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

Financial Statements and Management's
Discussion and Analysis

March 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

Contents

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INDEPENDENT AUDITORS' 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, 2009 and 2008 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, 2009 and 2008, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of RIOC taken as a whole. The supplemental schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of RIOC. These schedules are the responsibility of the RIOC's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated May 29, 2009 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 29, 2009

I. INTRODUCTION

The financial statements of The Roosevelt Island Operating Corporation are presented under the concept of enterprise fund accounting. 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 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 statements of net assets, statements of activities and statements of cash flows.

STATEMENTS OF NET ASSETS

	2009	2008
Current and other assets	$ 53,270,914	44,620,424
Capital assets, net	42,580,086	32,098,802
Total assets	$ 95,851,000	76,719,226
Total liabilities	$ 17,895,517	17,394,852
Net assets:		
Investment in capital assets	42,580,086	32,098,802
Restricted for capital projects	30,619,642	13,928,883
Unrestricted	4,755,755	13,296,689
Total net assets	$ 77,955,483	59,324,374

On RIOC's statement of net assets at March 31, 2009, total assets of $95,851,000 exceeded total liabilities of $17,895,517 by $77,955,483 (total net assets). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling $42,580,086, cash and investments totaling $48,693,093 and other assets of $4,577,821. Liabilities are comprised of accounts payable of $718,876, deferred revenue of $15,646,113, other postemployment benefits of $847,695, and other liabilities totaling $682,833. 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, $30,619,642 is available to be used to meet ongoing capital obligations. Additionally, $4,755,755 is available for ongoing operational expenses.

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 revenue is recorded when earned. The statements of activities details program revenue by major source and expenses by natural classification and indicates the change in net assets. RIOC's total revenue amounted to $19,975,482, which includes $19,210,501 in revenue identified as program revenue and $764,981 of non-program specific revenue, primarily interest income earned on investments. Total expenses were $20,116,488 and $18,335,814 for the years ended March 31, 2009 and 2008, respectively. RIOC had a decrease in its net assets from operations of $141,006 for the year ended March 31, 2009 as compared to an increase in its net assets from operations of $13,826,929 for the year ended March 31, 2008.

STATEMENTS OF ACTIVITIES

	2009	2008
Revenue:		
Residential fees	$ 1,606,840	10,667,985
Ground rent	7,608,878	10,246,062
Commercial rent	1,568,971	1,490,154
Tramway revenue	3,672,097	3,678,410
Public safety reimbursement	1,433,743	1,421,506
Transportation and parking	2,456,171	2,497,741
Interest income	764,981	1,591,703
Other revenue	863,801	569,182
Total revenue	19,975,482	32,162,743
Expenses:		
Personal services	9,137,755	7,637,015
Insurance	1,315,025	1,342,912
Professional and legal services	658,544	1,215,653
Management fees	3,401,635	3,215,381
Telecommunications	93,173	103,827
Repairs and maintenance	399,536	200,930
Vehicles maintenance	254,178	279,440
Equipment purchases/lease	182,611	113,179
Supplies/services	1,141,142	956,102
Depreciation expense	2,853,450	2,630,535
Other expenses	679,439	640,840
Total expenses	20,116,488	18,335,814
Operating income (loss)	$ (141,006)	13,826,929

III. CAPITAL ASSETS

The capital assets of $42,580,086 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of $10,481,284 from the prior year represents depreciation expense of $2,853,450 offset by additions of new capital assets valued at $13,334,734.

	2009	2008
Seawall	$ 2,920,202	2,828,770
Buildings	10,175,707	10,185,071
Land improvements	5,815,227	2,073,506
Machinery and equipment	3,380,141	3,602,177
Infrastructure	20,288,809	13,409,278
Net capital assets	$ 42,580,086	32,098,802

Total depreciation expense for all capital assets, including the completed portions of Southtown infrastructure, amounted to $2,853,450 and $2,630,535 for the years ended March 31, 2009 and 2008, 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 $42,580,086 and $32,098,802 at March 31, 2009 and 2008, 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 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. Improvements to such infrastructure items, however, are reported.

