

APPLE INDUSTRIAL DEVELOPMENT CORP.
Unanimous Written Consent of the Directors

The undersigned, being all of the Directors of Apple Industrial Development Corp. ("Apple"), do hereby adopt the following resolutions and authorize the actions contemplated thereby, which resolutions are adopted and authorization given by unanimous written consent of all of the Directors of Apple.

WHEREAS, the Board of Directors of Apple must present a report to Apple's Members, relating in part to Apple's finances, at the next annual meeting of the Members; and

WHEREAS, the attached Annual Report of the Board of Directors of Apple Industrial Development Corp. ("Apple") for the 12-Month Fiscal Period Ended June 30, 2013 (the "Annual Report") includes the audited financial statements for Apple for Apple's fiscal year ended June 30, 2013 ("FY2013") in final form, which financial statements have hereby been presented to the Directors by the Treasurer of Apple, Spencer Hobson.

NOW, THEREFORE, be it RESOLVED that the attached Annual Report shall be presented to the Members of Apple at the next annual meeting of Apple's Members.

AND be it FURTHER RESOLVED that the Directors acknowledge receipt from the Treasurer of Apple, Spencer Hobson, of Apple's FY2013 audited financial statements.

Dated as of November 1, 2013



William Candelaria

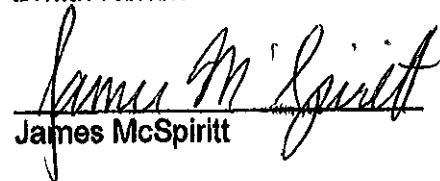


Alan Friedberg

Vieter Ganzi



Dmitri Konon



James McSpiritt

APPLE INDUSTRIAL DEVELOPMENT CORP.
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William Candelaria

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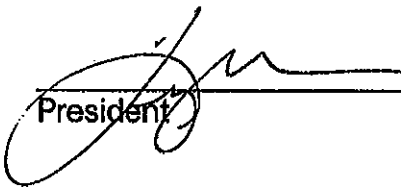
**Annual Report of the Board of Directors
of Apple Industrial Development Corp. ("Apple")
for the 12-Month Fiscal Period Ended June 30, 2013**

TO: The Members of Apple


The Board of Directors of Apple respectfully submits for your information the following report relating to Apple for the twelve-month fiscal period ended June 30, 2013:

1. Attached hereto are the Financial Statements, Required Supplementary Information and Supplementary Information of Apple for the year ended June 30, 2013, which includes a Report of Independent Auditors Ernst & Young LLP and financial information required to be provided to the Members of Apple pursuant to Section 519 of the New York State Not-for-Profit Corporation Law.
2. The number of Members of Apple as of October 30, 2013 is 3.
3. The number of Members of Apple was 4 on July 1, 2012, and was 3 on June 30, 2013, with no vacancies on such dates.
4. The names and addresses of the current Members of Apple may be found in the Members/Directors book of Apple, which is kept at 110 William Street, 6th Floor, New York, New York 10038.

Dated: October 30, 2013
New York, New York



President



Treasurer

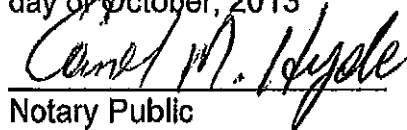
State of New York)
) ss.:
County of New York)

Kyle E. Kimball, being first duly sworn, deposes and says that he executed the foregoing report and is the President of Apple Industrial Development Corp., that he has read the foregoing report and knows the contents thereof, and that the information provided in Sections 2-4 of the report is true.



