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

Financial Statements and Management's Discussion and Analysis

March 31, 2008 and 2007

(With Independent Auditor's Report Thereon)

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

Contents

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Roosevelt Island Operating Corporation:

We have audited the accompanying statements of net assets of The Roosevelt Island Operating Corporation (RIOC), a component unit of the State of New York, as of March 31, 2008 and 2007 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of RIOC's management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Roosevelt Island Operating Corporation as of March 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 to 6, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated May 8, 2008 on our consideration of The Roosevelt Island Operating Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 8, 2008

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

Management's Discussion and Analysis

March 31, 2008 and 2007

I. INTRODUCTION

The financial statements of The Roosevelt Island Operating Corporation are presented under the concept of enterprise fund accounting, which was a change in presentation from previous years in which the Corporation presented its financial statements as if it was a governmental unit. The Board of Directors approved the change in presentation. Since the Corporation receives substantially all of its revenue through business endeavors and activities and does not collect taxes or appropriations from other governments for operating activities, the change in presentation to the business type of presentation meets the requirements of accounting principles generally accepted in the United States of America.

II. OVERVIEW

The financial statements are reported using the full accrual method of accounting and consist of the statement of net assets, statement of activities and statement of cash flows.

STATEMENT OF NET ASSETS

	2008	2007
Current and other assets	$ 44,620,424	29,158,706
Capital assets, net	32,098,802	30,554,341
Total assets	$ 76,719,226	59,713,047
Total liabilities	$ 17,394,852	14,215,602
Net assets:		
Investment in capital assets	32,098,802	30,554,341
Restricted for capital projects	13,928,883	8,361,695
Unrestricted	13,296,689	6,581,409
Total net assets	$ 59,324,374	45,497,445

On RIOC's statement of net assets at March 31, 2008, total assets of $76,719,226 exceeded total liabilities of $17,394,852 by $59,324,374 (total net assets). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling $32,098,082, cash and investments totaling $43,190,771 and other assets of $1,429,653. Liabilities are comprised of accounts payable $433,763, deferred revenue $15,955,344, other post employment benefits $411,357, and other liabilities totaling $594,388. Deferred revenue represents the net present value of ground rent revenue received for the Southtown and Octagon development projects that will be recognized over their respective lease terms. Of total net assets, $13,928,883 is available to be used to meet ongoing obligations. Additionally, $13,296,883 is available for island infrastructure improvements.

RIOC's statements of activities is used to report changes in the net assets, including depreciation expense. Note that revenue reported here is based on a standard of recognition whereby revenues are recorded when earned. The statements of activities details program revenues by major source and expenses by natural classification and indicates the change in net assets. RIOC's total revenue amounted to $32,162,743, which includes $30,571,040 in revenues identified as program revenues and $1,591,703 of non-program specific revenues, primarily interest income earned on investments. Total expenses were $18,335,814 and $17,283,985 for the years ended March 31, 2008 and 2007, respectively. RIOC had an increase in its net assets of $13,826,929 for the year ended March 31, 2008 as compared to $3,447,342 for the year ended March 31, 2007.

STATEMENTS OF ACTIVITIES

	2008	2007
Revenue:		
Residential fees	$ 10,667,985	4,707,294
Ground rent	10,246,062	5,822,038
Commercial rent	1,490,154	1,227,990
Tramway revenue	3,678,410	1,871,322
Public safety reimbursement	1,421,506	1,572,319
Transportation and parking	2,497,741	3,374,608
Interest income	1,591,703	1,202,593
Other revenue	569,182	953,163
Total revenue	32,162,743	20,731,327
Expenses:		
Personal services	7,637,015	6,250,710
Insurance	1,342,912	1,364,679
Professional and legal services	1,215,653	2,545,612
Management fees	3,215,381	2,659,670
Telecommunications	103,827	69,184
Repairs and maintenance	200,930	368,803
Vehicles maintenance	279,440	220,329
Equipment purchases/lease	113,179	63,369
Supplies/services	956,102	997,757
Depreciation	2,630,535	2,467,271
Other expenses	640,840	276,601
Total expenses	18,335,814	17,283,985
Increase in net assets	$ 13,826,929	3,447,342

III. CAPITAL ASSETS

The capital assets of $32,098,802 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of $1,544,461 from the prior year represents depreciation expense of $2,630,535 offset by additions of new capital assets valued at $4,174,996.