V. ECONOMIC FACTORS AFFECTING RIOC'S FUTURE FINANCIAL POSITION

The Tram Modernization project is currently in progress. A Grant Disbursement Agreement between RIOC and the Empire State Development Corporation for the Tram Modernization in the amount of $15,000,000 was executed on September 29, 2008 and the funds were received by RIOC in February 2009. The total project cost is estimated to be $25,000,000 to be expended over fiscal year 2008/2009 and 2009/2010. On November 14, 2008, the New York State Division of the Budget and the New York State Executive Chamber approved the request for RIOC to enter into contract for the Tram Modernization project.

The Southtown Development Project is proceeding. Construction of Southtown building six commenced in June 2007 and completion is anticipated by year end 2009. As per the lease agreement, Southtown buildings five and six will generate conversion fees to RIOC for each condominium sale. Due to the downturn in the housing market, the development of Southtown buildings seven, eight and nine may be shelved. The developers have until December 31, 2012 to decide.

The Southpoint Park project has started phase I construction. The stabilization of the Renwick Ruins portion of the project will be completed in May 2009. The total project cost of $13,400,000 has been secured as follows: City of New York $4,500,000, State of New York $4,400,000 and the remaining $4,500,000 from RIOC funding.

The Franklin D. Roosevelt Four Freedoms Park is in the process of securing funding for the first of three phases of construction. Construction is anticipated to start in the summer of 2009. To date, the State of New York has appropriated $4,000,000 and the City of New York has appropriated $4,500,000. The balance is to be raised privately by the developer.

RIOC continues to implement its five year capital management plan. Projects slated for fiscal year 09/10 include, but are not limited to: Main Street and island wide road improvements, seawall and utilities infrastructure; renovation to sports fields, parks, mortgage parking facility, HVAC system and building, and sportspark facility; tramway overhaul, public safety office, island wide geographic information system and wireless security camera system and off-site data recovery system.

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, The 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, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash	$ 438,683	142,019
Investments	48,254,410	43,048,752
Capital grant receivable for stabilization of Renwick Ruins	3,772,115	-
Receivables	711,743	1,296,150
Prepaid expenses	24,067	10,218
Total current assets	53,201,018	44,497,139
Security deposits	69,896	123,285
Capital assets, net of accumulated depreciation	42,580,086	32,098,802
Total assets	$ 95,851,000	76,719,226

Liabilities and Net Assets	2009	2008
Current liabilities - accounts payable and accrued expenses	718,876	433,763
Security deposits	69,896	121,084
Compensated absences	478,151	421,597
Deferred revenue	15,646,113	15,955,344
Postemployment benefits other than pension	847,695	411,357
Other liabilities	134,786	51,707
Total liabilities	17,895,517	17,394,852
Net assets:		
Investment in capital assets	42,580,086	32,098,802
Restricted for capital projects	30,619,642	13,928,883
Unrestricted net assets	4,755,755	13,296,689
Total net assets	77,955,483	59,324,374
Commitments and contingencies (note 9)		
Total liabilities and net assets	$ 95,851,000	76,719,226

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, 2009 and 2008

	2009	2008
Operating revenue:		
Residential fees	$ 1,606,840	10,667,985
Ground rent	7,608,878	10,246,062
Commercial rent	1,568,971	1,490,154
Tramway revenue	3,672,097	3,678,410
Public safety reimbursement	1,433,743	1,421,506
Transportation and parking	2,456,171	2,497,741
Interest income	764,981	1,591,703
Other revenue	863,801	569,182
Total operating revenue	19,975,482	32,162,743
Operating expenses:		
Personal services	9,137,755	7,637,015
Insurance	1,315,025	1,342,912
Professional services	451,874	1,007,636
Management fees	3,401,635	3,215,381
Legal services	206,670	208,017
Telecommunications	93,173	103,827
Repairs and maintenance	399,536	200,930
Vehicles maintenance	254,178	279,440
Equipment purchases/lease	182,611	113,179
Supplies/services	1,141,142	956,102
Depreciation expense	2,853,450	2,630,535
Other expenses	679,439	640,840
Total operating expenses	20,116,488	18,335,814
Operating income (loss)	(141,006)	13,826,929
Net asset at beginning of year	59,324,374	45,497,445
Capital contributions for tramway modernization	15,000,000	-
Capital contributions for stabilization of Renwick Ruins	3,772,115	-
Net asset at end of year	$ 77,955,483	59,324,374

