



FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY INFORMATION

Apple Industrial Development Corp.
(a component unit of the New York City Economic
Development Corporation)
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Financial Statements, Required Supplementary Information and
Supplementary Information

Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
Apple Industrial Development Corp.

We have audited the accompanying balance sheets of Apple Industrial Development Corp. (“Apple”), a component unit of the New York City Economic Development Corporation, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of Apple’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 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. We were not engaged to perform an audit of Apple’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Apple’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Apple Industrial Development Corp. as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012 on our consideration of Apple’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Accounting principles generally accepted in the United States require that management's discussion and analysis and the schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Apple's financial statements. The combining statements of revenues, expenses and changes in fund net assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

September 28, 2012

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Management's Discussion and Analysis

June 30, 2012 and 2011

This section of Apple Industrial Development Corp.'s ("Apple") annual financial report presents our discussion and analysis of Apple's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the financial statements and accompanying notes.

2012 Financial Highlights

- Property rentals increased \$30.6 million (or 28%)
- Operating expenses increased \$34.1 million (or 46%)
- Operating income decreased \$3.9 million (or 8%)
- Payments to New York City Economic Development Corporation decreased \$3.5 million (or 7%)
- Cash and investments increased \$37.8 million (or 162%)
- Tenant receivables, net of allowance increased \$67.0 million (or 275%)
- Accounts payable and accrued expenses increased \$1.3 million (or 26%)
- Due to New York City Economic Development Corporation increased \$26.5 million (or 200%)
- Unearned revenues increased \$75.2 million (or 525%)

Overview of the Financial Statements

This annual financial report consists of four parts: *management's discussion and analysis* (this section), *basic financial statements, required supplementary information* and *supplementary information*. Apple is a local development corporation created in 1980 and is a component unit of the New York City Economic Development Corporation ("EDC"), a local development corporation.

Apple is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Corporation. These statements are presented in a manner similar to a private business, such as a property management company. While detailed general ledger information is not presented, separate general ledger accounts are maintained for each property to control and manage transactions for specific purposes and to demonstrate that Apple is properly performing its contractual obligations.

Financial Analysis of the Corporation

Net Assets

The following table summarizes Apple's financial position at June 30, 2012, 2011 and 2010 (dollars in thousands) and the percentage changes between June 30, 2012 and 2011:

	2012	2011	2010	% Change 2012 – 2011
Current and other assets	\$ 152,635	\$ 48,017	\$ 37,504	218%
Capital assets	845	933	83	(10%)
Total assets	<u>\$ 153,480</u>	<u>\$ 48,950</u>	<u>\$ 37,587</u>	214%
Current liabilities	\$ 75,189	\$ 32,772	\$ 22,297	129%
Non-current liabilities	66,991	5,813	6,258	1,052%
Total liabilities	<u>\$ 142,180</u>	<u>\$ 38,585</u>	<u>\$ 28,555</u>	268%
Net assets:				
Restricted	\$ 10,403	\$ 9,380	\$ 8,896	11%
Unrestricted	52	52	53	0%
Invested in capital assets	845	933	83	(9%)
Total net assets	<u>\$ 11,300</u>	<u>\$ 10,365</u>	<u>\$ 9,032</u>	9%

As of June 30, 2012, total assets increased approximately \$104.5 million or 214% primarily due to an increase in cash and investments in the amount of \$37.8 million or 162% and a \$67.0 million or 275% increase in tenant receivables. The increase in cash and investments was a result of both additional rental income and prepaid rent received in connection with the new portfolio established for 42nd Street Development Project of \$27.0 million as well as current year operating results. The increase in tenant receivables was primarily due to new receivables for certain recoverable costs for Forest City ground leases.