Kyle E. Kimball

Sworn to before me this 30th
day of October, 2013



Notary Public

CAROL M. HYDE
Notary Public, State of New York
No. 4977270
Qualified in Queens County
Commission Expires Jan. 29, 2015

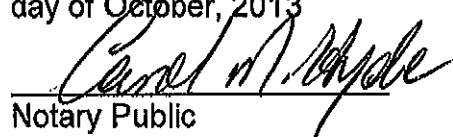
State of New York)
) ss.:
County of New York)

Spencer Hobson, being first duly sworn, deposes and says that he executed the foregoing report and is the Treasurer of Apple Industrial Development Corp., that he has read the foregoing report and knows the contents thereof, and that the information provided in Sections 2-4 of the report is true.



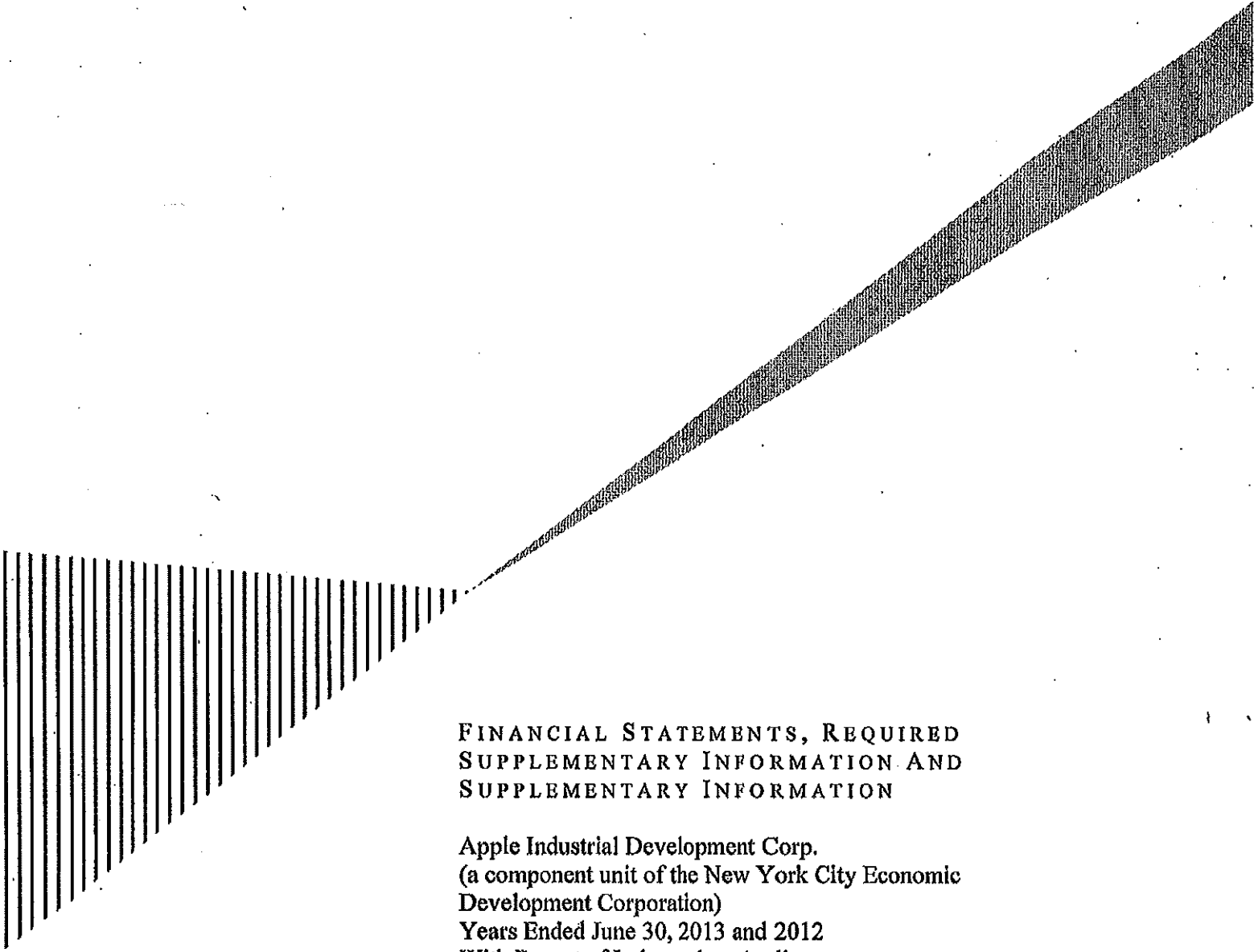
Spencer Hobson

Sworn to before me this 30th
day of October, 2013



Notary Public

CAROL M. HYDE
Notary Public, State of New York
No. 4977270
Qualified in Queens County
Commission Expires Jan. 29, 2015



**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, 2013 and 2012
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, 2013 and 2012

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Report of Independent Auditors

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, 2013 and 2012, 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, 2013 and 2012, 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 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 and Other 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, 2013 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, 2013

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

Management's Discussion and Analysis

June 30, 2013 and 2012

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, 2013 and 2012. Please read it in conjunction with the financial statements and accompanying notes.

2013 Financial Highlights

- Property rentals increased \$31.0 million (or 22%)
- Operating expenses increased \$8.0 million (or 7%)
- Operating income increased \$20.4 million (or 44%)
- Payments to New York City Economic Development Corporation increased \$20.2 million (or 44%)
- Cash and investments increased \$17.2 million (or 28%)
- Tenant receivables, net of allowance increased \$7.9 million (or 9%)
- Due to New York City Economic Development Corporation increased \$8.8 million (or 22%)
- Unearned revenues increased \$18.7 million (or 21%)

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, 2013, 2012 and 2011 (dollars in thousands) and the percentage changes between June 30, 2013 and 2012:

	2013	2012	2011	% Change 2013 - 2012
Current and other assets	\$ 177,910	\$ 152,635	\$ 48,017	17%
Capital assets	752	845	933	(11)%