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, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Receipts from tenants and customers	$ 20,721,759	35,963,694
Payments related to employees	(9,074,482)	(7,547,534)
Payments to vendors	(7,810,221)	(8,078,381)
Net cash provided by operating activities	3,837,056	20,337,779
Cash flow from investing activities - purchase of capital assets	(13,334,734)	(4,174,996)
Cash flow from financing activities:		
Purchase of investments	(5,205,658)	(16,812,964)
Capital contributions for tramway modernization	15,000,000	-
Net cash provided by (used in) financing activities	9,794,342	(16,812,964)
Net increase (decrease) in cash	296,664	(650,181)
Cash at beginning of year	142,019	792,200
Cash at end of year	$ 438,683	142,019
Cash flows from operating activities:		
Operating income (loss)	(141,006)	13,826,929
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,853,450	2,630,535
Provision for bad debt	(3,500)	(26,789)
Changes in:		
Receivables	587,907	33,528
Prepaid expenses	(13,849)	733,978
Security deposits	2,201	(2,201)
Accounts payable and accrued expenses	285,113	(657,497)
Compensated absences	56,554	1,752
Deferred revenue	(309,231)	3,385,056
Postemployment benefits other than pension	436,338	411,357
Other liabilities	83,079	1,131
Net cash provided by operating activities	$ 3,837,056	20,337,779

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, 2009, 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 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, 2009 and 2008:

		2009	2008
Cash - deposits	$	438,683	142,019
Investments:			
Certificates of deposit		278,242	36,152,494
Money market accounts		47,976,168	6,896,258
		48,254,410	43,048,752
	$	48,693,093	43,190,771

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

As of March 31, 2009 and March 31, 2008, the market value of collateral securities held in escrow by JP Morgan Chase Bank, NA and managed by the National Collateral Management Group was $50,401,607 and $45,423,072, respectively.

Investments managed internally consist of certificates of deposit with purchased maturities less than three months and interest bearing cash deposit accounts. During the year ended March 31, 2009, PFM Asset Management, LLC was hired to manage a portion of RIOC's investments. 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, 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.

(2) Summary of Significant Accounting Policies, Continued

(d) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported on the statements 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. For the year ended March 31, 2009, employees were allowed to accrue an additional 35 hours due to the cancellation of the State policy to purchase up to 35 hours of accrued time. All such pay is accrued when incurred in the accompanying financial statements.

(g) 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, 2009 are summarized as follows:

	Balance at April 1, 2008	Increase	Decrease	Balance at March 31, 2009
Capital assets:				
Seawall	$ 3,500,000	139,688	-	3,639,688
Buildings and building improvements	33,934,785	890,543	-	34,825,328
Landmarks	8,092,401	3,949,487	-	12,041,888
Vehicles	2,523,279	240,500	-	2,763,779
Equipment	2,957,132	283,244	-	3,240,376
Infrastructure	18,509,729	7,831,272	-	26,341,001
Total capital assets	69,517,326	13,334,734	-	82,852,060
Less accumulated depreciation:				
Seawall	(671,230)	(48,256)	-	(719,486)
Buildings and building improvements	(23,749,714)	(899,907)	-	(24,649,621)
Landmarks	(6,018,895)	(207,766)	-	(6,226,661)
Vehicles	(599,454)	(257,968)	-	(857,422)
Equipment	(1,278,780)	(487,812)	-	(1,766,592)
Infrastructure	(5,100,451)	(951,741)	-	(6,052,192)
Total accumulated depreciation	(37,418,524)	(2,853,450)	-	(40,271,974)
Net capital assets	$ 32,098,802	10,481,284	-	42,580,086

(3) Capital Assets, Continued

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

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

Operating revenue in the accompanying statements 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 increased $100,000 annually through August 4, 2007. 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 the revenue of the Motorgate parking facility. Ground rents earned under the terms of this lease totaled approximately $3,725,000 and $3,625,000 for the years ended March 31, 2009 and 2008, respectively.