Total liabilities during fiscal year 2012 increased by \$103.6 million or 268%. This increase was partly the result of higher unearned revenues of \$75.2 million, reflecting recoverable site acquisition costs for Forest City ground leases for Jay Street (\$37.2 million), Bridge Street (\$9.3 million) and Tech Place (\$7.0 million). The aforementioned unearned revenues related to Forest City ground leases are expected to be recognized as income over the next 20 years. Unearned revenues were further increased by \$20.0 million received for 42nd Street Development Project that is earmarked for public purpose projects not yet initiated. In addition, amounts due to EDC increased by \$26.5 million, or 200%, as result of cash received from various revenue sources not yet remitted to EDC. Lastly, accrued expenses were higher by \$1.3 million, or 26%, driven mainly by collection of 42nd Street property rental revenues, payments in lieu of taxes (“PILOT”), and surcharges collected on behalf of the City.

Apple’s net assets as of June 30, 2012 increased by approximately \$1.0 million or 9% as a result of current year earnings .

Prior Year

During fiscal year 2011, total assets increased approximately \$11.4 million or 30% primarily due to an increase in cash and investments in the amount of \$7.1 million or 43% and a \$3.3 million or 16% increase in tenant receivables. The increase in cash and investments was a result of current year operating results, as well as \$2.7 million in prepaid rent received in connection with the new accounts established for the 42nd Street Development Project.

Operating Activities

Apple manages various City owned properties that provide for the payment of minimum rental amounts, plus provisions for additional rent. Apple also charges fees in the form of tenant reimbursements for electricity, heating and water that it provides at these properties. Landing fees are also generated at various piers. Property rental earnings represent Apple’s major source of operating revenues.

The following table summarizes Apple's change in net assets for the fiscal years ended June 30, 2012, 2011 and 2010 (dollars in thousands) and the percentage changes between fiscal years 2012 and 2011:

	2012	2011	2010	% Change 2012 – 2011
Operating revenues:				
Property rentals	\$ 140,389	\$ 109,770	\$ 96,391	28%
Tenant reimbursements	6,628	6,852	6,896	(3%)
Fees and other income	7,521	7,754	9,112	(3%)
Total operating revenues	154,538	124,376	112,399	24%
Operating expenses:				
Property related expenses	72,592	37,756	34,750	92%
Personnel services	1,203	1,327	1,298	(9%)
Contracted personnel services	33,764	34,337	22,190	(2%)
Other expenses	755	791	1,060	(5%)
Total operating expenses	108,314	74,211	59,298	46%
Operating income	46,224	50,165	53,101	(8%)
Non-operating revenue:				
Interest income	68	69	31	(2%)
Income before transfers	46,292	50,234	53,132	(8%)
Payments to EDC	(45,357)	(48,901)	(51,730)	(7%)
Change in net assets	935	1,333	1,402	(30%)
Beginning net assets	10,365	9,032	7,630	15%
Ending net assets	\$ 11,300	\$ 10,365	\$ 9,032	9%

During fiscal year 2012, total operating revenues increased by \$30.1 million or 24% as a result of higher lease revenue from the new portfolio established for 42nd Street Development Project and new Forest City ground lease revenues.

Total operating expenses during the current year increased by \$34.1 million or 46% primarily stemming from lease payments of \$29.3 million received from the 42nd Street Development Project which is ultimately due to the City. In addition, Apple incurred higher professional fees of \$2.3 million for facility management services rendered, mainly for Manhattan Cruise Terminal.

Prior Year

During fiscal year 2011, total operating revenues increased by \$12.0 million or 11% primarily as a result of higher lease revenue from tenants of \$6.2 million. In addition, there was an increase of \$2.3 million for dockage fees from Ports America at the Manhattan Cruise Terminal, as well as additional revenue from Atlantic Center Fort Green (\$3.3 million) and Albee Development (\$3.0 million).