	2008	2007
Seawall	$ 2,828,770	2,876,715
Buildings	10,185,071	10,493,090
Machinery and equipment	3,602,177	3,704,755
Land improvements	2,073,506	1,019,908
Infrastructure	13,409,278	12,459,873
Net capital assets	$ 32,098,802	30,554,341

Total depreciation expense for all capital assets, including the completed portions of Southtown infrastructure, amounted to $2,630,535 and $2,467,271 for the years ended March 31, 2008 and 2007, respectively. A more detailed analysis of RIOC's capital assets is presented in the notes to financial statements on pages 13 and 14.

IV. INFRASTRUCTURE ASSETS

The amount reported in the accompanying statements of net assets for the capital assets (net of depreciation) of RIOC of $32,098,802 and $30,554,341 at March 31, 2008 and 2007, respectively, does not include an amount for two infrastructure items: the bulk of the seawall, and Main Street (the road). Pursuant to the provisions of GASB 34, addressing the capitalization of infrastructure assets, infrastructure assets dating from prior to 1980 are not required to be recognized. Improvements to such infrastructure items, however, are reported.

V. ECONOMIC FACTORS AFFECTING RIOC'S FUTURE FINANCIAL POSITION

As a result of the Tram incident of April 18, 2006, the Legislature of the State of New York appropriated $15,000,000 to modernize the aerial Tramway system. With the Board October 17, 2007 adoption of a plan to modernize the Tramway system, RIOC is eligible to receive the funding. The appropriation resides in statutory budget language under the control of the Empire State Development Corporation to be distributed to RIOC. The total project cost is estimated to be $25,000,000 to be expended over fiscal year 2008/2009 and fiscal year 2009/2010.

The Southtown Development Project is proceeding. Construction of Southtown buildings five and six commenced in June 2007 and completion is anticipated by year end 2008. As per the lease agreement, Southtown buildings four, five and six will generate conversion fees to RIOC for each condominium sale.

The Trust for Public Land has commenced the construction document phase of the Southpoint Park. The City of New York has appropriated $4,500,000 for the Southpoint Park including the stabilization of the Renwick Ruin. Total cost is estimated at $12,500,000. Plans are underway to explore incorporating an FDR Memorial at the southern point of Southpoint Park.

RIOC continues to implement its five year capital management plan. Projects slated for fiscal year 08/09 include, but are not limited to: Main Street and island wide road improvements and utilities infrastructure; renovation to sports fields, parks, motorgate parking facility, HVAC system and building, and sportspark facility; tramway overhaul, and seawall repair.

VII. 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, Roosevelt Island Operating Corporation, 591 Main Street, Roosevelt Island, New York 10044.

THE ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Statements of Net Assets
March 31, 2008 and 2007

Assets	2008	2007
Current assets:		
Cash	$ 142,019	792,200
Investments	43,048,752	26,235,788
Receivables	1,296,150	1,302,889
Prepaid expenses	10,218	744,196
Total current assets	44,497,139	29,075,073
Security deposits	123,285	83,633
Capital assets, net of accumulated depreciation	32,098,802	30,554,341
Total assets	$ 76,719,226	59,713,047
Liabilities and Net Assets		
Current liabilities - accounts payable and accrued expenses	433,763	1,091,260
Security deposits	121,084	83,633
Compensated absences	421,597	419,845
Deferred revenue	15,955,344	12,570,288
Post-employment benefits other than pension	411,357	-
Other liabilities	51,707	50,576
Total liabilities	17,394,852	14,215,602
Net assets:		
Investment in capital assets	32,098,802	30,554,341
Restricted for capital projects	13,928,883	8,361,695
Unrestricted net assets	13,296,689	6,581,409
Total net assets	59,324,374	45,497,445
Commitments and contingencies (note 9)		
Total liabilities and net assets	$ 76,719,226	59,713,047

See accompanying notes to financial statements.