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. Ground rents earned totaled $1,145,218 and $1,044,634 for the years ended March 31, 2009 and 2008, respectively.

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 public safety reimbursement 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 franchise fee expense associated with this agreement that is ½ of 1 percent of gross sales. It should be noted that the Tramway overhaul project is scheduled to take the Tram out of service for approximately six months commencing July 2009, which will have a significant impact on both revenue 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 $1,874,000 and $1,811,000 for the years ended March 31, 2009 and 2008, respectively.

Bus and parking meter revenues totaled $581,865 and $686,741 for the years ended March 31, 2009 and 2008, respectively.

(e) De-designation Fee Income

The development agreement for Southtown buildings five through nine between Hudson Related, Joint Venture and RIOC included a contingent de-designation (cancellation of project or portion of) fee of $2,252,198. As of the date of this report, due to market conditions, Southtown buildings seven, eight and nine may not be developed before the determination date of December 31, 2012, which would result in a pro-rata de-designation fee income of approximately $1,500,000. The agreement is collateralized by a letter of credit issued by Deutsche Bank Trust Company, NA in the amount of $2,252,198, maturing on August 15, 2009, to be renewed annually.

(f) 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
2010	$ 9,781,562	1,547,783
2011	10,390,907	1,693,560
2012	11,312,446	1,829,704
2013	13,096,111	1,860,446
2014	14,376,770	1,893,398
	$ 58,957,796	8,824,891

(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 July 6, 2009. 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 $233,000 and $222,000 per month in 2009 and 2008, respectively. Termination of the Doppelmayr agreement will result in union severance payments of approximately $160,000.

(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

(7) Retirement Plans, Continued

(a) Non-Union Employees:

(2) Funding Policy, Continued

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, 2007	$ 141,083
March 31, 2008	175,362
March 31, 2009	264,157

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 $162,339 and $107,037 for the years ended March 31, 2009 and 2008, 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, 2009 and 2008 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 years ended March 31, 2009 and 2008 approximated $86,000.

(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.

(9) Commitments and Contingencies, Continued

(c) Prior Years NewYork State Appropriations

On January 30, 2009, the Office of the State Comptroller of the State of New York, requested confirmation of the following potential liabilities:

Appropriation # 0060083	fiscal year	89/90	$ 1,299,964
Appropriation # 0066230	fiscal year	90/91	2,463,531
Appropriation # 0071968	fiscal year	91/92	2,702,481
Appropriation # 0078460	fiscal year	92/93	1,346,400
Appropriation # 0084266	fiscal year	93/94	1,648,254
			$ 9,460,630

The above were appropriations paid to RIOC to subsidize general fund operations. Management's position is that all appropriations were fully spent resulting in no unspent funds. It is management's view, based on preliminary internal findings, that due to the fact that there were no unspent funds, the above potential liability will be resolved with an outcome of no amount due to the State of New York.

(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" effective for its fiscal year beginning April 1, 2007.

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 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.

(10) Postemployment Benefits Other Than Pensions, Continued

Total expenditures charged to operations for the years ended March 31, 2009 and 2008 amounted to $473,981 and $443,547, respectively. At March 31, 2009, the liability for retired employees included in noncurrent accrued fringe benefits amounted to $847,695.

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 years ended March 31, 2009 and 2008, the Corporation's annual OPEB cost amounted to $473,981 and $443,547, respectively.

Benefit Obligations and Normal Cost	2009	2008
Actuarial accrued liability (AAL):		
Retired employees	$ 3,085,595	3,085,595
Active employees	523,533	523,533
Total	$ 3,609,128	3,609,128
Underfunded actuarial accrued liability (UAAL)	$ 3,609,128	3,609,128
Normal cost at beginning of year	$ 402,657	402,657
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 472,806	443,547
Interest on net OPEB obligation	16,454	-
Adjustment to annual required contribution	(15,279)	-
Annual OPEB cost (expense)	473,981	443,547
Contribution made on a pay-as-you-go basis	(37,643)	(32,190)
Increase in net OPEB obligation	436,338	411,357
Net OPEB obligation at beginning of year	411,357	-
Net OPEB obligation at end of year	$ 847,695	411,357

(10) Postemployment 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%
2009 Medical trend rate (Health/Drugs)	12%/12%
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, 2009	29 years

(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. 51 - "Accounting and Financial Reporting for Intangible Assets," establishes accounting and financial reporting requirements for intangible assets in an effort to reduce inconsistencies in accounting and financial reporting of intangible assets. The requirements of the statement are effective for periods beginning after June 15, 2009, which is fiscal year beginning April 1, 2010 for RIOC. This statement is not expected to have a material effect on future financial statements of RIOC.

