

June 29, 2023

CONFIDENTIAL

The Board of Directors
Roosevelt Island Operating Corporation

Dear Board Members:

We have completed our audit of the financial statements of the Roosevelt Island Operating Corporation (RIOC) for the year ended March 31, 2023. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. This report is intended solely for the information and use of the Board of Directors, management and others within RIOC. We now present for your consideration our comment and recommendation based upon observations made during our audit.

Subscription-Based Information Technology Arrangements

Under current guidance, the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users is to record an expenditure when invoices are received. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

Governmental Accounting Standards Board Statement No. 96 - "Subscription-Based Information Technology Arrangements," which becomes effective for RIOC on April 1, 2023, states a government generally should recognize a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

We recommend that RIOC gain an understanding of this Statement, develop a plan to fully review all current SBITA agreements, and to document the accounting treatment of each SBITA under this Statement to minimize any difficulties at the time of implementation. Proper documentation will also assist in the accounting and reporting for future periods.

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

Very truly yours,

EFPR Group, CPAs, PLLC

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