Total assets	<u>\$ 178,662</u>	<u>\$ 153,480</u>	<u>\$ 48,950</u>	16%
Current liabilities	\$ 88,052	\$ 75,189	\$ 32,772	17%
Non-current liabilities	82,394	66,991	5,813	23%
Total liabilities	<u>\$ 170,446</u>	<u>\$ 142,180</u>	<u>\$ 38,585</u>	20%
Net position:				
Restricted	\$ 7,412	\$ 10,403	\$ 9,380	(29)%
Unrestricted	52	52	52	0%
Net investment in capital assets	752	845	933	(11)%
Total net position	<u>\$ 8,216</u>	<u>\$ 11,300</u>	<u>\$ 10,365</u>	(27)%

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

Management's Discussion and Analysis (continued)

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 125th Street Improvement Trust Fund, passed through NYCEDC to the Institute for Family Health for the acquisition and improvement of a not-for-profit health care facility.

Prior Year

During fiscal year 2012, total assets increased approximately \$104.5 million or 214% primarily due to an increase in cash and investments 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 prior 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 NYCEDC increased by \$26.5 million, or 200%, as result of cash received from various revenue sources not yet remitted to NYCEDC. 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.

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

Management's Discussion and Analysis (continued)

The following table summarizes Apple's changes in net position for the fiscal years ended June 30, 2013, 2012 and 2011 (dollars in thousands) and the percentage changes between fiscal years 2013 and 2012:

	2013	2012	2011	% Change 2013 - 2012
Operating revenues:				
Property rentals	\$ 171,363	\$ 140,389	\$ 109,770	22%
Tenant reimbursements	6,214	6,628	6,852	(6)%
Fees and other income	5,375	7,521	7,754	(29)%
Total operating revenues	182,952	154,538	124,376	18%
Operating expenses:				
Property related expenses	80,397	72,592	37,756	11%
Personnel services	1,317	1,203	1,327	9%
Contracted personnel services	32,710	33,764	34,337	(3)%
Other expenses	1,861	755	791	146%
Total operating expenses	116,285	108,314	74,211	7%
Operating income	66,667	46,224	50,165	44%
Non-operating revenues (expenses):				
Interest income	120	68	69	76%
Pass-through to Institute Family of Health	(4,336)	-	-	-
Total non-operating revenues (expenses)	(4,216)	68	69	-
Income before payments to NYCEDC	62,451	46,292	50,234	35%
Payments to NYCEDC	(65,535)	(45,357)	(48,901)	44%
Change in net position	(3,084)	935	1,333	(430)%
Beginning net position	11,300	10,365	9,032	9%
Ending net position	\$ 8,216	\$ 11,300	\$ 10,365	(27)%