GASB Statement No. 52 - "Land and Other Real Estate Held as Investments by Endowments," establishes consistent standards for the reporting of land and other real estate held as investments by similar entities and requires endowments to report their land and other real estate investments at fair value. The requirements of the statement are effective for periods beginning after June 15, 2008, which is the fiscal year beginning April 1, 2009 for RIOC. This statement is not expected to have a material effect on future financial statements of RIOC.

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

GASB Statement No. 53 - "Accounting and Financial Reporting for Derivative Instruments," addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments, and requires governments to test the effectiveness of derivative instruments, and record ineffective derivative instruments at fair value. The requirements of the statement are effective for periods beginning after June 15, 2009, which is the fiscal year beginning April 1, 2010 for RIOC. This statement is not expected to have a material effect on future financial statements of RIOC.

GASB Statement No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions," enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The requirements of the statement are effective for periods beginning after June 15, 2010, which is the fiscal year beginning April 1, 2011 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

The Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Schedule of Operations by Department
Year ended March 31, 2009

	General Fund									
	Operations	Public Safety	Bus	Parking	Parks/Rec.	Tram	Public purpose fund	Capital fund	Reserved fund	Total
Operating revenue:										
Residential fees	$ 469,006	-	-	-	-	-	-	1,097,557	40,277	1,606,840
Ground rent	7,608,878	-	-	-	-	-	-	-	-	7,608,878
Commercial rent	1,568,971	-	-	-	-	-	-	-	-	1,568,971
Tramway revenue	-	-	-	-	-	3,672,097	-	-	-	3,672,097
Public safety reimbursement	-	1,433,743	-	-	-	-	-	-	-	1,433,743
Transportation and parking	-	-	456,624	1,999,547	-	-	-	-	-	2,456,171
Interest income	196,552	-	-	-	-	-	6,768	302,358	259,303	764,981
Other revenue	236,777	-	-	-	627,024	-	-	-	-	863,801
Total operating revenue	10,080,184	1,433,743	456,624	1,999,547	627,024	3,672,097	6,768	1,399,915	299,580	19,975,482
Operating expenses:										
Personal Services:										
Salaries	3,413,144	1,922,603	583,443	-	418,652	-	-	-	-	6,337,842
Temporary employees	109,146	27,998	-	-	21,584	-	-	-	-	158,728
Employee benefits	1,746,422	479,630	223,372	-	135,207	-	-	-	-	2,584,631
Compensated absences	56,554	-	-	-	-	-	-	-	-	56,554
Total personal services	5,325,266	2,430,231	806,815	-	575,443	-	-	-	-	9,137,755
Other Than Personal Services:										
Insurance	875,382	-	-	-	-	439,643	-	-	-	1,315,025
Professional services	300,813	-	-	-	24,190	158,108	-	(31,237)	-	451,874
Management fees	-	-	-	688,770	-	2,712,865	-	-	-	3,401,635
Legal services	164,294	-	-	-	-	-	-	42,376	-	206,670
Telecommunications	93,173	-	-	-	-	-	-	-	-	93,173
Repairs and maintenance	347,571	-	15,168	1,473	31,082	4,242	-	-	-	399,536
Vehicles maintenance	33,998	29,315	190,035	-	830	-	-	-	-	254,178
Equipment purchases/ lease	149,728	19,772	1,286	-	872	10,953	-	-	-	182,611
Supplies/ services	521,511	128,830	36,312	88,334	98,119	268,036	-	-	-	1,141,142
Depreciation expense	-	-	-	-	-	-	-	2,853,450	-	2,853,450
Other expenses	98,453	34,852	3,521	-	123,853	139,434	279,326	-	-	679,439
Total other than personal services	2,584,923	212,769	246,322	778,577	278,946	3,733,281	279,326	2,864,589	-	10,978,733
Total operating expenses	7,910,189	2,643,000	1,053,137	778,577	854,389	3,733,281	279,326	2,864,589	-	20,116,488
Operating income (loss)	$ 2,169,995	(1,209,257)	(596,513)	1,220,970	(227,365)	(61,184)	(272,558)	(1,464,674)	299,580	(141,006)

