

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, 2014 and 2013  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

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, 2014 and 2013

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## Report of Independent Auditors

The Management and the Board of Directors  
Apple Industrial Development Corp.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Apple Industrial Development Corp. (“Apple”), a component unit of the New York City Economic Development Corporation, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Apple’s basic financial statements as listed in the table of contents.

### ***Management’s Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apple as of June 30, 2014 and 2013, 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.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles 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 which 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Apple's basic financial statements. The combining statement of revenues, expenses and changes in net position is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining statement of revenues, expenses and changes in net position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining statement of revenues, expenses and changes in net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated September 30, 2014, on our consideration of the 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* in considering Apple's internal control over financial reporting and compliance.

*Ernst + Young LLP*

September 30, 2014

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Management's Discussion and Analysis

June 30, 2014 and 2013

This section of Apple Industrial Development Corp.'s ("Apple" or the "Corporation") annual financial report presents our discussion and analysis of Apple's financial performance during the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the financial statements and accompanying notes.

**2014 Financial Highlights**

- Property rentals increased \$18.2 million (or 11%)
- Operating expenses increased \$25.0 million (or 22%)
- Operating income decreased \$4.5 million (or 7%)
- Payments to New York City Economic Development Corporation decreased \$4.1 million (or 6%)
- Cash, cash equivalents and investments increased \$7.3 million (or 9%)
- Due to New York City Economic Development Corporation increased \$9.3 million (or 19%)
- Unearned revenues increased \$3.2 million (or 3%)

**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 ("NYCEDC"), a not-for-profit 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.

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Management's Discussion and Analysis (continued)

**Financial Analysis of the Corporation**

**Net Position**

The following table summarizes Apple's financial position at June 30, 2014, 2013 and 2012 (dollars in thousands) and the percentage changes between June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change 2014 – 2013</b>
Current and other assets	\$ <b>188,527</b>	\$ 177,910	\$ 152,635	6%
Capital assets	<b>769</b>	752	845	2%
Total assets	<u>\$ <b>189,296</b></u>	<u>\$ 178,662</u>	<u>\$ 153,480</u>	6%
Current liabilities	\$ <b>99,278</b>	\$ 88,052	\$ 75,189	13%
Non-current liabilities	<b>85,641</b>	82,394	66,991	4%
Total liabilities	<u>\$ <b>184,919</b></u>	<u>\$ 170,446</u>	<u>\$ 142,180</u>	8%
Net position:				
Restricted	\$ <b>3,556</b>	\$ 7,412	\$ 10,403	(52)%
Unrestricted	<b>52</b>	52	52	0%
Net investment in capital assets	<b>769</b>	752	845	2%
Total net position	<u>\$ <b>4,377</b></u>	<u>\$ 8,216</u>	<u>\$ 11,300</u>	(47)%

As of June 30, 2014, total assets increased approximately \$10.6 million or 6% primarily due to a \$7.3 million or 9% increase in cash and investments. The increase in cash and investments is due to fees received from interest transfers and property refinancings related to the 42<sup>nd</sup> Street Development Project properties and Brooklyn Renaissance Plaza.

Total liabilities during fiscal year 2014 increased by \$14.5 million or 8% primarily due to a \$9.3 million or 19% increase in amounts due to NYCEDC. The increase in amounts due to NYCEDC is a function of various cash payments which were pending transfer to NYCEDC at the end of fiscal year 2014. In addition, unearned revenues increased by \$3.2 million or 3% due to \$3.7 million of recoverable costs recorded for the Forest City Myrtle ground lease that is expected to be recognized as income over the next 20 years.

Apple Industrial Development Corp.  
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Management's Discussion and Analysis (continued)

Apple's net position as of June 30, 2014, decreased by approximately \$3.8 million or 47%, resulting from a non-operating loss for the fiscal year. This was mainly attributed to a \$4.7 million disbursement from the 125<sup>th</sup> Street Improvement Trust Fund to NYCEDC and subsequently paid to the City for the acquisition of real property located on 125<sup>th</sup> Street.