Contacting Apple's Financial Management

This financial report is designed to provide our customers, clients and the public with a general overview of Apple's finances and to demonstrate Apple's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Public Information Officer, New York City Economic Development Corporation, 110 William Street, New York, NY 10038.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Balance Sheets

	June 30	
	2012	2011
Assets		
Current assets:		
Cash (Notes 2 and 7)	\$ 15,273,493	\$ 3,181,334
Investments (Notes 2 and 7)	52,247	52,195
Tenant receivables, net of allowance for uncollectible amounts of \$9,284,274 and \$11,789,989, respectively	37,849,231	24,374,879
Prepaid expenses and other current assets	193,091	331,812
Total current assets	53,368,062	27,940,220
Non-current assets:		
Cash – restricted (Notes 2 and 7)	45,686,938	19,977,228
Investments – restricted	99,779	99,779
Tenant receivable	53,480,527	–
Capital assets, net	844,440	932,854
Total non-current assets	100,111,684	21,009,861
Total assets	\$ 153,479,746	\$ 48,950,081
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,297,700	\$ 4,967,200
Due to New York City Economic Development Corporation (Note 3)	39,792,787	13,284,120
Unearned revenues	28,743,819	14,340,364
Other liabilities	354,067	180,402
Total current liabilities	75,188,373	32,772,086
Non-current liabilities:		
Unearned revenues	60,862,302	–
Tenant security deposits	4,994,639	4,699,343
Obligation for other postemployment benefits	1,134,638	1,113,415
Total non-current liabilities	66,991,579	5,812,758
Total liabilities	142,179,952	38,584,844
Net assets:		
Restricted under agreements	10,403,107	9,380,188
Unrestricted	52,247	52,195
Invested in capital assets	844,440	932,854
Total net assets (Note 12)	11,299,794	10,365,237
Total liabilities and net assets	\$ 153,479,746	\$ 48,950,081

See accompanying notes.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Statements of Revenues, Expenses and Changes in Fund Net Assets

	Year Ended June 30	
	2012	2011
Operating revenues:		
Property rentals	\$ 140,388,669	\$ 109,770,348
Tenant reimbursements	6,628,381	6,852,237
Fee income	235,445	105,625
Other income	7,285,272	7,648,222
Total operating revenues	154,537,767	124,376,432
Operating expenses:		
Property rentals and related operating expenses	72,592,185	37,756,066
Personnel services	1,203,480	1,327,307
Contracted personnel services	33,763,396	34,336,465
Provision for uncollectible rents	755,105	790,941
Total operating expenses	108,314,166	74,210,779
Operating income	46,223,601	50,165,653
Non-operating revenues:		
Interest income	67,462	68,716
Payments to New York City Economic Development Corporation	(45,356,506)	(48,900,921)
Change in net assets	934,557	1,333,448
Total net assets, beginning of year	10,365,237	9,031,789
Total net assets, end of year	\$ 11,299,794	\$ 10,365,237

See accompanying notes.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
Cash flows from operating activities		
Property rentals, tenant reimbursements and fee income	\$ 154,111,738	\$ 95,295,036
Other income	4,372,707	6,892,722
Property rentals and related operating expenses	(53,008,272)	(25,057,302)
Personnel services	(1,130,017)	(1,181,988)
Net cash provided by operating activities	104,346,156	75,948,468
Cash flows from investing activities		
Sale of investments	–	6,878,253
Interest income	67,410	69,022
Net cash provided by investing activities	67,410	6,947,275
Cash flows from capital financing activities		
Purchase of capital assets	(48,438)	(930,205)
Net cash used in capital financing activities	(48,438)	(930,205)
Cash flows from non-capital financing activities		
Payment to New York City Economic Development Corporation	(66,563,259)	(68,000,000)
Net cash used in non-capital financing activities	(66,563,259)	(68,000,000)
Net increase in cash	37,801,869	13,965,538
Cash at beginning of year	23,158,562	9,193,024
Cash at end of year	\$ 60,960,431	\$ 23,158,562
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 46,223,601	\$ 50,165,653
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	136,852	80,148
Provision for uncollectible rent	755,105	790,941
Net cash provided by nonoperating activities	21,206,753	19,099,079
Changes in operating assets and liabilities:		
Tenant receivables	(67,709,984)	(4,131,862)
Prepaid expenses and other current assets	138,721	(85,488)
Tenant security deposits	295,296	(530,290)
Obligation for OPEB	21,223	85,415
Accounts payable and accrued expenses	1,330,500	1,655,343
Due to New York City Economic Development Corporation	26,508,667	4,905,024
Unearned revenue and other liabilities	75,439,422	3,914,505
Net cash provided by operating activities	\$ 104,346,156	\$ 75,948,468