The Roosevelt Island Operating Corporation
(A Component Unit of the State of New York)
Schedule of Operations by Department
Year ended March 31, 2008

	General Fund									
	Operations	Public Safety	Bus	Parking	Parks/Rec.	Tram	Public purpose fund	Capital fund	Reserved fund	Total
Operating revenue:										
Residential fees	$ 546,365	-	-	-	-	-	-	4,661,839	5,459,781	10,667,985
Ground rent	10,246,062	-	-	-	-	-	-	-	-	10,246,062
Commercial rent	1,490,154	-	-	-	-	-	-	-	-	1,490,154
Tramway revenue	-	-	-	-	-	3,678,410	-	-	-	3,678,410
Public safety reimbursement	1,421,506	-	-	-	-	-	-	-	-	1,421,506
Transportation and parking	129,145	-	557,912	1,810,684	-	-	-	-	-	2,497,741
Interest income	259,713	-	-	-	-	-	37,577	1,024,756	269,657	1,591,703
Other revenue	326,636	100	-	-	242,446	-	-	-	-	569,182
Total operating revenue	14,419,581	100	557,912	1,810,684	242,446	3,678,410	37,577	5,686,595	5,729,438	32,162,743
Operating expenses:										
Personal Services:										
Salaries	2,546,665	1,529,352	788,145	-	326,437	-	-	-	-	5,190,599
Temporary employees	143,827	4,755	-	-	3,600	-	-	-	-	152,182
Employee benefits	1,569,958	421,891	195,220	-	105,413	-	-	-	-	2,292,482
Compensated absences	1,752	-	-	-	-	-	-	-	-	1,752
Total personal services	4,262,202	1,955,998	983,365	-	435,450	-	-	-	-	7,637,015
Other Than Personal Services:										
Insurance	1,014,392	-	-	-	-	328,520	-	-	-	1,342,912
Professional services	359,118	-	-	-	95,184	124,555	-	428,779	-	1,007,636
Management fees	-	-	-	632,541	-	2,582,840	-	-	-	3,215,381
Legal services	206,760	-	-	1,257	-	-	-	-	-	208,017
Telecommunications	103,827	-	-	-	-	-	-	-	-	103,827
Repairs and maintenance	155,529	-	5,586	1,500	11,392	12,627	-	14,296	-	200,930
Vehicles maintenance	165,539	11,890	102,011	-	-	-	-	-	-	279,440
Equipment purchases/ lease	83,099	8,819	5,020	-	-	16,241	-	-	-	113,179
Supplies/ services	399,233	42,701	32,348	107,394	69,473	304,953	-	-	-	956,102
Depreciation expense	-	-	-	-	-	-	-	2,630,535	-	2,630,535
Other expenses	118,479	1,130	7,803	-	125,422	151,975	236,031	-	-	640,840
Total other than personal services	2,605,976	64,540	152,768	742,692	301,471	3,521,711	236,031	3,073,610	-	10,698,799
Total operating expenses	6,868,178	2,020,538	1,136,133	742,692	736,921	3,521,711	236,031	3,073,610	-	18,335,814
Operating income (loss)	$ 7,551,403	(2,020,438)	(578,221)	1,067,992	(494,475)	156,699	(198,454)	2,612,985	5,729,438	13,826,929

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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

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, 2009, and have issued our report thereon dated May 29, 2009. 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 have reported to the management of RIOC in a separate letter dated May 29, 2009.

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 29, 2009

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INDEPENDENT AUDITORS' 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, 2009, and have issued our report thereon dated May 29, 2009.

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 29, 2009