**Prior Year**

As of June 30, 2013, total assets increased approximately \$25.2 million or 16% primarily due to a \$17.2 million or 28% increase in cash and investments and a \$7.9 million or 9% increase in tenant receivables. The increase in cash and investments was a result of a \$17.0 million rent prepayment received from Albee Development. The increase in tenant receivables was due to a \$2.2 million refinancing receivable from the Atlantic Center and \$3.4 million additional tenant receivables due from Hunts Point Cooperative Market, Fulton Fish Market and South Street Seaport.

Total liabilities during fiscal year 2013 increased by \$28.3 million or 20%. This increase was partly the result of higher unearned revenues of \$18.7 million, mainly due to the aforementioned Albee Development rent prepayment. In addition, amounts due to NYCEDC increased by \$8.8 million, or 22%, as result of cash received from various revenue sources not yet remitted to NYCEDC.

Apple's net position as of June 30, 2013, decreased by approximately \$3.1 million or 27%, resulting from a non-operating loss for the fiscal year. This was mainly attributed to a \$4.3 million disbursement from the 125<sup>th</sup> Street Improvement Trust Fund to NYCEDC and subsequently paid to the Institute for Family Health for the acquisition and improvement of a not-for-profit health care facility.

**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.



Apple Industrial Development Corp.  
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Management's Discussion and Analysis (continued)

The following table summarizes Apple's changes in net position for the fiscal years ended June 30, 2014, 2013 and 2012 (dollars in thousands) and the percentage changes between fiscal years 2014 and 2013:

	2014	2013	2012	% Change 2014 – 2013
Operating revenues:				
Property rentals	\$ 189,578	\$ 171,363	\$ 140,389	11%
Tenant reimbursements	6,760	6,214	6,628	9%
Fees and other income	7,137	5,375	7,521	33%
Total operating revenues	<u>203,475</u>	182,952	154,538	11%
Operating expenses:				
Property related expenses	104,958	80,397	72,592	31%
Personnel services	1,399	1,317	1,203	6%
Contracted personnel services	33,012	32,710	33,764	1%
Other expenses	1,965	1,861	755	6%
Total operating expenses	<u>141,334</u>	116,285	108,314	22%
Operating income	62,141	66,667	46,224	(7)%
Non-operating revenues (expenses):				
Interest income	183	120	68	53%
Other pass-through expenses	(4,743)	(4,336)	–	9%
Total non-operating revenues (expenses)	<u>(4,560)</u>	(4,216)	68	8%
Income before payments to NYCEDC	57,581	62,451	46,292	(8)%
Payments to NYCEDC	<u>(61,420)</u>	(65,535)	(45,357)	(6)%
Change in net position	<u>(3,839)</u>	(3,084)	935	24%
Beginning net position	8,216	11,300	10,365	(27)%
Ending net position	<u>\$ 4,377</u>	\$ 8,216	\$ 11,300	(47)%

Apple Industrial Development Corp.  
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Management's Discussion and Analysis (continued)

During fiscal year 2014, total operating revenues increased by \$20.5 million or 11% partly due to fees received from the interest transfers and property refinancings of \$9.5 million related to 42<sup>nd</sup> Street Development properties and \$3.0 million related to Brooklyn Renaissance Plaza. Apple also recognized \$7.8 million of PILOT funds from the 42<sup>nd</sup> Street Development Project which was ultimately passed through to the City.

Total operating expenses during the current year increased by \$25.0 million or 22% as a result of more revenue transactions recognized which were required to be transferred to the City.

During fiscal year 2014, total payments to NYCEDC decreased by \$4.1 million or 6% primarily due to a decrease in collections of revenues received that were required to be remitted to NYCEDC.

**Prior Year**

During fiscal year 2013, total operating revenues increased by \$28.4 million or 18% partly due to additional revenues received from the property refinancings at both Jamaica and Atlantic Centers totaling \$10.8 million. In addition, the increase reflected higher pass-through revenues of \$5.1 million from 42<sup>nd</sup> Street Development Project PILOT and \$2.0 million from the New York City Health and Hospital Corporation ("HHC"). Lastly, collections and reinstated tenant receivables of \$5.1 million at Hunts Point Cooperative Market also contributed to higher revenues during the fiscal year.

Total operating expenses during fiscal year 2013 increased by \$8.0 million or 7% mainly reflecting the aforementioned increased pass-through revenues subsequently disbursed to the City.