THE ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Statements of Activities
Years ended March 31, 2008 and 2007

	2008	2007
Revenue:		
Residential fees	$ 10,667,985	4,707,294
Ground rent	10,246,062	5,822,038
Commercial rent	1,490,154	1,227,990
Tramway revenue	3,678,410	1,871,322
Public safety reimbursement	1,421,506	1,572,319
Transportation and parking	2,497,741	3,374,608
Interest income	1,591,703	1,202,593
Other revenue	569,182	953,163
Total revenue	32,162,743	20,731,327
Expenses:		
Personal services	7,637,015	6,250,710
Insurance	1,342,912	1,364,679
Professional services	1,007,636	2,171,426
Management fees	3,215,381	2,659,670
Legal services	208,017	374,186
Telecommunications	103,827	69,184
Repairs and maintenance	200,930	368,803
Vehicles maintenance	279,440	220,329
Equipment purchases/lease	113,179	63,369
Supplies/services	956,102	997,757
Depreciation expense	2,630,535	2,467,271
Other expenses	640,840	276,601
Total expenses	18,335,814	17,283,985
Increase in net assets	13,826,929	3,447,342
Net asset at beginning of year	45,497,445	42,050,103
Net asset at end of year	$ 59,324,374	45,497,445

See accompanying notes to financial statements.

THE ROOSEVELT ISLAND OPERATING CORPORATION
(A Component Unit of the State of New York)
Statements of Cash Flows
Years ended March 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Receipts from tenants and customers	$ 35,963,694	25,375,622
Payments related to employees	(7,547,534)	(6,171,259)
Payments to vendors	(8,078,381)	(9,103,574)
Net cash provided by operating activities	20,337,779	10,100,789
Cash flow from investing activities - purchasing of capital assets	(4,174,996)	(3,756,472)
Cash flow from financing activities - purchase of investments	(16,812,964)	(6,321,899)
Net increase (decrease) in cash	(650,181)	22,418
Cash at beginning of year	792,200	769,782
Cash at end of year	$ 142,019	792,200
Cash flows from operating activities:		
Increase in unrestricted net assets	13,826,929	3,447,342
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,630,535	2,467,271
Provision for bad debt	(26,789)	(81,041)
Changes in:		
Receivables	33,528	354,845
Prepaid expenses	733,978	(651,972)
Security deposits	(2,201)	-
Accounts payable and accrued expenses	(657,497)	124,616
Compensated absences	1,752	18,661
Deferred revenue	3,385,056	4,370,491
Post employment benefits other than pension	411,357	-
Other liabilities	1,131	50,576
Net cash provided by operating activities	$ 20,337,779	10,100,789

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, The Roosevelt Island Operating Corporation (RIOC) was organized pursuant to Chapter 899 of the New York Unconsolidated Law as a public benefit corporation. The responsibility for the operation, security and maintenance of Roosevelt Island was transferred from SAHE to RIOC on April 1, 1985.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board codification 2100, The Financial Reporting Entity, have been considered and there are no agencies or entities which should be, but are not, combined with the financial statements of RIOC. However, RIOC is considered a component unit of the State of New York.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

In 2007, RIOC changed its presentation from a governmental reporting entity to that of an enterprise fund. The financial statements (i.e., the statements of net assets and statements of activities) report information on all of the activities of RIOC. For the most part, the effect of interfund activity has been removed from these statements.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(2) Summary of Significant Accounting Policies, Continued

(a) Basis of Presentation, Continued

The financial statements of RIOC are prepared in accordance with generally accepted accounting principles (GAAP). RIOC's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989, unless they conflict with GASB pronouncements.

(b) Budgetary Information

During the year ended March 31, 2008, RIOC did not request appropriations for the State of New York and, as such, a budget was not required to be adopted by law. Accordingly, budgetary information was not included in the notes to these financial statements. However, the Board did approve an operating budget for management's internal use.

(c) Cash and Investments

The following is a summary of cash and investments as of March 31, 2008 and 2007:

	2008	2007
Cash - deposits	$ 142,019	792,200
Investments:		
Certificates of deposit	36,152,494	21,774,486
Money market accounts	6,896,258	4,461,302
	43,048,752	26,235,788
	$ 43,190,771	27,027,988

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

As of March 31, 2008, the carrying amount of RIOC's deposits was $43,992,631 of which $200,000 was covered by federal depository insurance and $45,423,072 was covered by collateral held in the bank's trust department in RIOC's name.