See accompanying notes.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements

June 30, 2012

1. Background and Organization

Apple Industrial Development Corp. (“Apple” or the “Corporation”), a component unit of the New York City Economic Development Corporation (“EDC”), is a local development corporation, organized pursuant to Section 1411 of the Not-for-Profit Corporation Law (“NPCL”) of the State of New York. EDC was organized to administer certain economic development programs on behalf of the City of New York (The “City”). Apple has contracted with EDC to provide management and maintenance services for various properties under lease to or owned by EDC; wharf, waterfront, public market and aviation properties that EDC is responsible for managing under the NYCEDC Maritime Contract; and other properties EDC is responsible for managing pursuant to the NYCEDC Master Contract or pursuant to other arrangements by the City (the “Contract Services”). The Contract Services represent a subcontract under a contract between EDC and the City (the “Subcontract”) and, accordingly, Apple has agreed to comply with the terms of the contract between EDC and The City.

Currently, EDC is seeking legal restructuring that is expected to be completed during fall 2012. EDC will remain a not-for-profit corporation organized under NPCL and its revenues will be exempt from federal income tax under Section 115 of the Internal Revenue Code (“IRC Code”). Apple will be a component unit of the restructured entity, but will continue to operate under Section 501(c)(3) of the IRC Code.

In order to present the financial position and change in financial position of Apple in a manner consistent with limitations and restrictions placed upon the use of resources and EDC’s contractual agreement with the City and other third parties, Apple classifies its operation into the following four portfolios:

Commercial Leases Portfolio: Apple has been assigned the rights to manage certain non-cancelable EDC ground leases with The City. NYCEDC subleases the property to commercial and industrial tenants. The sublease agreements generally provide for minimum rentals plus provisions for additional rent, and restrict the use of the land to the construction or development of commercial, manufacturing or industrial facilities.

Brooklyn Army Terminal Portfolio: The Brooklyn Army Terminal (“BAT”) is an industrial property owned by The City which is leased to EDC and managed by Apple on EDC’s behalf. Under the terms of the BAT lease, a reserve account of \$500,000 was established from net BAT revenues for property operating and capital expenses.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

1. Background and Organization (continued)

Maritime Portfolio: This portfolio was established to account for Apple's management, promotion, expansion and development of waterfront, public market, public aviation and intermodal transportation properties on EDC's behalf pursuant to the Subcontract.

Other Properties Portfolio: This portfolio was established to account for the activities of Apple related to certain City-owned properties and other assets for which Apple assumed management responsibilities. Pursuant to an agreement between EDC and The City, the net revenue from three of the properties is retained by the fund for property operating and capital expenses or for expenses of projects in the area. The net assets retained as of June 30, 2012 and 2011 were \$10,747,547 and \$9,813,042, respectively. Net revenues exclude depreciation expenses. Any net revenues from the other properties are payable to EDC pursuant to the Subcontract.

42nd Street Portfolio: This portfolio was established as a joint effort between the City and the State of New York to redevelop 42nd Street into vibrant office and cultural center. Ownership currently resides with the State of New York and is expected to transfer to the City of New York once all related tenant approvals are obtained. Pursuant to agreements between the State, City and EDC, Apple assumed management and administrative responsibilities for all leases in connection with the 42nd Street Development Project. Apple collects and remits all rental revenues to EDC, who subsequently remits such revenues to the City pursuant to the agreement.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

Apple is a self-supporting entity and follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. In its accounting and financial reporting, the Corporation follows the pronouncements of the Governmental Accounting Standards Board ("GASB").

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB No. 63”). GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Corporation does not anticipate the implementation of this standard will have an impact on its financial statements.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments; Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify the termination provisions in GASB No. 53, when a counterparty of an interest rate or commodity swap is replaced. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Corporation does not anticipate the implementation of this standard will have an impact on its financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB No. 65”). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Corporation has not completed the process of evaluating the impact that will result from adopting GASB No. 65.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue and Expense Classification

Apple distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing contract services in connection with Apple's principal on-going operations. The principal operating revenues are property rentals and tenant reimbursements. Other operating revenues consist of revenue for fees and other miscellaneous income. Apple's operating expenses include property rental charges, utility cost, personal service cost and related administration expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is Apple's policy to use restricted resources first, and then unrestricted resources as needed.