Total non-operating expense during fiscal year 2013 increased by \$4.3 million primarily as a result of the aforementioned disbursement from the 125<sup>th</sup> Street Improvement Trust Fund.

During fiscal year 2013, total payments to NYCEDC increased by \$20.2 million or 44% primarily as a result of increased collections of revenues received and remitted to NYCEDC.

Apple Industrial Development Corp.  
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Management's Discussion and Analysis (continued)

**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.  
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Statements of Net Position

	June 30	
	2014	2013
<b>Assets</b>		
Current assets:		
Cash ( <i>Notes 2 and 7</i> )	\$ 35,895,661	\$ 32,883,373
Investments ( <i>Notes 2 and 7</i> )	52,326	52,300
Tenant receivables, net of allowance for uncollectible amounts of \$11,687,088 and \$10,764,297, respectively	49,355,518	48,207,044
Prepaid expenses and other current assets	312,839	347,430
Total current assets	85,616,344	81,490,147
Non-current assets:		
Cash and cash equivalents – restricted ( <i>Notes 2 and 7</i> )	49,599,126	45,322,571
Investments – restricted	99,779	99,779
Tenant receivables ( <i>Note 5</i> )	53,211,324	50,997,923
Capital assets, net	769,115	752,112
Total non-current assets	103,679,344	97,172,385
Total assets	189,295,688	178,662,532
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	7,207,130	6,150,601
Due to New York City Economic Development Corporation ( <i>Note 3</i> )	57,951,848	48,621,579
Unearned revenues	33,967,133	32,947,222
Other liabilities	151,236	332,873
Total current liabilities	99,277,347	88,052,275
Non-current liabilities:		
Unearned revenues	77,468,587	75,319,914
Tenant security deposits	6,859,342	5,852,955
Obligation for other postemployment benefits	1,313,000	1,221,000
Total non-current liabilities	85,640,929	82,393,869
Total liabilities	184,918,276	170,446,144
<b>Net position</b>		
Restricted by various agreements	3,555,971	7,411,976
Unrestricted	52,326	52,300
Net investment in capital assets	769,115	752,112
Total net position ( <i>Note 12</i> )	\$ 4,377,412	\$ 8,216,388

*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 Net Position

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Operating revenues:		
Property rentals	<b>\$ 189,578,483</b>	\$ 171,363,593
Tenant reimbursements	<b>6,759,550</b>	6,213,877
Fee income	<b>321,373</b>	229,163
Other income	<b>6,815,543</b>	5,145,622
Total operating revenues	<b>203,474,949</b>	182,952,255
Operating expenses:		
Property rentals and related operating expenses	<b>104,958,597</b>	80,397,114
Personnel services	<b>1,398,643</b>	1,316,575
Contracted personnel services	<b>33,011,907</b>	32,710,387
Provision for uncollectible rents	<b>1,965,163</b>	1,860,859
Total operating expenses	<b>141,334,310</b>	116,284,935
Operating income	<b>62,140,639</b>	66,667,320
Non-operating revenues (expenses):		
Interest income	<b>182,761</b>	120,028
Other pass-through expenses ( <i>Note 13</i> )	<b>(4,742,787)</b>	(4,335,640)
Total non-operating revenues (expenses)	<b>(4,560,026)</b>	(4,215,612)
Payments to New York City Economic Development Corporation	<b>(61,419,589)</b>	(65,535,114)
Change in net position	<b>(3,838,976)</b>	(3,083,406)
Total net position, beginning of year	<b>8,216,388</b>	11,299,794
Total net position, end of year	<b>\$ 4,377,412</b>	\$ 8,216,388