Investments consist of certificates of deposit with purchased maturities greater than three months. RIOC is limited under its investment guidelines primarily to the investment of funds in obligations of the United States of America (United States Government Securities), the State of New York 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.

(2) Summary of Significant Accounting Policies, Continued

(d) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported on the statement of net assets in the accompanying financial statements. Capital assets are defined by RIOC as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

(e) Deferred Revenue

Deferred revenue reported in the statements of net assets represents amounts collected in advance for lease-related payments related to subsequent fiscal years. These amounts will be recognized as income on an annual basis over a period of the remaining sixty years on the ground lease for the City of New York expiring in 2068 under the accrual basis of accounting.

(f) Compensated Absences

It is RIOC's policy to permit employees to accumulate a maximum of 280 hours of vacation time. All such pay is accrued when incurred in the financial statements.

(g) Accounting Estimates

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

(3) Capital Assets

Capital assets for the year ended March 31, 2008 are summarized as follows:

	Balance at April 1, 2007	Increase	Decrease	Balance at March 31, 2008
Capital assets:				
Seawall	$ 3,500,000	-	-	3,500,000
Buildings and building improvements	33,358,247	576,538	-	33,934,785
Landmarks	6,893,000	1,199,401	-	8,092,401
Vehicles	2,458,867	64,412	-	2,523,279
Equipment	2,433,213	523,919	-	2,957,132
Infrastructure	16,699,003	1,810,726	-	18,509,729
Total capital assets	65,342,330	4,174,996	-	69,517,326
Less accumulated depreciation:				
Seawall	(623,285)	(47,945)	-	(671,230)
Buildings and building improvements	(22,865,157)	(884,557)	-	(23,749,714)
Landmarks	(5,873,092)	(145,803)	-	(6,018,895)
Vehicles	(348,493)	(250,961)	-	(599,454)
Equipment	(838,832)	(439,948)	-	(1,278,780)
Infrastructure	(4,239,130)	(861,321)	-	(5,100,451)
Total accumulated depreciation	(34,787,989)	(2,630,535)	-	(37,418,524)
Net capital assets	$ 30,554,341	1,544,461	-	32,098,802

(3) Capital Assets

Capital assets for the year ended March 31, 2007 are summarized as follows:

	Balance at April 1, 2006	Increase	Decrease	Balance at March 31, 2007
Capital assets:				
Seawall	$ 3,500,000	-	-	3,500,000
Buildings and building improvements	32,876,544	779,003	(297,300)	33,358,247
Landmarks	7,647,500	-	(754,500)	6,893,000
Vehicles	3,747,940	49,355	(1,338,428)	2,458,867
Equipment	2,080,477	1,442,094	(1,089,358)	2,433,213
Infrastructure	18,144,259	1,486,020	(2,931,276)	16,699,003
Total capital assets	67,996,720	3,756,472	(6,410,862)	65,342,330
Less accumulated depreciation:				
Seawall	(575,340)	(47,945)	-	(623,285)
Buildings and building improvements	(22,319,712)	(842,745)	297,300	(22,865,157)
Landmarks	(6,510,145)	(117,447)	754,500	(5,873,092)
Vehicles	(1,444,507)	(242,414)	1,338,428	(348,493)
Equipment	(1,583,881)	(344,309)	1,089,358	(838,832)
Infrastructure	(6,297,995)	(872,411)	2,931,276	(4,239,130)
Total accumulated depreciation	(38,731,580)	(2,467,271)	6,410,862	(34,787,989)
Net capital assets	$ 29,265,140	1,289,201	-	30,554,341

During the year ended March 31, 2007, the Corporation removed fully depreciated capital assets of $6,410,862.

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

Operating revenues in the accompanying statement of activities consist of income derived from the following sources:

(a) Residential Housing Companies

Manhattan Park - Under the terms of a land lease, dated August 4, 1986, expiring in 2068, with the housing company operating Manhattan Park (the Operator), the Operator is required to make annual payments of base ground rent of $100,000 to RIOC. Additional fixed ground rent of $1,900,000 is due annually, to be paid in monthly installments subject to certain rent credit adjustments set forth in the lease, and increases $100,000 annually thereafter through August 4, 2007. Ground rents earned under the terms of this lease totaled approximately $3,625,000 and $3,225,000 for the years ended March 31, 2008 and 2007, respectively. Ground rent based on the gross income of the Operator may also be payable during the initial 20 year period. Rents after August 4, 2007 are based on several factors including a fixed base; gross income of the operator; a percentage of the appraised value of the Manhattan Park; and a percentage of revenues of the Motorgate parking facility.