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

Management's Discussion and Analysis (continued)

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 42nd 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 the current year 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 the current year increased by \$4.3 million primarily as a result of the aforementioned disbursement from the 125th 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.

Prior Year

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.

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)

Statements of Net Position

	June 30	
	2013	2012
Assets		
Current assets:		
Cash (Notes 2 and 7)	\$ 32,883,373	\$ 15,273,493
Investments (Notes 2 and 7)	52,300	52,247
Tenant receivables, net of allowance for uncollectible amounts of \$10,764,297 and \$9,284,274, respectively	48,207,044	37,849,231
Prepaid expenses and other current assets	347,430	193,091
Total current assets	81,490,147	53,368,062
Non-current assets:		
Cash -- restricted (Notes 2 and 7)	45,322,571	45,686,938
Investments -- restricted	99,779	99,779
Tenant receivable (Note 5)	50,997,923	53,480,527
Capital assets, net	752,112	844,440
Total non-current assets	97,172,385	100,111,684
Total assets	178,662,532	153,479,746
Liabilities		
Accounts payable and accrued expenses	6,150,601	6,297,700
Due to New York City Economic Development Corporation (Note 3)	48,621,579	39,792,787
Unearned revenues	32,947,222	28,743,819
Other liabilities	332,873	354,067
Total current liabilities	88,052,275	75,188,373
Non-current liabilities:		
Unearned revenues	75,319,914	60,862,302
Tenant security deposits	5,852,955	4,994,639
Obligation for other postemployment benefits	1,221,000	1,134,638
Total non-current liabilities	82,393,869	66,991,579
Total liabilities	170,446,144	142,179,952
Net position		
Restricted by various agreements	7,411,976	10,403,107
Unrestricted	52,300	52,247
Net investment in capital assets	752,112	844,440
Total net position (Note 12)	\$ 8,216,388	\$ 11,299,794

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

	Year Ended June 30	
	2013	2012
Operating revenues:		
Property rentals	\$ 171,363,593	\$ 140,388,669
Tenant reimbursements	6,213,877	6,628,381
Fee income	229,163	235,445
Other income	5,145,622	7,285,272
Total operating revenues	182,952,255	154,537,767
Operating expenses:		
Property rentals and related operating expenses	80,397,114	72,592,185
Personnel services	1,316,575	1,203,480
Contracted personnel services	32,710,387	33,763,396
Provision for uncollectible rents	1,860,859	755,105
Total operating expenses	116,284,935	108,314,166
Operating income	66,667,320	46,223,601
Non-operating revenues (expenses):		
Interest income	120,028	67,462
Pass-through to Institute Family of Health	(4,335,640)	-
Total non-operating revenues (expenses)	(4,215,612)	67,462
Payments to New York City Economic Development Corporation	(65,535,114)	(45,356,506)
Change in net position	(3,083,406)	934,557
Total net position, beginning of year	11,299,794	10,365,237
Total net position, end of year	\$ 8,216,388	\$ 11,299,794