*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	
	2014	2013
<b>Operating activities</b>		
Property rentals, tenant reimbursements and fee income	\$ 191,236,518	\$ 182,641,380
Other income	6,006,109	4,797,903
Property rentals and related operating expenses paid to:		
New York City Economic Development Corporation	(39,580,411)	(30,964,886)
Other	(82,979,990)	(68,304,746)
Personnel services	(1,239,102)	(1,172,860)
Net cash provided by operating activities	<u>73,443,124</u>	<u>86,996,791</u>
<b>Investing activities</b>		
Interest income	182,735	119,976
Net cash provided by investing activities	<u>182,735</u>	<u>119,976</u>
<b>Capital financing activities</b>		
Other pass-through expenses	(4,742,787)	(4,335,640)
Purchase of capital assets	(174,640)	(500)
Net cash used in capital financing activities	<u>(4,917,427)</u>	<u>(4,336,140)</u>
<b>Non-capital financing activities</b>		
Payments to New York City Economic Development Corporation	(61,419,589)	(65,535,114)
Net cash used in non-capital financing activities	<u>(61,419,589)</u>	<u>(65,535,114)</u>
Net increase in cash	7,288,843	17,245,513
Cash at beginning of year	78,205,944	60,960,431
Cash at end of year	<u>\$ 85,494,787</u>	<u>\$ 78,205,944</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 62,140,639	\$ 66,667,320
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	141,219	139,104
Provision for uncollectible rent	1,965,163	1,860,859
Changes in operating assets and liabilities:		
Tenant receivables	(5,327,038)	(9,736,069)
Prepaid expenses and other current assets	34,591	(154,339)
Tenant security deposits	1,006,387	858,316
Obligation for OPEB	92,000	86,362
Accounts payable and accrued expenses	1,072,947	(193,375)
Due to New York City Economic Development Corporation	9,330,269	8,828,792
Unearned revenue and other liabilities	2,986,947	18,639,821
Net cash provided by operating activities	<u>\$ 73,443,124</u>	<u>\$ 86,996,791</u>

*See accompanying notes.*

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Notes to Financial Statements

June 30, 2014

**1. Background and Organization**

Apple Industrial Development Corp. (“Apple” or the “Corporation”), a component unit of the New York City Economic Development Corporation (“NYCEDC”), is a local development corporation, organized pursuant to section 1411 of the Not-for-Profit Corporation Law of the State of New York (“NPCL”). NYCEDC was organized to administer certain economic development programs on behalf of the City of New York (“The City”).

Apple has contracted with NYCEDC to provide management and maintenance services for various properties under lease to or owned by NYCEDC; wharf, waterfront, public market, public aviation and intermodal transportation properties that NYCEDC is responsible for managing under the NYCEDC Maritime Contract; and other properties NYCEDC is responsible for managing pursuant to the NYCEDC Master Contract or pursuant to other arrangements by the City (the “Contract Services”). The contract between Apple and NYCEDC represents a subcontract (the “Subcontract”) to the Contract Services and, accordingly, Apple has agreed to comply with the terms of the contracts between NYCEDC and The City.

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 NYCEDC’s contractual agreement with The City and other third parties, Apple classifies its operations into the following five portfolios:

*Commercial Leases Portfolio:* Apple has been contracted to manage property leases between The City and various commercial and industrial tenants. For ground leases, these agreements include restrictions on the use of the land to the construction or development of commercial, manufacturing or industrial facilities. The leases also generally provide for minimum rentals plus provisions for additional rent.

*Brooklyn Army Terminal Portfolio:* The Brooklyn Army Terminal (“BAT”) is an industrial property owned by The City which is leased to NYCEDC and managed by Apple on NYCEDC’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.

*Maritime Portfolio:* This portfolio was established to account for Apple’s management and maintenance of wharf, waterfront, public market, public aviation and intermodal transportation properties on NYCEDC’s behalf pursuant to the Subcontract.

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)**

*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 various agreements between NYCEDC and The City, the net revenue from three of the properties is retained for property operating and capital expenses or for expenses of projects in the area. The net positions retained as of June 30, 2014 and 2013, were \$3,825,086 and \$7,664,088, respectively. Net revenues exclude depreciation expenses. Any net revenues from the other properties are payable to NYCEDC pursuant to the Subcontract.

*42<sup>nd</sup> Street Development Project Portfolio:* This portfolio was established as a joint effort between The City and the State of New York (the “State”) to redevelop the 42<sup>nd</sup> Street district into a vibrant office and cultural center. Ownership for all the properties was transferred from the State to The City by October 31, 2012. Pursuant to agreements between the State, The City and NYCEDC, Apple assumed management and administrative responsibilities for all leases in connection with the 42<sup>nd</sup> Street Development Project. Apple collects and remits all rental revenues to NYCEDC, which subsequently remits substantially all 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.