Cash

Restricted and unrestricted cash include amounts deposited with banks and on hand. Restricted cash is related to City operations administered under the Subcontract and, accordingly, such amounts are not available for use by Apple for purposes other than the Contract Services.

Investments

Restricted and unrestricted investments consist of certificates of deposit, U.S. treasury bills and commercial paper with original maturities greater than three months. All investments, except certificates of deposit, are carried at fair value. Certificates of deposit are valued at cost.

Allowance for Uncollectible Amounts

Apple provides an allowance for possible uncollectible amounts based on an analysis of receivables deemed to be uncollectible. Apple writes off the balances of those tenant receivables determined by management to be uncollectible.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property Rentals

Property rentals are recognized on a straight-line basis over the term of the lease.

Unearned Revenue

Unearned revenue consists primarily of unearned rental income from certain properties managed by Apple.

Tax Status

Apple is a New York State not-for-profit organization and is exempt from federal income tax under Section 501(c)(3) of the IRC Code.

3. Payments to EDC

Under the Subcontract, Apple is responsible for the collection of rent from tenants that occupy space in various markets, intermodal and waterfront properties, the Brooklyn Army Terminal (“BAT”), 42nd Street Development Project and other properties. Total revenues for the years ended June 30, 2012 and 2011 were \$154,605,229 and \$124,445,148, respectively. After netting the direct costs of the Contract Services and other operating expenses, aggregating \$108,314,166 and \$74,210,779 and withholding reserves per contractual agreement of \$934,557 and \$1,333,448 for the years ended June 30, 2012 and 2011, respectively, the amount due and payable to EDC amounted to \$45,356,506 and \$48,900,921 for fiscal years 2012 and 2011, respectively. The unpaid portion of amounts due to EDC at June 30, 2012 and 2011 was \$39,792,787 and \$13,284,120, respectively.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

4. Properties Managed by Apple on Behalf of EDC

The future minimum rental income as of June 30, 2012, payable by the tenants under the leases and subleases managed by Apple on behalf of EDC, all of which are accounted for as operating leases, are as follows (dollars in thousands):

Fiscal Year	Minimum Rental Income from BAT Tenants	Minimum Rental Income from Commercial Tenants	Minimum Rental Income from Transportation/ Commerce Tenants	Minimum Rental Income from 42 nd Street Development Project Tenants	Minimum Rental Income from Other Tenants	Total
2013	\$ 17,008	\$ 10,638	\$ 40,189	\$ 5,074	\$ 846	\$ 73,755
2014	15,022	10,537	38,457	5,074	775	69,865
2015	13,648	10,308	37,312	5,074	478	66,820
2016	11,131	9,415	35,467	5,074	123	61,210
2017	7,845	8,631	34,200	5,074	–	55,750
2018 – 2022	18,272	39,146	158,309	25,072	–	240,799
2023 – 2027	7,148	32,908	118,750	24,843	–	183,649
2028 – 2032	4,030	32,502	79,356	24,843	–	140,731
2033 – 2037	4,030	31,853	60,508	24,843	–	121,234
2038 – 2042	4,030	31,204	29,038	24,843	–	89,115
Thereafter	9,739	255,988	81,677	236,541	–	583,945
Total	\$ 111,903	\$ 473,130	\$ 713,263	\$ 386,355	\$ 2,222	\$ 1,686,873

The thereafter category includes 31 leases with expiration dates between July 1, 2043 and September 13, 2105.