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	
	2013	2012
Cash flows from operating activities		
Property rentals, tenant reimbursements and fee income	\$ 182,641,380	\$ 154,111,738
Other income	4,797,903	4,372,707
Property rentals and related operating expenses	(68,304,746)	(53,008,272)
Personnel services	(1,172,860)	(1,130,017)
Net cash provided by operating activities	117,961,677	104,346,156
Cash flows from investing activities		
Interest income	119,976	67,410
Net cash provided by investing activities	119,976	67,410
Cash flows from capital financing activities		
Purchase of capital assets	(500)	(48,438)
Net cash used in capital financing activities	(500)	(48,438)
Cash flows from non-capital financing activities		
Payments to New York City Economic Development Corporation	(100,835,640)	(66,563,259)
Net cash used in non-capital financing activities	(100,835,640)	(66,563,259)
Net increase in cash	17,245,513	37,801,869
Cash at beginning of year	60,960,431	23,158,562
Cash at end of year	\$ 78,205,944	\$ 60,960,431
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 66,667,320	\$ 46,223,601
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	139,104	136,852
Provision for uncollectible rent	1,860,859	755,105
Net cash provided by nonoperating activities	30,964,886	21,206,753
Changes in operating assets and liabilities:		
Tenant receivables	(9,736,069)	(67,709,984)
Prepaid expenses and other current assets	(154,339)	138,721
Tenant security deposits	858,316	295,296
Obligation for OPEB	86,362	21,223
Accounts payable and accrued expenses	(193,375)	1,330,500
Due to New York City Economic Development Corporation	8,828,792	26,508,667
Unearned revenue and other liabilities	18,639,821	75,439,422
Net cash provided by operating activities	\$ 117,961,677	\$ 104,346,156

See accompanying notes.

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

Notes to Financial Statements

June 30, 2013

1. Background and Organization

Apple Industrial Development Corp. ("Apple" or the "Corporation"), a component unit of the New York City Economic Development Corporation ("Predecessor NYCEDC") and the reorganized New York City Economic Development Corporation ("NYCEDC" or "Corporation"), is a local development corporation, organized pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York ("NPCL"). Predecessor NYCEDC and NYCEDC were 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 and aviation 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 Services represent a subcontract under a contract between NYCEDC and the City (the "Subcontract") and, accordingly, Apple has agreed to comply with the terms of the contract 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 operation into the following five portfolios:

Commercial Leases Portfolio: Apple has been assigned the rights to manage certain non-cancelable NYCEDC 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 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, promotion, expansion and development of 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 an agreement between NYCEDC 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 position retained as of June 30, 2013 and 2012 were \$7,664,088 and \$10,747,547, respectively. Net revenues exclude depreciation expenses. Any net revenues from the other properties are payable to NYCEDC pursuant to the Subcontract.

42nd 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 42nd Street into vibrant office and cultural center. Ownership for all the properties was transferred from the State to The City of New York 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 42nd Street Development Project. Apple collects and remits all rental revenues to NYCEDC, 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.

Recently Adopted GASB Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* ("GASB No. 63"). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflow of resources. Deferred outflows is defined as the consumption of net assets by the government that is applicable to a future reporting period and deferred inflows is defined as the acquisition of net assets by the government that is applicable to a future reporting period. GASB No. 63 also

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

2. Summary of Significant Accounting Policies (continued)

amends the net asset reporting requirement 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 provisions of this Statement are effective for financial statements for the periods beginning after December 15, 2011. The Corporation's adoption of GASB No. 63 resulted in a change in the presentation of the balance sheets to what is now referred to as the statement of net position and the term "net assets" was changed to "net position" throughout the 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 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's early adoption of GASB No. 65 did not have an impact on the financial statements.

Upcoming Accounting Pronouncements

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012* ("GASB No. 66"). 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 will not have an 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)

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB No. 68"). 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 Corporation has not completed the process of evaluating the impact of GASB No. 68 on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"). 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 financial statements for periods beginning after December 15, 2013. The Corporation does not anticipate that the implementation of this standard will have an impact on its financial statements

In February 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB No. 70"). 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 Corporation does not anticipate that the implementation of this standard will have an impact on its 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.