Eastwood - The ground lease between RIOC and North Town Phase 1 Houses, Inc. was amended and restated with the base ground rent increasing to $1 million per year effective October 1, 2006, plus a percentage interest in subsequent increasing rent rolls.

Public Safety Cost Reimbursement - Reimbursements from four housing companies (known as the WIRE projects) Eastwood, Octagon, Southtown, and Manhattan Park for no less than 50% of the cost of maintaining a public safety department are included in housing company reimbursements on the accompanying statements of activities. Additionally, the Operator of the Southtown project and the operator of the Octogon project are responsible for their respective share of the cost of RIOC's public safety department, including those costs incurred during the construction phase of the Southtown project.

(b) Commercial Space Rental

Leases for commercial space on the Island are negotiated under varying terms with merchants operating on the Island. Lease terms generally range from 5 to 10 years.

(c) Tramway Fees

During February 2004, RIOC entered into an agreement with The New York Transit Authority (NYCTA) for revenue from the Tramway. In the agreement, RIOC receives from the NYCTA a base fare of the current prevailing transit fare for all swipes of full-fare Metro Cards, including transfers, in turnstiles located in RIOC's tram stations. The funds are transmitted to RIOC via electronic funds transfer and the NYCTA supplies appropriate reports for the reconciliation of the revenue and ridership. There is a 0.5 percent of gross sales franchise fee associated with this agreement. It should be noted that the Tramway overhaul project is scheduled to take the Tram out of service for approximately six months commencing in 2009 which will have a significant impact on both revenues and operating expenses.

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

(d) Transportation and Parking Fees

The Motorgate garage, the Roosevelt Island parking facility, is managed by an agent, Central Parking System (Central). This agreement is cancelable by RIOC on 30 day notice and by Central on 180 day notice. Central collects the parking fees and pays the operating costs in connection with the management of the garage. The excess of parking revenues over operating costs is returned to RIOC. RIOC shares the Motorgate revenue with Roosevelt Island Associates, operator of Manhattan Park, with RIOC receiving 61% of the net income. Motorgate revenue approximated $1,811,000 and $1,727,000 for the years ended March 31, 2008 and 2007, respectively.

Bus and parking meter revenues totaled $686,741 and $1,647,608 for the years ended March 31, 2008 and 2007, respectively. Included in the 2007 amount was a one time New York State Energy Credit Fee in the amount of $1,080,000.

(e) 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
2009	$ 6,403,762	1,542,195
2010	6,511,400	1,638,476
2011	6,619,266	1,646,367
2012	6,727,369	1,681,386
2013	7,883,197	1,706,149
	$ 34,144,993	8,214,573

(5) Management Agreements

The Roosevelt Island Tramway system is operated by Doppelmayr, Inc. a wholly owned subsidiary of Doppelmayr Group AG. This agreement extends through October 31, 2008. Doppelmayr pays the operating costs in connection with the day to day operations of the tramway and collected tramway revenues through February 2004, at which time revenues began being collected through the New York Transit Authority. RIOC pays Doppelmayr a fixed fee of approximately $222,000 and $211,000 per month in 2008 and 2007, respectively.

(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:

(1) Plan Description

RIOC's non-union employees participate in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. ERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of ERS and for the custody and control of their funds. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Albany, New York 12244.

(2) Funding Policy

ERS is contributory (3%) except for employees who joined the System before July 27, 1976. Employees who joined the System after July 27, 1976 and have been members of the System for at least ten years, or have at least ten years of credited service are not required to contribute 3% of their salaries. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated fund. RIOC is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were approximately:

March 31, 2006	$ 161,448
March 31, 2007	141,083
March 31, 2008	175,362

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 $107,037 and $81,552 for the years ended March 31, 2008 and 2007, respectively, to union employees' defined contribution plans.