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

**2. Summary of Significant Accounting Policies (continued)**

**Recently Adopted GASB Accounting Pronouncements**

In March 2012, GASB issued Statement No. 66, *Technical Corrections–2012*. The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements–Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The implementation of this standard did not have an impact on the Corporation’s financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The implementation of this standard did not have an impact on the Corporation’s financial statements.

**Upcoming Accounting Pronouncements**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The implementation of this standard will not have a significant impact on the Corporation’s financial statements.

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

**2. Summary of Significant Accounting Policies (continued)**

**Upcoming Accounting Pronouncements**

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The implementation of this standard will not have an impact on the Corporation's financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The implementation of this standard will not have an impact on the Corporation's financial statements.

**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.

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)**

**Cash and Cash Equivalents**

Cash and cash equivalents include amounts deposited with banks and on hand, money market funds and money market deposit accounts. Restricted cash and cash equivalents are 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. Other permitted investments include 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.

**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 Internal Revenue Code.

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

**3. Payments to NYCEDC**

Under the Subcontract, Apple is responsible for the collection of rent from tenants that occupy space in various markets, intermodal and waterfront properties, BAT, 42<sup>nd</sup> Street Development Project and other properties. Total revenues, including interest income, for the years ended June 30, 2014 and 2013, were \$203,657,710 and \$183,072,283, respectively. As per the Subcontract, after netting the direct costs of the services and other operating expenses, aggregating \$141,334,310 and \$116,284,935 at June 30, 2014 and 2013, respectively, and retaining deficits of \$3,838,976 and \$3,083,406 for the years June 30, 2014 and 2013, respectively, payments to NYCEDC amounted to \$61,419,589 and \$65,535,114 for fiscal years 2014 and 2013, respectively. The unpaid portion of amounts due to NYCEDC at June 30, 2014 and 2013 was \$57,951,848 and \$48,621,579, respectively.

NYCEDC was the co-trustee along with 42<sup>nd</sup> Development Corporation, a subsidiary of New York State Urban Development Corporation d/b/a Empire State Development Corporation (“ESDC”), for the use of certain development funds under the 42<sup>nd</sup> Street Development Project. The trustees jointly extended a loan to the New Amsterdam Development Corporation (“NADC” or the “borrower”) for renovation of the New Amsterdam Theatre. The principal loan amount of \$25,560,278 was evenly disbursed by the trustees and matures on January 31, 2027. Interest on the loan ranges between 3% and 3.5%. NYCEDC’s portion of the loan, \$12,780,139, was reimbursed to NYCEDC by The City. As the property manager of the 42<sup>nd</sup> Street Development Project Portfolio, Apple is responsible for the collection of the loan interest and principal from the borrower. The conduit loan payment constitutes both a receivable from NADC and a payable to NYCEDC, which will subsequently reimburse The City. For financial statement purposes both, receivables and payables, are netted against each other and are not presented separately.

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 NYCEDC**

The future minimum rental income as of June 30, 2014, payable by the tenants under the leases and subleases managed by Apple on behalf of NYCEDC, all of which are accounted for as operating leases, are as follows:

Fiscal Year	Minimum Rental Income From BAT Tenants	Minimum Rental Income From Commercial Tenants	Minimum Rental Income From Maritime Tenants	Minimum Rental Income From 42 <sup>nd</sup> Street Development Project Tenants	Minimum Rental Income From Other Tenants	Total
2015	\$ 16,884,824	\$ 13,498,281	\$ 36,431,847	\$ 3,177,046	\$ 419,257	\$ 70,411,255
2016	14,606,432	12,731,524	34,342,885	3,177,046	88,101	64,945,988
2017	11,200,886	11,871,278	32,022,869	3,177,046	–	58,272,079
2018	8,078,034	11,680,515	30,684,547	3,177,046	–	53,620,142
2019	6,477,843	11,543,622	29,362,244	3,177,046	–	50,560,755
2020 – 2024	23,888,425	49,172,616	130,944,573	15,885,231	–	219,890,845
2025 – 2029	4,863,166	44,513,898	91,483,989	15,885,231	–	156,746,284
2030 – 2034	4,148,200	41,673,595	55,171,842	15,885,231	–	116,878,868
2035 – 2039	4,148,200	40,824,923	35,140,782	15,885,231	–	95,999,136
2040 – 2044	4,148,200	40,509,580	12,514,935	15,885,231	–	73,057,946
Thereafter	7,950,718	266,330,603	41,090,708	216,895,970	–	532,267,999
Total	<u>\$ 106,394,928</u>	<u>\$ 544,350,435</u>	<u>\$ 529,191,221</u>	<u>\$ 312,207,355</u>	<u>\$ 507,358</u>	<u>\$ 1,492,651,297</u>