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

2. Summary of Significant Accounting Policies (continued)

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.

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 ("IRC").

Apple Industrial Development Corp.
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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, the BAT, 42nd Street Development Project and other properties. Total revenues, including interest income, for the years ended June 30, 2013 and 2012 were \$183,072,283 and \$154,605,229, respectively. As per contractual agreement, after netting the direct costs of the Contract Services and other operating expenses, aggregating \$116,284,935 and \$108,314,166 at June 30, 2013 and 2012, respectively, and retaining deficit of \$3,083,406 and withholding reserves of \$934,557 for the years June 30, 2013 and 2012, respectively, payments to NYCEDC amounted to \$65,535,114 and \$45,356,506 for fiscal years 2013 and 2012, respectively. The unpaid portion of amounts due to NYCEDC at June 30, 2013 and 2012 was \$48,621,579 and \$39,792,787, respectively.

4. Properties Managed by Apple on Behalf of NYCEDC

The future minimum rental income as of June 30, 2013, 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 Transportation/ Commerce Tenants	Minimum Rental Income from 42 nd Street Development Project Tenants	Minimum Rental Income from Other Tenants	Total
2014	\$ 15,913,529	\$ 11,125,817	\$ 41,677,674	\$ 3,689,798	\$ 807,634	\$ 73,214,452
2015	14,311,268	10,900,505	36,668,077	3,689,798	472,552	66,042,200
2016	11,972,668	10,090,155	34,555,114	3,689,798	88,100	60,395,835
2017	8,567,122	9,350,970	33,803,568	3,689,798	-	55,411,458
2018	6,056,956	9,231,122	32,717,420	3,689,798	-	51,695,296
2019 - 2023	23,650,238	29,378,746	147,628,215	18,448,993	-	219,106,192
2024 - 2028	5,698,095	22,648,167	102,151,455	18,448,993	-	148,946,710
2029 - 2033	4,148,200	19,840,832	57,268,155	18,448,993	-	99,706,180
2034 - 2038	4,148,200	18,828,721	43,809,656	18,448,993	-	85,235,570
2039 - 2043	4,148,200	18,346,760	14,396,055	18,448,993	-	55,340,008
Thereafter	8,780,357	114,522,677	50,365,735	179,114,028	-	352,782,797
Total	\$ 107,394,833	\$ 274,264,472	\$ 595,041,124	\$ 289,807,983	\$ 1,368,286	\$1,267,876,698

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

4. Properties Managed by Apple on Behalf of NYCEDC (continued)

The thereafter category includes 41 leases with expiration dates between July 1, 2044 and December 31, 2100.

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 \$50,997,923, of which \$35,206,986 is for Jay Street (One Metrotech Center), \$8,819,733 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 that has been recorded as unearned revenues that will be recognized to revenue over the life of the agreements.

6. Related-Party Transactions

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

NYCEDC 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 Position and amounted to \$32,710,387 and \$33,763,396 in the years ended June 30, 2013 and 2012, respectively.

7. Cash and Investments

Cash

The bank balance of Apple's deposits was \$79,150,292 as of June 30, 2013. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$73,812,320 was collateralized with securities held by the pledging financial institutions' trust department in Apple's name. The remaining balance was uncollateralized at June 30, 2013.

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

7. Cash and Investments (continued)

Investments

Investments, which have maturities of less than one year at June 30, 2013 and 2012, consisted of certificates of deposit in the amount of \$152,079 and \$152,026, respectively.

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 – 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.

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, 2013, 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, 2013, the Corporation had 66% of its certificates of deposit issued by Carver Federal Savings Bank and 34% by JPMorgan Chase.

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

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 IRC. Pension expense for the fiscal years ended June 30, 2013 and 2012 amounted to \$82,263 and \$77,024, 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 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.