5. Tenant Receivables – noncurrent

Pursuant to the ground leases with certain Forest City companies, costs incurred to acquire the properties prior to execution of these leases are to be reimbursed by the developer. The total to be repaid for these properties is \$53,480,527, of which \$37,173,977 is for Jay Street (One Metrotech Center), \$9,335,346 is for Bridge Street (Two Metrotech Center) and \$6,971,204 is for Tech Place (11 Metrotech Center). These receivables will be paid over a 20 year period as specified by the leases and are offset by an equal amount recorded in unearned revenues that will be recognized to revenue over the life of the agreements.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

6. Related-Party Transactions

Members of the Board of Directors of Apple are either officers or members of the Board of Directors of EDC.

EDC provides office facilities at no charge to Apple. Additionally, Apple charges no intercompany management fees to EDC in relation to the Contract Services.

EDC personnel provide accounting and administrative functions to Apple in connection with Apple's administration of the Contract Services. Costs for such services are included in Contracted Personnel Services on the accompanying Statement of Revenues, Expenses and Change in Fund Net Assets and amounted to \$33,763,396 and \$34,336,465 in the years ended June 30, 2012 and 2011, respectively.

7. Cash and Investments

Cash

The bank balance of Apple's deposits was \$62,388,163 as of June 30, 2012. Of the bank balance, \$7,112,090 was covered by federal depository insurance, and \$55,276,073 was collateralized with securities held by the pledging financial institutions' trust department in Apple's name.

Investments

Investments, which have maturities of less than one year at June 30, 2012, consisted of certificates of deposit in the amount of \$152,026. At June 30, 2011, Apple had investments in certificates of deposit in the amount \$151,974.

Apple's investment policy permits the Corporation to invest in obligations of the U.S. Government and its agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Investors Service, bankers' acceptances, and repurchase agreements.

Interest Rate Risk: The Corporation's formal investment policy limits investment maturities to those maturing within two years of the date of purchase as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: It is the Corporation's policy to limit its investments in debt securities to those rated in the highest rating category by at least two nationally recognized bond rating agencies.

Apple Industrial Development Corp.
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Notes to Financial Statements (continued)

7. Cash and Investments (continued)

Custodial Credit Risk: For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risks if the securities are uninsured and are not registered in the name of the Corporation.

The Corporation manages custodial credit risk by limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the Corporation. At June 30, 2012, the Corporation was not subject to custodial credit risk.

Concentration of Credit Risk: The Corporation places no limit on the amount it may invest in any one issuer. At June 30, 2012, the Corporation had 66% of its certificates of deposit issued by Carver Federal Savings Bank and 34% by JPMorgan Chase.

8. Pension Plan

Apple maintains a defined contribution pension plan, which covers substantially all employees with two or more years of service. The pension plan provides for a single contribution rate by Apple of 12% of the employees' Eligible Wages, as defined in the Code. Pension expense for the fiscal years ended June 30, 2012 and 2011 amounted to \$77,024 and \$81,251, respectively, and is included in personnel services in the accompanying statements of revenues, expenses and changes in fund net assets.

9. Postemployment Benefits Other than Pensions

Apple sponsors a single employer defined benefit health care plan that provides postemployment medical benefits for eligible retirees and their spouses. This plan was amended during February 2011 with the plan amendment effective July 1, 2011. The amendment includes revisions to the definition of what constitutes an eligible participant and the adoption of a plan close date of June 30, 2023. As a result of the amendment, the plan maintains the current benefit structure, but plan participation will continue for only certain groups of members, which are (i) all retired members, (ii) all active employees hired prior to April 1, 1986 who are ineligible for Medicare coverage when they depart NYCEDC, and (iii) all active employees who started working prior to January 1, 2011 and will meet the benefit eligibility requirement of age 60 or older with at least 10 years of service by June 30, 2023. Apple is not required to and does not issue a publicly available financial report for the plan.

Apple Industrial Development Corp.
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Notes to Financial Statements (continued)

9. Postemployment Benefits Other than Pensions (continued)

Benefit provisions and contribution requirements for the plan are established and amended through Apple’s Board of Directors and there is no statutory requirement for Apple to continue this plan for future Apple employees. The plan is a contributory plan with retirees subject to contributions established for either the Low or High version of the plan. Under the Low option, retirees make contributions in the amount of \$50 a month for single coverage and \$100 a month for family coverage. Under the High option, retiree contributions are \$100 a month for single coverage and \$200 a month for family. Additional costs may be incurred by the retiree under either the Low or High plan version. There was one retiree at both June 30, 2012 and 2011 who is receiving benefits under the Low version of the plan. Employer contributions are made on a pay as you go basis.