The thereafter category includes 44 leases with expiration dates between July 1, 2045 and December 31, 2100.

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

**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 \$52,225,537, of which \$33,215,767 is for Jay Street (One Metrotech Center), \$8,276,566 is for Bridge Street (Two Metrotech Center), \$6,971,204 is for Tech Place (11 Metrotech Center) and \$3,762,000 is for Myrtle Avenue (Nine Metrotech Center). These receivables will be paid over a 20 year period as specified by the leases and are offset by an equal amount that has been recorded as unearned revenues that will be recognized to revenue over the life of the agreements.

Additionally, pursuant to a lease amendment with Hunts Point Cooperative Market, tenant receivables in arrears totaling \$985,787 were deferred to be paid over a 20 month period beginning in February 2017.

Total Noncurrent Tenant Receivables for the years ended June 30, 2014 and 2013 were \$53,211,324 and \$50,997,923, respectively.

**6. Related-Party Transactions**

All of the officers of Apple are employees of NYCEDC and the members and directors of Apple are either employees or directors of NYCEDC.

NYCEDC provides office facilities at no charge to Apple. Additionally, Apple charges no intercompany management fees to NYCEDC in relation to the Subcontract.

NYCEDC personnel provide accounting and administrative functions to Apple in connection with Apple's administration of the Subcontract. Costs for such services are included in Contracted Personnel Services on the accompanying Statements of Revenues, Expenses and Changes in Net Position and amounted to \$33,011,907 and \$32,710,387 in the years ended June 30, 2014 and 2013, respectively.

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

## 7. Cash and Investments

### Cash

The bank balance of Apple's deposits was \$79,299,603 as of June 30, 2014. Of the bank balance, \$6,148,744 was covered by Federal depository insurance, and \$72,190,260 was collateralized with securities held by the pledging financial institutions' trust departments in Apple's name. The remaining balance was uncollateralized at June 30, 2014.

### Investments

Investments, which have maturities of less than one year at June 30, 2014 and 2013, consisted of certificates of deposit in the amount of \$152,105 and \$152,079, respectively.

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

### Investments

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from increasing interest rates, the Corporation limits 80% of its investments to instruments maturing within two years of the date of purchase. The remaining 20% of the portfolio may be invested in instruments with maturities up to a maximum of seven years.

*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.

*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.

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

**7. Cash and Investments (continued)**

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, 2014, the Corporation was not subject to custodial credit risk as all certificates of deposits are covered by Federal depository insurance.

*Concentration of Credit Risk:* The Corporation places no limit on the amount it may invest in any one issuer. At June 30, 2014, 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. This plan was frozen on July 14, 2014 (*see Note 14*). The pension plan provides for a single contribution rate by Apple of 12% of the employees' Eligible Wages, as defined in the IRC. Pension expense for the fiscal years ended June 30, 2014 and 2013, amounted to \$80,750 and \$82,263, respectively, and is included in Personnel Services in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

**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 ten 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.  
(A Component Unit of the New York City Economic Development Corporation)

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, 2014 and 2013, 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):

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 215	\$ 202
ARC adjustment	(147)	(136)
Interest on net OPEB obligation	43	40
Annual OPEB cost	<b>111</b>	106
Contributions made	(19)	(20)
Increase in net OPEB obligation	<b>92</b>	86
Net OPEB obligation – beginning of year	<b>1,221</b>	1,135
Net OPEB obligation – end of year	<b>\$ 1,313</b>	\$ 1,221

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

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 2014, 2013, and 2012 were as follows (dollars in thousands):

	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
Fiscal Year Ended June 30:			
2014	\$ 111	17%	\$ 1,313
2013	106	19%	1,221
2012	47	54%	1,135

The actuarial valuation date is June 30, 2012. The actuarial accrued liability for benefits as of this date was \$2,491,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$808,824 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 307.98%. The unfunded accrued liability as of June 30, 2012, was \$1,134,638.

