

**APPLE INDUSTRIAL DEVELOPMENT CORPORATION  
ANNUAL REPORT PER SECTION 2800 OF PUBLIC AUTHORITIES LAW  
INTERNAL CONTROL ASSESSMENT  
FOR FISCAL YEAR-ENDING 6/30/2012**

Apple Industrial Development Corporation (“Apple”) functions as a component unit of the New York City Economic Development Corporation (“NYCEDC” or the “Corporation”) and shares staffing and administrative resources for its activities. These resources include several procedural manuals which are used to document the Corporation’s internal control processes. NYCEDC’s Accounting Department maintains a Policies and Procedures Manual (“PPM”) which is intended to document the Corporation’s internal controls over financial reporting. The Corporation’s independent auditors, Ernst & Young (“EY”) consider the effectiveness of these controls in planning and performing their annual financial statement audit. At the end of the Fiscal Year 2011 audit, an observation was made that the PPM needed to be contemporized for current and non-standard procedures. During Fiscal Year 2012 the Corporation’s Finance and Accounting department, with the assistance of Accounting firm Wiss, LLP, completed updating the PPM.

During Fiscal Year 2012, the following audit relating to Apple was performed by the Corporation’s Internal Audit Department, on behalf of EY, in the following area:

- Fiscal Year-End 2012 Apple Lease Administration

The purpose of this examination was to audit the system of internal control over:

- a) financial statement balance(s) or on the particular financial statement balance(s); and
- b) efficiency and effectiveness of operational functions.

As a result of the above-mentioned audit, there were two exceptions noted in EY’s FYE June 30, 2012 Management Letter to the Corporation. These exceptions were not deemed as Material Weaknesses, Significant Deficiencies, or Deficiencies by EY.

**1. Apple Lease Portfolio**

- Three instances were noted where information included on the MRI profiles relating to the lease terms were either incomplete or different than the information contained in the lease abstract.
- Three instances were noted where tenants were not in compliance with insurance requirements.
- One instance was noted where insufficient security deposit was obtained from tenant.
- For one tenant, the MRI rent roll is inconsistent with actual properties occupied.
- One instance was noted where an inactive account was not timely written off.

- One instance was noted where the tenant's monthly heat maintenance was improperly changed due to a misinterpretation of the lease document.

These conditions can lead to incorrect customer billings and the potential for lost revenues. We suggest that Management take steps to improve the accuracy and timing of lease information provided to all relevant departments.

### **Management's Response**

Accounting and Asset Management always look to ensure the timely and accurate reporting of lease information within the MRI System. Accounting and Asset Management will continue to improve MRI functionality and review data integrity within MRI itself on a continuous basis.

These data integrity validations will include, but not be limited to the following:

- Automate security deposit based on escalating lease
- Ensure insurance information is updated in lease abstracts
- Write-off uncollectible balances on a timely basis

## **2. Timely Revenue Recognition**

During 2006, the Corporation (through Apple), as administrator, entered into a joint operations agreement with CSX Transportation, Norfolk Southern Railway Co. and Consolidated Rail Corp., (jointly as operators). Per the agreement, the Corporation is required to collect service fees that once collected are deposited into a Maintenance and Insurance Escrow Account. Funds held in the escrow are to be used by the Corporation to pay for maintenance expenses of the Staten Island Railroad ("SIRR") as they arise. It is the Corporation policy to recognize the associated service fees as revenue as the expenses are incurred. During our testing, we noted expenses that were incurred during 2010 and 2011 for which the related revenue was not recognized until the 2012 Fiscal Year. This occurred because of the lag time between when the expense is incurred and when Asset Management notifies Accounting of the transactions. We suggest that Accounting obtain a quarterly update on the SIRR expenses incurred so that they can record the expense and related revenue in the appropriate period.

### **Management Response**

Accounting and Asset Management will work closely to improve timely communication of project expenses for reporting purposes. Accounting will generate quarterly expense reports and obtain Asset Management direction on which expenses are recoverable from the escrow account.

Apple's Audit Committee was apprised of the exceptions or findings of the audit results, and formal reports were provided to Apple Management.

**Apple  
Industrial  
Development  
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Based on the above noted independent review, and management's assessment of financial reporting controls, the Corporation believes their overall systems of internal controls are effective for the reporting period. Management has developed a corrective action plan to mitigate any risks associated with exceptions noted to strengthen the overall control structure.