Apple’s annual OPEB cost for the plan is calculated based on the annual required contribution “ARC,” an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Apple’s annual OPEB cost for the current year and the related information for the plan are as follows (dollars in thousands):

	2012	2011
Annual required contribution	\$ 144	\$ 181
ARC adjustment	(144)	(127)
Interest on net OPEB obligation	47	41
Annual OPEB cost	47	95
Contributions made	(25)	(10)
Increase in net OPEB obligation	22	85
Net OPEB obligation – beginning of year	1,113	1,028
Net OPEB obligation – end of year	\$ 1,135	\$ 1,113

Apple Industrial Development Corp.
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Notes to Financial Statements (continued)

9. Postemployment Benefits Other than Pensions (continued)

Apple's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012, 2011 and 2010 were as follows (dollars in thousands):

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended June 30:			
2012	\$ 47	54%	\$ 1,135
2011	95	11%	1,113
2010	156	3%	1,028

The actuarial valuation date is June 30, 2010. The actuarial accrued liability for benefits as of this date was \$1,787,813, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$822,946 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 217.3%. Pursuant to the plan amendment during February 2011, the unfunded accrued liability as of June 30, 2010 was reduced to \$1,028,000.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information, provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between Apple and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Apple's June 30, 2012 OPEB obligation does not reflect any estimated or actual adjustments resulting from National Health Care Reform.

Apple Industrial Development Corp.
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Notes to Financial Statements (continued)

9. Postemployment Benefits Other than Pensions (continued)

For the June 30, 2010 actuarial valuation, the project unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 9% and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over a 30 year closed period on a level dollar basis. The remaining amortization period at June 30, 2012 was 23 years.

10. Commitments and Contingencies

Apple is involved directly, and in certain situations as co-defendant with The City and EDC, in litigation arising in the ordinary course of business. In management's opinion, such litigation is not expected to have a material adverse effect on the financial position of Apple.

11. Risk Management

Apple is exposed to various risks of loss-related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Apple carries commercial insurance coverage for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. Net Assets

In order to present its financial condition and operating results in a manner consistent with limitations and restrictions placed upon the use of resources, Apple classifies its net assets into restricted, unrestricted and invested in capital assets, net of related accumulated depreciation.

Invested in capital assets, net of accumulated depreciation, includes capital assets used in Apple's operations.

Restricted net assets include net assets that have been restricted for use in accordance with the terms of an agreement, award or by State law.

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

12. Net Assets (continued)

The restricted net assets generally relate to operations administered by contract on behalf of EDC and are not available for use by Apple for purposes other than the Contract Services. The restricted net assets may only be used for the specific purposes for which the funds were created. Upon termination of the Contract, or otherwise at the direction of EDC, the full amount of any restricted net assets may be payable by Apple back to EDC. Unrestricted net assets include all net assets not included above.

The changes in net assets during fiscal years 2012 and 2011 are as follows:

	Restricted	Unrestricted	Invested in Capital Assets	Total
Net assets, June 30, 2010	\$ 8,896,491	\$ 52,501	\$ 82,797	\$ 9,031,789
Income before transfers	28,824,081	21,410,288	–	50,234,369
Capital asset additions	(930,205)	–	930,205	–
Retirements/depreciation	80,148	–	(80,148)	–
Transfers	(27,490,327)	(21,410,594)	–	(48,900,921)
Net assets, June 30, 2011	9,380,188	52,195	932,854	10,365,237
Income before transfers	28,446,533	17,844,530	–	46,291,063
Capital asset additions	(48,438)	–	48,438	–
Retirements/depreciation	136,852	–	(136,852)	–
Transfers	(27,512,028)	(17,844,478)	–	(45,356,506)
Net assets, June 30, 2012	\$ 10,403,107	\$ 52,247	\$ 844,440	\$ 11,299,794