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. The impact of the National Health Care Reform Act has been included in the valuation as of June 30, 2012.

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

**9. Postemployment Benefits Other Than Pensions (continued)**

For the June 30, 2012, actuarial valuation, the project unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% discount rate and an annual healthcare cost trend rate of 9.5% for non-Medicare and 7.5% for Medicare and grading down to an ultimate rate of 4.5% for both. 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, 2014, was 26 years.

**10. Commitments and Contingencies**

Apple is involved directly, and in certain situations as co-defendant with The City and NYCEDC, 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 on properties managed on behalf of the City resulting from losses due to Superstorm Sandy amounted to \$11 million for the fiscal year ended June 30, 2014. The insurance proceeds were received by NYCEDC on behalf of Apple, NYCEDC and the City. Settlements have not exceeded coverage for each of the past three fiscal years.

**12. Net Position**

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 position into restricted, unrestricted and net investment in capital assets.

Net investment in capital assets includes capital assets used in Apple's operations, less accumulated depreciation.

Restricted net position includes net position that has 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 Position (continued)**

The restricted net position generally relates to operations administered by contract on behalf of NYCEDC and is not available for use by Apple for purposes other than the services under the Subcontract. The restricted net position may only be used for the specific purposes for which the funds were created. Upon termination of the Subcontract, or otherwise at the direction of NYCEDC, the full amount of any restricted net position may be payable by Apple back to NYCEDC. Unrestricted net position includes all net position not included above.

The changes in net position during fiscal years 2014 and 2013 are as follows:

	<b>Restricted</b>	<b>Unrestricted</b>	<b>Net Investment in Capital Assets</b>	<b>Total</b>
Net position, June 30, 2012	\$ 10,403,107	\$ 52,247	\$ 844,440	\$ 11,299,794
Income before payments	25,052,612	37,399,096	-	62,451,708
Capital asset additions	(46,776)	-	46,776	-
Retirements/depreciation	139,104	-	(139,104)	-
Payments	(28,136,071)	(37,399,043)	-	(65,535,114)
Net position, June 30, 2013	7,411,976	52,300	752,112	8,216,388
Income before payments	<b>24,242,795</b>	<b>33,337,818</b>	-	<b>57,580,613</b>
Capital asset additions	(158,222)	-	158,222	-
Retirements/depreciation	141,219	-	(141,219)	-
Payments	(28,081,797)	(33,337,792)	-	(61,419,589)
Net position, June 30, 2014	<u>\$ 3,555,971</u>	<u>\$ 52,326</u>	<u>\$ 769,115</u>	<u>\$ 4,377,412</u>

**13. 125<sup>th</sup> Street Improvement Trust Fund**

As part of a large scale development project along the 125<sup>th</sup> Street commercial corridor in Harlem, the City is seeking to purchase several properties in this area. NYCEDC is helping to facilitate the land acquisition, partially by using funds held in the 125<sup>th</sup> Street Improvement Trust Fund. For this purpose, Apple transferred \$4,742,787 during fiscal year 2014 to NYCEDC. This fund accumulates revenues from a parking garage and certain retail space in the immediate area. Due to the nature of the transaction, the disbursement of funds are presented as non-operating expense in the statement of revenues, expenses and net position.

Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Notes to Financial Statements (continued)

**14. Subsequent Events**

On June 5, 2014 and June 18, 2014, Apple's board of directors and members and NYCEDC's board of directors, respectively, voted to approve a merger of Apple into NYCEDC. The proposed merger was instituted in order to streamline the operations of the combined Apple and NYCEDC organization as well as increase efficiencies and reduce costs. The proposed merger has been approved by the New York State Attorney General's Charities Bureau and the New York State Supreme Court. It is anticipated that the merger will become effective on October 1, 2014, following a successful filing of the Certificate of Merger with the Secretary of State.

As of July 14, 2014, Apple employees became employees of NYCEDC. Apple's 401(a) and 403(b) plans were frozen, and the former Apple employees joined the NYCEDC 401(a) and 457 plans.

