | | | | | | | |
| Personal services: | | | | | | | | | | | |
| Salaries | 4,058,068 | 2,180,874 | 947,714 | - | 767,002 | - | 7,953,658 | - | - | - | 7,953,658 |
| Temporary employees | 120,614 | - | - | - | 17,903 | - | 138,517 | - | - | - | 138,517 |
| Employee benefits | 2,795,953 | 903,581 | 351,477 | - | 295,919 | - | 4,346,930 | - | - | - | 4,346,930 |
| Compensated absences | 83,811 | - | - | - | - | - | 83,811 | - | - | - | 83,811 |
| Total personal services | 7,058,446 | 3,084,455 | 1,299,191 | - | 1,080,824 | - | 12,522,916 | - | - | - | 12,522,916 |
| Other than personal services: | | | | | | | | | | | |
| Insurance | 1,668,377 | - | - | - | - | 182,633 | 1,851,010 | - | - | - | 1,851,010 |
| Professional services | 649,724 | - | - | - | 124,353 | 550 | 774,627 | - | - | - | 774,627 |
| Management fees | - | - | - | 843,043 | - | 4,148,042 | 4,991,085 | - | - | - | 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 | 310,911 | 3,668 | 16,991 | 8,571 | 36,880 | (7,440) | 369,581 | - | - | - | 369,581 |
| Vehicles maintenance | 58,105 | 9,899 | 178,276 | - | 25 | - | 246,305 | - | - | - | 246,305 |
| Equipment purchases/lease | 150,141 | 662 | 7,562 | - | 3,279 | 798 | 162,442 | - | - | - | 162,442 |
| Supplies/services | 538,913 | 50,839 | 81,821 | 46,799 | 210,383 | 161,534 | 1,090,289 | - | - | - | 1,090,289 |
| Other expenses | 108,940 | 9,338 | 3,275 | - | 99,158 | - | 220,711 | 311,457 | - | - | 532,168 |
| Total other than personal services | 4,210,656 | 74,406 | 287,925 | 898,413 | 474,078 | 4,486,117 | 10,431,595 | 311,457 | - | - | 10,743,052 |
| Total operating expenses, excluding depreciation | 11,269,102 | 3,158,861 | 1,587,116 | 898,413 | 1,554,902 | 4,486,117 | 22,954,511 | 311,457 | - | - | 23,265,968 |
| Operating income (loss) before depreciation | 12,078,287 | (1,187,070) | (1,464,201) | 1,521,974 | (793,408) | (280,846) | 9,874,736 | (311,457) | 1,084,915 | 433,552 | 11,081,746 |
| Depreciation expense | - | - | - | - | - | - | - | - | (3,671,280) | - | (3,671,280) |
| Operating income (loss) | $12,078,287 | (1,187,070) | (1,464,201) | 1,521,974 | (793,408) | (280,846) | 9,874,736 | (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
Budget Variance Report
Year ended March 31, 2019