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, 2013 and 2012 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

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

9. Postemployment Benefits Other than Pensions (continued)

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):

	2013	2012
Annual required contribution	\$ 202	\$ 144
ARC adjustment	(136)	(144)
Interest on net OPEB obligation	40	47
Annual OPEB cost	106	47
Contributions made	(20)	(25)
Increase in net OPEB obligation	86	22
Net OPEB obligation – beginning of year	1,135	1,113
Net OPEB obligation – end of year	\$ 1,221	\$ 1,135

Apple's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013, 2012 and 2011 were as follows (dollars in thousands):

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended June 30:			
2013	\$ 106	19%	\$ 1,221
2012	47	54%	1,135
2011	95	11%	1,113

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.

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)

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.

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, 2013 was 27 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 resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

Notes to Financial Statements (continued)

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.

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 Contract Services. The restricted net position 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 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 2013 and 2012 are as follows:

	Restricted	Unrestricted	Net Investment in Capital Assets	Total
Net position, June 30, 2011	\$ 9,380,188	\$ 52,195	\$ 932,854	\$ 10,365,237
Income before payments	28,446,533	17,844,530	-	46,291,063
Capital asset additions	(48,438)	-	48,438	-
Retirements/depreciation	136,852	-	(136,852)	-
Payments	(27,512,028)	(17,844,478)	-	(45,356,506)
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

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 ⁽²⁾	\$ -	\$ 2,491	\$ 2,491	0%	\$ 808	308.0%
6-30-2010 ⁽¹⁾⁽²⁾	-	1,788	1,788	0	823	217.3
6-30-2008 ⁽²⁾	-	2,455	2,455	0	1,140	215.4

⁽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.

⁽²⁾ For the 6-30-12 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	2013	2012
Operating revenues:							
Property rentals	\$ 41,301,598	\$ 18,776,627	\$ 70,814,131	\$ 5,025,803	\$ 35,445,434	\$ 171,363,593	\$ 140,388,669
Tenant reimbursements	215,204	3,794,044	2,196,254	8,375	-	6,213,877	6,628,381
Fee income	21,244	28,035	26,001	7,782	146,101	229,163	235,445
Other income	3,109,232	8,600	1,474,196	45,384	508,210	5,145,622	7,285,272
Total operating revenues	44,647,278	22,607,306	74,510,582	5,087,344	36,099,745	182,932,255	154,537,767
Operating expenses:							
Property rentals and related operating expenses	5,956,753	10,142,285	24,341,573	3,793,941	36,162,562	80,397,114	72,592,185
Personnel services	295,383	627,879	393,313	-	-	1,316,575	1,203,480
Contracted personnel services	990,007	125,184	31,595,196	-	-	32,710,387	33,763,596
Provision for uncollectible rents	54,018	293,887	1,469,091	43,863	-	1,860,859	755,105
Total operating expenses	7,296,161	11,189,235	57,799,173	3,837,804	36,162,562	116,284,935	108,314,166
Operating income (loss)	37,351,117	11,418,071	16,711,409	1,249,540	(62,817)	66,667,320	46,223,601
Non-operating revenues (expenses):							
Interest income	47,979	-	6,591	2,641	62,817	120,028	67,462
Pass-through to Institute Family of Health	-	-	-	(4,335,640)	-	(4,335,640)	-
Total non-operating revenues (expenses)	47,979	-	6,591	(4,332,999)	62,817	(4,215,612)	67,462
Payments to NYCEDC	(37,399,043)	(11,418,071)	(16,718,000)	-	-	(65,535,114)	(45,356,506)
Change in net position	53	-	-	(3,083,459)	-	(3,083,406)	934,557
Total net position, beginning of year	52,247	500,000	-	10,747,547	-	11,299,794	10,365,237
Total net position, end of year	\$ 52,300	\$ 500,000	\$ -	\$ 7,664,088	\$ -	\$ 8,216,388	\$ 11,299,794

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*

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, 2013, and the related statements of revenues and 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, 2013.

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, 2013

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