## 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
6-30-2012 <sup>(2)</sup>	\$ —	\$ 2,491	\$ 2,491	—%	\$ 808	308.0%
6-30-2010 <sup>(1)(2)</sup>	—	1,788	1,788	—	823	217.3
6-30-2008 <sup>(2)</sup>	—	2,455	2,455	—	1,140	215.4

<sup>(1)</sup> 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.

<sup>(2)</sup> For the June 30, 2012 actuarial valuation, the actuarial assumptions includes a 3.5% discount rate and an annual healthcare cost trend rate of 9.5% for non-Medicare and 7.5% for Medicare grading down to an ultimate rate of 4.5% for both. For the previous actuarial valuations, the actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 9% grading down to an ultimate rate of 5%.

## Supplementary Information



Apple Industrial Development Corp.  
(A Component Unit of the New York City Economic Development Corporation)

Combining Statement of Revenues, Expenses and Changes in Net Position

	Commercial Leases	Brooklyn Army Terminal	Maritime	Other Properties	42nd Street	Year Ended June 30	
						2014	2013
Operating revenues:							
Property rentals	\$ 38,124,830	\$ 20,382,711	\$ 73,044,783	\$ 4,693,513	\$ 53,332,646	\$ <b>189,578,483</b>	\$ 171,363,593
Tenant reimbursements	315,499	4,151,645	2,287,329	5,077	-	<b>6,759,550</b>	6,213,877
Fee income	60,790	55,747	71,450	7,990	125,396	<b>321,373</b>	229,163
Other income	2,776,357	28,114	2,165,345	67,850	1,777,877	<b>6,815,543</b>	5,145,622
Total operating revenues	41,277,476	24,618,217	77,568,907	4,774,430	55,235,919	<b>203,474,949</b>	182,952,255
Operating expenses:							
Property rentals and related operating expenses	6,896,221	12,329,410	26,518,521	3,880,471	55,333,974	<b>104,958,597</b>	80,397,114
Personnel services	94,088	666,506	638,049	-	-	<b>1,398,643</b>	1,316,575
Contracted personnel services	905,712	186,500	31,919,695	-	-	<b>33,011,907</b>	32,710,387
Provision for uncollectible rents	111,161	72,004	1,781,998	-	-	<b>1,965,163</b>	1,860,859
Total operating expenses	8,007,182	13,254,420	60,858,263	3,880,471	55,333,974	<b>141,334,310</b>	116,284,935
Operating income (loss)	33,270,294	11,363,797	16,710,644	893,959	(98,055)	<b>62,140,639</b>	66,667,320
Non-operating revenues (expenses):							
Interest income	67,524	-	7,356	9,826	98,055	<b>182,761</b>	120,028
Other pass-through expenses	-	-	-	(4,742,787)	-	<b>(4,742,787)</b>	(4,335,640)
Total non-operating revenues (expenses)	67,524	-	7,356	(4,732,961)	98,055	<b>(4,560,026)</b>	(4,215,612)
Payments to NYCEDC	(33,337,792)	(11,363,797)	(16,718,000)	-	-	<b>(61,419,589)</b>	(65,535,114)
Change in net position	26	-	-	(3,839,002)	-	<b>(3,838,976)</b>	(3,083,406)
Total net position, beginning of year	52,300	500,000	-	7,664,088	-	<b>8,216,388</b>	11,299,794
Total net position, end of year	\$ 52,326	\$ 500,000	\$ -	\$ 3,825,086	\$ -	\$ <b>4,377,412</b>	\$ 8,216,388

## II. Government Auditing Standards Section

## Report of Independent Auditors 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 Management and the Board of Directors  
Apple Industrial Development Corp.

We have audited, 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, the financial statements of Apple Industrial Development Corp. (“Apple”), a component unit of the New York City Economic Development Corporation, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Apple’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Apple’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Apple’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

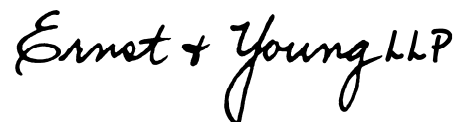
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Ernst & Young LLP

September 30, 2014

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