| | Actual | Budget | Favorable (Unfavorable) Variance | Favorable (Unfavorable) Percent |
|---|---|---|---|---|
| Revenue: | | | | |
| Residential fees | $ 1,963,911 | 1,483,000 | 480,911 | 32% |
| Ground rent | 38,986,225 | 35,665,000 | 3,321,225 | 9% |
| Commercial rent | 1,602,508 | 1,572,000 | 30,508 | 2% |
| Tramway revenue | 4,443,715 | 5,482,000 | (1,038,285) | (19%) |
| Public safety reimbursement | 2,031,810 | 2,014,000 | 17,810 | 1% |
| Transport/parking revenue | 2,462,039 | 3,155,000 | (692,961) | (22%) |
| Interest income | 561,359 | 141,000 | 420,359 | 298% |
| Unrealized loss | (7,410) | - | (7,410) | 100% |
| Other revenue | 1,302,350 | 1,691,000 | (388,650) | (23%) |
| Total revenue | 53,346,507 | 51,203,000 | 2,143,507 | 4% |
| Expenses: | | | | |
| Personal services (PS) : | | | | |
| Salaries | 8,700,176 | 9,247,392 | 547,216 | 6% |
| Salaries OT | 447,738 | 343,000 | (104,738) | (31%) |
| Temporary employees | 113,558 | 165,000 | 51,442 | 31% |
| Workers compensation and disability | 232,219 | 252,391 | 20,172 | 8% |
| ER payroll taxes | 786,719 | 812,042 | 25,323 | 3% |
| Health insurance | 1,755,002 | 2,012,059 | 257,057 | 13% |
| Dental/vision | 79,386 | 98,074 | 18,688 | 19% |
| Pension | 698,519 | 1,074,076 | 375,557 | 35% |
| Other employee benefits | 718,560 | 940,070 | 221,510 | 24% |
| Compensated absences expenses | 36,505 | - | (36,505) | (100%) |
| Total personal services (PS) | 13,568,382 | 14,944,104 | 1,375,722 | 9% |
| Other than personal services (OTPS) : | | | | |
| Insurance | 1,886,341 | 1,924,000 | 37,659 | 2% |
| Professional services | 1,447,827 | 948,388 | (499,439) | (53%) |
| Marketing/advertising | 35,146 | 59,400 | 24,254 | 41% |
| Management fees | 5,228,976 | 5,072,000 | (156,976) | (3%) |
| Legal services | 361,730 | 590,000 | 228,270 | 39% |
| Telecommunications | 184,108 | 167,200 | (16,908) | (10%) |
| Island improvements - capital plan | 245,315 | 311,292 | 65,977 | 21% |
| Repairs and maintenance | 479,266 | 123,000 | (356,266) | (290%) |
| Repairs and maintenance equipment | 115,577 | 31,500 | (84,077) | (267%) |
| Other repairs and maintenance | 430,383 | 110,000 | (320,383) | (291%) |

(Continued)

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

| | Actual | Budget | Favorable (Unfavorable) Variance | Percent |
|---|---|---|---|---|
| Expenses, Continued: | | | | |
| Other than personal services (OTPS), continued: | | | | |
| Vehicles gas | $ 136,536 | 114,000 | (22,536) | (20%) |
| Vehicles repair and maintenance | 172,631 | 143,000 | (29,631) | (21%) |
| Vehicles parts | 28,910 | 19,500 | (9,410) | (48%) |
| Equipment lease | 43,506 | 27,000 | (16,506) | (61%) |
| Office equipment purchase | 22,953 | 35,850 | 12,897 | 36% |
| Equipment purchases | 55,444 | 27,000 | (28,444) | (105%) |
| Other equipment purchases | 24,029 | 1,000 | (23,029) | (2303%) |
| Exterminator | 7,985 | 13,500 | 5,515 | 41% |
| Uniforms | 76,485 | 64,500 | (11,985) | (19%) |
| Light, power, heat | 727,425 | 740,000 | 12,575 | 2% |
| Water and sewer | 16,887 | 38,500 | 21,613 | 56% |
| Office supplies | 24,047 | 36,100 | 12,053 | 33% |
| Parts and supplies | 430,642 | 217,500 | (213,142) | (98%) |
| Service maintenance agreement | 56,393 | 75,500 | 19,107 | 25% |
| Employee travel and meal | 6,245 | 13,200 | 6,955 | 53% |
| Employee training | 99,230 | 52,380 | (46,850) | (89%) |
| Shipping | 13,833 | 18,550 | 4,717 | 25% |
| Subscriptions/membership | 25,176 | 26,220 | 1,044 | 4% |
| Other expenses | 306,496 | 462,450 | 155,954 | 34% |
| Island events - community relations | 156,627 | 113,000 | (43,627) | (39%) |
| Total other than personal services (OTPS) | 12,846,149 | 11,575,530 | (1,270,619) | (11%) |
| Total expenses | 26,414,531 | 26,519,634 | 105,103 | 0% |
| Operating income before depreciation | 26,931,976 | 24,683,366 | 2,248,610 | 9% |
| Depreciation expense | (4,159,719) | (4,110,839) | 48,880 | (1%) |
| Net surplus | $ 22,772,257 | 20,572,527 | 2,199,730 | 11% |

ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Other Supplementary Information
Budget Variance Report
Year ended March 31, 2018

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

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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, 2019, and the related notes to financial statements, which collectively comprise RIOC's basic financial statements, and have issued our report thereon dated June 18, 2019.

## 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 18, 2019