Required Supplementary Information

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Schedule of Funding Progress for the Retiree Health Care Plan

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
June 30, 2010 ⁽¹⁾	\$ -	\$ 1,788	\$ 1,788	0%	\$ 823	217.3%
June 30, 2008	\$ -	\$ 2,455	\$ 2,455	0%	\$ 1,140	215.4%
June 30, 2005	\$ -	\$ 1,955	\$ 1,955	0%	\$ 1,034	189.2%

⁽¹⁾ Effective July 1, 2011, the plan was amended to include revisions to the definition of what constitutes an eligible participant and the adoption of a plan close date of June 30, 2023. These amendments significantly reduced the number of current and future employees eligible for this benefit and resulted in an overall reduction in the actuarial accrued liability (“AAL”) at June 30, 2011.

Supplementary Information

Apple Industrial Development Corp.
(a component unit of the New York City Economic Development Corporation)

Combining Statements of Revenues, Expenses and Changes in Fund Net Assets

	Commercial Leases	Brooklyn Army Terminal	Maritime	Other Properties	42nd Street	Year Ended June 30	
						2012	2011
Operating revenues:							
Property rentals	\$ 22,165,271	\$ 17,512,459	\$ 68,788,406	\$ 2,624,503	\$ 29,298,030	\$ 140,388,669	\$ 109,770,348
Tenant reimbursements	333,843	4,104,863	2,182,362	7,313	-	6,628,381	6,852,237
Fee income	23,298	22,605	26,352	6,584	156,606	235,445	105,625
Other income	2,278,194	190,531	4,314,345	46,494	455,708	7,285,272	7,648,222
Total operating revenues	24,800,606	21,830,458	75,311,465	2,684,894	29,910,344	154,537,767	124,376,432
Operating expenses:							
Property rentals and related operating expenses	5,400,887	9,730,303	25,801,645	1,787,649	29,871,701	72,592,185	37,756,066
Personnel services	161,235	745,131	297,114	-	-	1,203,480	1,327,307
Contracted personnel services	1,387,169	124,681	32,251,546	-	-	33,763,396	34,336,465
Provision for uncollectible rents	35,621	327,987	249,121	71,068	71,308	755,105	790,941
Total operating expenses	6,984,912	10,928,102	58,599,426	1,858,717	29,943,009	108,314,166	74,210,779
Operating income (loss)	17,815,694	10,902,356	16,712,039	826,177	(32,665)	46,223,601	50,165,653
Non-operating revenues:							
Interest income	28,836	-	5,961	-	32,665	67,462	68,716
Total non-operating revenues	28,836	-	5,961	-	32,665	67,462	68,716
Payments to New York City Economic Development Corporation	(17,844,478)	(10,902,356)	(16,718,000)	108,328	-	(45,356,506)	(48,900,921)
Change in net assets	52	-	-	934,505	-	934,557	1,333,448
Total net assets, beginning of year	52,195	500,000	-	9,813,042	-	10,365,237	9,031,789
Total net assets, end of year	\$ 52,247	\$ 500,000	\$ -	\$ 10,747,547	\$ -	\$ 11,299,794	\$ 10,365,237

II. Government Auditing Standards Section

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards*

The Board of Directors
Apple Industrial Development Corp.

We have audited the balance sheet of Apple Industrial Development Corp. (“Apple”) a component unit of New York City Economic Development Corporation, as of June 30, 2012 and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States 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

Management of Apple is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Apple’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 Apple’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Apple’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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 Apple's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Ernst + Young LLP

September 28, 2012

Apple Industrial Development Corp.
(a component unit of New York City Economic Development Corporation)

Schedule of Findings and Responses

Year Ended June 30, 2012

Financial Statement Finding

There were no current year financial statement findings.

Apple Industrial Development Corp.
(a component unit of New York City Economic Development Corporation)

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2012

Reference #	Summary of Finding	Status
2011-01	Policies and Procedures – Apple’s Accounting Department does not maintain a comprehensive policies and procedures manual.	Fully Remediated

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