(8) Risk Management

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

(9) Commitments and Contingencies

Commitments and contingencies at March 31, 2008 and 2007 are detailed as follows:

(a) Leases

RIOC has agreements with four housing companies operating on the Island to sublease space occupied by the housing companies. Rent expense for the year ended March 31, 2008 and 2007 approximated $86,000 and $75,000, respectively.

(b) Litigation

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

(c) Accumulated Surplus

RIOC's cash and investments as of March 31, 2008 amounted to $43,190,771. Most of the funds are budgeted to be expended for much needed capital and infrastructure improvements under RIOC's five year capital improvements plan ending March 31, 2010. The Empire State Development Corporation (ESDC), the State of New York and the City of New York, all have certain rights to surplus funds for reimbursement of prior years funding. To date no request for reimbursement has been made and it is management's opinion that none will be made to surplus funds committed to future capital and infrastructure improvements.

(10) Post-Employment Benefits Other Than Pensions

The Corporation implemented the accounting and disclosure requirements of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" effective for its fiscal year beginning April 1, 2007. The Corporation previously did not record any liability for retiree health benefits, as required by Statement No. 45.

Plan Description - The Corporation provides continuation of medical coverage to employees that retire at age 55 or older with five years of service if hired before April 1, 1975 or ten years of service if hired after April 1, 1975. For employees with a date of retirement after April 1, 1983 and at least ten years of service, the Corporation contributes 90% for employees and 75 % for an employee's spouse.

The Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's 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.

(10) Post-Employment Benefits Other Than Pensions, Continued

Total expenditures charged to operations for the year ended March 31, 2008 amounted to $443,547. At March 31, 2008, the liability for retired employees included in noncurrent accrued fringe benefits amounted to $411,357.

The number of participants as of January 1, 2007 was as follows:

Active employees		32
Retired employees		3
Spouses of retired employees		-
	Total	35

Funding Policy - The Authority currently pays for post-retirement health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue.

Annual Other Post-employment Benefit Cost (OPEB) - For the year ended March 31, 2008, the Corporation's annual OPEB cost amounted to $443,547.

Benefit Obligations and Normal Cost

Actuarial accrued liability (AAL):		
Retired employees	$	3,085,595
Active employees		523,533
Total	$	3,609,128
Underfunded actuarial accrued liability (UAAL)	$	3,609,128
Normal cost at beginning of year	$	402,657

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	$	443,547
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		443,547
Contribution made on a pay-as-you-go basis		(32,190)
Increase in net OPEB obligation		411,357
Net OPEB obligation at beginning of year		-
Net OPEB obligation at end of year	$	411,357

(10) Post-Employment Benefits, Continued

Actuarial methods and assumptions:

Funding interest rate	4.0%
2007 Medical trend rate (Health/Drugs)	10%/10%
2008 Medical trend rate (Health/Drugs)	9%/9%
Ultimate trend rate (Health/Drugs)	5%/5%
Year Ultimate trend rate rendered	2013/2014
Annual payroll growth rate	3.5%
Actuarial cost method	Attained Age
The remaining amortization period at March 31, 2008	30 years

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INDEPENDENT AUDITOR'S 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

Board of Directors
The Roosevelt Island Operating Corporation:

We have audited the financial statements of The Roosevelt Island Operating Corporation (a component unit of the State of New York) as of and for the year ended March 31, 2008, and have issued our report thereon dated May 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIOC's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, 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.

We noted certain matters that we reported to management of RIOC in a separate letter dated May 8, 2008.

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

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 8, 2008

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH INVESTMENT GUIDELINES

Board of Directors
The Roosevelt Island Operating Corporation:

We have audited the financial statements of The Roosevelt Island Operating Corporation (a component unit of the State of New York) as of and for the year ended March 31, 2008, and have issued our report thereon dated May 8, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether management has complied with the Investment Guidelines for Public Authorities.

Compliance with the Investment Guidelines for Public Authorities applicable to The Roosevelt Island Operating Corporation is the responsibility of RIOC's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of RIOC's compliance with Investment Guidelines for Public Authorities. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, RIOC complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that RIOC had not complied, in all material respects, with those provisions.

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

Toski, Schaefer & Co. P.C.

Williamsville, New York
May 8, 2008